



Industrial Energy Consumers of America

The Voice of the Industrial Energy Consumers

1776 K Street, NW, Suite 720 • Washington, D.C. 20006
Telephone (202) 223-1420 • www.ieca-us.org

July 6, 2016

U.S. Department of Transportation
Docket Management System
West Building Ground Floor
Room W12-140
1200 New Jersey Ave., SE
Washington, DC 20590-0001

Re: NPRM on Pipeline Safety: Safety of Gas Transmission and Gathering Pipelines, Docket Number PHMSA-2011-0023

We are pleased to submit comments on the U.S. Pipeline and Hazardous Materials Safety Administration's (PHMSA) notice of proposed rulemaking for the Safety of Gas Transmission and Gathering Pipelines. Specifically, our comments will address PHMSA's estimates of the social benefits and costs of the rulemaking. PHMSA has substantially overstated the rule's potential benefits and understated the costs. All of the imposed costs will be passed onto us, a significant consumer of natural gas. **No other country in the world imposes global carbon costs onto industry.**

The Industrial Energy Consumers of America (IECA) supports cost-effective action to reduce GHG emissions. The industrial sector is the only sector in the U.S. economy whose GHG emissions are below 1973 levels. Improvements in energy efficiency account for a significant portion of these GHG reductions. Many of the IECA companies belong to the EPA ENERGY STAR® Program.

IECA is a nonpartisan association of leading manufacturing companies with \$1.0 trillion in annual sales, over 2,900 facilities nationwide, and with more than 1.6 million employees worldwide. IECA membership represents a diverse set of industries including: chemical, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, automotive, brewing, independent oil refining, and cement.

SOCIAL COST OF CARBON ISSUES

1. The social cost of carbon increases U.S. manufacturing costs.

All costs of this rule will be passed onto us as a consumer. The Obama Administration has directed agencies to monetize a regulation's direct or indirect effect of reducing emissions of carbon dioxide (CO₂). The PHMSA has used the social cost of carbon (SCC) estimate in this rulemaking to determine potential social benefits. An important glaring problem with the SCC is that it imposes "global" carbon costs on "domestic" manufacturers, which further damages the industry's ability to compete with foreign competitors. The PHMSA has underestimated the GHG impacts of the proposed rule because it has underestimated the number of blowdowns that will need to occur due to the required level of hydrostatic testing.

2. U.S. Government Accountability Office report highlights severe uncertainties in SCC values.

The U.S. Government Accountability Office (GAO) report entitled, “Development of Social Cost of Carbon Estimates”¹ highlights that the SCC cost estimates have great economic and scientific uncertainty.

Page 12 states, “The Technical Support Document (TSD) states that reported domestic effects should be calculated using a range of values from 7 to 23 percent of the global measure of the social cost of carbon, although it cautions that these values are approximate, provisional, and highly speculative due to limited evidence.” The quote illustrates that when applying the SCC on domestic industry, 77-93 percent of the estimated climate benefits will flow to entities outside of the U.S.! In other words, the TSD guarantees that domestic application of the SCC will harm the U.S. economy, to the benefit of others around the world. Taking such action is clearly inconsistent with the purpose of the U.S. government and every federal agency. The TSD inappropriately ignores longstanding guidance from OMB to analyze only domestic cost-benefits. If PHMSA wishes to continue applying the SCC, it must revise downward the range of benefits by 77-93 percent.

Page 14 states, “The TSD states that the working group decided to calculate estimates for several discount rates (2.5, 3, and 5 percent) because the academic literature shows that the social cost of carbon is highly sensitive to the discount rate chosen, and because no consensus exists on the appropriate rate.” Clearly this means that the cost of carbon is not based on reasonable economic analysis to accurately reflect the cost of capital. The TSD inappropriately ignores longstanding guidance from OMB under Circular A-4 to analyze cost benefits using a 7% discount rate.

Page 17 states, “Some of the participating agencies have incorporated discussions of these limitations into regulatory impact analyses using social cost of carbon estimates. For example, in a 2012 rule setting pollution standards for certain power plants, EPA noted that the social cost of carbon estimates are subject to limitations and uncertainties.”²

3. The social cost of carbon value is unrealistically high.

The SCC for 2016 is \$36 per metric ton (in \$2007), while other carbon trading prices are far lower. Some of those include: RGGI’s auction clearing price at \$5.25 per metric ton (on March 11); California’s cap and trade price at \$12.69 per metric ton (on May 10); and the EU ETS price at \$6.86 per metric ton (on May 11). And, throughout the overwhelming majority of the world, the price is even lower. These stated real-time carbon market prices raise serious questions about the validity and appropriateness of the SCC.

¹ U.S. Government Accountability Office, Development of the Social Cost of Carbon Estimates, July, 2014, <http://www.gao.gov/products/GAO-14-663>

² National Emissions Standards for Hazardous Air Pollutants from Coal-and Oil-Fired Electric Utility Steam Generation Units and Standards of Performance for Fossil-Fuel-Fired Electric Utility, Industrial – Commercial –Institutional, and Small Industrial –Commercial-Institutional steam generating Units, 77 Fed. Reg. 9304 (Feb. 16, 2012)

Due to the importance of the SCC estimate to PHMSA's policy choices, it is important to examine PHMSA's application of the SCC in this analysis. There are two problems: 1) PHMSA has ignored the energy costs (and corresponding SCC estimate) required to comply with its rulemaking, and 2) PHMSA's application of the SCC does not correct for the numerous procedural and methodological flaws in the Interagency Working Group's (IWG) SCC approach.

According to the Financial Post, equations "that connect CO₂ emissions to temperature change depend on a parameter called equilibrium climate sensitivity (ECS), which is the amount of warming in degrees Celsius from doubling the amount of CO₂ in the air, after the atmosphere and oceans have fully adjusted. The equations that connect temperature change to economic impacts make up what is called the damage function. The IWG made updates to the damage functions that boosted the costs, but it did not change the ECS even though the ECS has dropped in recent years. The higher the ECS, the longer it takes the climate to adjust to higher greenhouse gas levels. Under a high-ECS case the damages occur much farther in the future and need to be discounted more heavily. But the IWG does not take this into account; instead it allows high-ECS and low-ECS scenarios to occur on the same time scales, biasing the SCC upwards."³

4. The regulatory requirements of the SCC increases energy use.

To comply with the new regulation will require companies to use more energy because the PHMSA and other federal agencies are applying the SCC to other parts of the economy and driving up costs, thus increasing society's CO₂ emissions, as compared to baseline conditions without the regulation. In other words, if the SCC value is valid to estimate social benefits, it is equally valid as a value of regulatory costs.

PHMSA takes into consideration the primary integrity verification and assessment costs (pressure tests, inline inspection, and direct assessments). While PHMSA includes a monetary value associated with these costs, it does not include the SCC externality of the energy use associated with the use, manufacture, and transport of equipment. To be consistent with its application of the SCC, PHMSA must also apply the SCC for changes in energy use in its social cost estimate.

5. Procedural and methodological flaws.

Before PHMSA applies any SCC estimate in its rulemaking, PHMSA must correct the methodological flaws that commenters have raised about the IWG's SCC estimate. PHMSA's SCC estimates fail to comply with guidance for developing influential policy-relevant information under the Information Quality Act (IQA).

Further, PHMSA's SCC estimates are the product of an opaque process and any pretensions to their supposed accuracy (and therefore usefulness in policymaking) are unsupported. The models and all of their assumptions with inputs used for the SCC estimates and the subsequent analyses were not subject to peer review, as required under OMB Circular A-4. The SCC estimate

³ "What's the right price for carbon? Take a guess (everyone else is)," Financial Post, <http://business.financialpost.com/fp-comment/junk-science-week-whats-the-right-price-for-carbon-take-a-guess-everyone-else-is>

from integrated assessment modeling is a highly uncertain academic exercise that does not offer a reasonably acceptable range of accuracy for use in policymaking.

PHMSA has failed to disclose and quantify key uncertainties to inform decision makers and the public about the effects and uncertainties of alternative regulatory actions. PHMSA provides only a limited, not systematic, evaluation of the uncertainties in the integrated assessment modeling, the discount rates, and the global/domestic division of the estimated benefits. By presenting only global SCC estimates and ignoring domestic SCC estimates, the IWG and PHMSA have severely limited the utility of the SCC for use in cost-benefit analysis and policymaking.

IECA recommendations include:

- The SCC estimates must be made consistent with OMB Circular A-4. As noted by leading researchers, the IWG SCC value is calculated differently than other measures of social benefits and costs.⁴ Among other issues, it uses a lower discount rate than recommended by OMB Circular A-4 and values global benefits rather than solely U.S. domestic benefits. By introducing an SCC value with a different denomination in both the social cost and social benefit calculation, PHMSA muddies the results even more and renders comparison among regulatory options and among regulations even more difficult.
- PHMSA has not estimated the total energy implications across the economy from its regulatory requirements. PHMSA should adopt these improvements and an analytic scope that accounts for a rulemaking's incremental direct and indirect increases in energy used throughout the economy.
- The addition of the unreasonably high SCC estimates as a cost often shifts the net benefits of a regulatory option from negative to positive. This use of the SCC by regulatory agencies to place a heavy thumb on the scale and tilt the balance of the outcome to a few winners while harming the overall economy, including domestic manufacturers who will pay the higher pipeline costs, is highly inappropriate and this approach must be rejected.

Thank you for considering these comments. If you have any questions, or I can be of further assistance on this matter, please feel free to contact me at (202) 223-1661.

Sincerely,

Paul N. Cicio
President

⁴ Gayer, T. and Viscose, K. Determining the Proper Scope of Climate Change Benefits, June 2014.