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39 DEN A-14**Air Pollution****Industry Report Identifies Higher Costs For Ozone Proposal Than EPA Estimates**

By Patrick Ambrosio

Feb. 26 — A report commissioned by the National Association of Manufacturers found that the costs of more stringent national ozone standards would be much higher than Environmental Protection Agency estimates.

The report, prepared by NERA Economic Consulting and released Feb. 26, estimated that ozone standards of 65 parts per billion could impose about \$1.1 trillion in compliance costs on industry from 2017 through 2040, with the industry projected to spend more than \$100 billion in some years. The EPA has estimated that the annual cost of a 65 ppb standard would be around \$16.6 billion.

The EPA has proposed (RIN 2060-AP38) to revise the current national ambient air quality standards of 75 ppb to somewhere in the range of 65 ppb to 70 ppb. The agency is under a court-ordered deadline of Oct. 1 to finalize its decision on whether to revise or retain the existing standards.

Aric Newhouse, senior vice president for policy and government relations for the National Association of Manufacturers, told reporters during a Feb. 26 media call that the report illustrates that a 65 ppb ozone standard would be “the most expensive regulation of all time.”

Representatives of the Natural Resources Defense Council and the Institute for Policy Integrity both criticized the study, telling Bloomberg BNA that NERA assumed the pollution controls needed to attain a 65 ppb standard would be unrealistically expensive, resulting in an overestimated regulatory cost.

The EPA, in a Feb. 26 e-mail to Bloomberg BNA, said that industry claims “consistently ignore” the benefits of reducing emissions of pollutants that contribute to ground-level ozone, also known as smog. The agency has estimated that a 65 ppb standard could result in benefits of up to \$38 billion annually from reduced incidents of asthma, premature death and other health problems.

The NERA report is an update of a July 2014 study that concluded an ozone standard of 60 ppb could cost the U.S. economy up to \$270 billion per year and force the closure of up to one-third of the nation's coal-fired power plants (148 DEN A-13, 8/1/14).

Difference in Unknown Control Estimates

Anne Smith, senior vice president and co-chair of the environmental practice at NERA, told reporters that the report's cost estimates are higher than EPA's “almost entirely” due to a different method for calculating the cost of unknown controls, which would be needed to meet a more stringent standard.

Smith said the EPA took a “very simplistic” approach to estimating the cost of unknown controls, which would be needed to achieve the type of emissions reductions needed to attain a 65 ppb standard. The agency's regulatory impact analysis of its proposal estimated that unknown controls would cost \$15,000 per ton of emissions reduction, according to Smith.

NERA staff developed an approach that identified the likely nature of unknown controls that would be used, then estimated the cost of those controls based on existing data. Those unknown controls would include the closure of coal-fired power plants and the turnover of older motor vehicles to less-emitting models.

Effect on GDP, Workers

In addition to compliance costs, the NERA report estimates a 65 ppb standard would reduce the gross domestic product of the U.S. by about \$140 billion annually and eliminate 1.4 million job equivalents.

The report doesn't include an assessment of the EPA's estimated benefits of a 65 ppb standard, but Smith of NERA said that benefits associated with reductions in ground-level ozone are less than even EPA's lower cost estimates.

The EPA's regulatory impact analysis also includes co-benefits of reducing particulate matter and other pollutants that would be reduced under a more stringent ozone standard.

Ross Eisenberg, vice president of energy and resources policy at the National Association of Manufacturers, told reporters that the association sent a copy of the report to the EPA and offered to brief agency staff on the report's findings.

The EPA said in its e-mail that it welcomes review of the agency's economic analysis and is looking forward to reviewing all comments on the proposal. The agency is taking public comments on its proposal until March 17.

Cost Model Criticized

While the report touts NERA's approach to unknown controls as "more evidence-based" than the EPA's estimates, John Walke of the Natural Resources Defense Council said the consulting firm took a flawed approach that resulted in "ludicrously exaggerated compliance costs" of \$500,000 per ton.

Walke, NRDC's clean air director, told Bloomberg BNA that NERA's analysis based its cost estimates on an economic stimulus program that has "nothing to do" with ozone control efforts.

While the updated NERA report refers to a "vehicle scrappage" program to phase out older motor vehicles that don't meet the EPA's Tier 2 emissions standards, the July 2014 version of the study clearly used the Car Allowance Rebate System, an economic stimulus program commonly known as "Cash for Clunkers," to estimate the cost of unknown pollution controls.

Smith of NERA told reporters that the revised report used the same method as the July 2014 report to estimate the cost of unknown controls.

Walke said economic experts called the use of Cash for Clunkers "insane" and "unmoored from economic reality" after the release of the July 2014 report.

When asked to explain how NERA chose its methodology, Smith said they looked at the known cost of scrapping older cars and replacing them, then developed a cost curve based on the price per ton of emissions reduction.

State Flexibility Cited

Michael Livermore, a senior advisor with the Institute for Policy Integrity, agreed that the NERA report overestimates compliance costs by making "unrealistic" assumptions, including the assumption that shutting down coal-fired power plants would be needed to meet a revised ozone standard.

In response to NERA's claim that the EPA's approach is simplistic, he said "a convoluted model isn't necessarily better than a simple one."

Livermore told Bloomberg BNA in a Feb. 26 e-mail that states have a "great deal of flexibility" in determining how to meet emissions reductions goals and can balance costs against other considerations. The history of environmental regulations shows that states and industry find reasonable ways to achieve needed reductions, according to Livermore.

"New, lower-cost controls are constantly being developed," he said. "The assumption that 'shutting everything down' will be the cheapest way to improve air quality is as silly today as it was in the 1970s, when industry predicted that the Clean Air Act would destroy the economy."

Areas Could Rely on Established Controls

Walke noted that despite the NERA report's focus on the cost of unknown controls, most areas that would be in nonattainment of a 65 ppb standard would be "moderate nonattainment" areas and would be able to rely on known, established pollution control methods.

Unknown controls would be needed in areas like California that will need to find greater reductions, but those areas would have a much longer period of time, up to two decades, to attain the standards, Walke said.

During that time, those areas will “certainly take advantage” of technology developments to further reduce pollution, according to Walke.

Both the EPA and Walke pointed out that despite industry's focus on costs, the agency isn't allowed to consider cost in deciding whether to revise or retain national ambient air quality standards.

Supreme Court Ruled Against Cost Considerations

The Supreme Court in 2001 ruled that the Clean Air Act prohibits the EPA from considering the cost of compliance when setting national ambient air quality standards (*Whitman v. American Trucking Ass'ns*, 531 U.S. 457, 51 ERC 2089 (U.S. 2001); 40 DEN AA-1, 2/28/01).

The agency said that its proposal on ozone is “about setting a health standard and determining that level,” though a cost-benefit analysis was prepared to inform the public. The EPA noted that its estimates are intended to be illustrative and that ultimately the costs of meeting a revised standard will be determined by how states implement the standards in the future.

Sen. Jim Inhofe (R-Okla.), chairman of the Senate Environment and Public Works Committee, said in a Feb. 26 statement that the NERA report shows a revised standard would cause economic growth to “come to a grinding halt.”

“I am committed to working with my colleges in Congress to put a halt on this misguided agenda at the EPA,” Inhofe said.

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For More Information

The NERA report, “Economic Impacts of a 65 ppb National Ambient Air Quality Standard for Ozone,” is available at <http://bit.ly/1LL2GXb>.

Contact us at <http://www.bna.com/contact/index.html> or call 1-800-372-1033

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