

Summary Minutes of the
U.S. Environmental Protection Agency (EPA)
Science Advisory Board (SAB)
Environmental Economics Advisory Committee (EEAC)
Public Teleconference
July 12, 2012
11:00 a.m. – 3:00 pm Eastern time

Committee Members: Dr. Madhu Khanna, Chair
Dr. Karen Palmer
Dr. Peter Wilcoxon
Dr. Nicholas Flores
Dr. Wayne Gray
Dr. George Parsons
Dr. James Shortle
Dr. David Zilberman

Date and Time: July 12, 2012, 11:00 a.m. – 3:00pm

Purpose: The SAB EEAC discussed the draft paper from the National Center for Environmental Economics (NCEE) entitled *Retrospective Study of the Costs of EPA Regulations: An Interim Report of Five Case Studies (March 2012)*

SAB Staff: Dr. Holly Stallworth, Designated Federal Officer

Other EPA Staff: Nathalie Simon, Ann Wolverton

Other: Scott Biernat (Association of Metropolitan Water Agencies)
Puneet Kollipara, Inside EPA

Meeting Webpage and Materials Posted:

<http://yosemite.epa.gov/sab/sabproduct.nsf/a84bfee16cc358ad85256ccd006b0b4b/df65c162742c9f98852579bc0054b359!OpenDocument&Date=2012-07-12>

- EPA National Center for Environmental Economics Presentation
- List of public speakers
- Roster
- Public comments:
 - American Forest and Paper Association Presentation
 - American Forest & Paper Association Supplemental Comments
 - National Council for Air and Stream Improvement comments

- New York City Department of Environmental Protection comments

Meeting Summary

The discussion followed the issues and general timing as presented in the meeting agenda posted at the URL above.

THURSDAY, JULY 12, 2012

Opening of Public Meeting

Dr. Holly Stallworth, Designated Federal Officer (DFO), opened the meeting with a statement that the Environmental Economics Advisory Committee (EEAC) is a standing committee of the chartered Science Advisory Board. As such, EEAC is a federal advisory committee whose meetings and deliberations meet the requirements of the Federal Advisory Committee Act.

Dr. Khanna reviewed the agenda and purpose of the meeting then turned the floor over to Dr. Nathalie Simon of EPA's National Center for Environmental Economics (NCEE) who presented slides posted at the above URL, stressing questions associated with how to proceed with the retrospective cost study.

Committee Discussion

One panelist asked Dr. Simon whether EPA planned to engage the larger scientific community in future efforts. Dr. Wolverton said NCEE would welcome the engagement of the outside research community in trying to answer some questions but that they were trying to first see how far they could get given existing resources. Moreover, availability of extramural grant funds was beyond their control. In response to a question about what "contingencies" (exogenous shocks) were incorporated into ex ante analysis, Dr. Wolverton said it was common to have alternative baselines that reflected different assumptions about future prices and technologies. Dr. Khanna said the Committee needed more information on how ex ante estimates were generated to answer some of the charge questions. Another panelist pointed out the problems associated with comparing ex ante with ex post estimates that were derived from different methods.

Committee members pondered the pitfalls of a regression analysis to quantitatively assess the bias in ex ante estimates. They generally agreed that a qualitative analysis would be needed, at least initially, in order to understand the drivers of ex ante estimates.

Dr. Khanna directed the Committee to discuss charge question 7 asking whether general statements can be made about the accuracy of ex ante estimates. One member said that ex ante sampling distributions would be needed in order to answer the question. With respect to how ex post comparisons can be used to improve future ex ante methods, another member said lessons from cost comparisons can be applied to identify systematic

mistakes, to present uncertainties and to better allocate resources. It was suggested that technological change appeared to be the biggest overlooked factor in ex ante estimates. Members discussed the tradeoffs between an in-depth study of a small number of regulations versus quicker studies of a larger number of regulations. A suggestion was made to incorporate explicit statements of contingencies upon which ex ante estimates depend. Committee members suggested that EPA might want to be proactive in monitoring compliance costs in the future.

With respect to question 8 – whether it is possible to make general statements about ex ante estimates --- Dr. Khanna pointed out that much of the previous discussion was relevant to this response. Committee members were skeptical of the use of regression to determine the existence of a bias in ex ante estimates, instead favoring a qualitative assessment. Committee members favored a comparison of the drivers of costs (ex ante and ex post) over a more aggregate approach of comparing total ex ante and ex post estimates.

With respect to charge question 9a (priorities for rule selection), panelists acknowledged the tradeoffs between a random selection versus rules with more data or greater economic impacts. A bias might be introduced if the analysis is skewed toward information rich rules. A member pointed out that NCEE’s proposed screening process, described in the presentation slides, would be one such way to select regulations. On charge question 9b (balancing pragmatism versus purity), members generally favored a pragmatic approach of categorizing case studies and trying to understand the “drivers” of costs, rather than quantitatively comparison aggregate cost estimates.

Public Comments

The sole public commenter, Mr. Paul Noe of the American Forest & Paper Association (AF&PA), joined the call after 1:00pm to present his slides, available at the meeting webpage. Mr. Noe presented a recent analysis from the National Council for Air and Stream Improvement (NCASI) of the compliance costs for the air portion of EPA’s Cluster Rule. This analysis resulted in a compliance cost estimate that was 65% higher than EPA’s estimate. Mr. Noe also reviewed baseline issues with respect to the water portion of the Cluster Rule, arguing that EPA’s baseline should have begun in 1993 rather than 1995.

Committee Discussion Resumed

Following Mr. Noe’s comments, Committee members turned their attention to charge question 10 (how to build a database of ex ante and ex post cost comparisons). Committee members inquired about resources for extramural grants and encouraged the Agency to collaborate with external economists. Members pondered whether EPA could constructively incorporate routine cost assessments throughout the regulatory process. NCEE representatives again reminded Committee members that they needed to make use of existing information on regulations that have already been implemented. Committee

members stressed their suggestion for a two-prong strategy of multiple qualitative studies followed by more detailed analysis of a smaller number of studies.

Dr. Khanna directed the Committee's attention to their draft responses to charge questions 1 – 6. Members discussed the need for a conceptual framework to guide the comparison of ex ante and ex post costs. They also stressed the need for a consistency choice of baseline when comparing ex ante with ex post estimates.

Before adjourning, Dr. Khanna asked that lead discussants provide draft responses to charge questions 7 – 10 by August 3, 2012. Dr. Stallworth said she would poll the Committee to schedule two additional teleconferences.

Respectfully Submitted:

Holly Stallworth, Ph.D. /s/
Designated Federal Officer

Certified as True:

Madhu Khanna, Ph.D./s/
Chair

NOTE AND DISCLAIMER: The minutes of this public meeting reflect diverse ideas and suggestions offered by Committee members during the course of deliberations within the meeting. Such ideas, suggestions and deliberations do not necessarily reflect consensus advice from the panel members. The reader is cautioned to not rely on the minutes to represent final, approved, consensus advice and recommendations offered to the Agency. Such advice and recommendations may be found in the final advisories, commentaries, letters or reports prepared and transmitted to the EPA Administrator following the public meetings.