

ADVISORY COUNCIL ON CLEAN AIR COMPLIANCE ANALYSIS

Charge Questions

March 15-16, 2007 Meeting

1. Direct Cost Report – General Review. EPA requests that the Council review the draft Section 812 Second Prospective Study direct cost report. Consistent with the statutory language defining the role of the Council in reviewing the 812 studies, EPA respectfully submits the following general charge questions:
 - a. Does the Council support the data choices made by the 812 Project Team for the development of the draft direct cost report? If not, are there alternative data sets the Council recommends should be applied instead?
 - b. Does the Council support the methodological choices made for analyzing those data and developing the direct cost estimates for the relevant scenarios? If not, are there alternative methodologies the Council recommends should be applied instead?
 - c. What advice does the Council have for the EPA Administrator with respect to the validity, reliability, and utility of the draft direct cost report and the analytical results presented therein? If the validity, reliability, and/or utility of the draft direct cost report could be improved, what specific steps does the Council recommend the 812 Project Team pursue to accomplish these improvements?

2. Direct Cost Report – Specific Issues. The general charge question #1 covers any and all aspects of the draft direct cost report which the Council might consider appropriate to address in its review. In conducting this review, EPA also respectfully requests that the Council consider the following particular issues during its review. These particular topic areas represent specific analytical choices or outcomes for which the 812 Project Team is especially interested in Council advice.
 - a. Unidentified Measures. Currently available air pollution control technologies do not appear to be sufficient to achieve full attainment with the current PM and/or ozone NAAQS. The first prospective 812 analysis adopted an approach where additional, “unidentified measures” were built into the with-CAAA scenario to achieve the future emissions reductions needed to progress toward full attainment. The costs of those unidentified measures were capped at \$10,000 per ton. The current draft cost report again applies a fixed \$10,000 per ton cap on precursor emissions. However, other options have been identified by the 812 Project Team for estimating the costs of unidentified measures. Three basic options (plus some variants) are described in a white paper accompanying the draft direct cost report.

The Agency requests that the Council provide advice regarding the relative merits of these alternative approaches. In addition, EPA respectfully requests that the Council consider the issue of reliance on unidentified measures more broadly, and provide advice regarding the appropriateness of providing qualitative discussion, caveats in the characterization of results, and/or uncertainty analysis associated with the projection of future control technologies and costs.

- b. Transferability of Learning Effects. The draft cost report applies learning effects adjustments to a limited number of source categories and control technologies where empirical data are available to specify a learning effect rate. This limited application is consistent with prior Council advice to replace a generic 80% learning effect rate with more source-specific rates based on available empirical data. Two of the key applications of learning rates in the current draft cost report are for Selective Catalytic Reduction (SCR) and Selective Non-Catalytic Reduction (SNCR) at Electric Generating Units (EGUs). However, SCR and SNCR technologies are also applied to some non-EGU sources, particularly industrial boilers. The current draft cost report, however, does not apply learning effect adjustments to non-EGU applications of SCR and SNCR. The Agency therefore requests that the Council consider providing advice regarding the appropriateness of transferring learning effects adjustments for a given control technology from one source category to another.
 - c. Discount Rate Selection and Implementation. The current draft cost report uses a 5 percent social discount rate for the primary analysis, consistent with prior Council advice to adopt a central discount rate value for the primary analysis, supplemented by a sensitivity analysis using the 3 percent and 7 percent rates prescribed by prevailing guidelines. The Agency requests that the Council consider providing advice pertaining to the reasonableness of the choice of a 5 percent rate for the primary analysis, as well as the appropriateness of the 812 Project Team's application of this rate in the derivation of sector-specific direct cost estimates.
 - d. Treatment of Manufacturer Profit in Social Costing. Some of the direct compliance cost estimates incorporated in the draft direct cost report are based on projected changes in manufacturer cost (including production costs, distribution costs, overhead, etc) and some estimates are based on projected changes in retail prices for consumers. The essential difference between these two costing approaches is the inclusion or exclusion of markups for producer profit. The Agency requests that the Council review the white paper on the cost markup issue and consider providing advice pertaining to the appropriate treatment of producer profit in estimates of the social cost of compliance.
3. Uncertainty Analysis Plan. Consistent with advice from several 812 Council advisories and the 2002 NAS report, the 812 Project Team has developed an expanded uncertainty analysis plan, which the team has described in a white paper.

This updated plan represents a significant expansion of the original uncertainty analysis plans contained in the May 2003 analytical blueprint. Consistent with the statutory language defining the role of the Council in reviewing the 812 studies, EPA respectfully submits the following charge questions:

- a. Does the Council support the data choices made by the 812 Project Team for the development of the 812 study uncertainty analysis, as described in the uncertainty analysis plan white paper? If not, are there alternative data sets the Council recommends should be applied instead?
- b. Does the Council support the methodological choices made for analyzing uncertainty in the 812 analysis, as described in the uncertainty analysis plan white paper? If not, are there alternative methodologies the Council recommends should be applied instead?

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