



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

MAY 08 2012

OFFICE OF
AIR AND RADIATION

The Honorable Fred Upton
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I am writing in response to your letter of January 24, 2012, co-signed by 13 of your colleagues, to U.S. Environmental Protection Agency Administrator Lisa Jackson and your letters of February 22, 2012, and April 20, 2012 to Jacob Lew, White House Chief of Staff, regarding the cost of the Mercury and Air Toxics Standards (MATS).

As an initial matter, we issued MATS pursuant to Congressional directives in the 1990 Clean Air Act Amendments. Congress required us to set Maximum Achievable Control Technology (MACT) standards, such as MATS, based on demonstrated technology that is already in use by other similar sources and prohibited us from otherwise considering costs in setting the floor for these standards. The approach in the 1990 Amendments has been very successful and is estimated to reduce air toxics emissions by about 1.5 million tons per year.

While not legally relevant for setting the MACT standards, the EPA did assess the costs and benefits of MATS, as we do for all major MACT standards, to improve public understanding of the impacts of MATS. Although there are effects we cannot monetize, especially beneficial effects, it is important to present information on costs and benefits in a consistent manner so they can be properly compared. Presenting one without the other, or presenting them in an inconsistent manner which distorts comparison of benefits and costs, can mislead the public. Our economic analysis of MATS was conducted in compliance with relevant Executive Orders and guidance on economic analysis from the Office of Management and Budget (OMB), and was approved by OMB before we released it. It followed standard, peer-reviewed methodologies and provided consistent information about anticipated benefits and costs, ensuring the public would have access to an effective and reliable comparison of benefits and costs. Specifically, the MATS Regulatory Impact Analysis (RIA) projected annualized costs of \$9.6 billion and annual benefits in a range of \$37 billion to \$90 billion for 2016 (in 2007\$), the year in which our modeling assumes MATS will be fully implemented.

Annualized costs are a reasonable and accepted way of reporting costs. They reflect the way companies generally spend money to comply with a rule: (a) annualized capital costs, which reflect the way companies finance capital equipment, plus (b) annual operation, maintenance and fuel costs. By

reporting costs in annualized terms, the EPA provides a full, consistent, and informative representation of the rule's costs which can be properly compared to an annual measure of benefits. As with other power sector standards, the EPA did not separately calculate the total costs of installing and maintaining pollution control equipment to comply with MATS; instead, we used a sophisticated model that takes many power sector complexities into account. Given the integration of the electric generating system and its complex responses to new regulatory requirements, a sophisticated model is needed to balance many different factors and provide an effective projection of how power companies are anticipated to respond to the new standards. Several of these cost factors, such as fuel prices and production technologies, are expected to change over time. This model provides cost projections on an annualized schedule reflecting when the costs will actually be incurred. Furthermore, the EPA has more confidence in near term annual costs than costs that may or may not occur over a longer time period. Although the cost numbers reflect the installation of control technology the EPA believes is most cost-effective based on current information and current or anticipated conditions, companies may make other decisions, which are guided by – and may perhaps be predominantly driven by – considerations other than those associated with pollution control.

Annualized costs are the most appropriate method of reporting costs when the benefit information to which costs are to be compared is available in annual or annual equivalent terms as opposed to total benefits across multiple individual years. This is the circumstance for MATS because our benefits information is based on complex air quality modeling conducted for a representative year. The use of a representative year is necessary because benefits calculations are derived from complex atmospheric models that translate emission reductions into changes in ambient air concentrations that people breathe. Running these models for even one representative year is very time consuming and resource intensive, making it impractical to do for multiple years in the future. As with our cost methodology, the EPA relies on the best available science to estimate health benefits associated with reducing air pollution. EPA's methods for doing so have been peer reviewed by the National Academies of Science and several panels of the agency's independent Science Advisory Board.

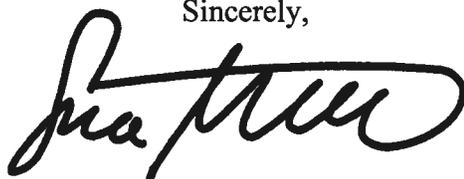
The agency's cost and benefits work is done thoroughly and according to well researched, peer-reviewed methodologies that respect the science, ensure consistent treatment of anticipated effects, offer the public transparency, and are done in accordance with all applicable laws. EPA's approach is regularly updated to reflect advances in research and newly published data and has been used widely in regulatory documents and peer-reviewed literature. Our analysis also benefits from public review and comment on the information presented in the RIAs that accompany our proposed rulemakings. The goal with all of our analyses is to provide the public with meaningful information on rulemakings issued pursuant to the Clean Air Act and the impact those rules are projected to have on public health, the environment, and the economy, including effects which cannot be quantified in monetary terms.

Although we have not calculated the present value of all costs or all benefits across multiple individual years, we anticipate that total capital expenditures to comply with MATS over the relevant projection period will be approximately \$35 billion. We also anticipate that costs will decline as companies adapt and technologies improve, and benefits will increase as a result of population growth and other effects. This in turn leads us to anticipate that total benefits will continue to significantly exceed total costs, including all costs of capital investments, in future years well beyond 2016, the year for which benefits and costs were assessed in the RIA.

By following best practices and presenting comparable results in our RIAs, the EPA can ensure that the public can be well informed about the anticipated benefits and costs of the MATS rule. Again, thank

you for your letter. If you have any further questions, please contact me or call Cheryl Mackay in EPA's Office of Congressional and Intergovernmental Relations at (202) 564-2023.

Sincerely,

A handwritten signature in black ink, appearing to read "Gina McCarthy". The signature is fluid and cursive, with a large initial "G" and "M".

Gina McCarthy
Assistant Administrator