



THE ADMINISTRATOR OF THE ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

AUG 20 2013

David T. Allen, Ph.D.
Chairman
Science Advisory Board
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue, NW
Washington, D.C. 20460

Dear Dr. Allen:

I wish to thank the U.S. Environmental Protection Agency's Science Advisory Board and the Environmental Economics Advisory Committee for your review of the EPA's *Retrospective Cost Study of the Costs of EPA Regulations: An Interim Report of Five Case Studies*, March 2012. I truly appreciate the time and diligence you devoted to deliberating the charge questions and formulating your recommendations.

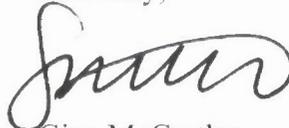
As you may know, this project is of particular interest to me. While the EPA is committed to using the best available science and methods in all of our analyses, including our benefit-cost analyses of major regulations, it is equally important that we continue to seek ways to improve our approaches. Much effort has been expended over the years in developing ways to quantify and monetize the benefits of our regulations, and rightly so. However, we can learn a great deal from our experience estimating the costs of our regulatory actions, and I was pleased to see that you applaud our efforts to do just that. Further, assessing the costs of our regulations as accurately as possible is critical for designing cost-effective, common-sense regulations. Your report will help us improve our assessment of our methods.

I was especially interested and pleased to see that you not only endorsed our efforts but also recommended that we broaden and expand the project to consider the drivers of cost for a larger sample of randomly selected major regulatory actions. To improve our cost-estimation methodologies we must understand what factors cause the predictions of costs to diverge from realized costs. Applying a systematic framework to each study, as you recommend, would certainly enhance our ability to compare findings across case studies and, ultimately, the general liability of those findings. Once a sufficient number of case studies have been conducted using this framework we will be better poised to draw conclusions and consider the implications for our cost-estimation approaches.

You noted that the initial case studies were hampered by the paucity of publicly available data. This may be a trend moving forward if not addressed explicitly. Further, I recognize the utility and the importance of the Pollution Abatement Costs and Expenditures Survey data – not only for this effort but for other studies as well – and will explore the feasibility of reinstating the survey even if on a more limited schedule. I am committed to finding innovative ways to leverage data-collection efforts we have under way and to seek new opportunities to efficiently collect data that could help inform this effort.

Improving our analytic approaches remains a priority for the EPA, and we are exploring retrospectively assessing our predictions of regulatory costs and associated methodologies as one way to identify potential areas of improvement. Economists from the EPA's National Center of Environmental Economics have told me that your technical and methodological feedback was extremely helpful. With your report in hand, we are now well-positioned to move forward with this effort and will do our best to incorporate your thoughtful and thorough advice into the project's next stage and beyond.

Sincerely,



Gina McCarthy

cc: Gwendolyn Keyes Fleming
Michael L. Goo
Glenn Paulson
John E. Reeder
Al McGartland
Nathalie Simon
Mary Hanley



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Madhu Khanna, Ph.D.
Chairwoman
Environmental Economics Advisory Committee
Science Advisory Board
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue, NW
Washington, D.C. 20460

Dear Dr. Khanna:

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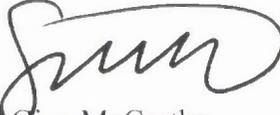
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