

DOE Efficiency Standard Hints At Benefits Analysis For Future CO2 Rules

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A recently issued regulation by the Department of Energy (DOE) on energy conservation includes a little-noticed analysis that may provide the clearest view to date on how the Obama administration will estimate the benefits of carbon reductions achieved by future emission controls—a calculation that could significantly affect the stringency and justification for those upcoming requirements.

While the discussion in the DOE rule falls short of requests by some state officials for methodologies that could prompt especially stringent emission regulations, the rule cites preliminary conclusions from interagency deliberations and includes an initial “central interim value” for carbon benefits almost three times greater than the Department of Transportation cited in its proposed fuel- efficiency regulation issued last year.

The latest DOE window into the administration’s thinking on the “social cost” of carbon emissions comes at a time when formal government analyses of the pending climate legislation, and often the broader political debate, have focused largely on the costs, but not the benefits, of curbing emissions.

However, one group—the New York University School of Law’s Institute for Policy Integrity—is already using the early conclusions of the interagency effort as the basis for a new [analysis](#) arguing that the benefits of pending House climate change legislation outweigh its costs by as much as 9-to-1.

At issue is language in an Aug. 31 [final DOE rule](#) on energy conservation standards for vending machines—and more broadly, language that references broader deliberations within the Obama administration on the methodology for calculating the benefits of greenhouse gas emissions related rules.

“DOE is relying on a new set of values recently developed by an interagency process that conducted a more thorough review of existing estimates of the social cost of carbon (SCC),” says the the Aug. 31 *Federal Register* notice codifying the vending machine regulation.

While stating that estimating the costs of carbon is a moving target and that knowledge of the impacts of climate change continues to grow, DOE says the interagency process has reached several interim judgments, including that agencies should focus on the the global, rather than merely domestic, benefits of CO2 reductions resulting from efficiency standards and other “similar rulemakings.” In addition, agencies should consider a range of potential initial benefits estimates—from \$5 to \$55 a ton of CO2 reduction—which produces a “central interim value” of \$19 per ton that DOE features prominently in its regulation. Also, according to the interim approach, the value of emissions avoided in future years should increase using an annual growth rate of 3 percent, and domestic benefits of avoided emissions are assumed to be 6 percent of the global benefits.

On the issue of considering global as well as domestic benefits of emissions reductions, DOE notes that

current Office of Management & Budget guidance only requires analysis of domestic benefits, but that climate change is a global problem. The notice also cites efforts by the United States to work toward an international climate deal. Accordingly, “in these circumstances, the global measure [of benefits] is preferred.”

The initial \$19 per ton benefit estimate falls short of far higher figures—on the order of \$80 per ton—that some states say is obtainable using an alternative methodology sought unsuccessfully by attorneys general from California, New York and several other states in a separate DOE regulation earlier this year on lighting efficiency. The states sought an estimation approach based on the cost of limiting the worst effects of global warming rather than the cost of estimated damages from global warming. Some say the latter approach essentially understates costs because of the uncertainties in estimating damages.

However, the \$19 figure number is still nearly three times greater than a \$7-per-ton estimate initially featured prominently in a proposed Department of Transportation vehicle fuel efficiency rule for model year 2011.

One source following the issue says language in the DOE rule is significant in that it appears to show an emerging, more coherent direction for federal agencies on carbon’s social cost, and a narrowing what have been wildly divergent estimates at federal agencies. “What you have here is an interagency process that is going to develop, one presumes, consistent numbers.”

To date, rules or technical analyses across federal agencies have cited social cost of carbon estimate ranging from essentially zero to over \$600 per ton.

DOE’s reference to the interagency process also comes at a time when current EPA analysis of pending climate change legislation has focused not on benefits but on the costs of emissions cuts. That often leaves backers of the House passed bill arguing that costs are manageable, opponents arguing the opposite, and political discussion of any net benefits of emissions curbs often lost in the shuffle.

The Institute for Policy Integrity on Sept. 8, however, released *The Other Side of the Coin: The Economic Benefits of Climate Legislation*, an analysis that the group says uses EPA’s current cost estimates of the House climate bill and the interagency estimates to draw conclusions about the net benefit from the legislation. The analysis states that the break even point for the social cost of carbon—beyond which the legislation passes a cost-benefit test—ranges from \$7.70 to \$8.97 per ton of carbon dioxide. The analysis also says that the benefits of the legislation outweigh its costs by as much as 9-to-1, or more, even using “conservative assumptions.”—*Doug Obey*

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