



# **Regulatory Impact Analysis (RIA) for Reconsideration of Existing Stationary Spark Ignition (SI) RICE NESHAP**

**Final Report**

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Regulatory Impact Analysis for Reconsideration of Existing Stationary Spark Ignition (SI) RICE  
NESHAP

U.S. Environmental Protection Agency  
Office of Air Quality Planning and Standards  
Health and Environmental Impact Division  
Air Economics Group and Risk and Benefits Group  
Research Triangle Park, NC

## CONTENTS

<b><u>Section</u></b>	<b><u>Page</u></b>
1 Executive Summary .....	1-1
ES.1 Summary of Impacts for SI RICE NESHAP Reconsideration .....	1-1
ES.2 Comparison of Impacts for 2010 Final SI RICE NESHAP and SI RICE NESHAP Reconsideration.....	1-3
2 Introduction.....	2-7
2.1 Organization of this Report.....	2-7
3 Industry Profile .....	3-1
3.1 Electric Power Generation, Transmission, and Distribution .....	3-1
3.1.1 Overview.....	3-1
3.1.2 Goods and Services Used.....	3-3
3.1.3 Business Statistics.....	3-4
3.2 Oil and Gas Extraction.....	3-11
3.2.1 Overview.....	3-11
3.2.2 Goods and Services Used.....	3-11

3.2.3	Business Statistics.....	3-13
3.2.4	Case Study: Marginal Wells .....	3-17
3.3	Pipeline Transportation of Natural Gas .....	3-18
3.3.1	Overview.....	3-18
3.3.2	Goods and Services Used.....	3-18
3.3.3	Business Statistics.....	3-20
4	Regulatory Alternatives, Costs, and Emission Impacts .....	4-1
4.1	Background.....	4-1
4.2	Proposed Amendments to SI RICE NESHAP .....	4-3
4.2.1	Total Hydrocarbon Compliance (THC) Demonstration Option .....	4-3
4.2.2	Emergency Demand Response and Reliability.....	4-8
4.2.3	Non-Emergency Stationary SI RICE Greater than 500 HP Located at Area Sources.....	4-17
4.2.4	Compliance Date.....	4-26
4.3	What Are the Pollutants Regulated by the Rule?.....	4-26
4.4	Cost Impacts.....	4-27
4.4.1	Introduction.....	4-27
4.4.2	Control Cost Methodology .....	4-28
4.4.3	Control Cost Equations .....	4-30
4.4.4	Summary .....	4-34
4.4.5	Caveats and Limitations for Cost Estimates .....	4-45
4.5	Baseline Emissions and Emission Reductions.....	4-46
5	Economic Impact Analysis, Energy Impacts, and Social Costs .....	5-1
5.1	Compliance Costs of the Reconsidered Rule.....	5-1
5.2	Social Cost Estimate .....	5-3
5.3	How Might People and Firms Respond? A Partial Equilibrium Analysis.....	5-3
5.3.1	Changes in Market Prices and Quantities .....	5-4

5.3.2	Regulated Markets: The Electric Power Generation, Transmission, and Distribution Sector .....	5-6
5.3.3	Partial Equilibrium Measures of Social Cost: Changes Consumer and Producer Surplus .....	5-7
5.4	Energy Impacts .....	5-8
5.5	Unfunded Mandates .....	5-10
5.5.1	Future and Disproportionate Costs .....	5-10
5.5.2	Effects on the National Economy .....	5-10
5.6	Environmental Justice .....	5-11
5.7	Employment Impact Analysis .....	5-10
5.7.1	Employment Impacts from Pollution Control Requirements .....	5-12
5.7.2	Employment Impacts within the Regulated Industry .....	5-16
6	Small Entity Screening Analysis .....	6-1
6.1	Small Entity Data Set .....	6-1
6.2	Small Entity Economic Impact Measures .....	6-2
6.2.1	Model Establishment Receipts and Annual Compliance Costs .....	6-2
6.3	Small Government Entities .....	6-12
7	Benefits of Emissions Reductions .....	7-1
7.1	Calculation of PM <sub>2.5</sub> Human Health Co-Benefits .....	7-1
7.2	Unquantified Benefits .....	7-15
7.2.1	HAP Benefits .....	7-15
7.2.2	Additional NO <sub>2</sub> Co-Benefits .....	7-26
7.2.3	Ozone Co- Benefits .....	7-27
7.2.4	Carbon Monoxide Co-Benefits .....	7-28
7.2.5	Visibility Impairment Co-Benefits .....	7-28
7.3	Characterization of Uncertainty in the Monetized PM <sub>2.5</sub> Co-Benefits .....	7-28
7.4	Comparison of Co-Benefits and Costs .....	7-33

8 References for RIA ..... 8-1

## LIST OF FIGURES

<u>Number</u>		<u>Page</u>
3-1	Industrial Production Index (NAICS 2211) .....	3-3
3-2	Internal Combustion Generators by State: 2006 .....	3-4
3-3	2002 Regional Distribution of Establishments: Electric Power Generation, Transmission, and Distribution Industry (NAICS 2211) .....	3-6
3-4	Industrial Production Index (NAICS 211) .....	3-12
3-5	2002 Regional Distribution of Establishments: Crude Petroleum and Natural Gas Extraction Industry (NAICS 211111) .....	3-15
3-6	2002 Regional Distribution of Establishments: Natural Gas Liquid Extraction Industry (NAICS 211112) .....	3-16
3-7	Distribution of Establishments within Pipeline Transportation (NAICS 486).....	3-19
3-8	Distribution of Revenue within Pipeline Transportation (NAICS 486).....	3-20
3-9	2002 Regional Distribution of Establishments: Pipeline Transportation (NAICS 486).....	3-22
3-10	Share of Establishments by Legal Form of Organization in the Pipeline Transportation of Natural Gas Industry (NAICS 48621): 2002.....	3-22
5-1	Distribution of Engine Population by Horsepower Group .....	5-2
5-2	Market Demand and Supply Model: With and Without Regulation .....	5-5
5-3	Electricity Restructuring by State.....	5-8
6-1	Distribution of Engine Population by Size for All Industries .....	6-9
6-2	Distribution of Compliance Costs by Engine Size for All Industries .....	6-10
7-1.	Breakdown of Monetized PM <sub>2.5</sub> Health Co-Benefits using Mortality Function from Pope et al. (2002).....	7-10
7-2.	Total Monetized PM <sub>2.5</sub> Co-Benefits for the SI RICE Reconsidered NESHAP in 2013 .....	7-14
7-3.	Breakdown of Monetized Co-Benefits for the SI RICE Reconsidered NESHAP by Engine Size .....	7-15
7-4.	Estimated Chronic Census Tract Carcinogenic Risk from HAP exposure from outdoor sources (2005 NATA).....	7-17
7-5.	Estimated Chronic Census Tract Noncancer (Respiratory) Risk from HAP exposure from outdoor sources (2005 NATA).....	7-18
7-6.	Percentage of Adult Population by Annual Mean PM <sub>2.5</sub> Exposure in the Baseline .....	7-30

7-7.	Cumulative Distribution of Adult Population at Annual Mean PM <sub>2.5</sub> Exposure in the Baseline .....	7-31
7-8.	Net Benefits for the SI RICE Reconsidered NESHAP at 3% Discount Rate .....	7-35
7-9.	Net Benefits for the SI RICE Reconsidered NESHAP at 7% Discount Rate .....	7-36

## LIST OF TABLES

<u>Number</u>	<u>Page</u>
1-1	Summary of the Monetized Co-Benefits, Social Costs, and Net benefits for the SI RICE Reconsidered NESHAP in 2013 (millions of 2010\$)..... 1-3
1-2.	Summary of the Monetized Co-Benefits, Compliance Costs, and Net benefits for the 2010 Rule with the Amendments to the Stationary SI RICE Engine NESHAP in 2013 (millions of 2010\$).....1-4 .....1-7
1-3.	Summary of Estimated Monetized Benefits, Compliance Costs and Net Benefits for the 2010 Rule with the Amendments to the Stationary SI Engine NESHAP in 2013 Reconsideration (millions of 2010 dollars)..... 1-10
3-1	Key Statistics: Electric Power Generation, Transmission, and Distribution (NAICS 2211) (2007)..... 3-2
3-2	Direct Requirements for Electric Power Generation, Transmission, and Distribution (NAICS 2211): 2002..... 3-5
3-3	Firm Concentration for Electric Power Generation, Transmission, and Distribution (NAICS 2211): 2002..... 3-7
3-4	United States Retail Electricity Sales Statistics: 2008 ..... 3-8
3-5	FY 2010 Financial Data for 70 U.S. Shareholder-Owned Electric Utilities ..... 3-9
3-6	Aggregate Tax Data for Accounting Period 7/07–6/08: NAICS 2211 ..... 3-9
3-7	Key Enterprise Statistics by Receipt Size for Electric Power Generation, Transmission, and Distribution (NAICS 2211): 2007..... 3-10
3-8	Key Statistics: Crude Petroleum and Natural Gas Extraction (NAICS 211111): (2007) ..... 3-12
3-9	Key Statistics: Natural Gas Liquid Extraction (NAICS 211112) (2007)..... 3-13
3-10	Direct Requirements for Oil and Gas Extraction (NAICS 211): 2002..... 3-13
3-11	Key Enterprise Statistics by Employment Size for Crude Petroleum and Natural Gas Extraction (NAICS 211111): 2007 ..... 3-17
3-12	Key Enterprise Statistics by Employment Size for Crude Natural Gas Liquid Extraction (NAICS 211112): 2007..... 3-17
3-13	Aggregate Tax Data for Accounting Period 7/07–6/08: NAICS 211 ..... 3-18
3-14	Key Statistics: Pipeline Transportation of Natural Gas (NAICS 48621) (2007) ..... 3-19
3-15	Direct Requirements for Pipeline Transportation (NAICS 486): 2002..... 3-21
3-16	Firm Concentration for Pipeline Transportation of Natural Gas (NAICS 48621): 2002..... 3-23
3-17	Aggregate Tax Data for Accounting Period 7/07–6/08: NAICS 486 ..... 3-23

3-18	Key Enterprise Statistics by Receipt Size for Pipeline Transportation of Natural Gas (NAICS 48621): 2007 .....	3-24
4-1	Summary of Annual and Capital Costs Equations for Existing Stationary SI Engines .....	4-34
4-2	Summary of Major Source and Area Source Costs for the SI RICE NESHAP .....	4-35
4-3	Summary of Major Source and Area Source NAICS Costs for the SI RICE NESHAP .....	4-36
4-4	Summary of Major Source and Area Source NAICS Costs for the SI RICE NESHAP, by Size.....	4-37
4-5	Summary of Major Source and Area Source NAICS Costs for the SI RICE NESHAP, by Number of Engines .....	4-41
4-6	Summary of Major Source and Area Source Baseline Emissions for the SI RICE NESHAP .....	4-46
4-7	Emissions Factors.....	4-47
4-8	Summary of Major Source and Area Source Emissions Reductions for the SI RICE NESHAP by 2013 .....	4-47
5-1	Selected Industry-Level Annualized Compliance Costs as a Fraction of Total Industry Revenue: 2009.....	5-3
5-2	Hypothetical Price Increases for a 1% Increase in Unit Costs .....	5-6
5-3	Hypothetical Consumption Decreases for a 1% Increase in Unit Costs .....	5-7
5-4	U.S. Electric Power <sup>a</sup> Sector Energy Consumption (Quadrillion BTUs): 2013 .....	5-9
5-5	Labor-based Employment Estimates for Reporting and Recordkeeping and Installing, Operating, and Maintaining Control Equipment Requirements for Reconsideration SI RICE NESHAP.....	5-15
6-1	NESHAP for Existing Stationary Reciprocating Internal Combustion Engines (RICE): Affected Sectors and SBA Small Business Size Standards.....	6-3
6-2	Average Receipts for Affected Industry by Enterprise: 2007 (\$2009 Million/Establishment).....	6-5
6-3	Average Receipts for Affected Industry by Enterprise Receipt Range: 2007 (\$2009/Establishment).....	6-6
6-4	Representative Establishment Costs Used for Small Entity Analysis (\$2009) .....	6-8
7-1	Human Health Effects of PM <sub>2.5</sub> .....	7-3
7-2.	General Summary of Monetized PM <sub>2.5</sub> -Related Health Co-Benefits Estimates for the SI RICE Reconsidered NESHAP in 2013 (millions of 2010\$) .....	7-11
7-3.	Summary of Reductions in Health Incidences from PM <sub>2.5</sub> Co-Benefits for the SI RICE Reconsidered NESHAP in 2013 .....	7-12

7-4. All Monetized PM<sub>2.5</sub> Co-Benefits from PM<sub>2.5</sub> Benefits for the SI RICE  
Reconsidered NESHAP in 2013..... 7-13

7-5. Summary of the Monetized Benefits, Compliance Costs and Net benefits for the 2010  
Rule with the Amendments to the Stationary CI Engine NESHAP in 2013 (millions of  
2010 dollars).....7-33

## **Section 1**

### **EXECUTIVE SUMMARY**

#### ES.1 Summary of Impacts for the Reconsideration

This action is a reconsideration of the promulgated NESHAP for existing stationary SI RICE with a site rating of less than or equal to 500 HP located at major sources, and existing stationary SI RICE of any site rating located at area sources.

EPA estimates that complying with the reconsidered national emission standards for hazardous air pollutants (NESHAP) for stationary spark-ignition (SI) reciprocating internal combustion engines (RICE) will have an annualized cost of approximately \$115 million per year (2009 or 2010 dollars) in the year of full implementation of the rule (2013). The total annualized costs of the reconsidered rule are 55% less than those for the final SI RICE NESHAP promulgated in 2010. Using these costs, EPA estimates in its economic impact analysis that the NESHAP will have limited impacts on the industries affected and their consumers. Using sales data obtained for affected small entities in an analysis of the impacts of this rule on small entities, EPA expects that the NESHAP will not result in a SISNOSE (significant economic impacts for a substantial number of small entities), a result consistent with the conclusion for the final SI RICE NESHAP issued in 2010. EPA also does not expect significant adverse energy impacts based on Executive Order 13211, an Executive Order that requires analysis of energy impacts for rules such as this one that are economically significant under Executive Order 12866.

In the year of full implementation (2013), EPA estimates that the total monetized benefits of the reconsidered NESHAP are \$62 million to \$150 million and \$55 million to \$140 million, at 3% and 7% discount rates, respectively (Table 1-1). All estimates are in 2010 dollars for the year 2013. These estimates reflect the co-benefits from 9,600 tons of NO<sub>x</sub> emission reductions associated with implementing the controls to reduce hazardous air pollutants (HAPs) required under this reconsideration. Using alternate relationships between PM<sub>2.5</sub> and premature mortality supplied by experts, higher and lower benefits estimates are plausible, but most of the expert-based estimates fall between these estimates. The benefits from reducing other air pollutants have not been monetized in this analysis, including reducing 22,200 tons of carbon monoxide (CO) and 1,800 tons of hazardous air pollutants (HAPs) each year. In addition, ecosystem benefits and visibility benefits have not been monetized in this analysis. Since the reconsideration proposal, we have made several updates to the approach we use to estimate mortality and morbidity benefits in the PM NAAQS RIAs (U.S. EPA, 2012a,b) including updated epidemiology studies, health endpoints, and population data. Although we have not re-

estimated the benefits for this rule to apply this new approach, these updates generally offset each other, and we anticipate that the rounded benefits estimated for this rule are unlikely to be different than those provided below.

In the year of full implementation (2013), EPA estimates the net benefits of the NESHAP are \$-53 million to \$35 million and \$-60 million to \$25 million at 3% and 7% discount rates, respectively (Table 1-1). These estimates are “snapshots” of benefits and costs at year 2013 and are in 2010 dollars.

**Table 1-1. Summary of the Annualized Monetized Co-Benefits, Social Costs, and Net benefits for the Reconsideration SI RICE NESHAP in 2013 (millions of 2010\$)<sup>1</sup>**

	3% Discount Rate			7% Discount Rate		
Total Monetized Benefits <sup>2</sup>	\$62	to	\$150	\$55	to	\$140
Total Compliance Costs <sup>3</sup>			\$115			\$115
Net Benefits	\$-53	to	\$35	\$-60	to	\$25
Non-monetized Benefits	Health effects from HAP exposure Health effects from CO, NO <sub>2</sub> , and ozone exposure Ecosystem effects Visibility impairment					

<sup>1</sup>All estimates are for the implementation year (2013), and are rounded to two significant figures.

<sup>2</sup>The total monetized co-benefits reflect the human health co-benefits associated with reducing exposure to PM<sub>2.5</sub> through reductions of PM<sub>2.5</sub> precursors such as NO<sub>x</sub> and VOC. It is important to note that the monetized co-benefits include many but not all health effects associated with PM<sub>2.5</sub> exposure. It is important to note that the monetized benefits include many but not all health effects associated with PM<sub>2.5</sub> exposure. Benefits are shown as a range from Pope et al. (2002) to Laden et al. (2006). These models assume that all fine particles, regardless of their chemical composition, are equally potent in causing premature mortality because there is no clear scientific evidence that would support the development of differential effects estimates by particle type. Although we have not re-estimated the benefits for this rule to apply the updated methods in the PM NAAQS RIA (U.S. EPA, 2012b), these updates generally offset each other, and we anticipate that the rounded benefits estimated for this rule are unlikely to be different than those provided here.

<sup>3</sup>The annual compliance costs serve as a proxy for the annual social costs of this rule given the lack of difference between the two. The annual compliance costs are calculated using a 7 percent discount rate.

## ES.2 Comparison of Impacts for Final 2010 SI RICE Final Rule and SI RICE NESHAP Reconsideration

The EPA analyzed the costs, economic impacts and benefits of this rule using the identical methodology as the RIA for the SI RICE final rule promulgated in October, 2010. Therefore, all changes to the costs, benefits, and economic impacts for this rule are due to changes (amendments) to this rule for SI RICE, which are fully described later in this RIA and the preamble for the rule. Our baseline does not assume compliance with the 2010 SI RICE final rule. This assumption is based on the fact that full implementation of the final SI RICE rule has not taken place as of yet (it will take place by October, 2013). In addition, this assumption is consistent with the baseline definition applied in the recently finalized ICI boilers and CISWI NESHAP rulemakings. Monetized benefits are the co-benefits of this rule from reductions in directly emitted PM<sub>2.5</sub> emissions.

The following table shows an approximation of the changes in monetized benefits and engineering costs due to changes to the SI RICE rule included in the SI RICE reconsideration, and includes values that show a comparison based on the 2010 final rule emissions inventory. All values in this table are in 2010 dollars.

**Table 1-2. Comparison of Benefits and Costs for 2012 SI RICE Final Rule and 2012 Reconsideration SI RICE Rule**

	<b>Monetized Benefits in 2013</b>	<b>Annual Engineering Costs in 2013</b>
SI RICE Final Rule (May 2010)	\$510 to \$1,200 million	\$253 million
Changes due to the amendments to the final SI RICE rule	-\$448 to \$1,050 million	-\$138 million
Final SI RICE reconsideration rule (2012)	+\$62 to \$150 million	\$115 million

\* Monetized benefits are shown at a 3% discount rate and are from reductions in PM<sub>2.5</sub> emissions. These benefits do not include benefits associated with reduced exposure to HAP, visibility impairment, or ecosystem effects. Monetary estimates are in 2010 dollars.

The results for the economic impacts fall by more than half from those for the SI final rule. This outcome is due to the significant reduction in compliance costs associated with the amendments to the 2010 SI final rule in this rulemaking. All of these results for this rule are found in Section 5 in this RIA.

The results for sales tests (i.e. annual cost/sales analysis) for small businesses also fall from those calculated for the final SI RICE rule. This outcome is also due to the overall large reductions in compliance costs. All of the results for this rule are found in Section 6 in this RIA.

We estimate changes in employment for this SI RICE rule. These estimates reflect the employment impacts associated with installation and operation of monitoring equipment, and also activities for recordkeeping, reporting, and testing. We estimate that 200 full-time equivalents (FTEs) will be required as one-time labor for installation of equipment, and 400 FTEs will be required as ongoing labor for compliance with the rule. The results are presented and explained in detail in Section 5 of this RIA. We did not estimate changes in employment for the 2010 final SI RICE rule.

The benefits estimates decreased significantly from those estimated for the 2010 final SI RICE rule. The range for the 2010 final SI RICE RIA was \$510 million (2009\$) to \$1,200 million (2009\$) at 3 percent discount rate. The range for this rule is \$62 million (2010\$) to \$150 million (2010\$) at 3 percent discount rate. The range for the 2010 final SI RICE RIA was \$460 million (2009\$) to \$1,100 million (2009\$) at 7 percent discount rate. The range for this rule was \$55 million (2010\$) to \$140 million (2010\$) at 7 percent discount rate.

Table 1-5 shows the estimated costs and benefits for the 2010 final SI RICE Rule and the reconsideration rule. The estimated net benefits for the reconsideration rule are considerably smaller than the range for the 2010 final SI RICE rule RIA, which was \$210 million to \$860 million at a 7 percent discount rate and was \$250 million to \$980 billion at 3 percent.

**Table 1-3. Summary of the Monetized Benefits, Compliance Costs and Net benefits for the 2010 Rule with the Amendments to the Stationary SI Engine NESHAP in 2013 (millions of 2010 dollars)<sup>a</sup>**

	3% Discount Rate			7% Discount Rate		
<b>2010 Final SI RICE NESHAP</b>						
Total Monetized Benefits	\$510	to	\$1,200	\$460	to	\$1,100
Total Social Costs			\$253			\$253
Net Benefits	\$250	to	\$980	\$210	to	\$860
<b>Final Reconsideration SI RICE NESHAP</b>						
Total Monetized Benefits	\$62	to	\$150	\$55	to	\$140
Total Social Costs			\$115			\$115
Net Benefits	-\$53	to	\$35	-\$60	to	\$25

<sup>1</sup>All estimates are for the implementation year (2013), and are rounded to two significant figures. All monetized benefits are from reductions of PM<sub>2.5</sub> emissions, a co-benefit of this final rule. Although we have not re-estimated the benefits for this rule to apply the updated methods in the PM NAAQS RIA (U.S. EPA, 2012b), these updates generally offset each other, and we anticipate that the rounded benefits estimated for this rule are unlikely to be different than those provided here. The annualized compliance costs are \$115 million in 2010\$ as noted earlier in this RIA, and are annualized using a 7% interest rate. Compliance costs are used as an approximation for social costs in this RIA.

## **Section 2**

### **INTRODUCTION**

EPA is finalizing NESHAP for existing stationary SI RICE that either are located at area sources of hazardous air pollutant emissions or that have a site rating of less than or equal to 500 horsepower and are located at major sources of hazardous air pollutant emissions. The final amendments to the SI RICE NESHAP are provided in detail in Section 4 of this RIA.

The rule is economically significant according to Executive Order 12866. As part of the regulatory process of preparing these standards, EPA has prepared a regulatory impact analysis (RIA). This analysis includes an analysis of impacts to small entities as part of compliance with the Small Business Regulatory Enforcement Fairness Act (SBREFA) and an analysis of impacts on energy consumption and production to comply with Executive Order 13211 (Statement of Energy Effects). An analysis of economic impacts, along with an analysis of impacts on employment, is also included in this RIA. Finally, an analysis of the benefits of the rule is included in this RIA. It should be noted that the data that supports the analyses listed above have been updated where possible and appropriate from the data used in the RIA for the SI RICE NESHAP promulgated in 2010.

#### **2.1 Organization of this Report**

The remainder of this report supports and details the methodology and the results of the RIA:

- Section 3 presents a profile of the affected industries.
- Section 4 presents a summary of regulatory alternatives considered in the final rule, and provides the compliance costs of the rule.

- Section 5 describes the estimated costs of the regulation and describes the economic impact analysis (EIA) methodology and reports market, welfare, energy, and employment impacts.
- Section 6 presents estimated impacts on small entities.
- Section 7 presents the benefits and net benefits (benefits- costs) estimates.

## **Section 3**

### **INDUSTRY PROFILE**

This section provides an introduction to the industries affected by the rule, i.e., industries in which the spark-ignition (SI) RICE being regulated are found. SI RICE generate electric power, pump gas or other fluids, or compress air for machinery. The primary non-utility application of internal combustion (IC) engines is in the natural gas industry to power compressors used for pipeline transportation, field gathering (collecting gas from wells), underground storage tanks, and in-gas processing plants. RICEs are separated into three design classes: 2 cycle (stroke) lean burn, 4-stroke lean burn, and 4-stroke rich burn. Each of these has design differences that affect both baseline emissions as well as the potential for emissions control.

These industries include the following:

- electric power generation, transmission, and distribution (NAICS 2211),
- oil and gas extraction (including marginal wells) (NAICS 211), and
- pipeline transportation of natural gas (NAICS 48621).

While this is not an exhaustive list of the industries affected by this final reconsideration rule, these three industries incur about 83 percent of the annualized costs of the rule. A full listing of all industries affected in this rulemaking can be found in Chapter 4. The purpose of this profile chapter is to give the reader a general understanding of the economic aspects of the industry; their relative size, relationships with other sectors in the economy, trends for the industries, and financial statistics.

### **3.1 Electric Power Generation, Transmission, and Distribution**

#### **3.1.1 Overview**

Electric power generation, transmission, and distribution (NAICS 2211) is an industry group within the utilities sector (NAICS 22). It includes establishments that produce electrical energy or facilitate its transmission to the final consumer.

From 2002 to 2007, revenues from electric power generation grew about 18% to over \$440 billion (\$2007) (Table 3-1).<sup>1</sup> At the same time, payroll rose about 7% and the number of

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<sup>1</sup> We provide revenues from electric power generation for the years 2002 and 2007 for these are years of the Economic Census. We reference data from these Economic Censuses frequently in this industry profile and show revenues from this industry over this time frame due to availability of such data.

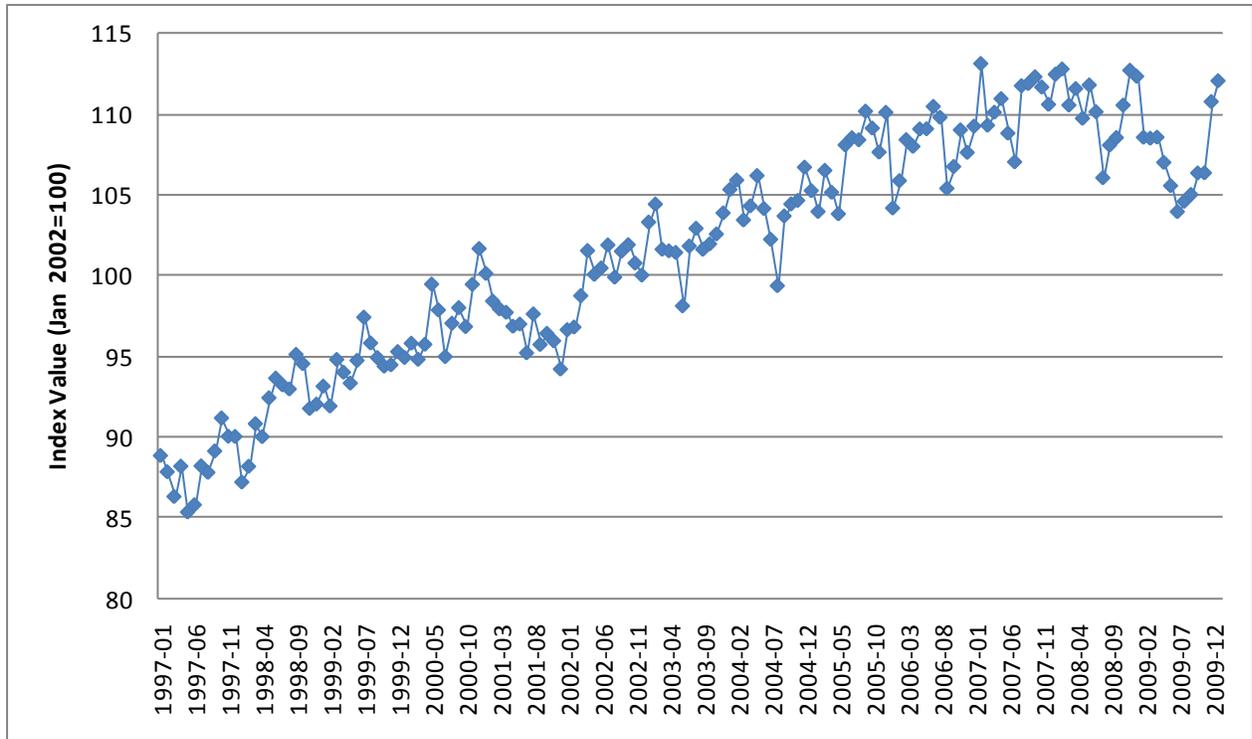
employees decreased by around 4%. The number of establishments rose by about 3%. Industrial production within NAICS 2211 has increased 26% since 1997 (Figure 3-1).

Electric utility companies have traditionally been tightly regulated monopolies. Since 1978, several laws and orders have been passed to encourage competition within the electricity market. In the late 1990s, many states began the process of restructuring their utility regulatory framework to support a competitive market. Following market manipulation in the early 2000s, however, several states have suspended their restructuring efforts. The majority (58%) of power generators controlled by combined heat and power (CHP) or independent power producers are located in states undergoing active restructuring (Figure 3-2).

**Table 3-1. Key Statistics: Electric Power Generation, Transmission, and Distribution (NAICS 2211) (\$2007)**

	2002	2007
Revenue (\$10 <sup>6</sup> )	373,309	440,355
Payroll (\$10 <sup>6</sup> )	40,842	43,792
Employees	535,675	515,335
Establishments	9,394	9,642

Source: U.S. Census Bureau; American FactFinder; “Sector 22: EC0722I2: Utilities: Industry Series: Preliminary Comparative Statistics for the United States (2002 NAICS Basis): 2007 and 2002.” <http://factfinder.census.gov>

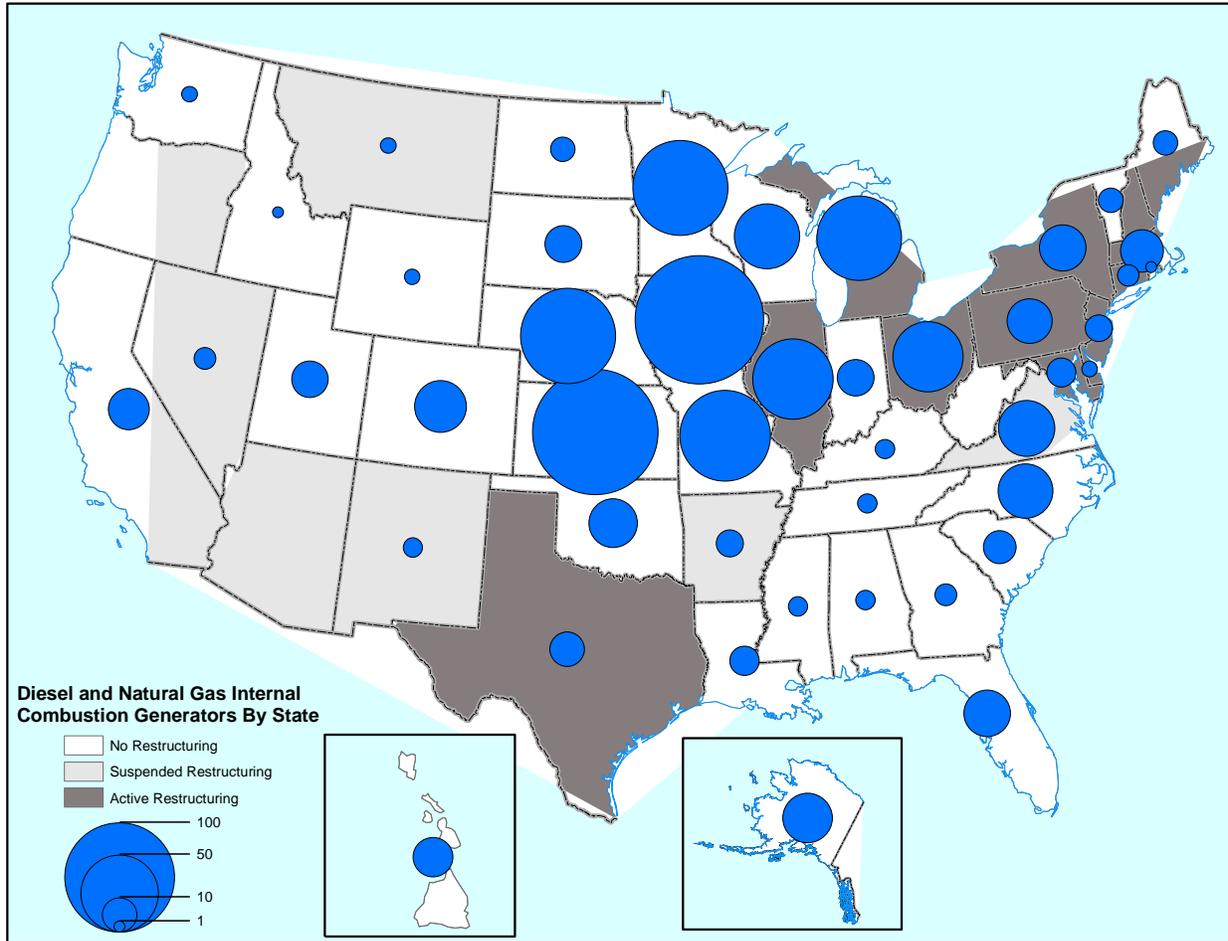


**Figure 3-1. Industrial Production Index (NAICS 2211)**

Source: The Federal Reserve Board. “Industrial Production and Capacity Utilization: Industrial Production” Series ID: G17/IP\_MINING\_AND\_UTILILITY\_DETAIL/IP.G2211.S <<http://www.federalreserve.gov/datadownload/>>. (January 27, 2010).

### 3.1.2 Goods and Services Used

In Table 3-2, we use the latest detailed benchmark input-output data report by the Bureau of Economic Analysis (BEA) (2002) to identify the goods and services used in electric power generation. As shown, labor and tax requirements represent a significant share of the value of power generation. Extraction, transportation, refining, and equipment requirements potentially



**Figure 3-2. Internal Combustion Generators by State: 2006**

Source: U.S. Department of Energy, Energy Information Administration. 2007. "2006 EIA-906/920 Monthly Time Series."

associated with reciprocating internal combustion engines (oil and gas extraction, pipeline transportation, petroleum refineries, and turbine manufacturing) represent around 10% of the value of services.

### 3.1.3 Business Statistics

The U.S. Economic Census and Statistics of U.S. Businesses (SUSB) programs provide national information on the distribution of economic variables by industry, location, and size of business. Throughout this section and report, we use the following definitions:

- *Establishment:* An establishment is a single physical location where business is conducted or where services or industrial operations are performed.

**Table 3-2. Direct Requirements for Electric Power Generation, Transmission, and Distribution (NAICS 2211): 2002**

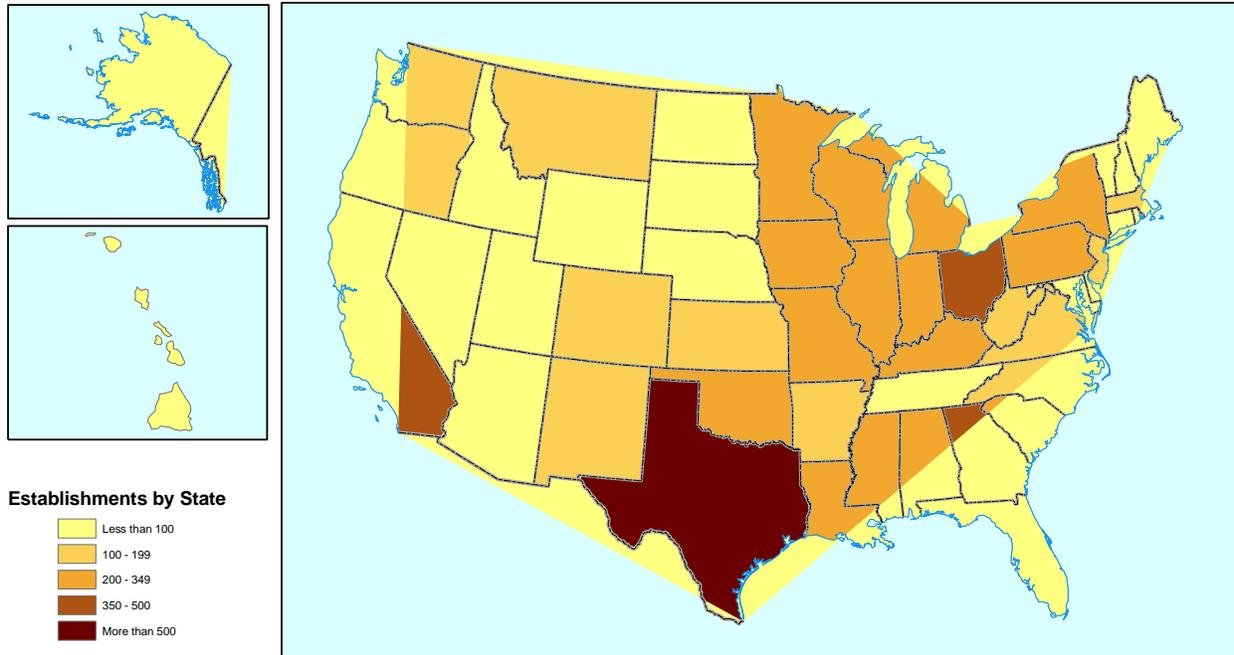
Commodity	Commodity Description	Direct Requirements Coefficients <sup>a</sup>
V00100	Compensation of employees	20.52%
V00200	Taxes on production and imports, less subsidies	13.71%
211000	Oil and gas extraction	6.16%
212100	Coal mining	5.86%
482000	Rail transportation	3.01%
230301	Nonresidential maintenance and repair	2.83%
486000	Pipeline transportation	1.70%
722000	Food services and drinking places	1.40%
52A000	Monetary authorities and depository credit intermediation	1.39%
541100	Legal services	1.13%

<sup>a</sup> These values show the amount of the commodity required to produce \$1.00 of the industry's output. The values are expressed in percentage terms (coefficient  $\times 100$ ).

Source: U.S. Bureau of Economic Analysis. 2002. 2002 Benchmark Input-Output Accounts: Detailed Make Table, Use Table and Direct Requirements Table. Tables 4 and 5.

- *Receipts*: Receipts (net of taxes) are defined as the revenue for goods produced, distributed, or services provided, including revenue earned from premiums, commissions and fees, rents, interest, dividends, and royalties. Receipts exclude all revenue collected for local, state, and federal taxes.
- *Firm*: A firm is a business organization consisting of one or more domestic establishments in the same state and industry that were specified under common ownership or control. The firm and the establishment are the same for single-establishment firms. For each multiestablishment firm, establishments *in the same industry within a state* are counted as one firm; the firm employment and annual payroll are summed from the associated establishments.
- *Enterprise*: An enterprise is a business organization consisting of one or more domestic establishments that were specified under common ownership or control. The enterprise and the establishment are the same for single-establishment firms. Each multiestablishment company forms one enterprise; the enterprise employment and annual payroll are summed from the associated establishments. Enterprise size designations are determined by the summed employment of all associated establishments.

In 2002, Texas had almost 1,000 power establishments, while California, Georgia, and Ohio all had between 400 and 500 (Figure 3-3). Hawaii, Nebraska, and Rhode Island all had fewer than 20 establishments in their states.



**Figure 3-3. 2002 Regional Distribution of Establishments: Electric Power Generation, Transmission, and Distribution Industry (NAICS 2211)**

Source: U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 22: Utilities: Geographic Area Series: Summary Statistics: 2002.” <<http://factfinder.census.gov>>; (November 10, 2008)..

As shown in Table 3-3, the four largest firms owned over 1,200 establishments and accounted for about 16% of total industry receipts/revenue. The 50 largest firms accounted for almost 6,000 establishments and about 78% of total receipts/revenue.

Investor-owned energy providers accounted for only 2% of retail electricity sold in the United States in 2008 (Table 3-4). In 2008, investor-owned energy provider companies with less than 50% of their assets regulated were unprofitable overall, while other companies in this category were profitable. (Table 3-5). In 2008, enterprises within NAICS 2211 had a pre-tax profit margin of 8.1% (Table 3-6).

In 2002, about 82% of firms generating, transmitting, or distributing electric power had receipts of under \$50 million (Table 3-7). However, these firms accounted for only 11% of employment, with 89% of employees working for firms with revenues in excess of \$100 million.

**Table 3-3. Firm Concentration for Electric Power Generation, Transmission, and Distribution (NAICS 2211): 2002**

Commodity	Establishments	Receipts/Revenue		Number of Employees	Employees per Establishment
		Amount (\$10 <sup>6</sup> )	Percentage of Total		
All firms	9,394	\$325,028	100.0%	535,675	57
4 largest firms	1,260	\$52,349	16.1%	68,432	54
8 largest firms	2,566	\$95,223	29.3%	151,575	59
20 largest firms	3,942	\$173,207	53.3%	271,393	69
50 largest firms	5,887	\$253,015	77.8%	408,021	69

Source: U.S. Census Bureau; generated by RTI International; using American FactFinder; "Sector 22: Utilities: Subject Series—Estab & Firm Size: Concentration by Largest Firms for the United States: 2002." <<http://factfinder.census.gov>>; (November 21, 2008).

**Table 3-4. United States Retail Electricity Sales Statistics: 2008**

Item	Full-Service Providers					Other Providers		Total
	Investor-Owned	Public	Federal	Cooperative	Facility	Energy	Delivery	
Number of entities	3	62	1	25	1	NA	NA	92
Number of retail customers	46,985	2,160,220	36	940,697	1	NA	NA	3,147,939
Retail sales (10 <sup>3</sup> megawatthours)	2,257	70,303	9,625	21,868	117	NA	NA	104,170
Percentage of retail sales	2	67	9	21	0	—	—	100
Revenue from retail sales (\$10 <sup>6</sup> )	113	5,934	473	1,994	6	NA	NA	8,520
Percentage of revenue	1.33	69.65	5.55	23.41	0.07	—	—	100
Average retail price (cents/kWh)	5.01	8.44	4.91	9.12	5.25	NA	NA	8.18

Source: U.S. Department of Energy, Energy Information Administration. 2009. "State Electricity Profiles 2008." DOE/EIA-0348(01)/2. p. 260. <  
[http://www.eia.doe.gov/cneaf/electricity/st\\_profiles/sep2008.pdf](http://www.eia.doe.gov/cneaf/electricity/st_profiles/sep2008.pdf)>.

**Table 3-5. FY 2010 Financial Data for 70 U.S. Shareholder-Owned Electric Utilities**

	Profit Margin	Net Income	Operating Revenues
Investor-Owned Utilities	4.81%	\$27,728	\$371,545
Regulated <sup>a</sup>	7.25%	\$12,341	\$158,657
Mostly regulated <sup>b</sup>	8.50%	\$17,815	\$175,218
Diversified <sup>c</sup>	-16.78%	-\$2,429	\$37,671

<sup>a</sup> 80%+ of total assets are regulated.

<sup>b</sup> 50% to 80% of total assets are regulated.

<sup>c</sup> Less than 50% of total assets are regulated.

Source: Edison Electric Institute. "Income Statement: Q4 2010 Financial Update. Quarterly Report of the U.S. Shareholder-Owned Electric Utility Industry." <<http://www.eei.org>>.

**Table 3-6. Aggregate Tax Data for Accounting Period 2009: NAICS 2211**

Number of enterprises <sup>a</sup>	1,187
Total receipts (10 <sup>3</sup> )	\$323,522,443
Net sales(10 <sup>3</sup> )	\$328,017,143
Profit margin before tax	3.1%
Profit margin after tax	2.0%

<sup>a</sup> Includes corporations with and without net income.

Source: Internal Revenue Service, U.S. Department of Treasury. 2010. "Corporation Source Book: Data Files 2000–2009." <<http://www.irs.gov/taxstats/article/0,,id=167415,00.html>>; (May 2, 2010).

**Table 3-7. Key Enterprise Statistics by Employee Size for Electric Power Generation, Transmission, and Distribution (NAICS 2211): 2007**

<b>Variable</b>	<b>All Enterprises</b>	<b>&lt;20 Employees</b>	<b>20–99 Employees</b>	<b>100–499 Employees</b>	<b>500+ Employees</b>
Firms	1,687	630	670	251	136
Establishments	9,611	687	1,110	999	6,815
Employment	503,134	3,622	31,455	42,527	425,530
Receipts (\$10 <sup>3</sup> )	\$440,342,284	\$8,364,773	\$21,825,969	\$41,370,375	\$368,781,167
Receipts/firm (\$10 <sup>3</sup> )	\$261,021	\$13,277	\$32,576	\$164,822	\$2,711,626
Receipts/establishment (\$10 <sup>3</sup> )	\$45,817	\$12,176	\$19,663	\$41,412	\$54,113
Receipts/employment (\$)	\$875	\$2,309	\$694	\$973	\$867

Source: U.S. Census Bureau. 2010. "Firm Size Data from the Statistics of U.S. Businesses: U.S. All Industries Tabulated by Receipt Size: 2007." <<http://www.census.gov/csd/susb/susb07.htm>>.

## **3.2 Oil and Gas Extraction**

### **3.2.1 Overview**

Oil and gas extraction (NAICS 211) is an industry group within the mining sector (NAICS 21). It includes establishments that operate or develop oil and gas field properties through such activities as exploring for oil and gas, drilling and equipping wells, operating on-site equipment, and conducting other activities up to the point of shipment from the property.

Oil and gas extraction consists of two industries: crude petroleum and natural gas extraction (NAICS 211111) and natural gas liquid extraction (NAICS 211112). Crude petroleum and natural gas extraction is the larger industry; in 2002, it accounted for 93% of establishments and 75% of oil and gas extraction revenues.

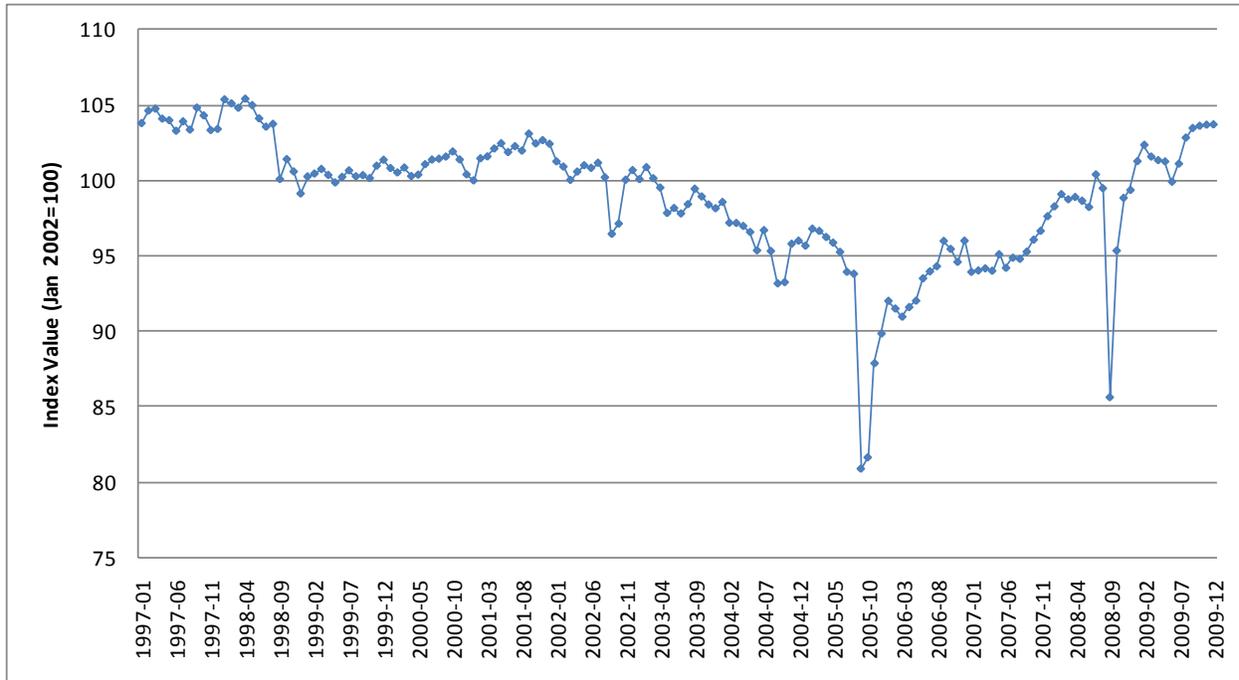
Industrial production in this industry is particularly sensitive to hurricanes in the Gulf Coast. In September of both 2005 and 2008, production dropped 14% from the previous month. (Figure 3-4).

From 2002 to 2007, revenues from crude petroleum and natural gas extraction (NAICS 211111) grew over 117% to almost \$215 billion (\$2007) (Table 3-8). At the same time, payroll grew 55% and the number of employees grew by 48%. The number of establishments dropped by over 17%; as a result, the average establishment revenue increased by 162%. Materials costs were approximately 18% of revenue over the period.

From 2002 to 2007, revenue from natural gas liquid extraction (NAICS 211112) grew over 26% to about \$42 billion (Table 3-9). At the same time, payroll dropped 18% and the number of employees dropped by 24%. The number of establishments dropped by 43%, resulting in an increase of revenue per establishment of about 122%.

### **3.2.2 Goods and Services Used**

The oil and gas extraction industry has similar labor and tax requirements as the electric power generation sector. Extraction, support, power, and equipment requirements potentially associated with RICE (oil and gas extraction, support activities, electric power generation, machinery and equipment rental and leasing, and pipeline transportation) represent around 8% of the value of services (Table 3-10).



**Figure 3-4. Industrial Production Index (NAICS 211)**

Source: The Federal Reserve Board. “Industrial Production and Capacity Utilization: Industrial Production” Series ID: G17/IP\_MINING\_AND\_UTILILITY\_DETAIL/IP.G211.S <<http://www.federalreserve.gov/datadownload/>>. (January 27, 2010).

**Table 3-8. Key Statistics: Crude Petroleum and Natural Gas Extraction (NAICS 211111): (\$2007)**

	2002	2007
Revenue (\$10 <sup>6</sup> )	\$98,667	\$214,198
Payroll (\$10 <sup>6</sup> )	\$5,785	\$8,980
Employees	94,886	140,160
Establishments	7,178	5,956

Sources: U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 21: Mining: Industry Series: Historical Statistics for the Industry: 2002 and 1997.” <<http://factfinder.census.gov/>>; (November 26, 2008).

U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 21: EC072111: Mining: Industry Series: Detailed Statistics by Industry for the United States: 2007 ” <<http://factfinder.census.gov/>>; (April 27, 2010).

**Table 3-9. Key Statistics: Natural Gas Liquid Extraction (NAICS 21112) (\$2007)**

	2002	2007
Revenue (\$10 <sup>6</sup> )	\$33,579	\$42,363
Payroll (\$10 <sup>6</sup> )	\$607	\$501
Employees	9,693	7,343
Establishments	511	291

Sources: U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 21: Mining: Industry Series: Historical Statistics for the Industry: 2002 and 1997.” <<http://factfinder.census.gov>>; (November 26, 2008).

U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 21: EC0721I1: Mining: Industry Series: Detailed Statistics by Industry for the United States: 2007 ” <<http://factfinder.census.gov>>; (April 27, 2010).

**Table 3-10. Direct Requirements for Oil and Gas Extraction (NAICS 211): 2002**

Commodity	Commodity Description	Direct Requirements Coefficients <sup>a</sup>
V00200	Taxes on production and imports, less subsidies	8.93%
V00100	Compensation of employees	6.67%
230301	Nonresidential maintenance and repair	6.36%
211000	Oil and gas extraction	1.91%
213112	Support activities for oil and gas operations	1.51%
221100	Electric power generation, transmission, and distribution	1.47%
541300	Architectural, engineering, and related services	1.24%
532400	Commercial and industrial machinery and equipment rental and leasing	1.20%
33291A	Valve and fittings other than plumbing	1.10%
541511	Custom computer programming services	0.99%

<sup>a</sup> These values show the amount of the commodity required to produce \$1.00 of the industry’s output. The values are expressed in percentage terms (coefficient ×100).

Source: U.S. Bureau of Economic Analysis. 2002. 2002 Benchmark Input-Output Accounts: Detailed Make Table, Use Table and Direct Requirements Table. Tables 4 and 5.

### 3.2.3 Business Statistics

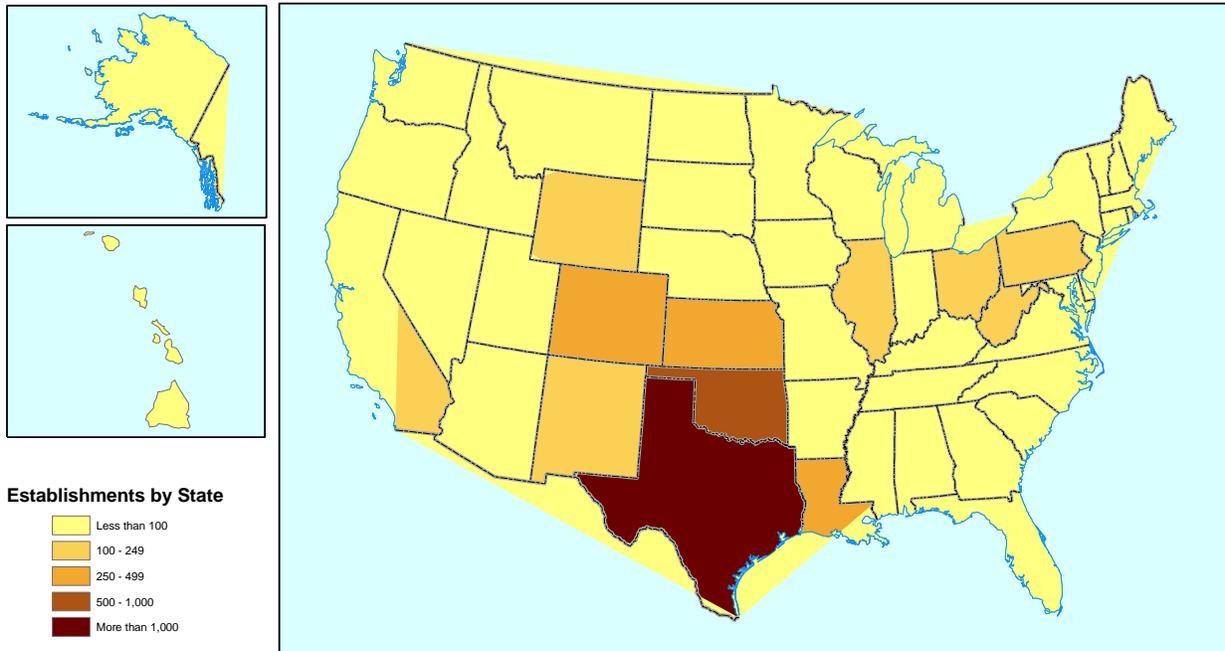
The U.S. Economic Census and SUSB programs provide national information on the distribution of economic variables by industry, location, and size of business. Throughout this section and report, we use the following definitions:

- *Establishment*: An establishment is a single physical location where business is conducted or where services or industrial operations are performed.

- *Receipts:* Receipts (net of taxes) are defined as the revenue for goods produced, distributed, or services provided, including revenue earned from premiums, commissions and fees, rents, interest, dividends, and royalties. Receipts exclude all revenue collected for local, state, and federal taxes.
- *Firm:* A firm is a business organization consisting of one or more domestic establishments in the same state and industry that were specified under common ownership or control. The firm and the establishment are the same for single-establishment firms. For each multiestablishment firm, establishments in the same industry within a state are counted as one firm; the firm employment and annual payroll are summed from the associated establishments.
- *Enterprise:* An enterprise is a business organization consisting of one or more domestic establishments that were specified under common ownership or control. The enterprise and the establishment are the same for single-establishment firms. Each multiestablishment company forms one enterprise; the enterprise employment and annual payroll are summed from the associated establishments. Enterprise size designations are determined by the summed employment of all associated establishments.

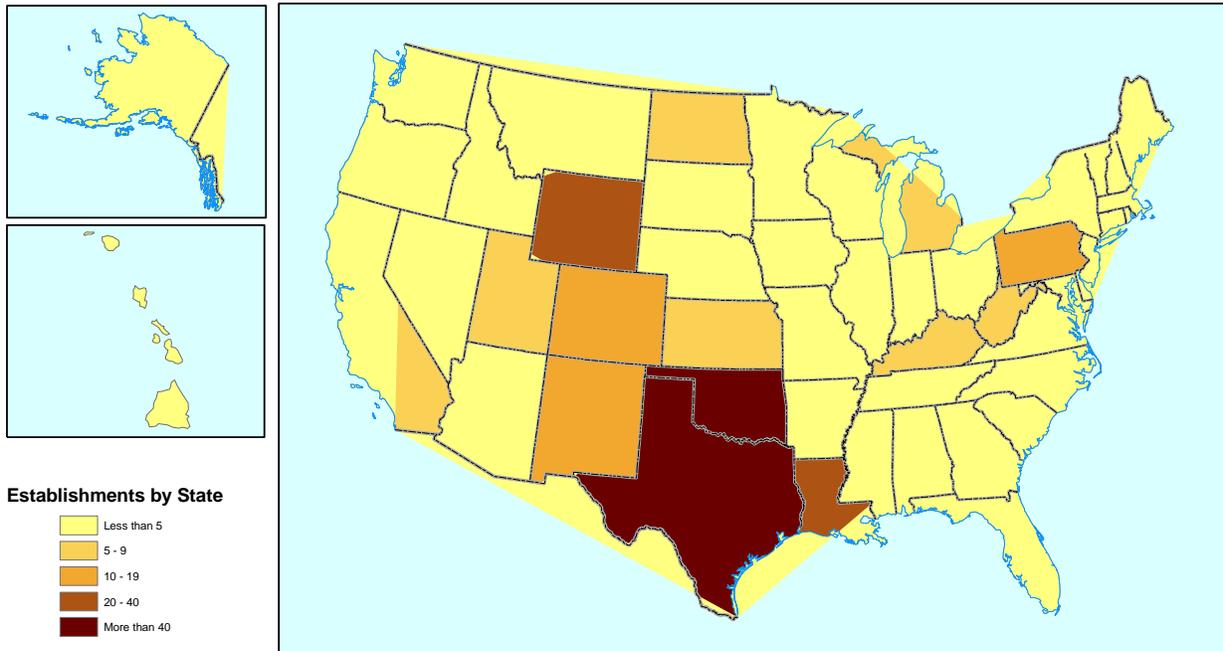
As of 2007, there were 6,563 firms within the NAICS 211111 code, of which 6427 (98 percent) were considered small businesses (Table 3-11). Within NAICS 211111, large firms compose about 2 percent of the firms, but account for 59 percent of employment and generate about 80 percent of estimated receipts listed under the NAICS. Within NAICS 211112, there are 139 firms, of which 95 (71 percent) were considered small businesses (Table 3-12). As shown in this table, large firms compose 29 percent of the firms, but account for 78 percent of employment and generate about 95 percent of estimated receipts.

Enterprises within this industry generated \$193 billion in total receipts in 2008. Including those enterprises without net income, the industry averaged an after-tax profit margin of 8.5% (Table 3-13).



**Figure 3-5. 2002 Regional Distribution of Establishments: Crude Petroleum and Natural Gas Extraction Industry (NAICS 211111)**

Source: U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 21: Mining: Geographic Area Series: Industry Statistics for the State or Offshore Areas: 2007.” <<http://factfinder.census.gov>>; (January 27, 2010).



**Figure 3-6. 2002 Regional Distribution of Establishments: Natural Gas Liquid Extraction Industry (NAICS 21112)**

Source: U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 21: Mining: Geographic Area Series: Industry Statistics for the State or Offshore Areas: 2007.” <<http://factfinder.census.gov>>; (January 27, 2010).

**Table 3-11. Key Statistics for Crude Petroleum and Natural Gas Extraction (NAICS 211111): 2007**

NAICS	NAICS Description	SBA Size Standard	Small Firms	Large Firms	Total Firms
<b>Number of Firms by Firm Size</b>					
	Crude Petroleum and Natural Gas Extraction	500	6,329	95	6,424
<b>Total Employment by Firm Size</b>					
			55,622	77,664	133,286
<b>Estimated Receipts by Firm Size (\$1000)</b>					
			44,965,936	149,141,316	194,107,252

Note: \*The counts of small and large firms in NAICS 486210 is based upon firms with less than \$7.5 million in receipts, rather than the \$7 million required by the SBA Size Standard. We used this value because U.S. Census reports firm counts for firms with receipts less than \$7.5 million. \*\*Employment and receipts could not be split between small and large businesses because of non-disclosure requirements faced by the U.S. Census Bureau. Source: U.S. Census Bureau. 2010. "Number of Firms, Number of Establishments, Employment, Annual Payroll, and Estimated Receipts by Enterprise Receipt Size for the United States, All Industries: 2007." <<http://www.census.gov/econ/susb/>>

**Table 3-12. Key Statistics for Crude Natural Gas Liquid Extraction (NAICS 211112): 2007**

	NAICS Description	SBA Size Standard	Small Firms	Large Firms	Total Firms
<b>Number of Firms by Firm Size</b>					
	Natural Gas Liquid Extraction	500	98	41	139
<b>Total Employment by Firm Size</b>					
			1,875	6,648	8,523
<b>Estimated Receipts by Firm Size (\$1000)</b>					
			2,164,328	37,813,413	39,977,741

Note: \*The counts of small and large firms in NAICS 486210 is based upon firms with less than \$7.5 million in receipts, rather than the \$7 million required by the SBA Size Standard. We used this value because U.S. Census reports firm counts for firms with receipts less than \$7.5 million. \*\*Employment and receipts could not be split between small and large businesses because of non-disclosure requirements faced by the U.S. Census Bureau. Source: U.S. Census Bureau. 2010. "Number of Firms, Number of Establishments, Employment, Annual Payroll, and Estimated Receipts by Enterprise Receipt Size for the United States, All Industries: 2007." <<http://www.census.gov/econ/susb/>>

**Table 3-13. Aggregate Tax Data for Accounting Period 7/07–6/08: NAICS 211**

Number of enterprises <sup>a</sup>	19,441
Total receipts (10 <sup>3</sup> )	\$193,230,241
Net sales(10 <sup>3</sup> )	\$166,989,539
Profit margin before tax	12.9%
Profit margin after tax	8.5%

<sup>a</sup> Includes corporations with and without net income.

Source: Internal Revenue Service, U.S. Department of Treasury. 2010. "Corporation Source Book: Data Files 2004-2007." <<http://www.irs.gov/taxstats/article/0,,id=167415,00.html>>; (May 2, 2010).

### **3.3 Pipeline Transportation of Natural Gas**

#### **3.3.1 Overview**

Pipeline transportation of natural gas (NAICS 48621) is an industry group within the transportation and warehousing sector (NAICS 48-49), but more specifically in the pipeline transportation subsector (486). It includes the transmission of natural gas as well as the distribution of the gas through a local network to participating businesses.

From 2002 to 2007, natural gas transportation revenues fell by 29% to just over \$16 billion (\$2007) (Table 3-14). At the same time, payroll decreased by 14%, while the number of paid employees decreased by nearly 25%. The number of establishments also fell by 8% from 1,701 establishments in 2002 to 1,560 in 2007.

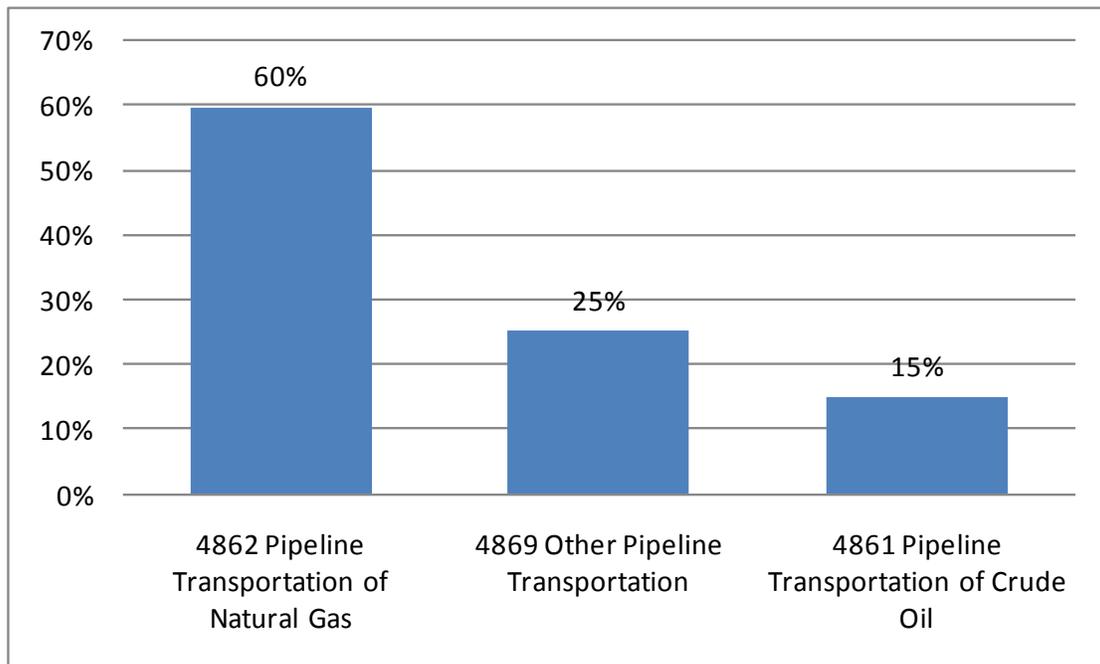
#### **3.3.2 Goods and Services Used**

The BEA reports pipeline transportation of natural gas only for total pipeline transportation (3-digit NAICS 486). In addition to pipeline transportation of natural gas (NAICS 4862), this industry includes pipeline transportation of crude oil (NAICS 4861) and other pipeline transportation (NAICS 4869). However, the BEA data are likely representative of the affected sector since pipeline transportation of natural gas accounts for 60% of NAICS 486 establishments and 66% of revenues (Figures 3-8 and 3-9).

**Table 3-14. Key Statistics: Pipeline Transportation of Natural Gas (NAICS 48621) (\$2007)**

Year	2002	2007
Revenue (\$10 <sup>6</sup> )	16,368	20,797
Payroll (\$10 <sup>6</sup> )	2,086	2,064
Employees	24,519	24,683
Establishments	1,560	1,479

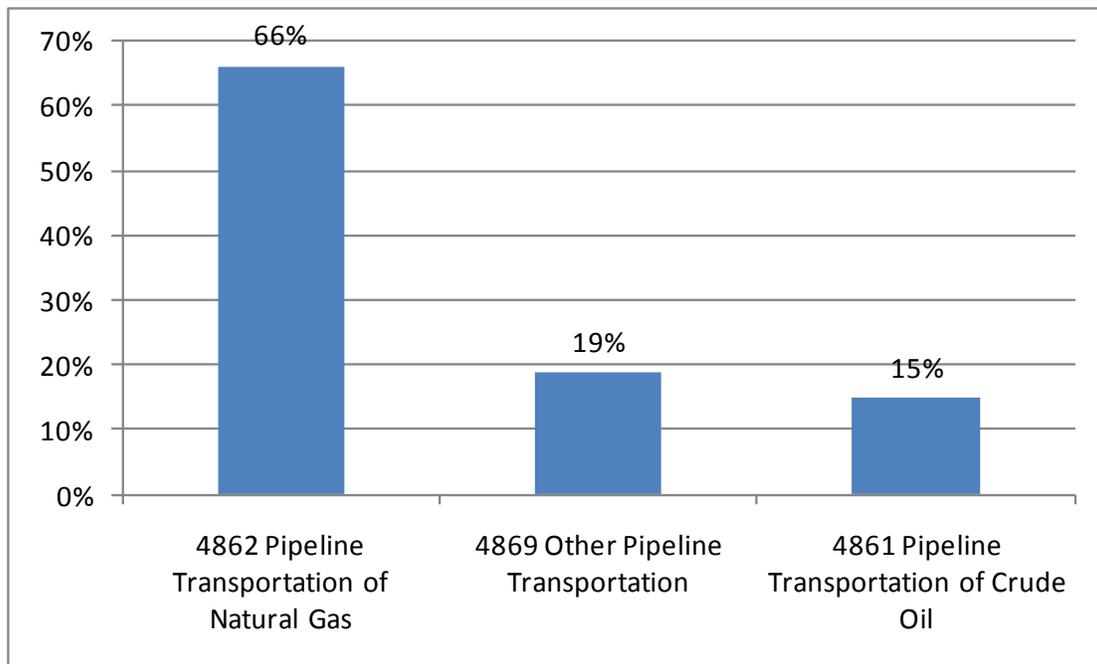
Source: U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 48: EC074811: Transportation and Warehousing: Industry Series: Preliminary Summary Statistics for the United States: 2002 and 2007.” <http://factfinder.census.gov> (January 27, 2010).



**Figure 3-7. Distribution of Establishments within Pipeline Transportation (NAICS 486)**

Source: U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 48: Transportation and Warehousing: Industry Series: Summary Statistics for the United States: 2002 <<http://factfinder.census.gov>>; (January 27, 2010).

In Table 3-15, we use the latest detailed benchmark input-output data report by the BEA (2002) to identify the goods and services used by pipeline transportation (NAICS 486). As shown, labor, refineries, and maintenance requirements represent significant share of the cost associated with pipeline transportation. Power and equipment requirements potentially associated with reciprocating internal combustion engines (electric power generation and distribution) represent less than 2% of the value of services.



**Figure 3-8. Distribution of Revenue within Pipeline Transportation (NAICS 486)**

Source: U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 48: Transportation and Warehousing; Industry Series: Summary Statistics for the United States: 2002” <<http://factfinder.census.gov>>; (January 27, 2010).

### 3.3.3 Business Statistics

The pipeline transportation of natural gas is clearly concentrated in the two states closest to the refineries in the Gulf of Mexico. In 2002, Texas and Louisiana contributed to 31% of all pipeline transportation establishments in the United States (Figure 3-10) and 41% of all U.S. revenues. Other larger contributors with over 50 establishments in their states include Oklahoma, Pennsylvania, Kansas, Mississippi, and West Virginia.

According to 2002 U.S. Census data, about 86% of transportation of natural gas establishments were owned by corporations and about 8% were owned by individual proprietorships. About 6% were owned by partnerships (Figure 3-11). As shown in Table 3-16, the four largest firms accounted for nearly half of the establishments, and just over half, 51%, of total revenue. The 50 largest firms accounted for over 1,354 establishments and about 99% of total revenue. The average number of employees per establishment was approximately 17 across all groups of firms.

Enterprises within pipeline transportation (NAICS 486) generated \$11.1 billion in total receipts in 2008. Including those enterprises without net income, the industry averaged an after-tax profit margin of 9.6% (Table 3-17).

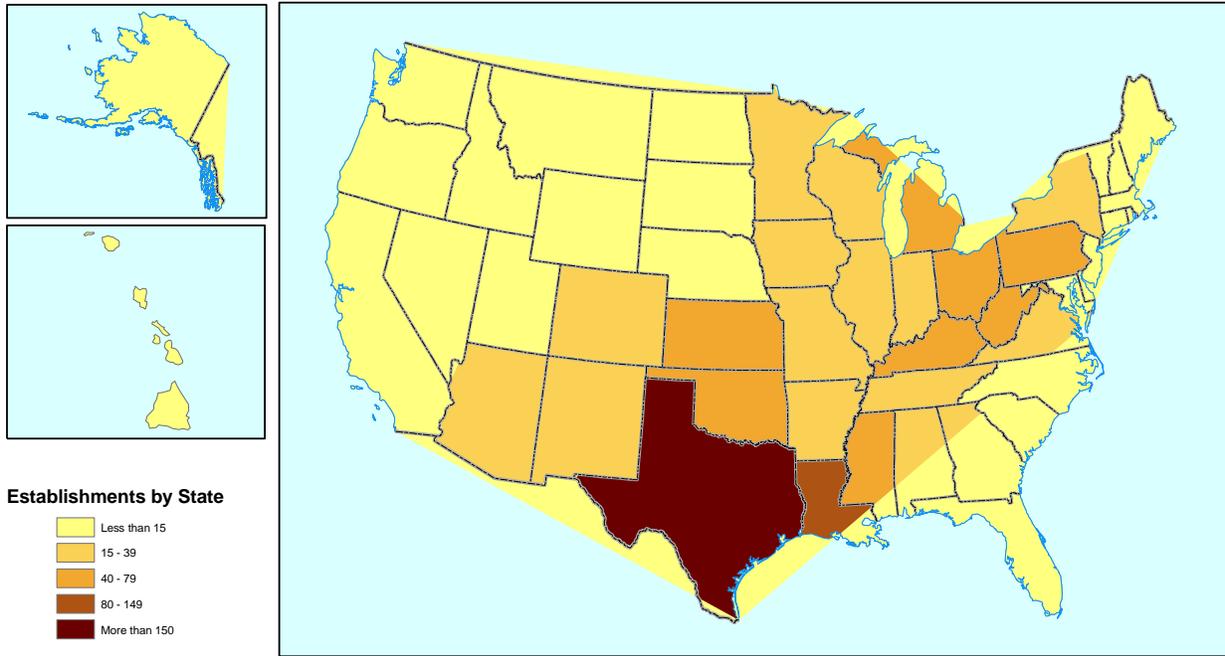
**Table 3-15. Direct Requirements for Pipeline Transportation (NAICS 486): 2002**

<b>Commodity</b>	<b>Commodity Description</b>	<b>Direct Requirements Coefficients<sup>a</sup></b>
V00100	Compensation of employees	14.78%
324110	Petroleum refineries	13.55%
230301	Nonresidential maintenance and repair	6.07%
211000	Oil and gas extraction	4.94%
333415	Air conditioning, refrigeration, and warm air heating equipment manufacturing	4.40%
561300	Employment services	4.26%
5416A0	Environmental and other technical consulting services	3.04%
541300	Architectural, engineering, and related services	3.04%
420000	Wholesale trade	2.79%
332310	Plate work and fabricated structural product manufacturing	2.72%
5419A0	All other miscellaneous professional, scientific, and technical services	2.48%
524100	Insurance carriers	2.38%
531000	Real estate	2.33%
52A000	Monetary authorities and depository credit intermediation	1.76%
V00200	Taxes on production and imports, less subsidies	1.41%
541100	Legal services	1.19%
221100	Electric power generation, transmission, and distribution	1.13%

<sup>a</sup> These values show the amount of the commodity required to produce \$1.00 of the industry's output. The values are expressed in percentage terms (coefficient  $\times 100$ ).

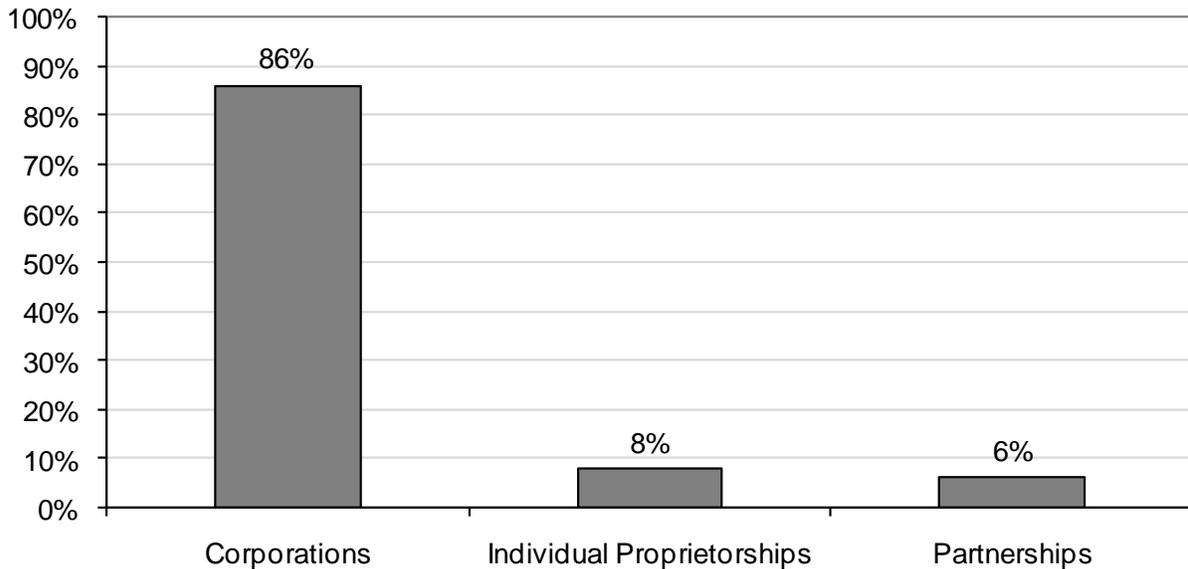
Source: U.S. Bureau of Economic Analysis. 2002. 2002 Benchmark Input-Output Accounts: Detailed Make Table, Use Table and Direct Requirements Table. Tables 4 and 5.

The 2007 SUSB shows that 47% of all firms in this industry made under \$5 million in revenue. Enterprises with revenue over \$100 million provided an overwhelming share of employment in this industry (98%) (Table 3-18).



**Figure 3-. 2002 Regional Distribution of Establishments: Pipeline Transportation (NAICS 486)**

Source: U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 48-49: Geographic Distribution—Pipeline transportation of natural gas: 2002. <<http://factfinder.census.gov>>; (November 10, 2008).



**Figure 3-10. Share of Establishments by Legal Form of Organization in the Pipeline Transportation of Natural Gas Industry (NAICS 48621): 2002**

Source: U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 48-49: Transportation and Warehousing: Subject Series—Estab & Firm Size: Legal Form of Organization for the United States: 2002. <<http://factfinder.census.gov>>; (December 12, 2008).

**Table 3-16. Firm Concentration for Pipeline Transportation of Natural Gas (NAICS 48621): 2002**

Commodity	Establishments	Receipts/Revenue		Number of Employees	Employees per Establishment
		Amount (\$10 <sup>6</sup> )	Percentage of Total		
All firms	1,431	\$14,797	100%	23,677	16.5
4 largest firms	698	\$7,551	51%	11,814	16.9
8 largest firms	912	\$10,059	68%	15,296	16.8
20 largest firms	1,283	\$13,730	93%	21,792	17.0
50 largest firms	1,354	\$14,718	99%	23,346	17.2

Source: U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 48: Transportation and Warehousing: Subject Series—Estab & Firm Size: Concentration by Largest Firms for the United States: 2002” <<http://factfinder.census.gov>>; (December 12, 2008).

**Table 3-17. Aggregate Tax Data for Accounting Period 7/07–6/08: NAICS 486**

Number of enterprises <sup>a</sup>	321
Total receipts (10 <sup>3</sup> )	\$11,062,608
Net sales (10 <sup>3</sup> )	\$10,210,083
Profit margin before tax	13.2%
Profit margin after tax	9.6%

<sup>a</sup> Includes corporations with and without net income.

Source: Internal Revenue Service, U.S. Department of Treasury. 2010. “Corporation Source Book: Data Files 2004-2007.” <<http://www.irs.gov/taxstats/article/0,,id=167415,00.html>>; (May 2, 2010).

**Table 3-18. Key Enterprise Statistics by Employee Size for Pipeline Transportation of Natural Gas (NAICS 48621): 2007**

<b>Variable</b>	<b>All Enterprises</b>	<b>&lt;20 Employees</b>	<b>20–99 Employees</b>	<b>100–499 Employees</b>	<b>500+ Employees</b>
Firms	126	63	12	9	42
Establishments	1,479	66	26	70	1,317
Employment	24,683	241	382	1,479	22,581
Receipts (\$10 <sup>3</sup> )	\$20,796,681	N/A	\$518,341	\$1,448,020	\$18,498,143
Receipts/firm (\$10 <sup>3</sup> )	\$165,053	N/A	\$43,195	\$160,891	\$440,432
Receipts/establishment (\$10 <sup>3</sup> )	\$14,061	N/A	\$19,936	\$20,686	\$14,046
Receipts/employment (\$)	\$843	N/A	\$1,357	\$979	\$819

Source: U.S. Census Bureau. 2011. Firm Size Data from the Statistics of U.S. Businesses, U.S. All Industries Tabulated by Employee Size: 2007.  
[http://www2.census.gov/csd/susb/2007/usalli\\_r07.xls](http://www2.census.gov/csd/susb/2007/usalli_r07.xls).

## Section 4

### REGULATORY ALTERNATIVES, COSTS, AND EMISSION IMPACTS

#### 4.1 Background

This section of the RIA includes a discussion of the regulatory alternatives considered for the reconsidered rule, the costs associated with these regulatory alternatives, and the impacts on affected emissions (both HAP and non-HAP). All impacts presented are for the year of full implementation, 2013. Costs in this section are in 2009\$. Costs in 2010\$ presented elsewhere in the RIA are updated values based on the 2009\$ costs presented in this section. Although the estimates presented are annualized, they should be understood as a “snapshot” in analyzing costs. Annualized costs are estimated as equal for each year that control equipment is operated.

This final rule was developed to address certain issues that have been raised by different stakeholders through lawsuits, several petitions for reconsideration of the 2010 RICE NESHAP amendments and other communications. After promulgation of the 2010 RICE NESHAP amendments, the EPA received several petitions for reconsideration, legal challenges, and other communications raising issues of practical implementability, and certain factual information that had not been brought to the EPA’s attention during the rulemaking. The EPA has considered this information and believes that amendments to the rule to address certain of these issues are appropriate. Therefore, the EPA is finalizing amendments to the national emission standards for hazardous air pollutants for stationary reciprocating internal combustion engines under section 112 of the Clean Air Act. The final amendments include alternative testing options for certain large spark ignition (generally natural gas-fueled) stationary reciprocating internal combustion engines, management practices for a subset of existing spark ignition stationary reciprocating internal combustion engines in sparsely populated areas, and alternative and less burdensome monitoring and compliance options for the same engines in populated areas. The EPA is also finalizing revisions to 40 CFR part 60, subparts IIII and JJJJ for consistency with the RICE NESHAP and to make minor corrections and clarifications. The current regulation applies to owners and operators of existing and new stationary RICE at major and area sources of HAP emissions. The applicability of the CI rule remains the same and is not changed by this final rule. The EPA is also finalizing amendments to the NSPS for stationary engines to conform with certain amendments finalized for the RICE NESHAP. The full preamble for the final SI RICE NESHAP and this rule itself can be reviewed at <http://www.epa.gov/ttn/atw/rice/fr20au10.pdf>.

The EPA is adding an alternative compliance demonstration option for stationary 4-stroke rich burn (4SRB) spark ignition (SI) engines subject to a 76 percent or more formaldehyde

reduction requirement. Owners and operators of 4SRB engines will be permitted to demonstrate compliance with the 76 percent formaldehyde reduction emission standard by testing emissions of total hydrocarbons (THC) and showing that the engine is achieving at least a 30 percent reduction of THC emissions. The alternative compliance option provides a less expensive and less complex, but equally effective, method for demonstrating compliance than testing for formaldehyde.

The EPA is finalizing management practices for owners and operators of existing stationary 4-stroke SI engines above 500 HP that are area sources of HAP emissions and where the engines are remote from human activity. A remote area is defined as either a Department of Transportation (DOT) Class 1 pipeline location<sup>2</sup>, or, if the engine is not on a pipeline, if within a 0.25 mile radius of the facility there are 5 or fewer buildings intended for human occupancy. The EPA determined that a 0.25 mile radius was appropriate because it is similar to the area used for the DOT Class 1 pipeline location. This final rule establishes management practices for these sources rather than numeric emission limits and associated testing and monitoring. This provision and the division of remote and non-remote engines into two separate subcategories addresses reasonable concerns with accessibility, infrastructure and staffing that stem from the remoteness of the engines and higher costs that would be associated with compliance with the existing requirements. Existing stationary 4-stroke SI engines above 500 HP at area sources that are in populated areas (defined as not in DOT pipeline Class 1 areas, or if not on a pipeline, if within a 0.25 mile radius of the engine there are more than 5 buildings intended for human occupancy) are subject to an equipment standard that requires the installation of HAP-reducing aftertreatment. The EPA has the discretion to set an equipment standard as generally available control technology (GACT) for engines located at area sources of HAP. Sources are required to test their engines to demonstrate compliance initially, perform catalyst activity check-ups and either monitor the catalyst inlet temperature continuously or employ high temperature shutdown devices to protect the catalyst

## **4.2 Final Amendments to SI RICE NESHAP**

### **4.2.1. Total Hydrocarbon Compliance (THC) Demonstration Option**

Currently, SI 4SRB non-emergency engines greater than 500 HP and located at major sources and existing SI 4SRB non-emergency engines greater than 500 HP located at area sources have the option of meeting either a formaldehyde percent reduction or a formaldehyde

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<sup>2</sup> A Class 1 location is defined as an offshore area or any class location unit that has 10 or fewer buildings intended for human occupancy.

concentration standard. Formaldehyde was established in the original 2004 RICE NESHAP as an appropriate surrogate for HAP emissions from 4SRB engines based on industry test data available at that time. Based on testing conducted at Colorado State University (CSU) of stationary lean burn engines, the EPA was able to establish CO as a surrogate for HAP for lean burn engines. Rich burn engines were not tested at CSU and the data the EPA had available at the time that were used to set the standards for rich burn engines did not support the same relationship between CO and HAP reductions for rich burn engines. Therefore, the EPA was unable to establish CO as a surrogate for HAP emissions for rich burn engines and the emission standard for rich burn engines was specified in terms of formaldehyde, the hazardous air pollutant emitted in the largest quantity from stationary engines.

The EPA is adding an alternative method of demonstrating compliance with the NESHAP for existing and new stationary 4SRB non-emergency engines greater than 500 HP that are located at major sources of HAP emissions. Under these final amendments, the emission standard remains the same, that is, existing and new stationary 4SRB engines greater than 500 HP and located at major sources are still required to reduce formaldehyde emissions by 76 percent or more or limit the concentration of formaldehyde in the stationary RICE exhaust to 350 parts per billion by volume, dry basis or less at 15 percent oxygen (O<sub>2</sub>). This final rule adds an alternative compliance demonstration option to the existing method of demonstrating compliance with the formaldehyde percent reduction standard. The current method is to test engines for formaldehyde. The alternative for owners and operators of 4SRB engines meeting a 76 percent or more formaldehyde reduction is to test their engines for THC showing that the engine is achieving at least a 30 percent reduction of THC emissions. Including this optional THC compliance demonstration option reduces the cost of compliance significantly while continuing to achieve the same level of HAP emission reduction because the emission standards would remain the same.

As discussed in the June 7, 2012 proposal, data provided to EPA indicate that a strong relationship exists between percentage reductions of THC and percentage reductions of formaldehyde (the surrogate for HAP emissions in the NESHAP) on rich burn engines using non-selective catalytic reduction (NSCR). Data analyzed by the EPA indicate that if the NSCR is reducing THC by at least 30 percent from 4SRB engines, formaldehyde emissions are guaranteed to be reduced by at least 76 percent, which is the percentage reduction required for the relevant engines. Indeed, the percentage reduction of formaldehyde is invariably well above the 76 percent level, and is usually above 90 percent. Therefore, the EPA concluded that for SI 4SRB engines using NSCR and meeting the NESHAP by showing a percentage reduction of HAP, it

would be appropriate to allow sources to demonstrate compliance with the NESHAP by showing a THC reduction of at least 30 percent. Owners and operators of existing stationary 4SRB engines less than or equal to 500 HP that are required to limit the concentration of formaldehyde in the stationary RICE exhaust to 10.3 parts per million by volume, dry basis (ppmvd) or less at 15 percent O<sub>2</sub> do not have the option to demonstrate compliance using THC and must continue to demonstrate compliance by testing for formaldehyde following the methods and procedures specified in the rule because the EPA could not verify a clear relationship between concentrations of THC and concentrations of formaldehyde in the exhaust from these SI 4SRB engines.

Owners and operators opting to use the THC compliance demonstration method must demonstrate compliance by showing that the average reduction of THC is equal to or greater than 30 percent. Owners and operators of 4SRB stationary RICE complying with the requirement to reduce formaldehyde emissions and demonstrating compliance by using the THC compliance demonstration option must conduct performance testing using Method 25A of 40 CFR part 60, appendix A – Determination of Total Gaseous Organic Concentration Using a Flame Ionization Analyzer. Measurements of THC at the inlet and the outlet of the NSCR must be on a dry basis and corrected to 15 percent O<sub>2</sub> or equivalent carbon dioxide content. To correct to 15 percent O<sub>2</sub>, dry basis, owners and operators must measure oxygen using Method 3, 3A or 3B of 40 CFR part 60, appendix A, or ASTM Method D6522-00 (2005) and measure moisture using Method 4 of 40 CFR part 60, appendix A, or Test Method 320 of 40 CFR part 63, appendix A, or ASTM D6348-03. Because owners and operators are complying with a percent reduction requirement, the method used must be suitable for the entire range of emissions since pre and post-catalyst emissions must be measured. Method 25A is capable of measuring emissions down to 5 ppmv and is, therefore, an appropriate method for measuring THC emissions for compliance demonstration purposes. The EPA is allowing sources the option to meet a minimum THC percent reduction of 30 percent by using Method 25A of 40 CFR part 60, appendix A to demonstrate compliance with the formaldehyde percent reduction in 40 CFR part 63, subpart *ZZZZ*.

#### 4.2.2. Emergency Demand Response and Reliability

The EPA is finalizing certain revisions to the proposal regarding use of existing engines for emergency demand response and system reliability. Following is a summary of the prior requirements for these engines, including those in the 2010 regulation, a discussion of the information and input the EPA received in response to the proposal, and a description of the provisions being finalized in this action.

Existing emergency engines less than or equal to 500 HP located at major sources of HAP and existing emergency engines located at area sources of HAP were not regulated under the RICE NESHAP rulemakings finalized in 2004 and 2008. They could operate uncontrolled for an unlimited amount of time. The 2010 RICE NESHAP rulemaking for the first time established requirements for these existing emergency engines, requiring affected engines to comply by May 3, 2013, for stationary CI RICE and October 19, 2013, for stationary SI RICE. Under the RICE NESHAP requirements originally finalized in 2010, these existing emergency stationary engines must limit operation to situations like blackouts and floods and to a maximum of 100 hours per year for other specified operations beginning with the applicable compliance date in 2013 for the engine. The limitation of 100 hours per year included maintenance checks and readiness testing of the engine, as well as a limit of 15 hours per year for use as part of a demand response program if the regional transmission organization or equivalent balancing authority and transmission operator has determined there are emergency conditions that could lead to a potential electrical blackout, such as unusually low frequency, equipment overload, capacity or energy deficiency, or unacceptable voltage level. Under the 2010 regulation, existing emergency engines were required to meet management practice standards based on proper operation and maintenance of the engine; meeting these standards would not require installation of aftertreatment to control emissions.

Soon after the 2010 rule was final, the EPA received petitions for reconsideration of the 15-hour limitation for emergency demand response that was finalized in the 2010 rule. According to one petition, the 15-hour limit, while usually adequate to cover the limited hours in which these engines are expected to be called upon, would not be sufficient to allow these emergency engines to participate in emergency demand response programs since some regional transmission organizations and independent system operators require engines be available for more than 15 hours in order to meet emergency demand response situations. For example, PJM's Emergency Load Response Program requires that emergency engines guarantee that they will be available for 60 hours per year. By contrast, another petition asked EPA to eliminate the

emergency demand response provision because of the adverse effects that the petitioner believes would result from increased emissions from these engines. The EPA received other comments that addressed the types of situations in which engines are called upon for emergency demand response and system reliability.

The EPA believes that the emergency demand response programs that exist across the country are important programs that protect the reliability and stability of the national electric service grid. The use of stationary emergency engines as part of emergency demand response programs can help prevent grid failure or blackouts, by allowing these engines to be used for limited hours in specific circumstances of grid instability prior to the occurrence of blackouts. A standard that requires owners and operators of stationary emergency engines that participate in emergency demand response programs to apply aftertreatment could make it economically infeasible for these engines to participate in these programs, impairing the ability of regional transmission organizations and independent system operators to use these relatively small, quick-starting and reliable sources of energy to protect the reliability of their systems in times of critical need. Information provided by commenters on the proposal indicates that these emergency demand response events are rarely called.<sup>3</sup>

The limited circumstances specified in the final rule for operation of stationary emergency engines for emergency demand response purposes include periods during which the Reliability Coordinator, or other authorized entity as determined by the Reliability Coordinator, has declared an Energy Emergency Alert (EEA) Level 2 as defined in the North American Electric Reliability Corporation (NERC) Reliability Standard EOP-002-3, Capacity and Energy Emergency, and during periods where there is a deviation of voltage or frequency of 5 percent or more below standard voltage or frequency. During EEA Level 2 alerts there is insufficient energy supply and a true potential for electrical blackouts. System operators must call on all available resources during EEA Level 2 alerts in order to stabilize the grid to prevent failure. Therefore, this situation is a good indicator of severe instability on the system, which the EPA believes is appropriately considered an emergency situation. Consistent normal voltage provided by the utility is often called power quality and is an important factor in local electric system reliability. Reliability of the system requires electricity being provided at a normal expected voltage. The American National Standards Institute standard C84.1-1989 defines the maximum allowable voltage sag at below 5 percent. On the local distribution level local voltage levels are therefore important and a 5 percent or more change in the normal voltage or frequency is

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<sup>3</sup> See document number EPA-HQ-OAR-2008-0708-1142 in the rulemaking docket.

substantial and an indication that additional resources are needed to ensure local distribution system reliability.

In addition to the circumstances described above, the EPA also received comments on other situations where the local transmission and distribution system operator has determined that there are conditions that could lead to a blackout for the local area where the ready availability of emergency engines is critical to system reliability. These include situations where:

- The engine is dispatched by the local balancing authority or local transmission and distribution system operator.
- The dispatch is intended to mitigate local transmission and/or distribution limitations so as to avert potential voltage collapse or line overloads that could lead to the interruption of power supply in a local area or region.
- The dispatch follows reliability, emergency operation or similar protocols that follow specific NERC, regional, state, public utility commission or local standards or guidelines.

The EPA believes the operation of emergency engines in these situations should be addressed in the final rule as well.

Therefore, based on the EPA's review of the petitions and comments that the EPA has received with respect to emergency demand response and system reliability, the EPA has concluded that it is appropriate to revise the proposed provisions for stationary engines used in these limited circumstances. The provisions the EPA is amending are in §§63.6640(f) and 63.6675 of 40 CFR part 63, subpart ZZZZ. The final amendments to those sections specify that owners and operators of stationary emergency RICE can operate their engines as part of an emergency demand response program within the 100 hours provided in the proposed rule for non-emergency operation. Owners and operators of stationary emergency engines can operate for up to 100 hours per year for emergency demand response and system reliability during periods in which the Reliability Coordinator, or other authorized entity as determined by the Reliability Coordinator, has declared an EEA Level 2 as defined in the NERC Reliability Standard EOP-002-3, Capacity and Energy Emergency, and during periods where there is a deviation of voltage or frequency of 5 percent or greater below standard voltage or frequency. In addition, existing emergency stationary RICE at area sources of HAP can operate for up to 50 hours per year if all of the following conditions are met:

- The engine is dispatched by the local balancing authority or local transmission and distribution system operator.

- The dispatch is intended to mitigate local transmission and/or distribution limitations so as to avert potential voltage collapse or line overloads that could lead to the interruption of power supply in a local area or region.
- The dispatch follows reliability, emergency operation or similar protocols that follow specific NERC, regional, state, public utility commission or local standards or guidelines.
- The owner or operator has a pre-existing plan that contemplates the engine's operation under the circumstances described above; and
- The owner or operator identifies and records the specific NERC, regional, state, public utility commission or local standards or guidelines that are being followed for dispatching the engine. The local balancing authority or local transmission and distribution system operator may keep these records on behalf of the engine owner or operator.

For all engines operating to satisfy emergency demand response or system reliability under the circumstances described above, the hours spent for emergency demand response operation and local system reliability are added to the hours spent for maintenance and testing purposes and are counted towards the limit of 100 hours per year. If the total time spent for maintenance and testing, emergency demand response, and system reliability operation exceeds 100 hours per year, the engine will not be considered an emergency engine under this subpart and will need to meet all requirements for non-emergency engines.

As noted above, the EPA received comments expressing concerns about the emissions from emergency engines, noting that the engines are likely to be dispatched on days when energy demand is high, which often coincides with days when air quality is poor. While the EPA is sensitive to these concerns, the availability of these engines for a more tailored response to emergencies may be preferable in terms of air quality impacts than relying on other generation, including coal-fired spinning reserve generation. After consideration of the concerns raised in the comments, the EPA is finalizing provisions that require stationary emergency CI RICE with a site rating of more than 100 brake HP and a displacement of less than 30 liters per cylinder that operate or are contractually obligated to be available for more than 15 hours per year (up to a maximum of 100 hours per year) for emergency demand response, or that operate for local system reliability, to use diesel fuel meeting the specifications of 40 CFR 80.510(b) beginning January 1, 2015, except that any existing diesel fuel purchased (or otherwise obtained) prior to January 1, 2015, may be used until depleted. The specifications of 40 CFR 80.510(b) require that diesel fuel have a maximum sulfur content of 15 ppm and either a minimum cetane index of 40 or a maximum aromatic content of 35 volume percent; this fuel is

referred to as “ultra low sulfur diesel fuel” (ULSD). This emission reduction requirement was not part of the original 2010 rulemaking. Although the EPA does not have information specifying the percentage of existing stationary emergency CI engines currently using residual fuel oil or non-ULSD distillate fuel, the most recent U.S. Energy Information Administration data available for sales of distillate and residual fuel oil to end users<sup>4</sup> show that significant amounts of non-ULSD are still being purchased by end users that typically operate stationary combustion sources, including stationary emergency CI engines. For example, in the category of Commercial End Use, sales data for the year 2010 show that only 45 percent of the total distillate and residual fuel oil sold was ULSD. The data provided for Electric Power End Use show that 68 percent of total fuel sold was residual fuel oil. For Industrial End Use, the percentage of total fuel that was residual fuel oil was 20 percent. The EPA believes that requiring cleaner fuel for these stationary emergency CI engines will significantly limit or reduce the emissions of regulated air pollutants emitted from these engines, further protecting public health and the environment. Information provided to EPA by commenters<sup>5</sup> showed that the use of ULSD will significantly reduce emissions of air toxics, including metallic HAP (e.g., nickel, zinc, lead) and benzene.

In addition to the fuel requirement, owners and operators of stationary emergency CI RICE larger than 100 HP that operate or are contractually obligated to be available for more than 15 hours per year (up to a maximum of 100 hours per year) for emergency demand response must report the dates and times the engines operate for emergency demand response annually to the EPA, beginning with operation during the 2015 calendar year. Owners and operators of these engines are also required to report the dates, times and situations that the engines operate to mitigate local transmission and/or distribution limitations annually to the EPA, beginning with operation during the 2015 calendar year. This information is necessary to determine whether these engines are operating in compliance with the regulations and will assist the EPA in assessing the impacts of the emissions from these engines.

The EPA is adding these requirements beginning in January, 2015, rather than upon initial implementation of the NESHAP for existing engines in May or October of 2013, to provide sources with appropriate lead time to institute these new requirements and make any physical adjustments to engines and other facilities like tanks or other containment structures, as

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<sup>4</sup> U.S. Energy Information Administration. Distillate Fuel Oil and Kerosene Sales by End Use. Available at [http://www.eia.gov/dnav/pet/pet\\_cons\\_821use\\_dcu\\_nus\\_a.htm](http://www.eia.gov/dnav/pet/pet_cons_821use_dcu_nus_a.htm).

<sup>5</sup> See document number EPA-HQ-OAR-2008-0708-1459 in the rulemaking docket.

well as any needed adjustments to contracts and other business activities, that may be necessitated by these new requirements.

The EPA is also amending the NSPS for stationary CI and SI engines in 40 CFR part 60, subparts IIII and JJJJ, respectively, to provide the same limitation for stationary emergency engines for emergency demand response and system reliability operation as for engines subject to the RICE NESHAP. The NSPS regulations currently do not include such a provision for emergency demand response or system reliability operation; the issue was not raised during the original promulgation of the NSPS. The EPA is adding an emergency demand response and system reliability provision under the NSPS regulations in these final amendments. The EPA is revising the existing language in §§60.4211(f) and 60.4219 of 40 CFR part 60, subpart IIII, and §§60.4243(d) and 60.4248 of 40 CFR part 60, subpart JJJJ, to specify that emergency engines must limit operation for engine maintenance and testing and emergency demand response to a maximum of 100 hours per year; 50 of the 100 hours may be used to operate to mitigate local reliability issues, as discussed previously for the RICE NESHAP.

The EPA is also finalizing amendments to the NSPS regulations that require owners and operators of stationary emergency engines larger than 100 HP that operate or are contractually obligated to be available for more than 15 hours per year (up to a maximum of 100 hours per year) for emergency demand response to report the dates and times the engines operated for emergency demand response annually to the EPA, beginning with operation during the 2015 calendar year. Owners and operators of these engines are also required to report the dates, times and situations that the engines operate to mitigate local transmission and/or distribution limitations annually to the EPA, beginning with operation during the 2015 calendar year. Emergency engines subject to 40 CFR part 60, subpart IIII are already required by subpart IIII to use diesel fuel that meets the requirements of 40 CFR 80.510(b).

The 2010 regulation specified that existing emergency engines at area sources of HAP that are residential, commercial, or institutional facilities were not subject to the RICE NESHAP requirements as long as the engines were limited to no more than 15 hours per year for emergency demand response. The EPA is specifying in the final rule that existing emergency engines at area sources of HAP that are residential, commercial, or institutional facilities are subject to the applicable requirements for stationary emergency engines in the RICE NESHAP if they operate or are contractually obligated to be available for more than 15 hours per year (up to a maximum of 100 hours per year) for emergency demand response, or they operate to mitigate local transmission and/or distribution limitations. Information provided by commenters on the

2010 regulation and the amendments proposed in June 2012 indicates that these engines typically operate less than 15 hours per year for emergency demand response.

For stationary emergency engines above 500 HP at major sources of HAP that were installed before June 12, 2006, prior to these final amendments, there was no emergency demand response provision and there was no time limit on the use of emergency engines for routine testing and maintenance in §63.6640(f)(2)(ii). Those engines were not the focus of the 2010 RICE NESHAP amendments; therefore, the EPA did not make any changes to the requirements for those engines as part of the 2010 amendments. For consistency, the EPA is now also revising 40 CFR part 63, subpart ZZZZ to require owners and operators of stationary emergency engines above 500 HP at major sources of HAP installed prior to June 12, 2006, to limit operation of their engines for maintenance and testing and emergency demand response program to a total of 100 hours per year. These engines would also be required to use diesel fuel meeting the specifications of 40 CFR 80.510(b) beginning January 1, 2015, however, if the engine operates or is contractually obligated to be available for more than 15 hours per year. Any existing diesel fuel purchased (or otherwise obtained) prior to January 1, 2015 may be used until depleted. In addition to the fuel requirement, owners and operators of these engines must report the dates and times the engines operate for emergency demand response annually to the EPA, beginning with operation during the 2015 calendar year.

More detail regarding the public comments regarding emergency demand response and the EPA's responses can be found in the Response to Public Comments document available in the rulemaking docket.

#### 4.2.3 Amendment - Non-Emergency Stationary SI RICE Greater than 500 HP Located at Area Sources

The EPA is finalizing amendments to the requirements that apply to existing stationary non-emergency 4-stroke SI RICE greater than 500 HP located at area sources of HAP emissions, which are generally natural gas fired engines.

The EPA is creating a subcategory for existing spark ignition engines located in sparsely populated areas. Engines located in remote areas that are not close to significant human activity may be difficult to access, may not have electricity or communications, and may be unmanned most of the time. The costs of the emission controls, testing, and continuous monitoring requirements may be unreasonable when compared to the HAP emission reductions that would be achieved, considering that the engines are in sparsely populated areas. Moreover, the location of these engines is such that there would be limited public exposure to the emissions. The EPA believes that establishing a subcategory for SI engines at area sources of HAP located in sparsely populated areas accomplishes the agency's goals and is adequate in protecting public health. The EPA is creating this subcategory using criteria based on the existing DOT classification system for natural gas pipelines. This system classifies locations based on their distance to natural gas pipelines covered by the Pipeline and Hazardous Materials Safety Administration regulations. The DOT system defines a class location unit as an onshore area that extends 220 yards or 200 meters on either side of the centerline of any continuous 1-mile (1.6 kilometers) length of natural gas pipeline. The DOT approach further classifies pipeline locations into Class 1 through Class 4 locations based on the number of buildings intended for human occupancy. A Class 1 location is defined as an offshore area or any class location unit that has 10 or fewer buildings intended for human occupancy. The DOT classification system also has special provisions for locations where buildings with four or more stories above ground are prevalent and locations that lie within 100 yards (91 meters) of either a building or a small, well-defined outside area (such as a playground, recreation area, outdoor theater, or other place of public assembly) that is occupied by 20 or more persons on at least 5 days a week for 10 weeks in any 12-month period. To be considered remote under this final rule, a source on a pipeline could not fall under these special provisions and, in addition, must be in a Class 1 location. For those engines not associated with pipelines, the EPA is using similar criteria. An engine would be considered to be in sparsely populated areas if within 0.25 mile radius of the engine there are 5 or fewer buildings intended for human occupancy.

Owners and operators of existing stationary non-emergency 4-stroke lean burn (4SLB) and 4SRB RICE greater than 500 HP at area sources that are in sparsely populated areas as described above would be required to perform the following:

- Change oil and filter every 2,160 hours of operation or annually, whichever comes first;
- Inspect spark plugs every 2,160 hours of operation or annually, whichever comes first, and replace as necessary; and
- Inspect all hoses and belts every 2,160 hours of operation or annually, whichever comes first, and replace as necessary.

Sources have the option to use an oil analysis program as described in §63.6625(i) of the rule in order to extend the specified oil change requirement. The oil analysis must be performed at the same frequency specified for changing the oil in Table 2d of the rule. The analysis program must at a minimum analyze the following three parameters: Total Acid Number, viscosity, and percent water content. The condemning limits for these parameters are as follows: Total Acid Number increases by more than 3.0 milligrams of potassium hydroxide per gram from Total Acid Number of the oil when new; viscosity of the oil has changed by more than 20 percent from the viscosity of the oil when new; or percent water content (by volume) is greater than 0.5. If none of these condemning limits are exceeded, the engine owner or operator is not required to change the oil. If any of the limits are exceeded, the engine owner or operator must change the oil within 2 business days of receiving the results of the analysis; if the engine is not in operation when the results of the analysis are received, the engine owner or operator must change the oil within 2 business days or before commencing operation, whichever is later. The owner or operator must keep records of the parameters that are analyzed as part of the program, the results of the analysis, and the oil changes for the engine. The analysis program must be part of the maintenance plan for the engine.

Owners and operators of existing stationary 4SLB and 4SRB area source engines above 500 HP in sparsely populated areas would also have to operate and maintain the stationary RICE and aftertreatment control device (if any) according to the manufacturer's emission-related written instructions or develop their own maintenance plan, which must provide to the extent practicable for the maintenance and operation of the engine in a manner consistent with good air pollution control practice for minimizing emissions.

Owners and operators of engines in sparsely populated areas would have to conduct a review of the surrounding area every 12 months to determine if the nearby population has changed. If the engine no longer meets the criteria for a sparsely populated area, the owner and operator must within 1 year comply with the emission standards specified below for populated areas.

For engines in populated areas, i.e., existing stationary 4SLB and 4SRB non-emergency engines greater than 500 HP at area sources that are located on DOT Class 2 through Class 4 pipeline segments or, for engines not associated with pipelines, that do not meet the 0.25 mile radius with 5 or less buildings criteria, the EPA is adopting an equipment standard requiring the installation of a catalyst to reduce HAP emissions. Owners and operators of existing area source 4SLB non-emergency engines greater than 500 HP in populated areas would be required to install an oxidation catalyst. Owners and operators of existing area source 4SRB non-emergency engines greater than 500 HP in populated areas would be required to install NSCR. Owners and operators must conduct an initial test to demonstrate that the engine achieves at least a 93 percent reduction in CO emissions or a CO concentration level of 47 ppmvd at 15 percent O<sub>2</sub>, if the engine is a 4SLB engine. Similarly, owners and operators must conduct an initial performance test to demonstrate that the engine achieves at least either a 75 percent CO reduction, a 30 percent THC reduction, or a CO concentration level of 270 ppmvd at 15 percent O<sub>2</sub> if the engine is a 4SRB engine. The initial test must consist of three test runs. Each test run must be of at least 15 minute duration, except that each test run conducted using appendix A to 40 CFR part 63, subpart ZZZZ must consist of one measurement cycle as defined by the method and include at least 2 minutes of test data phase measurement. To measure CO, emission sources must use the CO methods already specified in subpart ZZZZ, or appendix A to 40 CFR part 63, subpart ZZZZ. The THC testing must be conducted using EPA Method 25A.

The owner or operator of both engine types must also use a high temperature shutdown device that detects if the catalyst inlet temperature is too high, or, alternatively, the owner or operator can monitor the catalyst inlet temperature continuously and maintain the temperature within the range specified in the rule. For 4SLB engines the catalyst inlet temperature must remain at or above 450°F and at or below 1,350°F. For 4SRB engines the temperature must be greater than or equal to 750°F and less than or equal to 1,250°F at the catalyst inlet.

Owners and operators must in addition to the initial performance test conduct annual checks of the catalyst to ensure proper catalyst activity. The annual check of the catalyst must at a minimum consist of one 15-minute run using the methods discussed above, except that each test run conducted using appendix A to 40 CFR part 63, subpart ZZZZ must consist of one measurement cycle as defined by the method and include at least 2 minutes of test data phase measurement. Owners and operators of 4SLB engines must demonstrate during the catalyst activity test that the catalyst achieves at least a 93 percent reduction in CO emissions or that the engine exhaust CO emissions are no more than 47 ppmvd at 15 percent O<sub>2</sub>. Owners and operators of 4SRB engines must demonstrate during the catalyst activity check that their catalyst

is reducing CO emissions by 75 percent or more, the CO concentration level at the engine exhaust is less than or equal to 270 ppmvd at 15 percent O<sub>2</sub>, or THC emissions are being reduced by at least 30 percent.

If the emissions from the engine do not exceed the levels required for the initial test or annual checks of the catalyst, then the catalyst is considered to be working properly. If the emissions exceed the specified pollutant levels in the rule, the exceedance(s) is/are not considered a violation, but the owner or operator would be required to shut down the engine and take appropriate corrective action (e.g., repairs, clean or replace the catalyst, as appropriate). A follow-up test must be conducted within 7 days of the engine being started up again to demonstrate that the emission levels are being met. If the retest shows that the emissions continue to exceed the specified levels, the stationary RICE must again be shut down as soon as safely possible, and the engine may not operate, except for purposes of start-up and testing, until the owner/operator demonstrates through testing that the emissions do not exceed the levels specified.

#### 4.2.4 Compliance Date

The EPA has received some questions regarding whether the compliance dates for engines impacted by the 2010 amendments and this reconsideration will be extended. Affected sources that may be impacted by this action have expressed concern about having sufficient time to comply with the rule by the compliance date, which is May 3, 2013, for existing stationary CI RICE and October 19, 2013, for existing stationary SI RICE. Sources impacted by this reconsideration are particularly concerned with compliance in the event that the EPA does not finalize changes that are substantially similar to the changes included in this action. The EPA does not intend to extend the May 3, 2013, and October 19, 2013, compliance dates, because there are many engines that must meet those compliance dates that are not impacted by this reconsideration. However, we note that sources that are affected by the reconsideration and that may need additional time to install controls to comply with the applicable requirements can request up to an additional year to install controls, as specified in 40 CFR 63.6(i).

### **4.3 What Are the Pollutants Regulated by the Rule?**

The reconsideration rule regulates emissions of HAP. Available emissions data show that several HAP, which are formed during the combustion process or which are contained within the fuel burned, are emitted from stationary engines. The HAP which have been measured in emission tests conducted on SI stationary RICE include: formaldehyde, acetaldehyde, acrolein, methanol, benzene, toluene, 1,3-butadiene, 2,2,4-trimethylpentane, hexane, xylene, naphthalene, PAH, methylene chloride, and ethylbenzene. EPA described the health effects of these HAP and other HAP emitted from the operation of stationary RICE in the preamble to 40 CFR part 63, subpart ZZZZ, published on June 15, 2004 (69 FR 33474). These HAP emissions are known to cause, or contribute significantly to air pollution, which may reasonably be anticipated to endanger public health or welfare.

For the standards included in this action, EPA believes that previous determinations regarding the appropriateness of using formaldehyde and carbon monoxide (CO) both in concentration (parts per million (ppm)) levels as surrogates for HAP for stationary RICE are still valid. Consequently, EPA is promulgating CO or formaldehyde standards in order to regulate HAP emissions.

In addition to reducing HAP, the emission control technologies that will be installed on stationary RICE to reduce HAP will also reduce CO and VOC, and for rich burn engines will also reduce NOx.

### **4.4 Cost Impacts**

#### **4.4.1 Introduction**

EPA has determined that oxidation catalysts for two-stroke lean burn (2SLB) and four-stroke lean burn (4SLB) engines, and non-selective catalytic reduction (NSCR) for four-stroke rich burn (4SRB) engines are applicable controls for HAP reduction from existing stationary SI RICE. To determine the capital and annual costs for these control technologies, equipment cost information was obtained from industry groups<sup>6</sup> and vendors and manufacturers of SI engine control technology. In some cases, the industry groups provided a breakdown of the capital and annual cost components for each of the retrofit options. Using this cost data, annualized cost and capital cost equations for oxidation catalysts and NSCR were developed.

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<sup>6</sup> Reciprocating Internal Combustion Engine National Emission Standards for Hazardous Air Pollutants (RICE NESHAP) Proposed Revisions – Emission Control Costs Analysis Background for “Above the Floor” Emission Controls for Natural Gas-Fired RICE, Innovative Environmental Solutions Inc., October 2009. (EPA-HQ-OAR-2008-0708-0279).

#### **4.4.2 Control Cost Methodology**

The following sections describe the methodology used to derive the total capital and total annual costs for each of the control technology options. These methodologies were used to calculate total capital and total annual costs when only purchased equipment costs were available (e.g., vendor equipment costs). The methodologies were not used for cost data provided by industry groups because they included a breakdown of the actual total capital and total annual costs. A summary of the methodologies, equations, and assumptions used to estimate the total capital and total annual costs for some of the cost data are described in the following sections.

##### **4.4.2.1 Total Capital Costs**

The total capital cost includes the direct and indirect costs of purchasing and installing the control equipment. The direct cost includes the cost of purchasing the equipment and instrumentation, cost of shipping, and the cost of installing the control equipment. The indirect cost includes the costs for engineering, contractor fees, testing costs, and also includes costs for contingencies, such as additional modifications, or delays in startup. The total capital cost equation can be summarized as follows:

$$\text{Total Capital Cost (TCC)} = \text{Direct Costs (DC)} + \text{Indirect Costs (IC)}$$

The direct costs include the costs of purchasing and installing the control equipment and can be summarized using the following equation;

$$\text{DC} = \text{Purchased Equipment Cost (PEC)} + \text{Direct Installation Costs (DIC)}.$$

A summary of the cost assumptions for PEC includes the following:

- Control Device and Auxiliary Equipment (EC);
- Instrumentation (10% of EC);
- Sales Tax (3% of EC);
- Freight (5% of EC);

and can be summarized as:

$$\text{PEC} = 118\% \text{ EC}.$$

A summary of the cost assumptions for DIC includes the following:

- Foundations and Supports (8% of PEC);

- Handling and Erection (14% of PEC);
- Electrical (4% of PEC);
- Piping (2% of PEC);
- Insulation for Ductwork (1% of PEC);
- Painting (1% of PEC);

and can be summarized as:

$$\text{DIC} = 30\% \text{ PEC} = 0.3 \text{ PEC.}$$

Therefore, the direct costs can be simplified using the following equation:

$$\text{DC} = \text{PEC} + 0.3 \text{ PEC} = 1.3 \text{ PEC.}$$

The indirect costs include the costs of engineering and contractor fees and contingencies and can be summarized using the following equation:

$$\text{IC} = \text{Indirect Installation Costs (ICC)} + \text{Contingencies (C).}$$

A summary of the cost assumptions for ICC includes the following:

- Engineering (10% of PEC);
- Construction and Field Expenses (5% of PEC);
- Contractor Fees (10% of PEC);
- Startup (2% of PEC);
- Performance Test (1% of PEC);

and can be summarized as:

$$\text{IIC} = 28\% \text{ PEC} = 0.28 \text{ PEC.}$$

A summary of the cost assumptions for C includes the following:

- Equipment Redesign and Modifications;
- Cost Escalations;
- Delays in Startup;

and is assumed to be:

$$C = 3\% \text{ PEC} = 0.03 \text{ PEC}.$$

Therefore, the IC can be summarized using the following equation:

$$\text{IC} = 0.28 \text{ PEC} + 0.03 \text{ PEC} = 0.31 \text{ PEC},$$

and the simplified TCC equation can be expressed as:

$$\text{TCC} = 1.3 \text{ PEC} + 0.31 \text{ PEC} = 1.61 \text{ PEC} = 1.61 (1.18 \text{ EC}) = 1.9 \text{ EC}$$

#### 4.4.2.2 Total Annual Costs

The total annual cost includes the direct and indirect annual costs of operating and maintaining the control equipment. The direct annual cost includes the cost of the utilities, operating labor, and control device cleaning and maintenance. The indirect annual cost includes the overhead costs such as spare parts for the control equipment, administrative charges, and the capital recovery of the control technology. The total annual cost equation can be summarized as follows:

$$\text{Total Annual Cost (TAC)} = \text{Direct Annual Costs (DAC)} + \text{Indirect Annual Costs (IAC)}.$$

The DAC includes the following parameters:

- Utilities;
- Operating Labor;
- Maintenance;
- Annual Compliance Test;
- Catalyst Cleaning;
- Catalyst Replacement;
- Catalyst Disposal.

The IAC includes the following parameters:

- Overhead;
- Fuel Penalty;

- Property Tax;
- Insurance;
- Administrative Charges;
- Capital Recovery =  $\{I(1+I)^n / ((1+I)^n - 1) * TCC\}$  where I is the interest rate, and n is the equipment life.

To calculate DAC, the costs were broken up into three separate costs: operation and maintenance materials cost, operation and maintenance labor cost, and the cost for annual performance testing or downtime or allowance for catalyst washing. Actual annual cost data from the industry groups were used to estimate the DAC for each of the control technologies. The IAC was broken up into three separate costs: administrative, fuel penalty, and capital recovery. Again, cost data from the industry groups was used to estimate these costs for each of the control technologies. No fuel penalty was estimated for the oxidation catalyst control technologies, because this control technology does not increase the fuel usage of the SI engine.

#### ***4.4.3 Control Cost Equations***

Control cost equations were developed for 2SLB oxidation catalyst, 4SLB oxidation catalyst, and a NSCR for 4SRB engines using the total capital cost and total annual cost data for each control technology. Control cost equations for 2SLB and 4SLB oxidation catalysts were developed separately because the 2SLB oxidation catalyst requires a premium catalyst to reduce the HAP compounds because of the low exhaust temperature of 2SLB engines.

##### ***4.4.3.1 2SLB Oxidation Catalyst***

The 2SLB oxidation catalyst is an effective control technology that reduces HAP emissions from a 2SLB SI engine by oxidizing organic compounds using a catalyst. The oxidation catalyst unit contains a honeycomb-like structure or substrate with a large surface area that is coated with a premium active catalyst layer such as platinum or palladium. The oxidation catalyst works by oxidizing carbon monoxide (CO) and gaseous hydrocarbons (HAP) in the exhaust gas to carbon dioxide (CO<sub>2</sub>) and water. The reduction of CO and HAP varies depending on the type of catalyst used and the exhaust temperature of the pollutant stream.

The cost of retrofitting an oxidation catalyst to an existing 2SLB engine was estimated using cost data obtained from vendors and industry groups covering engines ranging from 58 horsepower (HP) to 4,670 HP. An equipment life of 10 years and an interest rate of 7 percent were used to estimate the capital recovery of the control technology and the fuel penalty was assumed to be negligible. The cost equations are presented in 2009 dollars.

The total annualized cost equation for retrofitting an oxidation catalyst on a 2SLB engine was estimated to be:

$$\text{2SLB Oxidation Catalyst Total Annual Cost} = \$11.4 \times \text{HP} + \$13,928$$

where

HP = engine size in HP.

The linear equation has a correlation coefficient of 0.8046, which shows the data fits the equation closely. Therefore, this equation was used to estimate annualized cost for an oxidation catalyst on a 2SLB engine.

The total capital cost equation for retrofitting an oxidation catalyst on a 2SLB engine was estimated to be:

$$\text{2SLB Oxidation Catalyst Total Capital Cost} = \$47.1 \times \text{HP} + \$41,603$$

where

HP = engine size in HP.

#### 4.4.3.2 4SLB Oxidation Catalyst

The 4SLB oxidation catalyst is an effective control technology that reduces HAP emissions from a 4SLB SI engine by oxidizing organic compounds using a catalyst. The oxidation catalyst unit contains a honeycomb-like structure or substrate with a large surface area that is coated with a premium active catalyst layer such as platinum or palladium. The oxidation catalyst works by oxidizing CO and gaseous hydrocarbons (HAP) in the exhaust gas to CO<sub>2</sub> and water. The reductions of CO and HAP vary depending on the type of catalyst used and the exhaust temperature of the pollutant stream.

The cost of retrofitting an oxidation catalyst to an existing 4SLB engine was estimated using cost data obtained from vendors and industry groups covering engines ranging from 400 HP to 8,000 HP. Again, an equipment life of 10 years and an interest rate of 7 percent were used to estimate the capital recovery of the control technology and the fuel penalty was assumed to be negligible. The cost equations are presented in 2009 dollars.

The total annualized cost equation for retrofitting an oxidation catalyst on a 4SLB engine was estimated to be:

$$4\text{SLB Oxidation Catalyst Total Annual Cost} = \$1.81 \times \text{HP} + \$3,442$$

where

HP = engine size in HP.

The linear equation has a correlation coefficient of 0.9779, which shows the data fits the equation very closely. Therefore, this equation was used to estimate annualized cost for an oxidation catalyst on a 4SLB engine.

The total capital cost equation for retrofitting an oxidation catalyst on a 4SLB SI engine was estimated to be:

$$4\text{SLB Oxidation Catalyst Total Capital Cost} = \$12.8 \times \text{HP} + \$3,069$$

where

HP = engine size in HP.

A summary of the cost calculations, regression analyses, and graphical representations of the annual and capital cost data are presented in Appendix A of the cost memo that is the basis for the cost data presented in this RIA.<sup>7</sup>

#### 4.4.3.3 *Non-Selective Catalytic Reduction*

The NSCR or three-way catalyst is used to control HAP emissions from 4SRB engines. In addition to HAP reductions, NSCR also reduces the emissions of nitrogen oxides (NO<sub>x</sub>), CO, and other hydrocarbons (HC). The reduction of HAP and CO takes place through an oxidation reaction that converts HAP to CO<sub>2</sub> and water and converts CO to CO<sub>2</sub>. The conversion of NO<sub>x</sub> takes place through a reduction of the NO<sub>x</sub> to nitrogen gas and oxygen.

The cost of retrofitting an NSCR on an existing 4SRB engine was estimated based on cost data received from vendors and industry groups. A linear regression analysis was done on the data set and the linear equation for annualized cost was;

$$\text{NSCR Annual Cost} = \$4.77 \times \text{HP} + \$5,679$$

where

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<sup>7</sup> Memorandum from Bradley Nelson, EC/R to Melanie King, EPA. OAQPS/SPPD/ESG. Impacts Associated with NESHAP for Existing Stationary SI RICE. June 29, 2010.

HP = engine size in HP.

The linear equation has a correlation coefficient of 0.7987, which shows an acceptable representation of the cost data. Therefore, this equation was used to estimate annualized cost for retrofitting the NSCR control technology on 4SRB engines.

The capital cost equation for retrofitting an air-to-fuel ratio (AFR) controller and NSCR on a 4SRB engine was estimated to be:

$$\text{NSCR Capital Cost} = \$24.9 \times \text{HP} + \$13,118$$

where

HP = engine size in HP.

#### 4.4.4 Summary

Table 4-1 presents a summary of the annual and capital control costs as a function of engine size for the control technologies applicable to existing stationary SI engines, as discussed in this memorandum.

**Table 4-1. Summary of Annual and Capital Costs Equations for Existing Stationary SI Engines**

HAP Control Device	Annual Cost (\$2009)	Capital Cost (\$2009)
2SLB Oxidation Catalyst	$\$11.4 \times \text{HP} + \$13,928$	$\$47.1 \times \text{HP} + \$41,603$
4SLB Oxidation Catalyst	$\$1.81 \times \text{HP} + \$3,442$	$\$12.8 \times \text{HP} + \$3,069$
NSCR	$\$4.77 \times \text{HP} + \$5,679$	$\$24.9 \times \text{HP} + \$13,118$

A summary of the annual and capital costs associated with the rule and obtained using the methodology described above are presented in Tables 4-2 to 4-5 below.<sup>8</sup> These costs are used as input to the economic impact as well as the small entity analysis.

<sup>8</sup> Memorandum from Bradley Nelson, EC/R to Melanie King, EPA. OAQPS/SPPD/ESG. Impacts Associated with NESHAP for Existing Stationary SI RICE. June 29, 2010.

**Table 4-2. Summary of Major Source and Area Source Costs for the SI RICE NESHAP<sup>a</sup>**

Size Range (HP)	Capital Control Cost	Annual Control Cost	Initial Test	Record-keeping	Reporting	Monitoring—Capital Cost	Monitoring—Annual Cost	Total Annual Costs	Total Capital Costs
<b>Major Sources</b>									
25–50	\$0	\$0	\$0	\$4,060,795	\$0	\$0	\$0	\$4,060,795	\$0
50–100	\$0	\$0	\$0	\$1,087,540	\$0	\$0	\$0	\$1,087,540	\$0
100–175	\$48,502,361	\$37,071,061	\$15,971,384	\$1,721,899	\$5,725,314	\$0	\$0	\$60,489,657	\$48,502,361
175–300	\$13,225,919	\$8,382,568	\$3,442,648	\$371,157	\$1,234,097	\$0	\$0	\$13,430,470	\$13,225,919
300–500	\$10,934,795	\$5,562,872	\$2,123,326	\$228,919	\$761,155	\$0	\$0	\$8,676,262	\$10,934,795
500–600	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
600–750	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
>750	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$72,663,076</b>	<b>\$51,016,500</b>	<b>\$21,537,358</b>	<b>\$7,470,310</b>	<b>\$7,720,566</b>	<b>\$0</b>	<b>\$0</b>	<b>\$87,744,734</b>	<b>\$72,663,076</b>
<b>Area Sources</b>									
25–50	\$0	\$0	\$0	\$6,668,944	\$0	\$0	\$0	\$6,668,944	\$0
50–100	\$0	\$0	\$0	\$2,868,511	\$0	\$0	\$0	\$2,868,511	\$0
100–175	\$0	\$0	\$0	\$3,529,711	\$0	\$0	\$0	\$3,529,711	\$0
175–300	\$0	\$0	\$0	\$1,264,799	\$0	\$0	\$0	\$1,264,799	\$0
300–500	\$0	\$0	\$0	\$908,913	\$0	\$0	\$0	\$908,913	\$0
500–600	\$7,547,433	\$2,662,805	\$248,366	\$454,493	\$1,26,426	0	0	\$3,492,090	\$7,547,433
600–750	\$1,522,236	\$505,221	\$44,323	\$77,882	\$22,562	0	0	\$649,988	\$1,522,236
>750	\$21,075,418	\$6,214,397	\$472,244	\$829,795	\$240,387	0	0	\$7,756,823	\$21,075,418
<b>Total</b>	<b>\$30,145,088</b>	<b>\$9,382,423</b>	<b>\$764,933</b>	<b>\$16,603,048</b>	<b>\$389,375</b>	<b>0</b>	<b>0</b>	<b>\$27,139,780</b>	<b>\$30,145,088</b>
<b>Grand Total</b>									
<b>Total</b>	<b>\$102,808,163</b>	<b>\$60,398,923</b>	<b>\$22,302,292</b>	<b>\$24,073,358</b>	<b>\$8,106,972</b>	<b>0</b>	<b>0</b>	<b>\$114,884,514</b>	<b>\$102,808.163</b>

<sup>a</sup> Costs are presented in 2009 dollars.

**Table 4-3. Summary of Major Source and Area Source NAICS Costs for the SI RICE NESHAP<sup>a</sup>**

NAICS		Major Source		Area Source		Total (Major + Area)	
		Capital Cost	Annual Cost	Capital Cost	Annual Cost	Capital Cost	Annual Cost
2211	Electric Power Generation	\$52,905,258	\$63,062,494	\$11,698,144	\$12,138,277	\$64,603,403	\$75,200,772
48621	Natural Gas Transmission	\$1,484,494	\$1,462,530	\$13,718,381	\$6,142,839	\$15,202,876	\$7,605,369
211111	Crude Petroleum & NG Production	\$4,561,236	\$6,138,383	\$71,439	\$951,462	\$4,632,675	\$7,089,844
211112	Natural Gas Liquid Producers	\$4,561,236	\$6,138,383	\$71,439	\$951,462	\$4,632,675	\$7,089,844
92811	National Security	\$5,878,362	\$7,006,944	\$1,299,794	\$1,348,697	\$7,178,1566	\$8,355,641
335312	Hydro Power Units	\$0	\$25,248	\$0	\$37,872	\$0	\$63,120
335312	Irrigation Sets	\$3,025,050	\$3,230,856	\$3,285,990	\$4,999,041	\$6,310,940	\$8,229,896
333992	Welders	\$247,440	\$679,896	\$0	\$570,130	\$247,440	\$1,250,027
	<b>Total</b>	<b>\$72,663,076</b>	<b>\$87,744,734</b>	<b>\$30,145,088</b>	<b>\$27,139,780</b>	<b>\$102,808,163</b>	<b>\$114,884,514</b>

<sup>a</sup> Costs are presented in 2009 dollars.

**Table 4-4. Summary of Major Source and Area Source NAICS Costs for the SI RICE NESHAP, by Size<sup>a</sup>**

NAICS	Major Source		Area Source		Total (Major + Area)	
	Capital Cost	Annual Cost	Capital Cost	Annual Cost	Capital Cost	Annual Cost
<b>Electric Power Generation (2211)</b>						
25–50 hp	\$0	\$2,758,459	\$0	\$4,137,688	\$0	\$6,896,147
50–100 hp	\$0	\$606,144	\$0	\$909,215	\$0	\$1,515,359
100–175 hp	\$33,868,173	\$42,238,648	\$0	\$1,803,548	\$33,868,173	\$44,042,196
175–300 hp	\$10,603,849	\$10,767,847	\$0	\$446,361	\$10,603,849	\$11,214,209
300–500 hp	\$8,433,236	\$6,691,397	\$0	\$264,820	\$8,433,236	\$6,956,217
500–600 hp	\$0	\$0	\$2,543,944	\$1,177,047	\$2,543,944	\$1,177,047
600–750 hp	\$0	\$0	\$515,514	\$220,122	\$515,514	\$220,122
>750 hp	\$0	\$0	\$8,638,687	\$3,179,475	\$8,638,687	\$3,179,475
Total Electric Power Generation 2211	\$52,905,258	\$63,062,494	\$11,698,144	\$12,138,277	\$64,603,403	\$75,200,772
<b>Natural Gas Transmission (48621)</b>						
25–50 hp	\$0	\$102	\$0	\$1,934	\$0	\$2,036
50–100 hp	\$0	\$4,872	\$0	\$92,571	\$0	\$97,443
100–175 hp	\$301,721	\$376,291	\$0	\$203,518	\$301,721	\$579,809
175–300 hp	\$643,157	\$653,104	\$0	\$342,928	\$643,157	\$996,032
300–500 hp	\$539,617	\$428,162	\$0	\$214,637	\$539,617	\$642,799
500–600 hp	\$0	\$0	\$1,925,560	\$890,929	\$1,925,560	\$890,929
600–750 hp	\$0	\$0	\$949,443	\$405,408	\$949,443	\$405,408
>750 hp	\$0	\$0	\$10,843,377	\$3,990,913	\$10,843,377	\$3,990,913
Total Natural Gas Transmission (48621)	\$1,484,494	\$1,462,530	\$13,781,381	\$6,142,839	\$15,202,876	\$7,605,369
<b>Crude Petroleum &amp; NG Production (211111)</b>						
25–50 hp	\$0	\$388,115	\$0	\$582,173	\$0	\$970,288
50–100 hp	\$0	\$66,698	\$0	\$100,047	\$0	\$166,744
100–175 hp	\$4,549,775	\$5,674,246	\$0	\$242,285	\$4,549,775	\$5,916,531

(continued)

**Table 4-4. Summary of Major Source and Area Source NAICS Costs for the SI RICE NESHAP, by Size<sup>a</sup> (continued)**

NAICS	Major Source		Area Source		Total (Major + Area)	
	Capital Cost	Annual Cost	Capital Cost	Annual Cost	Capital Cost	Annual Cost
175–300 hp	\$1,037	\$1,053	\$0	\$44	\$1,037	\$1,096
300–500 hp	\$10,424	\$8,271	\$0	\$327	\$10,424	\$8,598
500–600 hp	\$0	\$0	\$3,102	\$1,435	\$3,102	\$1,435
600–750 hp	\$0	\$0	\$0	\$0	\$0	\$0
>750 hp	\$0	\$0	\$68,337	\$25,151	\$68,337	\$25,151
Total Crude Petroleum & NG Production (211111)	\$4,561,236	\$6,138,383	\$71,439	\$951,462	\$4,632,675	\$7,089,844
<b>Natural Gas Liquid Producers (211112)</b>						
25–50 hp	\$0	\$388,115	\$0	\$582,173	\$0	\$970,288
50–100 hp	\$0	\$66,698	\$0	\$100,047	\$0	\$166,744
100–175 hp	\$4,549,775	\$5,674,246	\$0	\$242,285	\$4,549,775	\$5,916,531
175–300 hp	\$1,037	\$1,053	\$0	\$44	\$1,037	\$1,096
300–500 hp	\$10,424	\$8,271	\$0	\$327	\$10,424	\$8,598
500–600 hp	\$0	\$0	\$3,102	\$1,435	\$3,102	\$1,435
600–750 hp	\$0	\$0	\$0	\$0	\$0	\$0
>750 hp	\$0	\$0	\$68,337	\$25,151	\$68,337	\$25,151
Total Natural Gas Liquid Producers (211112)	\$4,561,236	\$6,138,383	\$71,439	\$951,462	\$4,632,675	\$7,089,844
<b>National Security (92811)</b>						
25–50 hp	\$0	\$306,495	\$0	\$459,743	\$0	\$766,239
50–100 hp	\$0	\$67,349	\$0	\$101,024	\$0	\$168,373
100–175 hp	\$3,763,130	\$4,693,183	\$0	\$200,394	\$3,763,130	\$4,893,577
175–300 hp	\$1,178,205	\$1,196,427	\$0	\$49,596	\$1,178,205	\$1,246,023
300–500 hp	\$937,026	\$743,489	\$0	\$29,424	\$937,026	\$772,913
500–600 hp	\$0	\$0	\$282,660	\$130,783	\$282,660	\$130,783

(continued)

**Table 4-4. Summary of Major Source and Area Source NAICS Costs for the SI RICE NESHAP, by Size<sup>a</sup> (continued)**

NAICS	Major Source		Area Source		Total (Major + Area)	
	Capital Cost	Annual Cost	Capital Cost	Annual Cost	Capital Cost	Annual Cost
600–750 hp	\$0	\$0	\$57,279	\$24,458	\$57,279	\$24,458
>750 hp	\$0	\$0	\$959,854	\$353,275	\$959,854	\$353,275
Total National Security (92811)	\$5,878,362	\$7,006,944	\$1,299,794,	\$1,348,697	\$7,178,156	\$8,355,641
<b>Hydro Power Units (335312)</b>						
25–50 hp	\$0	\$22,688	\$0	\$34,032	\$0	\$56,721
50–100 hp	\$0	\$2,560	\$0	\$3,840	\$0	\$6,399
100–175 hp	\$0	\$0	\$0	\$0	\$0	\$0
175–300 hp	\$0	\$0	\$0	\$0	\$0	\$0
300–500 hp	\$0	\$0	\$0	\$0	\$0	\$0
500–600 hp	\$0	\$0	\$0	\$0	\$0	\$0
600–750 hp	\$0	\$0	\$0	\$0	\$0	\$0
>750 hp	\$0	\$0	\$0	\$0	\$0	\$0
Total Hydro Power Units (335312)	\$0	\$25,248	\$0	\$37,872	\$0	\$63,120
<b>Irrigation Sets (335312)</b>						
25–50 hp	\$0	\$32,913	\$0	\$625,338	\$0	\$658,251
50–100 hp	\$0	\$65,825	\$0	\$1,250,677	\$0	\$1,316,502
100–175 hp	\$1,222,348	\$1,524,449	\$0	\$824,505	\$1,222,348	\$2,348,954
175–300 hp	\$798,634	\$810,986	\$0	\$425,827	\$798,634	\$1,236,813
300–500 hp	\$1,004,068	\$796,683	\$0	\$399,376	\$1,004,068	\$1,196,060
500–600 hp	\$0	\$0	\$2,789,064	\$1,290,460	\$2,789,064	\$1,290,460
600–750 hp	\$0	\$0	\$0	\$0	\$0	\$0
>750 hp	\$0	\$0	\$496,827	\$182,857	\$496,827	\$182,857
Total Irrigation Sets (335312)	\$3,025,050	\$3,230,856	\$3,285,890	\$4,999,041	\$6,310,940	\$8,229,896

(continued)

**Table 4-4. Summary of Major Source and Area Source NAICS Costs for the SI RICE NESHAP, by Size<sup>a</sup> (continued)**

NAICS	Major Source		Area Source		Total (Major + Area)	
	Capital Cost	Annual Cost	Capital Cost	Annual Cost	Capital Cost	Annual Cost
<b>Welders (333992)</b>						
25–50 hp	\$0	\$163,908	\$0	\$245,862	\$0	\$409,771
50–100 hp	\$0	\$207,394	\$0	\$311,091	\$0	\$518,485
100–175 hp	\$247,440	\$308,594	\$0	\$13,177	\$247,440	\$321,771
175–300 hp	\$0	\$0	\$0	\$0	\$0	\$0
300–500 hp	\$0	\$0	\$0	\$0	\$0	\$0
500–600 hp	\$0	\$0	\$0	\$0	\$0	\$0
600–750 hp	\$0	\$0	\$0	\$0	\$0	\$0
>750 hp	\$0	\$0	\$0	\$0	\$0	\$0
Total Welders (333992)	\$247,440	\$679,896	\$0	\$570,130	\$247,440	\$1,250,027
<b>Total</b>	<b>\$72,663,076</b>	<b>\$87,744,734</b>	<b>\$30,145,088</b>	<b>\$27,139,780</b>	<b>\$102,808,163</b>	<b>\$114,884,514</b>

<sup>a</sup> Costs are presented in 2009 dollars.

**Table 4-5. Summary of Major Source and Area Source NAICS Costs for the SI RICE NESHAP, by Number of Engines<sup>a</sup>**

NAICS	Number of Engines			Total (Major + Area)	
	Major	Area	Total	Capital Cost	Annual Cost
<b>Electric Power Generation (2211)</b>					
25–50 hp	37,933	56,900	94,833	\$0	\$6,896,147
50–100 hp	8,336	12,503	20,839	\$0	\$1,515,359
100–175 hp	16,534	24,802	41,336	\$33,868,173	\$44,042,196
175–300 hp	4,092	6,138	10,230	\$10,603,849	\$11,214,209
300–500 hp	2,428	3,642	6,070	\$8,433,236	\$6,956,217
500–600 hp	0	2,107	2,107	\$2,543,944	\$1,177,047
600–750 hp	0	363	363	\$515,944	\$220,122
>750 hp	0	4,677	4,677	\$8,638,687	\$3,179,475
Total Electric Power Generation (2211)	69,323	111,132	180,455	\$64,603,403	\$75,200,772
<b>Natural Gas Transmission (48621)</b>					
25–50 hp	1	27	28	\$0	\$2,036
50–100 hp	67	1,273	1,340	\$0	\$97,443
100–175 hp	147	2,799	2,946	\$301,721	\$579,809
175–300 hp	248	4,716	4,964	\$643,157	\$996,032
300–500 hp	155	2,952	3,107	\$539,617	\$642,799
500–600 hp	0	1,595	1,595	\$1,925,560	\$890,929
600–750 hp	0	668	668	\$949,443	\$405,408
>750 hp	0	5,871	5,871	\$10,843,377	\$3,990,913
Total Natural Gas Transmission (48621)	619	19,899	20,519	\$15,202,876	\$7,605,369
<b>Crude Petroleum &amp; NG Production (211111)</b>					
25–50 hp	5,337	8,006	13,343	\$0	\$970,288
50–100 hp	917	1,376	2,293	\$0	\$166,744
100–175 hp	2,221	3,332	5,553	\$4,549,775	\$5,916,531

(continued)

**Table 4-5. Summary of Major Source and Area Source NAICS Costs for the SI RICE NESHAP, by Number of Engines<sup>a</sup>**  
(continued)

NAICS	Number of Engines			Total (Major + Area)	
	Major	Area	Total	Capital Cost	Annual Cost
175–300 hp	0	1	1	\$1,037	\$1,096
300–500 hp	3	5	8	\$10,424	\$8,598
500–600 hp	0	3	3	\$3,102	\$1,435
600–750 hp	0	0	0	\$0	\$0
>750 hp	0	37	37	\$68,337	\$25,151
Total Crude Petroleum & NG Production (211111)	8,479	12,758	21,237	\$4,632,675	\$7,089,844
<b>Natural Gas Liquid Producers (211112)</b>					
25–50 hp	5,337	8,006	13,343	\$0	\$970,288
50–100 hp	917	1,376	2,293	\$0	\$166,744
100–175 hp	2,221	3,332	5,553	\$4,549,775	\$5,916,531
175–300 hp	0	1	1	\$1,037	\$1,096
300–500 hp	3	5	8	\$10,424	\$8,598
500–600 hp	0	3	3	\$3,102	\$1,435
600–750 hp	0	0	0	\$0	\$0
>750 hp	0	37	37	\$68,337	\$25,151
Total Natural Gas Liquid Producers (211112)	8,479	12,758	21,237	\$4,632,675	\$7,089,844
<b>National Security (92811)</b>					
25–50 hp	4,215	6,322	10,537	\$0	\$766,239
50–100 hp	926	1,389	2,315	\$0	\$168,373
100–175 hp	1,837	2,756	4,593	\$3,763,130	\$4,893,577
175–300 hp	455	682	1,137	\$1,178,205	\$1,246,023
300–500 hp	270	404	674	\$937,026	\$772,913
500–600 hp	0	234	234	\$282,660	\$130,783

(continued)

**Table 4-5. Summary of Major Source and Area Source NAICS Costs for the SI RICE NESHAP, by Number of Engines<sup>a</sup>**  
(continued)

NAICS	Number of Engines			Total (Major + Area)	
	Major	Area	Total	Capital Cost	Annual Cost
600–750 hp	0	40	40	\$57,279	\$24,458
>750 hp	0	520	520	\$959,854	\$353,275
Total Natural Gas Liquid Producers (211112)	7,702	12,347	20,050	\$7,178,156	\$8,355,641
<b>Hydro Power Units (335312)</b>					
25–50 hp	312	468	780	\$0	\$56,721
50–100 hp	35	53	88	\$0	\$6,399
100–175 hp	0	0	0	\$0	\$0
175–300 hp	0	0	0	\$0	\$0
300–500 hp	0	0	0	\$0	\$0
500–600 hp	0	0	0	\$0	\$0
600–750 hp	0	0	0	\$0	\$0
>750 hp	0	0	0	\$0	\$0
Total Hydro Power Units (335312)	347	521	868	\$0	\$63,120
<b>Irrigation Sets (335312)</b>					
25–50 hp	453	8,599	9,052	\$0	\$658,251
50–100 hp	905	17,199	18,104	\$0	\$1,316,502
100–175 hp	597	11,338	11,935	\$1,222,348	\$2,348,954
175–300 hp	308	5,856	6,164	\$798,634	\$1,236,813
300–500 hp	289	5,492	5,781	\$1,004,068	\$1,196,060
500–600 hp	0	2,310	2,310	\$2,789,064	\$1,290,460
600–750 hp	0	0	0	\$0	\$0
>750 hp	0	269	269	\$496,827	\$182,857
Total Irrigation Sets (335312)	2,552	51,063	53,615	\$6,310,940	\$8,229,896

(continued)

**Table 4-5. Summary of Major Source and Area Source NAICS Costs for the SI RICE NESHAP, by Number of Engines<sup>a</sup>  
(continued)**

NAICS	Number of Engines			Total (Major + Area)	
	Major	Area	Total	Capital Cost	Annual Cost
<b>Welders (333992)</b>					
25–50 hp	2,254	3,381	5,635	\$0	\$409,771
50–100 hp	2,852	4,278	7,130	\$0	\$518,485
100–175 hp	121	181	302	\$247,440	\$321,771
175–300 hp	0	0	0	\$0	\$0
300–500 hp	0	0	0	\$0	\$0
500–600 hp	0	0	0	\$0	\$0
600–750 hp	0	0	0	\$0	\$0
>750 hp	0	0	0	\$0	\$0
Total Welders (333992)	5,227	7,840	13,067	\$247,440	\$1,250,027
<b>Total</b>	<b>102,729</b>	<b>228,319</b>	<b>331,047</b>	<b>\$382,802,298</b>	<b>\$253,374,939</b>

<sup>1</sup> Costs are presented in 2009 dollars.

#### **4.4.5 Caveats and Uncertainties in the Cost Estimates**

- \* Current knowledge about NO<sub>x</sub> control techniques and costs is applied in this study. Advances such as alternative catalyst formulations may occur between now and when sources comply with this rulemaking that may lower costs. Scale economies can also lower per unit production costs as the market for these NO<sub>x</sub> control techniques expands.
  
- \* The alternative control techniques and corresponding emission reductions and costs may not apply to every unit within the source category. Many factors influence the performance and cost of any control technique. Because control technology references typically evaluate average retrofit situations, costs may be underestimated for the fraction of the source population with difficult to retrofit conditions. Difficult to retrofit conditions may be less of an issue for RICEs than for other point sources, however.
  
- \* NO<sub>x</sub> control efficiency and cost estimates associated with source category-control strategy combinations are represented as point estimates. In practice, control effectiveness and costs will vary by engine.

#### 4.5 Baseline Emissions and Emission Reductions

The baseline emissions, emissions factors and emissions reductions associated with the reconsideration rule are provided in the tables below. Baseline emissions are estimated for 2013 using the emissions dataset generated for the final SI RICE rule in 2010. The baseline emissions estimates thus assume the final SI RICE rule has not been implemented. Emissions are in tons per year.

**Table 4-6. Summary of Major Source and Area Source Baseline Emissions for the SI RICE NESHAP in 2013**

Size Range (HP)	Baseline Emissions (TPY)			
	HAP	CO	NOx	VOC
<b>Major Sources</b>				
25–50 hp	1,107	28,557	41,751	5,696
50–100 hp	593	15,296	22,363	3,051
100–175 hp	1,721	44,399	64,913	8,855
175–300 hp	641	16,530	24,168	3,297
300–500 hp	666	17,171	25,105	3,425
500–600 hp	0	0	0	0
600–750 hp	0	0	0	0
>750 hp	0	0	0	0
<b>Total</b>	<b>4,728</b>	<b>121,953</b>	<b>178,301</b>	<b>24,323</b>
<b>Area Sources</b>				
25–50 hp	1,818	46,898	68,566	9,354
50–100 hp	1,564	40,344	58,985	8,047
100–175 hp	3,529	91,013	133,065	18,153
175–300 hp	2,184	56,331	82,359	11,235
300–500 hp	2,643	68,178	99,679	13,598
500–600 hp	1,830	47,273	69,094	9,415
600–750 hp	383	9,876	14,438	1,969
>750 hp	6,041	155,890	227,890	31,076
<b>Total</b>	<b>19,993</b>	<b>515,803</b>	<b>754,077</b>	<b>102,846</b>
<b>Major + Area</b>	<b>24,722</b>	<b>637,756</b>	<b>932,377</b>	<b>127,169</b>
<b>Total</b>				

**Table 4-7. Emissions Factors**

Engine	HAP (lb/hp-hr)	CO (lb/hp-hr)	NOx (lb/hp-hr)	VOC (lb/hp-hr)	Formaldehyde (lb/hp-hr)
2SLB	$5.96 \times 10^{-4}$	$1.06 \times 10^{-2}$	$4.18 \times 10^{-2}$	$3.07 \times 10^{-3}$	$4.29 \times 10^{-4}$
4SLB	$5.41 \times 10^{-4}$	$3.92 \times 10^{-3}$	$1.15 \times 10^{-2}$	$2.78 \times 10^{-3}$	$3.96 \times 10^{-4}$
4SRB	$2.43 \times 10^{-4}$	$1.93 \times 10^{-2}$	$1.47 \times 10^{-2}$	$1.25 \times 10^{-3}$	$1.75 \times 10^{-4}$

**Table 4-8. Summary of Major Source and Area Source Emissions Reductions for the SI RICE NESHAP in 2013**

Size Range (HP)	Emission Reductions (TPY)			
	HAP	CO	NOx	VOC
<b>Major Sources</b>				
25–50 hp	0	0	0	0
50–100 hp	0	0	0	0
100–175 hp	744	7,124	0	3,826
175–300 hp	277	2,653	0	1,424
300–500 hp	288	2,755	0	1,480
500–600 hp	N/A	N/A	N/A	0
600–750 hp	N/A	N/A	N/A	0
>750 hp	N/A	N/A	N/A	0
<b>Total</b>	<b>1,308</b>	<b>12,532</b>	<b>0</b>	<b>6,730</b>
<b>Area Sources</b>				
25–50 hp	0	0	0	0
50–100 hp	0	0	0	0
100–175 hp	0	0	0	0
175–300 hp	0	0	0	0
300–500 hp	0	0	0	0
500–600 hp	101	2,070	2,063	517
600–750 hp	22	453	452	113
>750 hp	347	7,156	7,133	1,787
<b>Total</b>	<b>470</b>	<b>9,679</b>	<b>9,648</b>	<b>2,418</b>
<b>Major + Area Total</b>	<b>1,778</b>	<b>22,211</b>	<b>9,648</b>	<b>9,147</b>

## Section 5

### ECONOMIC IMPACT ANALYSIS, ENERGY IMPACTS, AND SOCIAL COSTS

The EIA provides decision makers with social cost estimates and enhances understanding of how the costs may be distributed across stakeholders (EPA, 2010). Although several economic frameworks can be used to estimate social costs for regulations of this size and sector scope, OAQPS has typically used partial equilibrium market models. However, the current data do not provide sufficient details to develop a market model; the data that are available have little or no sector/firm detail and are reported at the national level. In addition, some sectors have unique market characteristics that make developing partial equilibrium models difficult. Given these constraints, we used the direct compliance costs as a measure of total social costs. In addition, we also provide a qualitative analysis of the reconsidered rule's impact on stakeholder decisions, a qualitative discussion on if unfunded mandates occur as a result of this reconsidered rule, and the potential distribution of social costs between consumers and producers.

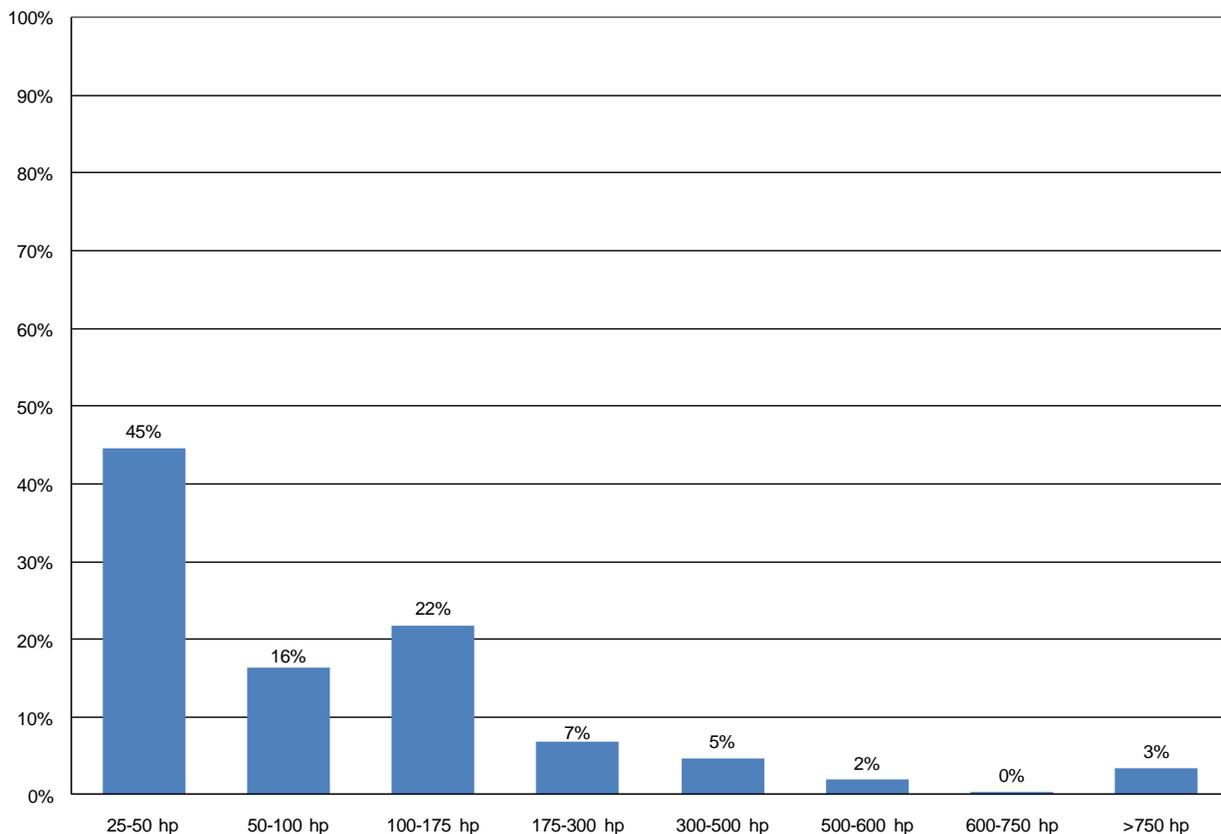
#### 5.1 Compliance Costs of the Reconsidered Rule

EPA's engineering cost analysis estimates the total annualized costs of the reconsidered rule are \$115 million (in 2010 dollars) (EC/R, 2012).

The majority of the costs are incurred by the electric power sector (65%). The remaining industries each account for less than 8% of the total annualized cost. The industrial classification for each engine is taken from the Power Systems Research (PSR) database, which is the major source of data for the engines affected by this rule. The PSR database used as a basis for the analyses in this RIA contains information on both mobile and stationary engines, among other data, and does so not only for the U.S. but worldwide. PSR has collected such data for more than 30 years. The Office of Transportation and Air Quality (OTAQ) uses this database frequently in the development of their mobile source rules.

The annualized compliance costs per engine vary by the engine size. For 500 hp engines or less, the annualized per-engine costs are below \$371 per engine. Per-engine annualized compliance costs for higher horsepower (hp) engines range up to \$2,800.

The reconsidered rule will affect approximately 331,000 existing stationary SI engines. As shown in Figure 5-1, most of the affected engines fall within the 25 to 50 hp category (45%). The next highest categories are 100 to 175 hp (22%) and 50 to 100 hp (16%).



**Figure 5-1. Distribution of Engine Population by Horsepower Group**

To assess the size of the compliance relative to the value of the goods and services for industries using affected engines, we collected Census data for selected industries. At the industry level, the annualized costs represent a very small fraction of revenue (less than 1%), for all affected industries. Results for affected industries can be found in Table 5-1. These industry level cost-to-sales ratios can be interpreted as an average impact on potentially affected firms in these industries. Based on the cost-to-sales ratios, we can conclude that the annualized cost of this rule should be no higher than 1% of the sales on average for a firm in each of these industries, excluding natural gas transmission and natural gas liquid producers, which face slightly higher costs to sales ratios.

## 5.2 Social Cost Estimate

As shown in Table 5-1, the compliance costs are only a small fraction of the affected product value; this suggests that shift of the supply curve may also be small and result in small changes in market prices and consumption. EPA believes the national annualized compliance cost estimates provide a reasonable approximation of the social cost of this reconsidered rule. EPA believes this approximation is better for industries whose markets are well characterized as perfectly competitive. This approximation is less well understood for industries where the characterization of markets is not always perfectly competitive such as electric power generation whose legal incidence of this rule is approximately 65 percent of the annualized compliance cost. However, given the data limitation noted earlier, EPA believes the accounting for compliance cost is a reasonable approximation to inform policy discussion in this rulemaking. To shed more light on this issue, EPA ran hypothetical analyses and the results are in Tables 5-2 and 5-3 later in this RIA.

## 5.3 How Might People and Firms Respond? A Partial Equilibrium Analysis

Markets are composed of people as consumers and producers trying to do the best they can given their economic circumstances. One way economists illustrate behavioral responses to pollution control costs is by using market supply and demand diagrams. The market supply curve describes how much of a good or service firms are willing and able to sell to people at a

**Table 5-1. Selected Industry-Level Annualized Compliance Costs as a Fraction of Total Industry Revenue: 2009**

Industry (NAICS)	Industry Name	Total Annualized Costs	Sales, Shipments, Receipt, or Revenue (\$Billion)		Cost-to-Sales Ratio
		(\$ million) <sup>a</sup>	(\$2007)	(\$2009)	
2211	Electric Power Generation	\$128.4	\$440.4	\$453.7	0.004%
48621	Natural Gas Transmission	\$68.9	\$16.4	\$16.9	0.41%
211111	Crude Petroleum & NG Production	\$7.4	\$214.2	\$220.5	0.001%
211112	Natural Gas Liquid Producers	\$7.4	\$42.4	\$43.6	0.005%
92811	National Security	\$14.3	#N/A	#N/A	#N/A
333992	Welders	\$1.3	\$5.2	\$5.5	0.025%
111 and 112	Agriculture using irrigation systems <sup>a</sup>	\$25.7	\$27.9	\$28.8	0.09%

<sup>a</sup> Irrigation engine costs assumed to be passed on to agricultural sectors that use irrigation systems.

N/A: receipts are Not Available for National Security

Sources: U.S. Census Bureau; generated by RTI International; using American FactFinder; “Sector 00: All sectors: Geographic Area Series: Economy-Wide Key Statistics: 2007” <<http://factfinder.census.gov>>; (July 7th , 2010).

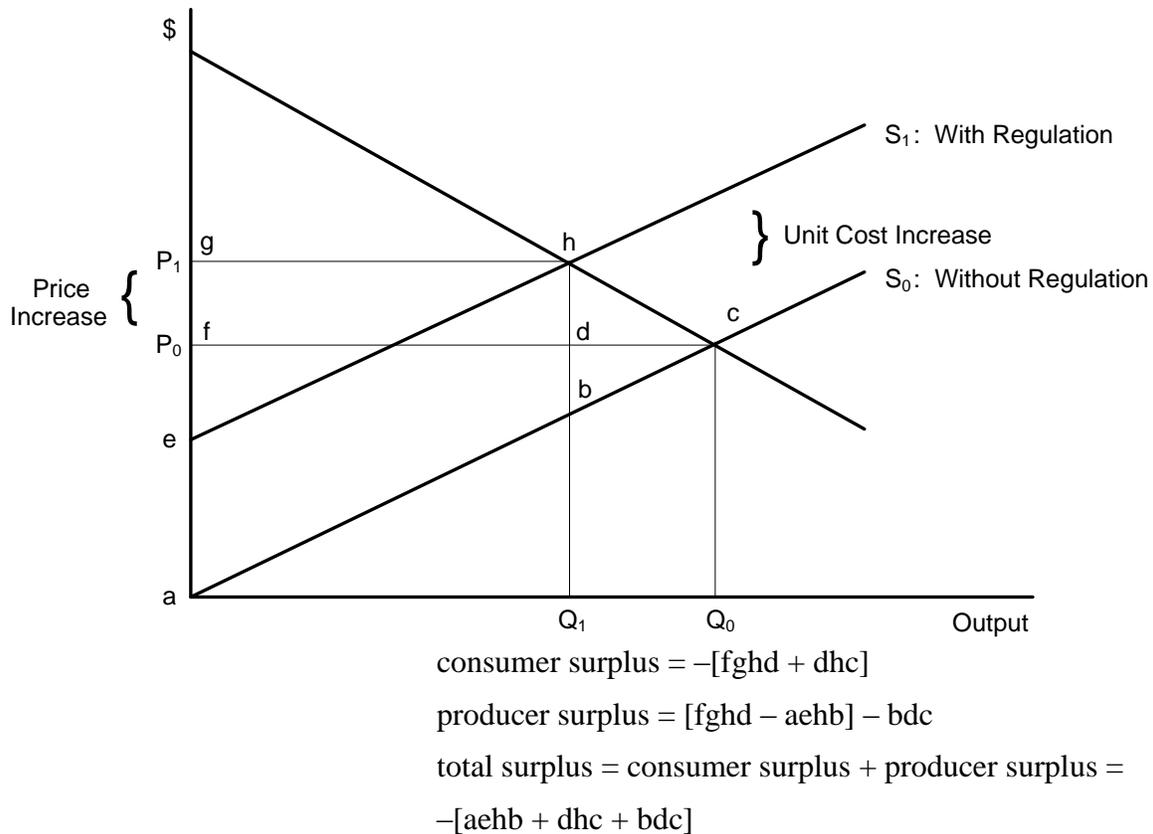
U.S. Department of Agriculture (USDA), National Agricultural Statistics Service (NASS). 2009. “2008 Farm and Ranch Irrigation Survey.” Washington, DC: USDA-NASS.

Costs from Existing SI RICE NESHAP Impacts received from EPA 1/26/12

particular price; we often draw this curve as upward sloping because some production resources are fixed. As a result, the cost of producing an additional unit typically rises as more units are made. The market demand curve describes how much of a good or service consumers are willing and able to buy at some price. Holding other factors constant, the quantity demand is assumed to fall when prices rise. In a perfectly competitive market, equilibrium price ( $P_0$ ) and quantity ( $Q_0$ ) is determined by the intersection of the supply and demand curves (see Figure 5-4).

### ***5.3.1 Changes in Market Prices and Quantities***

To qualitatively assess how the regulation may influence the equilibrium price and quantity in the affected markets, we assumed the market supply function shifts up by the additional cost of producing the good or service; the unit cost increase is typically calculated by dividing the annual compliance cost estimate by the baseline quantity ( $Q_0$ ) (see Figure 5-4). As shown, this model makes two predictions: the price of the affected goods and services are likely to rise and the consumption/production levels are likely to fall.



**Figure 5-2. Market Demand and Supply Model: With and Without Regulation**

The size of these changes depends on two factors: the size of the unit cost increase (supply shift) and differences in how each side of the market (supply and demand) responds to changes in price. Economists measure responses using the concept of price elasticity, which represents the percentage change in quantity divided by the percentage change in price. This dependence has been expressed in the following formula:<sup>9</sup>

$$\text{Share of per-unit cost} = \frac{\text{Price Elasticity of Supply}}{\text{Price Elasticity of Supply} - \text{Price Elasticity of Demand}}$$

As a general rule, a higher share of the per-unit cost increases will be passed on to consumers in markets where

- goods and services are necessities and people do not have good substitutes that they can switch to easily (demand is inelastic) and

<sup>9</sup>For examples of similar mathematical models in the public finance literature, see Nicholson (1998), pages 444–447, or Fullerton and Metcalf (2002).

- suppliers have excess capacity and can easily adjust production levels at minimal costs, or the time period of analysis is long enough that suppliers can change their fixed resources; supply is more elastic over longer periods.

Short-run demand elasticities for energy goods (electricity and natural gas), agricultural products, and construction are often inelastic. Specific estimates of short-run demand elasticities for these products can be obtained from existing literature. For the short-run demand of energy products, the National Energy Modeling System (NEMS) buildings module uses values between 0.1 and 0.3; a 1% increase in price leads to a 0.1 to 0.3% decrease in energy demand (Wade, 2003). For the short-run demand of agriculture and construction, the EPA has estimated elasticities to be 0.2 for agriculture and approximately 1 for construction (U.S. EPA, 2004). As a result, a 1% increase in the prices of agriculture products would lead to a 0.2% decrease in demand for those products, while a 1% increase in construction prices would lead to approximately a 1% decrease in demand for construction. Given these demand elasticity scenarios (shaded in gray), approximately a 1% increase unit costs would result in a price increase of 0.1 to 1% (Table 5-2). As a result, 10 to 100% of the unit cost increase could be passed on to consumers in the form of higher goods/services prices. This price increase would correspond to a 0.1 to 0.8% decline in consumption in these markets (Table 5-3).

**Table 5-2. Hypothetical Price Increases for a 1% Increase in Unit Costs**

Market Demand Elasticity	Market Supply Elasticity						
	0.1	0.3	0.5	0.7	1	1.5	3
-0.1	<b>0.5%</b>	0.8%	0.8%	0.9%	0.9%	0.9%	1.0%
-0.3	0.3%	<b>0.5%</b>	0.6%	0.7%	0.8%	0.8%	0.9%
-0.5	0.2%	0.4%	<b>0.5%</b>	0.6%	0.7%	0.8%	0.9%
-0.7	0.1%	0.3%	0.4%	<b>0.5%</b>	0.6%	0.7%	0.8%
-1.0	0.1%	0.2%	0.3%	0.4%	<b>0.5%</b>	0.6%	0.8%
-1.5	0.1%	0.2%	0.3%	0.3%	0.4%	<b>0.5%</b>	0.7%
-3.0	0.0%	0.1%	0.1%	0.2%	0.3%	0.3%	<b>0.5%</b>

### 53.2 *Regulated Markets: The Electric Power Generation, Transmission, and Distribution Sector*

Given that the electric power sector bears majority of the estimated compliance costs and the industry is also among the last major regulated energy industries in the United States (EIA, 2010), the competitive model is not necessarily applicable for this industry.

**Table 5-3. Hypothetical Consumption Decreases for a 1% Increase in Unit Costs**

Market Demand Elasticity	Market Supply Elasticity						
	0.1	0.3	0.5	0.7	1	1.5	3
-0.1	<b>-0.1%</b>	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
-0.3	-0.1%	<b>-0.2%</b>	-0.2%	-0.2%	-0.2%	-0.3%	-0.3%
-0.5	-0.1%	-0.2%	<b>-0.3%</b>	-0.3%	-0.3%	-0.4%	-0.4%
-0.7	-0.1%	-0.2%	-0.3%	<b>-0.4%</b>	-0.4%	-0.5%	-0.6%
-1.0	-0.1%	-0.2%	-0.3%	-0.4%	<b>-0.5%</b>	-0.6%	-0.8%
-1.5	-0.1%	-0.3%	-0.4%	-0.5%	-0.6%	<b>-0.8%</b>	-1.0%
-3.0	-0.1%	-0.3%	-0.4%	-0.6%	-0.8%	-1.0%	<b>-1.5%</b>

Although the electricity industry continues to go through a process of restructuring, whereby the industry is moving toward a more competitive framework (see Figure 5-3 for the status of restructuring by state),<sup>10</sup> in many states, electricity prices continue to be fully regulated by Public Service Commissions. As a result, the rules and processes outlined by these agencies would ultimately determine how these additional regulatory costs would be recovered by affected entities.

### 5.3.3 Partial Equilibrium Measures of Social Cost: Changes Consumer and Producer Surplus

In partial equilibrium analysis, the social costs are estimated by measuring the changes in consumer and producer surplus, and these values can be determined using the market supply and demand model (Figure 5-2). The change in consumer surplus is measured as follows:

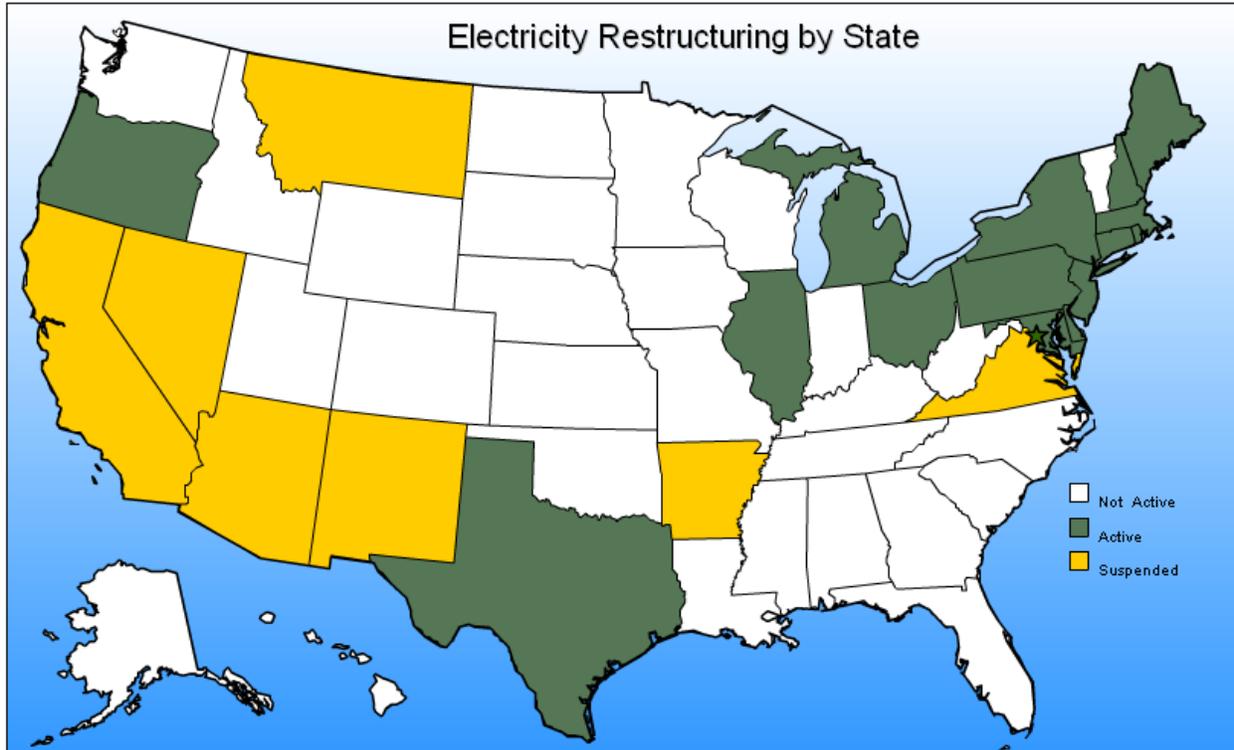
$$\Delta CS = - [\Delta Q_I \times \Delta p] + [0.5 \times \Delta Q \times \Delta p]. \quad (5.1)$$

Higher market prices and lower quantities lead to consumer welfare losses. Similarly, the change in producer surplus is measured as follows:

$$\Delta PS = [\Delta Q_I \times \Delta p] - [\Delta Q_I \times t] - [0.5 \times \Delta Q \times (\Delta p - t)]. \quad (5.2)$$

Higher unit costs and lower production level reduce producer surplus because the net price change ( $\Delta p - t$ ) is negative. However, these losses are mitigated because market prices tend to rise.

<sup>10</sup>[http://tonto.eia.doe.gov/energy\\_in\\_brief/print\\_pages/electricity.pdf](http://tonto.eia.doe.gov/energy_in_brief/print_pages/electricity.pdf).



**Figure 5-3. Electricity Restructuring by State**

Source. U.S. Energy Information Administration. 2010b.  
 <[http://www.eia.doe.gov/cneaf/electricity/page/restructuring/restructure\\_elect.html](http://www.eia.doe.gov/cneaf/electricity/page/restructuring/restructure_elect.html)>. Last updated September 2010.

#### 5.4 Energy Impacts

Executive Order 13211 (66 FR 28355, May 22, 2001) provides that agencies will prepare and submit to the Administrator of the Office of Information and Regulatory Affairs, Office of Management and Budget, a Statement of Energy Effects for certain actions identified as “significant energy actions.” Section 4(b) of Executive Order 13211 defines “significant energy actions” as any action by an agency (normally published in the *Federal Register*) that promulgates or is expected to lead to the promulgation of a final rule or regulation, including notices of inquiry, advance notices of proposed rulemaking, and notices of proposed rulemaking: (1) (i) that is a significant regulatory action under Executive Order 12866 or any successor order, and (ii) is likely to have a significant adverse effect on the supply, distribution, or use of energy;

or (2) that is designated by the Administrator of the Office of Information and Regulatory Affairs as a significant energy action.

This rule is not a significant energy action as designated by the Administrator of the Office of Information and Regulatory Affairs because it is not likely to have a significant adverse impact on the supply, distribution, or use of energy. EPA has prepared an analysis of energy impacts that explains this conclusion as follows below.

With respect to energy supply and prices, the analysis in Table 5-4 suggests at the industry level, the annualized costs represent a very small fraction of revenue (all industries are impacted under 1%). As a result, we can conclude supply and price impacts should be small.

To enhance understanding regarding the regulation's influence on energy consumption, we examined publicly available data describing energy consumption for the electric power sector that will be affected by this rule. The Annual Energy Outlook 2011 (EIA, 2011) provides energy consumption data. As shown in Table 5-4, this industry account for less than 0.3% of the U.S. total liquid fuels and less than 8.0% of natural gas. As a result, any energy consumption changes attributable to the regulatory program should not significantly influence the supply, distribution, or use of energy.

**Table 5-4. U.S. Electric Power<sup>a</sup> Sector Energy Consumption (Quadrillion BTUs): 2013**

	Quantity	Share of Total Energy Use
Distillate fuel oil	0.09	0.1%
Residual fuel oil	0.22	0.2%
Liquid fuels subtotal	0.31	0.3%
Natural gas	7.63	7.9%
Steam coal	17.37	18.0%
Nuclear power	8.50	8.8%
Renewable energy <sup>b</sup>	4.63	4.8%
Electricity Imports	0.12	0.1%
Total Electric Power Energy Consumption <sup>c</sup>	38.77	40.1%
Delivered Energy Use	70.56	73.2%
Total Energy Use	96.66	100.0%

<sup>a</sup>Includes consumption of energy by electricity-only and combined heat and power plants whose primary business is to sell electricity, or electricity and heat, to the public. Includes small power producers and exempt wholesale generators.

<sup>b</sup>Includes conventional hydroelectric, geothermal, wood and wood waste, biogenic municipal solid waste, other biomass, petroleum coke, wind, photovoltaic and solar thermal sources. Excludes net electricity imports.

<sup>c</sup>Includes non-biogenic municipal waste not included above.

Source: U.S. Energy Information Administration. 2011a. Supplemental Tables to the Annual Energy Outlook 2011. Table 2. Available at: <[http://www.eia.doe.gov/oiaf/aeo/aeoref\\_tab.html](http://www.eia.doe.gov/oiaf/aeo/aeoref_tab.html)>.

## **5.5 Unfunded Mandates**

The UMRA requires that we estimate, where accurate estimation is reasonably feasible, future compliance costs imposed by the rule and any disproportionate budgetary effects. Our estimates of the future compliance costs of the final rule are discussed previously in Section 4 of this RIA. We do not believe that there will be any disproportionate budgetary effects of the final rule on any particular areas of the country, State or local governments, types of communities (e.g., urban, rural), or particular industry segments.

### ***5.5.1 Future and Disproportionate Costs***

The UMRA requires that we estimate, where accurate estimation is reasonably feasible, future compliance costs imposed by the rule and any disproportionate budgetary effects. Our estimates of the future compliance costs of the final rule are discussed previously in Chapter 4 of this RIA. We do not believe that there will be any disproportionate budgetary effects of the final rule on any particular areas of the country, State or local governments, types of communities (e.g., urban, rural), or particular industry segments.

### ***5.5.2 Effects on the National Economy***

The UMRA requires that we estimate the effect of the final rule on the national economy. To the extent feasible, we must estimate the effect on productivity, economic growth, full employment, creation of productive jobs, and international competitiveness of the U.S. goods and services if we determine that accurate estimates are reasonably feasible and that such effect is relevant and material. The nationwide economic impact of the final rule is presented earlier in this RIA chapter. This analysis provides estimates of the effect of the final rule on most of the categories mentioned above, and these estimates are presented earlier in this RIA chapter. In addition, we have determined that the final rule contains no regulatory requirements that might significantly or uniquely affect small governments. Therefore, today's rule is not subject to the requirements of section 203 of the UMRA.

## **5.6 Environmental Justice**

Executive Order (EO) 12898 (59 FR 7629 (Feb. 16, 1994)) establishes federal executive policy on environmental justice. Its main provision directs federal agencies, to the greatest extent practicable and permitted by law, to make environmental justice part of their mission by

identifying and addressing, as appropriate, disproportionately high and adverse human health or environmental effects of their programs, policies, and activities on minority populations and low-income populations in the United States.

Assuming that our baseline for this RIA does not include implementation of the final 2010 SI RICE rule, as we state earlier in this document, EPA has determined that this final rule will not have disproportionately high and adverse human health or environmental effects on minority or low-income populations because it increases the level of environmental protection for all affected populations without having any disproportionately high and adverse human health or environmental effects on any population, including any minority or low-income population. This rule is a nationwide standard that reduces air toxics emissions from existing stationary SI engines, thus decreasing the amount of such emissions to which all affected populations are exposed.

## **5.7 Employment Impact Analysis**

In addition to addressing the costs and benefits of the reconsideration rule, EPA has analyzed the impacts of this rulemaking on employment, which are presented in this section. While a standalone analysis of employment impacts is not included in a standard cost-benefit analysis, such an analysis is of particular concern in the current economic climate of sustained high unemployment. Executive Order 13563, states, “Our regulatory system must protect public health, welfare, safety, and our environment while promoting economic growth, innovation, competitiveness, and job creation” (emphasis added). Therefore, and consistent with recent efforts to characterize the employment effects of economically significant rules, the Agency has provided this analysis to inform the discussion of labor demand and employment impacts.

This employment impact analysis includes estimates of certain short-term and on-going labor requirements (increase in labor demand) associated with reporting and recordkeeping, and the installation, operating and maintenance of control devices. EPA estimates that about 200 full-time equivalents (FTE) will be created or supported in the short-term and about 400 FTEs will be created or supported annually on a permanent basis. EPA also provides a qualitative discussion of other potential employment effects, including both increases and decreases. Because of the uncertainties involved, these sets of estimates should not be added in an attempt to characterize the overall employment effect.

We have not quantified the rule’s net effects on the overall labor market, or the potential changes to workers’ incomes. EPA continues to explore the relevant theoretical and empirical

literature and to seek public comments in order to ensure that such estimates are as accurate, useful and informative as possible.

From an economic perspective, labor is an input into producing goods and services; if regulation requires that more labor be used to produce a given amount of output, that additional labor is reflected in an increase in the cost of production.<sup>11</sup> When an increase in employment occurs as a result of a regulation, it is a cost to firms. Moreover, when the economy is at full employment, we would not expect an environmental regulation to have an impact on overall employment because labor is being shifted from one sector to another. On the other hand, in periods of high unemployment, an increase in labor demand due to regulation may result in a short-term net increase in overall employment due to the potential hiring of previously unemployed workers by the regulated sector to help meet new requirements (e.g., to install new equipment) or by the environmental protection sector to produce new abatement capital. When significant numbers of workers are unemployed, the opportunity costs associated with displacing jobs in other sectors are likely to be smaller. To provide a partial picture of the employment consequences of this final rule, EPA takes two approaches. First, EPA uses information such as monitoring, recordkeeping, and reporting estimates derived from its cost analysis documentation to generate estimates of employment impacts. Second, the analysis considers the results of Morgenstern, Pizer, and Shih (2002) in estimating the effects of the regulation on the regulated industry. This approach has been used by EPA previously in recent Regulatory Impact Analyses. EPA is interested in public comments on the merits of including information derived in this fashion for assessing the employment consequences of regulations.

### ***5.7.1 Employment Impacts from Pollution Control Requirements***

Regulations set in motion new orders for pollution control equipment and services. When a new regulation is promulgated, one typical response of industry is to order pollution control equipment and services in order to comply with the regulation when it becomes effective, while closure of plants that choose not to comply is assumed to occur after the compliance date. With such a response by industry as a basis, this section presents estimates for short term labor requirement needed associated with the monitoring, recordkeeping, and reporting requirements for this final rule. Environmental regulation may increase revenue and employment in the environmental technology industry. While these increases represent gains for that industry, they

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<sup>11</sup> It should be noted that if more labor must be used to produce a given amount of output, then this implies a decrease in labor productivity. A decrease in labor productivity will cause a short-run aggregate supply curve to shift to the left, and businesses will produce less, all other things being equal.

are costs to the regulated industries required to install the equipment. As with any pool of labor, the gross size of the labor pool does not reflect the net impact on overall employment after adjusting for shifts in other sectors.

Regulated firms may hire workers to design and build pollution controls. Once the equipment is installed, regulated firms may hire workers to operate and maintain the pollution control equipment – much like they may hire workers to produce more output. Of course, these firms may also reassign existing employees to do these activities. A study including an analysis of environmental protection employment in six U.S. states in 2003 by Bezdek, Wendling, and DiPerna (2008) found that “investments in environmental protection create jobs and displace jobs, but the net effect on employment is positive.”<sup>12</sup>

Once the equipment is installed, regulated firms may hire workers to operate and maintain the pollution control equipment – much like they may hire workers to produce more output.

The focus of this part of the analysis is on labor requirements related to the compliance actions of the affected entities within the affected sector. The employment analysis uses a bottom-up engineering-based methodology to estimate employment impacts. The engineering cost analysis summarized in Section 4 of this RIA includes estimates of the labor requirements associated with implementing the proposed regulations. Each of these labor changes may either be required as part of an initial effort to comply with the new regulation or required as a continuous or annual effort to maintain compliance. We estimate up-front and continual, annual labor requirements by estimating hours of labor required and converting this number to full-time equivalents (FTEs) by dividing by 2,080 (40 hours per week multiplied by 52 weeks). We note that this type of FTE estimate cannot be used to make assumptions about the specific number of people involved or whether new jobs are created for new employees.

The results of this employment estimate are presented in Table 5-5 for the final NESHAP. The tables breaks down the installation, operation, and maintenance estimates by type of pollution control evaluated in the RIA and present both the estimated hours required and the conversion of this estimate to FTE. For the final NESHAP, reporting and recordkeeping requirements were estimated requirements were estimated for the entire rule rather than by

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<sup>12</sup> Environmental protection, the economy, and jobs: National and regional analyses, Roger H. Bezdek, Robert M. Wendling and Paula DiPerna, [Journal of Environmental Management Volume 86, Issue 1](#), January 2008, Pages 63-79.

anticipated control requirements; the reporting and recordkeeping estimates are consistent with estimates EPA submitted as part of its Information Collection Request (ICR) that is in the Supporting Statement for the reconsideration rule.

The up-front labor requirement is estimated at 200 FTEs for the final reconsidered NESHAP. These up-front FTE labor requirements can be viewed as short-term labor requirements required for affected entities to comply with the new regulation. Ongoing requirements are estimated at about 400 FTEs for the final reconsidered NESHAP. These ongoing FTE labor requirements can be viewed as sustained labor requirements required for affected entities to continuously comply with the new regulation. All of this data is found in the cost memorandum for this reconsidered rule, and can be found in the docket for the rulemaking. It is important to recognize that these seemingly precise estimates are not to be assumed to be exact measures of the employment impacts of this rulemaking. They represent a rough approximation of the small positive impacts that this rule may have on employment.

**Table 5-5. Labor-based Employment Estimates for Reporting and Recordkeeping and Installing, Operating, and Maintaining Control Equipment Requirements for the Final Reconsideration SI RICE NESHAP**

Source	Emission Control Measure	Projected No. of Affected Units	Per-Unit One-Time Labor Estimate (Hours)	Total One-Time Labor Estimate (Hours)	Per-Unit Annual Labor Estimate (Hours)	Total Annual Labor Estimate (Hours)	One-Time Full-Time Equivalent
<b>Major Sources</b>							
SI RICE <100 HP							
-O&M/Recordkeeping	N/A	70,798	N/A	N/A	1	70,798	N/A
2SLB RICE 100-500 HP					N/A		
-O&M/Recordkeeping					1		
-Testing	N/A	7,398	N/A	N/A	8	92,480	N/A
-Reporting					3.5		
Emergency 4SRB SI RICE 100-500 HP	N/A	1,597	N/A	N/A	1	1,597	N/A
Non-Emergency 4SRB SI RICE 100-500 HP					N/A		
-Testing	N/A	12,740	N/A	N/A	8	146,515	N/A
-Reporting					3.5		
4SLB SI RICE 100-500 HP					15		
-Testing	Oxidation Catalyst	14,257	21	300,255	8	163,956	144
-Reporting					3.5		
<b>Area Sources</b>							
All SI RICE							
-O&M/Recordkeeping	N/A	228,318	N/A	N/A	1	228,318	N/A
Non-Emergency 4SLB SI RICE >500 HP in Populated Areas					15		
-Testing	Oxidation Catalyst	768	37	28,117	2	15,734	14
-Reporting					3.5		
Non-Emergency 4SRB SI RICE >500 HP in Populated Areas					33		
-Testing	NSCR	578	86	49,918	2	22,236	24
-Reporting					3.5		
<b>Total</b>			144	378,290	113	741,633	182

**Note:** Full-time equivalents (FTE) are estimated by first multiplying the projected number of affected units by the per unit labor requirements and then dividing by 2,080 (40 hours multiplied by 52 weeks). Totals may not sum due to independent rounding.

HP = horsepower

N/A = Not Applicable.

O&M = Operating and Maintenance

### 5.7.2 *Employment Impacts within the Regulated Industry*

In recent RIAs we have applied estimates from a study by Morgenstern, Pizer and Shih (2002)<sup>1</sup> to derive the employment effects of new regulations within the regulated industry. (See, for example, the Regulatory Impact Analyses for the recent final MATS and final CSAPR regulations). Determining the direction of employment effects in the regulated industry is also challenging due to competing effects. Complying with the new or more stringent regulation requires additional inputs, including labor, and may alter the relative proportions of labor and capital used by regulated firms in their production processes. Morgenstern, et al. (2002) demonstrate that environmental regulations can be understood as requiring regulated firms to add a new output (environmental quality) to their product mixes. Although legally compelled to satisfy this new demand, regulated firms have to finance this additional production with the proceeds of sales of their other (market) products. Satisfying this new demand requires additional inputs, including labor, and may alter the relative proportions of labor and capital used by regulated firms in their production processes.

More specifically, Morgenstern, Pizer, and Shih (2002) decompose the effect of regulation on net employment in the regulated sector into the following three subcomponents:

- *The Demand Effect:* higher production costs from complying with the regulation will raise market prices, reducing consumption (and production), thereby reducing demand for labor within the regulated industry. The “extent of this effect depends on the cost increase passed on to consumers as well as the demand elasticity of industry output.” (p. 416)
- *The Cost Effect:* Assuming that the capital/labor ratio in the production process is held fixed, as “production costs rise, more inputs, including labor, are used to produce the same amount of output,” (p. 416). For example, to reduce pollutant emissions while holding output levels constant, regulated firms may require additional labor.

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<sup>1</sup> Morgenstern, R. D., W. A. Pizer, and J. S. Shih. 2002. Jobs versus the Environment: An Industry-Level Perspective. || Journal of Environmental Economics and Management 43(3):412-436.

- *The Factor-Shift Effect:* Regulated firms' production technologies may be more or less labor intensive after complying with the regulation (i.e., more/less labor is required relative to capital per dollar of output). "Environmental activities may be more labor intensive than conventional production," meaning that "the amount of labor per dollar of output will rise." However, activities may, instead, be less labor intensive because "cleaner operations could involve automation and less employment, for example." (p. 416)

The demand effect is expected to have an unambiguously negative effect on employment, the cost effect to have an unambiguously positive effect on employment, and the factor-shift effect to have an ambiguous effect on employment. Without more information with respect to the magnitudes of these three competing effects, it is not possible to predict the net environmental employment effect in the regulated sector.

Using plant-level Census information between the years 1979 and 1991, Morgenstern et al. estimate the effects of pollution abatement expenditures on net employment in four highly polluting/regulated sectors (pulp and paper, plastics, steel, and petroleum refining). They conclude that increased abatement expenditures generally have *not* caused a significant change in net employment in those sectors. More specifically, their results show that, on average across the industries studied, each additional \$1 million (in 1987\$) spent on pollution abatement results in a (statistically insignificant) net increase of 1.55 (+/- 2.24) jobs. As a result, the authors conclude that increases in pollution abatement expenditures can have positive effects on employment and do not necessarily cause economically significant employment changes. The conclusion is similar to Berman and Bui (2001), who found that increased air quality regulation in Los Angeles did not cause large employment changes.

Ideally, the EPA would first apply the methodology of Morgenstern et al. to current pollution expenditure and market data for the regulated firms to identify the relationship between abatement costs and employment, then use this relationship to extrapolate the effect of new projected abatement costs on these firms. Unfortunately, current firm-level abatement cost and market characteristics are not available. In addition, there are important differences in the markets and regulatory settings analyzed in their study and the setting presented here that lead us to conclude that it is inappropriate to utilize their quantitative estimates to estimate the employment impacts from this reconsideration rule. The differences between the underlying regulations motivating the abatement expenditures studied in Morgenstern et al. are potentially too many to allow for the direct transfer of their quantitative estimates for use in analysis of the final rule. There are also important differences between the industries affected by this final rule

and the four manufacturing industries studied by Morgenstern et al. For these reasons, we conclude there are too many uncertainties as to the comparability of the Morgenstern et al. study to apply their estimates to quantify the employment impacts within the regulated sector for this regulation.

## **Section 6**

### **SMALL ENTITY SCREENING ANALYSIS**

The Regulatory Flexibility Act as amended by the Small Business Regulatory Enforcement Fairness Act (SBREFA) generally requires an agency to prepare a regulatory flexibility analysis of any rule subject to notice and comment rulemaking requirements under the Administrative Procedure Act or any other statute, unless the agency certifies that the rule will not have a significant economic impact on a substantial number of small entities. Small entities include small businesses, small governmental jurisdictions, and small not-for-profit enterprises.

After considering the economic impact of the rule on small entities, the screening analysis indicates that this rule will not have a significant economic impact on a substantial number of small entities (or “SISNOSE”). Under the analyses EPA considered, sales and revenue tests for establishments owned by model small entities are less than 1% except electric power generation (NAICS 2211 with receipts less than \$100,000 per year) and crop and animal production (NAICS 111 and 112 with receipts less than \$25,000 per year). These findings are similar to those for the final SI RICE rule promulgated in August 2010, though the impacts are lower due to the reduction in the cost estimates for these industries.

#### **6.1 Small Entity Data Set**

The industry sectors covered by the final rule were identified during the development of the cost analysis (EC/R, 2012). The Statistics of United States Business (SUSB) provides national information on the distribution of economic variables by industry and enterprise size (U.S. Census, 2012a, b).<sup>1</sup> The Census Bureau and the Office of Advocacy of the SBA supported and developed these files for use in a broad range of economic analyses.<sup>2</sup> Statistics include the total number of establishments and receipts for all entities in an industry; however, many of these entities may not necessarily be covered by the final rule. SUSB also provides statistics by enterprise employment and receipt size.

The Census Bureau’s definitions used in the SUSB are as follows:

- *Establishment*: An establishment is a single physical location where business is conducted or where services or industrial operations are performed.

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<sup>1</sup>The SUSB data do not provide establishment information for the national security NAICS code (92811) or irrigated farms. Since most national security installations are owned by the federal government (e.g., military bases), EPA assumes these entities would not be considered small. For irrigated farms, we relied on receipt data provided in the 2008 Farm and Irrigation Survey (USDA, 2009).

<sup>2</sup>See <http://www.census.gov/csd/susb/> and <http://www.sba.gov/advo/research/data.html> for additional details.

- *Receipts*: Receipts (net of taxes) are defined as the revenue for goods produced, distributed, or services provided, including revenue earned from premiums, commissions and fees, rents, interest, dividends, and royalties. Receipts exclude all revenue collected for local, state, and federal taxes.
- *Enterprise*: An enterprise is a business organization consisting of one or more domestic establishments that were specified under common ownership or control. The enterprise and the establishment are the same for single-establishment firms. Each multiestablishment company forms one enterprise—the enterprise employment and annual payroll are summed from the associated establishments. Enterprise size designations are determined by the summed employment of all associated establishments.

Because the SBA’s business size definitions (SBA, 2013) apply to an establishment’s “ultimate parent company,” we assumed in this analysis that the “enterprise” definition above is consistent with the concept of ultimate parent company that is typically used for SBREFA screening analyses and the terms are used interchangeably.

## **6.2 Small Entity Economic Impact Measures**

The analysis generated a set of establishment sales tests (represented as cost-to-receipt ratios)<sup>3</sup> for NAICS codes associated with sectors listed in Table 6-1. Although the appropriate SBA size definition should be applied at the parent company (enterprise) level, we can only compute and compare ratios for a model establishment owned by an enterprise within an SUSB size range (employment or receipts). Using the SUSB size range helps us account for receipt differences between establishments owned by large and small enterprises and also allows us to consider the variation in small business definitions across affected industries. Using establishment receipts is also a conservative approach, because an establishment’s parent company (the “enterprise”) may have other economic resources that could be used to cover the costs of the final rule.

### **6.2.1 Model Establishment Receipts and Annual Compliance Costs**

The sales test compares a representative establishment’s total annual engine costs to the average establishment receipts for enterprises in several size categories.<sup>4</sup> For industries with SBA

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<sup>3</sup>The following metrics for other small entity economic impact measures (if applicable) would potentially include

- small governments (if applicable): “revenue” test; annualized compliance cost as a percentage of annual government revenues and
- small nonprofits (if applicable): “expenditure” test; annualized compliance cost as a percentage of annual operating expenses,

<sup>4</sup>For the 1 to 20 employee category, we excluded SUSB data for enterprises with zero employees. These enterprises did not operate the entire year.

employment size standards, we calculated average establishment receipts for each enterprise employment range (Table 6-2).<sup>5</sup> For industries with SBA receipt size standards, we calculated

**Table 6-1. SI NESHAP for Existing Stationary Reciprocating Internal Combustion Engines (RICE): Affected Sectors and SBA Small Business Size Standards**

<b>Industry Description</b>	<b>Corresponding NAICS</b>	<b>SBA Size Standard for Businesses (January 7th, 2013)</b>	<b>Type of Small Entity</b>
Electric Power Generation	2211	<sup>a</sup>	Business and government
Natural Gas Transmission	48621	\$7.0 million in annual receipts	Business
Crude Petroleum & NG Production	211111	500 employees	Business
Natural Gas Liquid Producers	211112	500 employees	Business
National Security	92811	NA	Government
Hydro Power Units	See NAICS 2211	1,000 employees	Business and government
Irrigation Sets	Affects NAICS 111 and 112	Generally \$750,000 or less in annual receipts	Business
Welders	Affects industries that use heavy equipment such as construction, mining, farming	Varies by 6-digit NAICS code; Example industry: NAICS 238 = \$14 million in annual receipts	Business

<sup>a</sup>NAICS codes 221111, 221112, 221113, 221119, 221121, 221122: A firm is small if, including its affiliates, it is primarily engaged in the generation, transmission, and/or distribution of electric energy for sale and its total electric output for the preceding fiscal year did not exceed 4 million megawatt hours. Source: U.S. Small Business Administration (SBA). 2013. "Table of Small Business Size Standards Matched to North American Industry Classification System Codes." Effective January 7th, 2013. Downloaded 1/7/13.

average establishment receipts for each enterprise receipt range (Table 6-3). We included the utility sector in the second group, although the SBA size standard for this industry is defined in terms of physical units (megawatt hours) versus receipts. Crop and animal production (NAICS 111 and 112) also have an SBA receipt size standard that defines a small business as receiving \$750,000 or less in receipts per year. However, SUSB data were not available for these industries. Therefore, we conducted the sales test using the following range of establishment receipts: farms with annual receipts of \$25,000 or less, farms with annual receipts of \$100,000 or less, farms with annual receipts of \$500,000 or less, and farms with annual receipts of \$750,000 or less.

<sup>5</sup> 2007 Economic Census data are at <http://www.census.gov/econ/census07/>.

**Table 6-2. Average Receipts for Affected Industry by Enterprise: 2009 (\$2009 Million/Establishment)**

NAICS	NAICS Description	SBA Size Standard for Businesses (effective January 7, 2013)	All Enterprises	Owned By Enterprises with Employee Range:			
				1–20 Employees	20–99 Employees	100–499 Employees	500+ Employees
211111	Crude petroleum & natural gas extraction	500 employees	\$30.22	\$2.15	\$33.02	\$151.76	1,570
211112	Natural gas liquid extraction	500 employees	\$172.81	\$0.30	NA	\$11.88	NA
335312	Motor & generator mfg	1,000 employees	\$18.58	\$1.37	\$6.14	\$15.96	\$29.47
333992	Welding & soldering equipment mfg	500 employees	\$18.51	\$1.56	\$6.60	\$33.25	NA

Source: U.S. Census Bureau. 2012a. "Firm Size Data from the Statistics of U.S. Businesses: U.S. Detail Employment Sizes: 2009." <<http://www.census.gov/csd/susb/> Downloaded 2/22/12.

NA = Not available.

**Table 6-3. Average Receipts for Affected Industry by Enterprise Receipt Range: 2007 (\$2008 /establishment)**

NAICS	NAICS Description	SBA Size Standard for Businesses (effective January 7, 2013)	Owned By Enterprises with Receipt Range:									
			All Enterprises	0-99K Receipts	100- 499.9K Receipts	500- 999.9K Receipts	1,000- 4,999.9K Receipts	5,000,000- 9,999,999K Receipts	<10,000K Receipts	10,000- 49,999K Receipts	50,000- 99,999K Receipts	100,000K+ Receipts
2211	Electric Power Generation	<sup>a</sup>	\$261.0	\$31.2	\$272.5	\$724.9	\$2,399.5	\$7,330.5	\$2,617.7	\$24,786.9	\$67,706.8	\$1,394,051.0
622110	General Medical and Surgical Hospitals	\$35.5 million in annual receipts	\$202,058.7	NA	\$23.82	NA	\$3,255.0	\$7,291.0	\$4,692.1	\$23,481.9	\$67,545.6	\$508,705.8
237310	Highway , street, and bridge construction	\$33.5 million in Annual Receipts	\$7.74	\$0.06	\$0.32	\$0.84	\$2.74	\$8.11	\$2.00	\$22.62	\$56.48	\$56.81
237110	Water and sewer line and related structures, construction	\$33.5 million in Annual Receipts	\$3.89	\$0.06	\$0.32	\$0.85	\$2.73	\$8.17	\$1.84	\$20.62	\$45.05	\$47.27
237130	Power and communication line and related structures construction	\$33.5 million in Annual Receipts	\$3.39	\$0.06	\$0.31	\$0.83	\$2.52	\$7.75	\$1.32	\$16.84	\$34.50	\$23.86
237990	Other heavy and civil engineering construction	\$33.5 million in Annual Receipts	\$2.66	\$0.06	\$0.30	\$0.83	\$2.48	\$7.76	\$0.99	\$18.72	\$40.53	\$42.35
92811	National Security	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Note: Industries in green were included for consistency with the analysis done for the final rule. National Security is included in this table but does not have size standards.

<sup>a</sup> NAICS codes 221111, 221112, 221113, 221119, 221121, 221122: A firm in these industries is defined as small by SBA if, including its affiliates, it is primarily engaged in the generation, transmission, and/or distribution of electric energy for sale and its total electric output for the preceding fiscal year did not exceed 4 million megawatt hours.

NA = Not available. SUSB did not report this data for disclosure or other reasons.

Source: U.S. Census Bureau. 2009a. "Firm Size Data from the Statistics of U.S. Businesses: U.S. Detail Employment Sizes: 2009." <<http://www.census.gov/csd/susb/>>

Annual entity compliance costs vary depending on the size of the SI engines used at the affected establishment. Absent facility-specific information, we computed per-entity compliance costs based for three different cases based on representative establishments—Cases 1, 2, and 3 (see Table 6-4). Each representative establishment differs based on the size and number of SI engines being used. Compliance costs are calculated by summing the total annualized compliance costs for the relevant engine categories, dividing the sum by the total existing population of those engines, and multiplying the average engine cost by the number of engines assumed to be at the establishment. Since NAICS 2211 and 48621 are fundamentally different than other industries considered in this analysis due to the number of engines affected and amount of cost incurred resulting from this final rule, we used different assumptions about what constitutes the representative establishment and report these assumptions separately.

- Case 1: The representative establishment for all industries uses three 750+ hp engines with an average compliance cost of \$680 to \$730 per engine, resulting in a total annualized compliance cost of approximately \$2,040 to \$2,200 for this representative establishment.
- Case 2: The representative establishment in NAICS 2211 and 48621 uses two 25 to 750+ hp engines with an average compliance cost of \$412 per engine, resulting in a total annualized compliance cost of \$824 for this representative establishment. For all other industries, the representative establishment uses two 25 to 300 hp engines with an average compliance cost of \$246 per engine, resulting in a total compliance cost of \$492 for this representative establishment.
- Case 3: The representative establishment for all industries uses two 50 to 100 hp engines with an average compliance cost of \$73 per engine, resulting in a total compliance cost of \$145 for this representative establishment.

EPA believes that small entities are most likely to face costs similar to Case 2 (columns shaded in gray in Table 6-4) because most of the engines to be affected by this final rule in NAICS 335312, 333992, 211111, and 211112 are under 300 hp capacity, and most small entities in these industries will own engines of this size or smaller. This is corroborated by Figure 6-1 and 6-2 which shows the distribution of engine population and compliance costs by engine size for all industries. However, it is difficult to make a similar claim for NAICS 2211 and 48621 based on the existing distribution of engines in these industries.<sup>6</sup>

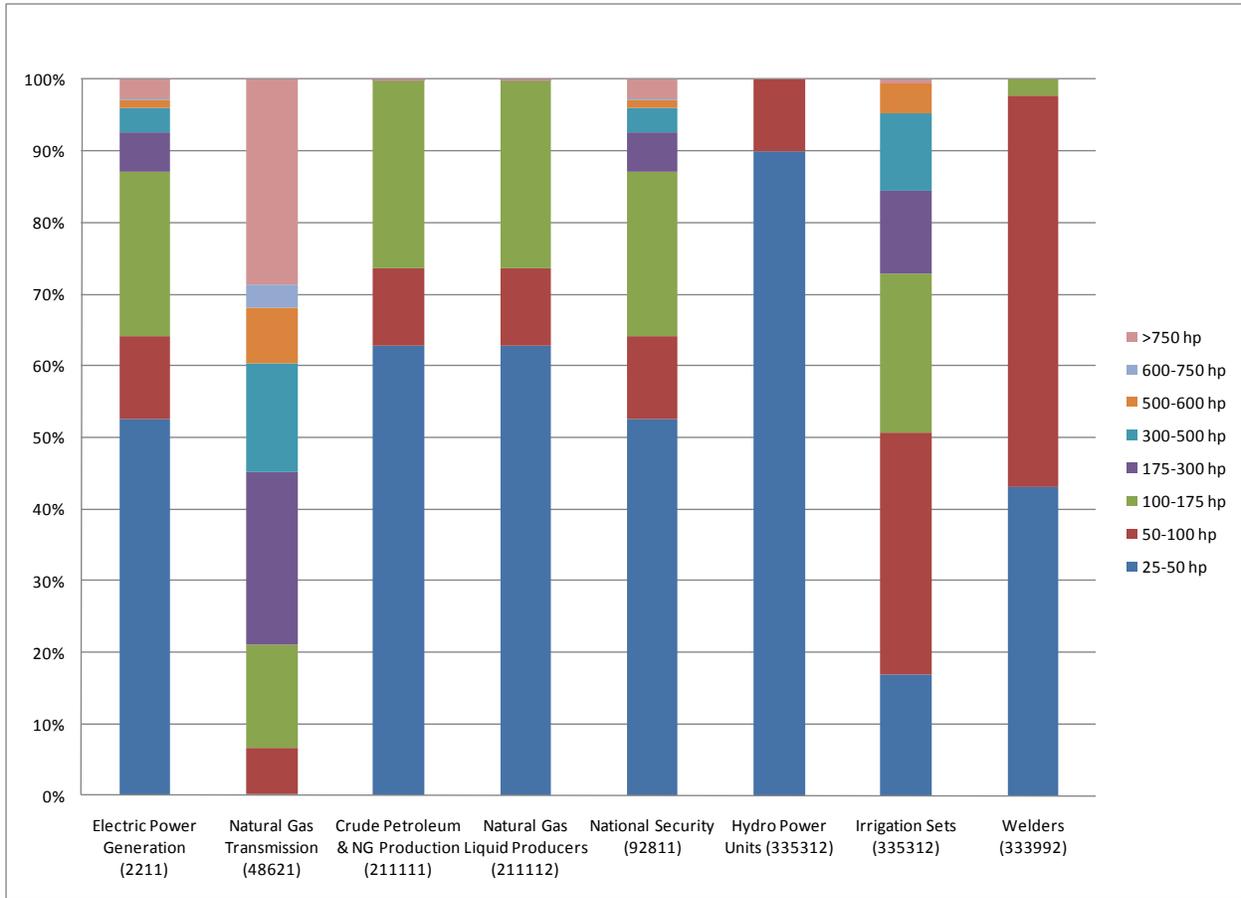
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<sup>6</sup>This claim also cannot be made for NAICS 92811: National Security. However, since most national security installations are owned by the federal government (e.g., military bases), EPA assumes these entities would not be considered small.

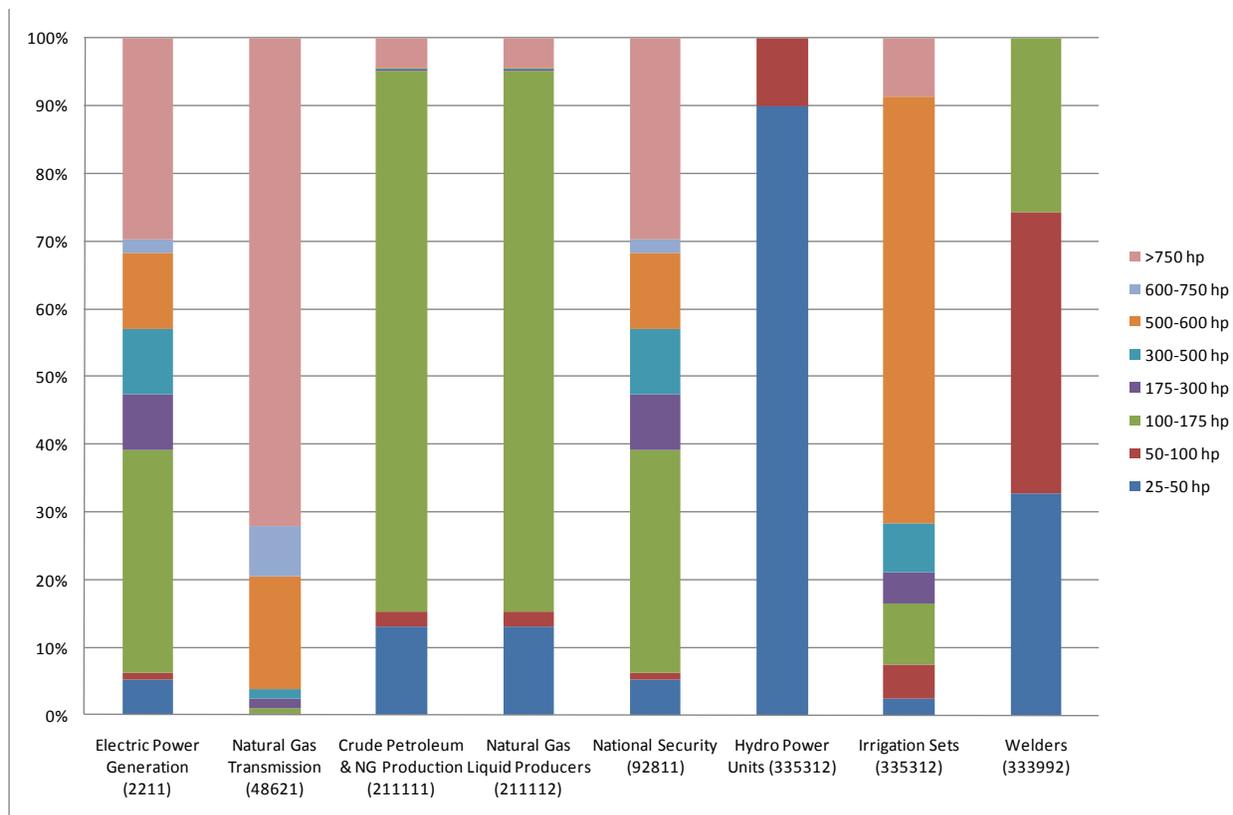
For the sales test, we divided the representative establishment compliance costs reported in Table 6-4 by the representative establishment receipts reported in Tables 6-2 and 6-3. This is known as the cost-to-receipt (i.e., sales) ratio, or the “sales test.” The “sales test” is the impact

**Table 6-4. Representative Establishment Costs Used for Small Entity Analysis (\$2009)**

	Case 1		Case 2		Case 3	
	NAICS 2211, 48621 (+750 hp only)	All Other NAICS (+750 hp only)	NAICS 2211,48621 (25-750+ hp)	All Other NAICS (25-300 hp)	NAICS 2211, 48621 (25-100 hp only)	All Other NAICS (25-100 hp only)
Total Annualized Costs (\$)	\$7,710,388	\$586,434	\$82,806,141	\$28,057,798	\$8,510,985	\$6,174,805
Engine Population	10,548	863	200,974	114,517	117,040	84,913
Average Engine Cost (\$/engine)	\$731	\$680	\$412	\$246	\$73	\$73
Assumed Engines Per Establishment	3	3	2	2	2	2
Total Annualized Costs per Establishment	\$2,193	\$2,040	\$824	\$492	\$145	\$145



**Figure 6-1. Distribution of Engine Population by Size for All Industries**



**Figure 6-2. Distribution of Compliance Costs by Engine Size for All Industries**

methodology EPA employs in analyzing small entity impacts as opposed to a “profits test,” in which annualized compliance costs are calculated as a share of profits.

This is because revenues or sales data are commonly available data for entities normally impacted by EPA regulations and profits data normally made available are often not the true profit earned by firms because of accounting and tax considerations. Revenues as typically published are usually correct figures and are more reliably reported when compared to profit data. The use of a “sales test” for estimating small business impacts for a rulemaking such as this one is consistent with guidance offered by EPA on compliance with SBREFA<sup>7</sup> and is consistent with guidance published by the U.S. SBA’s Office of Advocacy that suggests that cost as a percentage of total revenues is a metric for evaluating cost increases on small entities in relation to increases on large entities.<sup>8</sup>

<sup>7</sup>The SBREFA compliance guidance to EPA rulewriters regarding the types of small business analysis that should be considered can be found at <http://www.epa.gov/sbrefa/documents/rfafinalguidance06.pdf>, pp. 24-25.

<sup>8</sup>U.S. SBA, Office of Advocacy. A Guide for Government Agencies, How to Comply with the Regulatory Flexibility Act, Implementing the President’s Small Business Agenda and Executive Order 13272, May 2003.

If the cost-to-receipt ratio is less than 1%, then we consider the rule to not have a significant impact on the establishment company in question. We summarize the industries with cost-to-receipt ratios exceeding 1% below:

*Primary Analysis:*

- *Case 2:* NAICS 2211 with receipts less than \$100,000 per year and NAICS 111 and 112 with receipts less than \$25,000 per year
- *Case 3:* No industries

*Sensitivity Analysis (unlikely):*

- *Case 1:* NAICS 2211 with receipts less than \$100,000 per year

In the Case 2 primary analysis, only establishments in NAICS 2211 with receipts less than \$100,000 per year (less than 5 percent of the total), and establishments in NAICS 111 and 112 with receipts less than \$25,000 per year (around 30 percent of the total) have cost-to-receipt ratios above 1%. However, establishments earning this level of receipts are likely to be using smaller engines than those assumed in Case 2, such as 25 to 300 hp engines. The results of our Case 3 analysis demonstrate that these establishments are not significantly impacted when taking this engine size into account.

After considering the economic impacts of this rule on small entities, we certify that this action will not have a significant economic impact on a substantial number of small entities. This certification is based on the economic impact of this final action to all affected small entities across all industries affected. The percentage of small entities impacted by this having annualized costs greater than 1 percent of sales is less than 2 percent according to this analysis. We thus conclude that there is no significant economic impact on a substantial number of small entities (SISNOSE) for this final rule.

Although the final rule would not have a significant economic impact on a substantial number of small entities, EPA nonetheless tried to reduce the impact of the rule on small entities. When developing the reconsidered standards, EPA took special steps to ensure that the burdens imposed on small entities were minimal. EPA conducted several meetings with industry trade associations to discuss regulatory options and the corresponding burden on industry, such as recordkeeping and reporting. In addition, as mentioned earlier in this preamble, EPA's final action reduces regulatory requirements for a variety of area sources affected under this RICE rule with amendments to the final RICE rules promulgated in 2010.

### 6.3 Small Government Entities

The rule also covers sectors that include entities owned by small and large governments. However, given the uncertainty and data limitations associated with identifying and appropriately classifying these entities, we computed a “revenue” test for a model small government, where the annualized compliance cost is a percentage of annual government revenues (U.S. Census, 2005a, b). The use of a “revenue test” for estimating impacts to small governments for a rulemaking such as this one is consistent with guidance offered by EPA on compliance with SBREFA,<sup>9</sup> and is consistent with guidance published by the US SBA’s Office of Advocacy.<sup>10</sup> For example, from the 2007 Census (in 2008 dollars), the average revenue for small governments (counties and municipalities) with populations fewer than 10,000 is \$4 million per entity, and the average revenue for local governments with populations fewer than 50,000 is \$9 million per entity (U.S. Census Bureau, 2009a; U.S. Census Bureau, 2009b). For the smallest group of local governments (<10,000 people), the cost-to-revenue ratio would be 0.2% or less under each case. For the larger group of governments (<50,000 people), the cost-to-revenue ratio is 0.1% or less under all cases.

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<sup>9</sup>The SBREFA compliance guidance to EPA rule writers regarding the types of small business analysis that should be considered can be found at <http://www.epa.gov/sbrefa/documents/rfafinalguidance06.pdf>, pp. 24-25.

<sup>10</sup>U.S. SBA, Office of Advocacy. A Guide for Government Agencies, How to Comply with the Regulatory Flexibility Act, Implementing the President’s Small Business Agenda and Executive Order 13272, May 2003.

## **Section 7**

### **HUMAN HEALTH BENEFITS OF EMISSIONS REDUCTIONS**

#### **Synopsis**

Implementation of emissions controls required by the final SI RICE NESHAP reconsideration is expected to reduce emissions of hazardous air pollutants (HAP) and have ancillary co-benefits that would lower ambient concentrations of NO<sub>2</sub>, PM<sub>2.5</sub> and ozone. In this section, we quantify the monetized co-benefits for this rule associated with reducing exposure to ambient fine particulate matter (PM<sub>2.5</sub>) by reducing emissions of precursors. We estimate the total monetized co-benefits to be \$62 million to \$150 million at a 3% discount rate and \$55 million to \$140 million at a 7% discount rate in 2013. All estimates are in 2010\$. These estimates reflect the monetized human health benefits of reducing cases of morbidity and premature mortality among populations exposed to PM<sub>2.5</sub> reduced by this rule. These estimates reflect EPA's most current interpretation of the scientific literature. Higher or lower estimates of benefits are possible using other assumptions; examples of this are provided in Figure 7-2. Data, resource, and methodological limitations prevented EPA from monetizing the benefits from several important benefit categories, including benefits from reducing exposure to HAP, carbon monoxide, NO<sub>2</sub> and ozone, as well as ecosystem effects and visibility impairment. In addition to reducing emissions of PM precursors such as NO<sub>x</sub>, this rule would reduce 1,800 tons of HAP and 22,000 tons of carbon monoxide each year.

#### **7.1 Calculation of PM<sub>2.5</sub>-Related Human Health Co-Benefits**

Assuming that our baseline does not include implementation of the 2010 final SI RICE rule, as we state earlier in this RIA, this final reconsideration NESHAP would reduce emissions of NO<sub>x</sub>, and VOCs. Because these emissions are precursors to PM<sub>2.5</sub>, reducing these emissions would also reduce PM<sub>2.5</sub> formation, human exposure and the incidence of PM<sub>2.5</sub>-related health effects. Due to analytical limitations, it was not possible to provide a comprehensive estimate of PM<sub>2.5</sub>-related benefits or provide estimates of the health benefits associated with exposure to HAP, CO, NO<sub>2</sub> or ozone. Instead, we used the "benefit-per-ton" approach to estimate these benefits. The methodology employed in this analysis is similar to the work described in Fann, Fulcher, and Hubbell (2009), but represents an improvement that EPA believes would provide more reliable estimates of PM<sub>2.5</sub>-related health benefits for emissions reductions in specific sectors. The key assumptions are described in detail below. These PM<sub>2.5</sub> benefit-per-ton estimates provide the total monetized human health benefits (the sum of premature mortality and

premature morbidity) of reducing one ton of PM<sub>2.5</sub> from a specified source. EPA has used the benefit per-ton technique in several previous RIAs, including the recent SO<sub>2</sub> NAAQS RIA (U.S. EPA, 2010).

The *Integrated Science Assessment (ISA) for Particulate Matter* (U.S. EPA, 2009b) identified the human health effects associated with ambient PM<sub>2.5</sub>, which include premature mortality and a variety of morbidity effects associated with acute and chronic exposures. Table 7-1 shows the quantified and unquantified benefits captured in those benefit-per-ton estimates, but this table does not include entries for the unquantified health effects associated with exposure to ozone and NO<sub>2</sub> nor welfare effects such as ecosystem effects and visibility impairment that are described in section 7.2. It is important to emphasize that the list of unquantified benefit categories is not exhaustive, nor is quantification of each effect complete.

**Table 7-1: Human Health Effects of PM<sub>2.5</sub>**

Category	Specific Effect	Effect Has Been Quantified	Effect Has Been Monetized	More Information (refers to CSAPR RIA)
<b>Improved Human Health</b>				
Reduced incidence of premature mortality from exposure to PM <sub>2.5</sub>	Adult premature mortality based on cohort study estimates and expert elicitation estimates (age >25 or age >30)	✓	✓	Section 5.4
	Infant mortality (age <1)	✓	✓	Section 5.4
Reduced incidence of morbidity from exposure to PM <sub>2.5</sub>	Non-fatal heart attacks (age > 18)	✓	✓	Section 5.4
	Hospital admissions—respiratory (all ages)	✓	✓	Section 5.4
	Hospital admissions—cardiovascular (age >20)	✓	✓	Section 5.4
	Emergency room visits for asthma (all ages)	✓	✓	Section 5.4
	Acute bronchitis (age 8-12)	✓	✓	Section 5.4
	Lower respiratory symptoms (age 7-14)	✓	✓	Section 5.4
	Upper respiratory symptoms (asthmatics age 9-11)	✓	✓	Section 5.4
	Asthma exacerbation (asthmatics age 6-18)	✓	✓	Section 5.4
	Lost work days (age 18-65)	✓	✓	Section 5.4
	Minor restricted-activity days (age 18-65)	✓	✓	Section 5.4
	Chronic Bronchitis (age >26)	✓	✓	Section 5.4
	Emergency room visits for cardiovascular effects (all ages)	--	--	Section 5.4
	Strokes and cerebrovascular disease (age 50-79)	--	--	Section 5.4
	Other cardiovascular effects (e.g., other ages)	--	--	PM ISA <sup>2</sup>
	Other respiratory effects (e.g., pulmonary function, non-asthma ER visits, non-bronchitis chronic diseases, other ages and populations)	--	--	PM ISA <sup>2</sup>
	Reproductive and developmental effects (e.g., low birth weight, pre-term births, etc)	--	--	PM ISA <sup>2,3</sup>
Cancer, mutagenicity, and genotoxicity effects	--	--	PM ISA <sup>2,3</sup>	

<sup>1</sup> We assess these benefits qualitatively due to time and resource limitations for this analysis.

<sup>2</sup> We assess these benefits qualitatively because we do not have sufficient confidence in available data or methods.

<sup>3</sup> We assess these benefits qualitatively because current evidence is only suggestive of causality or there are other significant concerns over the strength of the association.

Consistent with the Portland Cement NESHAP (U.S. EPA, 2009a), the benefits estimates utilize the concentration-response functions as reported in the epidemiology literature, as well as the 12 functions obtained in EPA’s expert elicitation study as a sensitivity analysis.

- One estimate is based on the concentration-response (C-R) function developed from the extended analysis of American Cancer Society (ACS) cohort, as reported in Pope et al. (2002), a study that EPA has previously used to generate its primary benefits estimate. When calculating the estimate, EPA applied the effect coefficient as reported in the study without an adjustment for assumed concentration threshold of 10  $\mu\text{g}/\text{m}^3$  as was done in recent (2006-2009) Office of Air and Radiation RIAs.
- One estimate is based on the C-R function developed from the extended analysis of the Harvard Six Cities cohort, as reported by Laden et al (2006). This study, published after the completion of the Staff Paper for the 2006  $\text{PM}_{2.5}$  NAAQS, has been used as an alternative estimate in the  $\text{PM}_{2.5}$  NAAQS RIA and  $\text{PM}_{2.5}$  benefits estimates in RIAs completed since the  $\text{PM}_{2.5}$  NAAQS. When calculating the estimate, EPA applied the effect coefficient as reported in the study without an adjustment for assumed concentration threshold of 10  $\mu\text{g}/\text{m}^3$  as was done in recent (2006-2009) RIAs.
- Twelve estimates are based on the C-R functions from EPA's expert elicitation study (Roman et al., 2008) on the  $\text{PM}_{2.5}$  -mortality relationship and interpreted for benefits analysis in EPA's final RIA for the  $\text{PM}_{2.5}$  NAAQS. For that study, twelve experts (labeled A through L) provided independent estimates of the  $\text{PM}_{2.5}$  -mortality concentration-response function. EPA practice has been to develop independent estimates of  $\text{PM}_{2.5}$  -mortality estimates corresponding to the concentration-response function provided by each of the twelve experts, to better characterize the degree of variability in the expert responses.

The effect coefficients are drawn from epidemiology studies examining two large population cohorts: the American Cancer Society cohort (Pope et al., 2002) and the Harvard Six Cities cohort (Laden et al., 2006).<sup>1</sup> These are logical choices for anchor points in our presentation because, while both studies are well designed and peer reviewed, there are strengths and weaknesses inherent in each, which we believe argues for using both studies to generate benefits estimates. Previously, EPA had calculated benefits based on these two empirical studies, but derived the range of benefits, including the minimum and maximum results, from an expert elicitation of the relationship between exposure to  $\text{PM}_{2.5}$  and premature mortality (Roman

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<sup>1</sup> These two studies specify multi-pollutant models that control for  $\text{SO}_2$ , among other co-pollutants.

et al., 2008).<sup>2</sup> Within this assessment, we include the benefits estimates derived from the concentration-response function provided by each of the twelve experts to better characterize the uncertainty in the concentration-response function for mortality and the degree of variability in the expert responses. Because the experts used these cohort studies to inform their concentration-response functions, benefits estimates using these functions generally fall between results using these epidemiology studies (see Figure 7-2). In general, the expert elicitation results support the conclusion that the benefits of PM<sub>2.5</sub> control are very likely to be substantial.

Readers interested in reviewing the general methodology for creating the benefit-per-ton estimates used in this analysis should consult the draft Technical Support Document (TSD) on estimating the benefits per ton of reducing PM<sub>2.5</sub> and its precursors from in the “Other Non-EGU Point” sector (U.S. EPA, 2012).<sup>3</sup> The primary difference between the estimates used in this analysis and the estimates reported in Fann, Fulcher, and Hubbell (2009) is the air quality modeling data utilized. The air quality modeling data used in this analysis use more narrow sectors. In addition, the updated air quality modeling data reflects more recent emissions data (2005 rather than 2001) and has a higher spatial resolution (12km rather than 36 km grid cells). The benefits methodology, such as health endpoints assessed, risk estimates applied, and valuation techniques applied did not change. As noted below in the characterization of uncertainty, these updated estimates still have similar limitations as all national-average benefit-per-ton estimates in that they reflect the geographic distribution of the modeled emissions, which may not exactly match the emission reductions in this rulemaking, and they may not reflect local variability in population density, meteorology, exposure, baseline health incidence rates, or other local factors for any specific location.<sup>4</sup> In this analysis, we apply these national benefit-per-ton

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<sup>2</sup> Please see the Section 5.2 of the Portland Cement RIA in Appendix 5A for more information regarding the change in the presentation of benefits estimates.

<sup>3</sup> Stationary RICE are included in the other non-EGU point source category. If the affected stationary engines are more rural than the average of the non-EGU sources modeled, then it is possible that the benefits may be somewhat less than we have estimated here. The TSD provides the geographic distribution of the air quality changes associated with this sector. It is important to emphasize that this modeling represents the best available information on the air quality impact on a per ton basis for these sources.

<sup>4</sup> To the extent that the PM<sub>2.5</sub> improvements achieved by the 2010 final rule would have been located in areas with lower average population density compared to the areas with engines regulated under these amendments, there is a potential for the estimated loss in benefits to be overstated by the use of national-average benefit-per-ton estimates. For example, if only engines in areas with higher population density are regulated, this scenario should result in higher benefit-per-ton estimates than a scenario only regulating engines in areas with lower population density. It is important to note that the benefit-per-ton estimates that EPA applied in this assessment reflect pollution transport as well as a variety of emission source locations, including areas with high and low population density. Without information regarding the specific location of the engines affected by the 2010 final rule and the amendments, it is not possible to be more precise regarding the true magnitude of the loss in benefits.

estimates calculated for this category for NO<sub>x</sub> and multiply them by the corresponding emission reductions.

These models assume that all fine particles, regardless of their chemical composition, are equally potent in causing premature mortality because the scientific evidence is not yet sufficient to allow differentiation of effects estimates by particle type. NO<sub>x</sub> is the primary PM<sub>2.5</sub> precursors affected by this rule. Even though we assume that all fine particles have equivalent health effects, the benefit-per-ton estimates vary between precursors depending on the location and magnitude of their impact on PM<sub>2.5</sub> levels, which drive population exposure. The sector-specific modeling does not provide estimates of the PM<sub>2.5</sub>-related benefits associated with reducing VOC emissions, but these unquantified benefits are generally small compared to other PM<sub>2.5</sub> precursors (U.S. EPA, 2012).

The benefit-per-ton coefficients in this analysis were derived using modified versions of the health impact functions used in the PM NAAQS Regulatory Impact Analysis (U.S. EPA, 2006). Specifically, this analysis uses the method first applied in the Portland Cement NESHAP RIA (U.S. EPA, 2009a), which applied the functions directly from the epidemiology studies without an adjustment for an assumed threshold. Removing the threshold assumption is a key difference between the method used in this analysis of PM benefits and the methods used in RIAs prior to the Portland Cement proposal NESHAP, and we now calculate incremental benefits down to the lowest modeled PM<sub>2.5</sub> air quality levels.<sup>5</sup>

Based on our review of the current body of scientific literature, EPA now estimates PM-related mortality without applying an assumed concentration threshold. EPA's *Integrated Science Assessment for Particulate Matter* (U.S. EPA, 2009b), which was reviewed by EPA's Clean Air Scientific Advisory Committee (U.S. EPA-SAB, 2009a; U.S. EPA-SAB, 2009b), concluded that the scientific literature consistently finds that a no-threshold log-linear model most adequately portrays the PM-mortality concentration-response relationship while recognizing potential uncertainty about the exact shape of the concentration-response function.

Consistent with this finding, we have conformed the previous threshold sensitivity analysis to the current state of the PM science by incorporating a "Lowest Measured Level" (LML) assessment, which is a method EPA has employed in several recent RIAs including the Cross-State Air Pollution Rule (U.S. EPA, 2011b). This information allows readers to determine the portion of population exposed to annual mean PM<sub>2.5</sub> levels at or above the LML of each

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<sup>5</sup> Additional updates since the Portland Cement RIA include a revised VSL and updated baseline incidence rates.

study; in general, our confidence in the estimated PM mortality decreases as we consider air quality levels further below the LML in major cohort studies that estimate PM-related mortality. While an LML assessment provides some insight into the level of uncertainty in the estimated PM mortality benefits, EPA does not view the LML as a threshold and continues to quantify PM-related mortality impacts using a full range of modeled air quality concentrations. It is important to emphasize that we have high confidence in PM<sub>2.5</sub>-related effects down to the lowest LML of the major cohort studies, which is 5.8 µg/m<sup>3</sup>. Just because we have greater confidence in the benefits above the LML, this does not mean that we have no confidence that benefits occur below the LML. For a summary of the scientific review statements regarding the lack of a threshold in the PM<sub>2.5</sub>-mortality relationship, see the Technical Support Document (TSD) entitled *Summary of Expert Opinions on the Existence of a Threshold in the Concentration-Response Function for PM<sub>2.5</sub>-related Mortality* (U.S. EPA, 2010b).

For this analysis, policy-specific air quality data is not available due to time or resource limitations. For these rules, we are unable to estimate the percentage of premature mortality associated with this specific rule's emission reductions at each PM<sub>2.5</sub> level. However, we believe that it is still important to characterize the distribution of exposure to baseline air quality levels. As a surrogate measure of mortality impacts, we provide the percentage of the population exposed at each PM<sub>2.5</sub> level using the source apportionment modeling used to calculate the benefit-per-ton estimates for this sector. It is important to note that baseline exposure is only one parameter in the health impact function, along with baseline incidence rates population, and change in air quality. In other words, the percentage of the population exposed to air pollution below the LML is not the same as the percentage of the population experiencing health impacts as a result of a specific emission reduction policy. The most important aspect, which we are unable to quantify for rules without rule-specific air quality modeling, is the shift in exposure associated with this specific rule. Therefore, caution is warranted when interpreting the LML assessment for this rule. The results of this analysis are provided in Section 7.3.

As is the nature of RIAs, the assumptions and methods used to estimate air quality benefits evolve over time to reflect the Agency's most current interpretation of the scientific and economic literature. For a period of time (2004-2008), the Office of Air and Radiation (OAR) valued mortality risk reductions using a value of statistical life (VSL) estimate derived from a limited analysis of some of the available studies. OAR arrived at a VSL using a range of \$1 million to \$10 million (2000\$) consistent with two meta-analyses of the wage-risk literature. The \$1 million value represented the lower end of the interquartile range from the Mrozek and Taylor (2002) meta-analysis of 33 studies. The \$10 million value represented the upper end of

the interquartile range from the Viscusi and Aldy (2003) meta-analysis of 43 studies. The mean estimate of \$5.5 million (2000\$)<sup>6</sup> was also consistent with the mean VSL of \$5.4 million estimated in the Kochi et al. (2006) meta-analysis. However, the Agency neither changed its official guidance on the use of VSL in rulemakings nor subjected the interim estimate to a scientific peer-review process through the Science Advisory Board (SAB) or other peer-review group.

During this time, the Agency continued work to update its guidance on valuing mortality risk reductions, including commissioning a report from meta-analytic experts to evaluate methodological questions raised by EPA and the SAB on combining estimates from the various data sources. In addition, the Agency consulted several times with the Science Advisory Board Environmental Economics Advisory Committee (SAB-EEAC) on the issue. With input from the meta-analytic experts, the SAB-EEAC advised the Agency to update its guidance using specific, appropriate meta-analytic techniques to combine estimates from unique data sources and different studies, including those using different methodologies (i.e., wage-risk and stated preference) (U.S. EPA-SAB, 2007).

Until updated guidance is available, the Agency determined that a single, peer-reviewed estimate applied consistently best reflects the SAB-EEAC advice it has received. Therefore, the Agency has decided to apply the VSL that was vetted and endorsed by the SAB in the Guidelines for Preparing Economic Analyses (U.S. EPA, 2000)<sup>7</sup> while the Agency continues its efforts to update its guidance on this issue. This approach calculates a mean value across VSL estimates derived from 26 labor market and contingent valuation studies published between 1974 and 1991. The mean VSL across these studies is \$6.3 million (2000\$).<sup>8</sup> The Agency is committed to using scientifically sound, appropriately reviewed evidence in valuing mortality risk reductions and has made significant progress in responding to the SAB-EEAC's specific recommendations.

In implementing these rules, emission controls may lead to reductions in ambient PM<sub>2.5</sub> below the National Ambient Air Quality Standards (NAAQS) for PM in some areas and assist other areas with attaining the PM NAAQS. Because the PM NAAQS RIAs also calculate PM

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<sup>6</sup> After adjusting the VSL for a different currency year (2010\$) and to account for income growth to 2015 of the \$5.5 million value, the VSL is \$8.0 million.

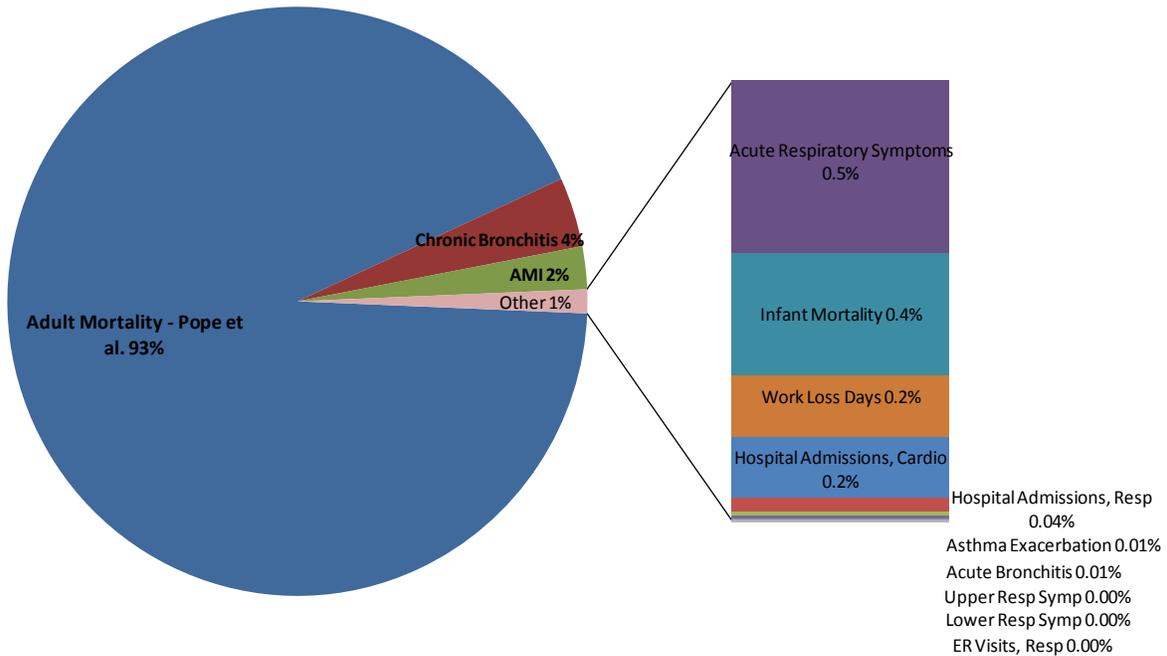
<sup>7</sup> In the revised Economic Guidelines (U.S. EPA, 2010c), EPA retained the VSL endorsed by the SAB with the understanding that further updates to the mortality risk valuation guidance would be forthcoming in the near future. Therefore, this report does not represent final agency policy.

<sup>8</sup> This value is \$4.8 million in 1990\$. In this analysis, we adjust the VSL to account for a different currency year (\$2010) and to account for income growth to 2015. After applying these adjustments to the \$6.3 million value, the VSL is \$9.2 million.

benefits, there are important differences worth noting in the design and analytical objectives of each RIA. The NAAQS RIAs illustrate the potential costs and benefits of attaining a new air quality standard nationwide based on an array of emission control strategies for different sources. In short, NAAQS RIAs hypothesize, but do not predict, the control strategies that States may choose to enact when implementing a NAAQS. The setting of a NAAQS does not directly result in costs or benefits, and as such, the NAAQS RIAs are merely illustrative and are not intended to be added to the costs and benefits of other regulations that result in specific costs of control and emission reductions. However, some costs and benefits estimated in this RIA account for the same air quality improvements as estimated in the illustrative PM<sub>2.5</sub> NAAQS RIA.

By contrast, the emission reductions for implementation rules are from a specific class of well-characterized sources. In general, EPA is more confident in the magnitude and location of the emission reductions for implementation rules rather than illustrative NAAQS analyses. Emission reductions achieved under these and other promulgated rules will ultimately be reflected in the baseline of future NAAQS analyses, which would reduce the incremental costs and benefits associated with attaining the NAAQS. EPA remains forward looking towards the next iteration of the 5-year review cycle for the NAAQS, and as a result does not issue updated RIAs for existing NAAQS that retroactively update the baseline for NAAQS implementation. For more information on the relationship between the NAAQS and rules such as analyzed here, please see Section 1.2.4 of the SO<sub>2</sub> NAAQS RIA (U.S. EPA, 2010a).

Figure 7.1 illustrates the relative breakdown of the monetized PM<sub>2.5</sub> health benefits.



**Figure 7-1: Breakdown of Monetized PM<sub>2.5</sub> Health Benefits using Mortality Function from Pope et al. (2002)\***

\*This pie chart breakdown is illustrative, using the results based on Pope et al. (2002) as an example. Using the Laden et al. (2006) function for premature mortality, the percentage of total monetized benefits due to adult mortality would be 97%. This chart shows the breakdown using a 3% discount rate, and the results would be similar if a 7% discount rate was used.

Table 7-2 provides a general summary of the monetized PM-related health benefits by precursor, including the emission reductions and benefit-per-ton estimates at discount rates of 3% and 7%.<sup>9</sup> Table 7-3 provides a summary of the reductions in health incidences as a result of the pollution reductions. In Table 7-4, we provide the benefits using our anchor points of Pope et al. and Laden et al. as well as the results from the expert elicitation on PM mortality. Figure 7-2 provides a visual representation of the range of PM<sub>2.5</sub>-related benefits estimates using

<sup>9</sup> To comply with Circular A-4, EPA provides monetized benefits using discount rates of 3% and 7% (OMB, 2003). These benefits are estimated for a specific analysis year (i.e., 2013), and most of the PM benefits occur within that year with two exceptions: acute myocardial infarctions (AMIs) and premature mortality. For AMIs, we assume 5 years of follow-up medical costs and lost wages. For premature mortality, we assume that there is a “cessation” lag between PM exposures and the total realization of changes in health effects. Although the structure of the lag is uncertain, EPA follows the advice of the SAB-HES to assume a segmented lag structure characterized by 30% of mortality reductions in the first year, 50% over years 2 to 5, and 20% over the years 6 to 20 after the reduction in PM<sub>2.5</sub> (U.S. EPA-SAB, 2004). Changes in the lag assumptions do not change the total number of estimated deaths but rather the timing of those deaths. Therefore, discounting only affects the AMI costs after the analysis year and the valuation of premature mortalities that occur after the analysis year. As such, the monetized benefits using a 7% discount rate are only approximately 10% less than the monetized benefits using a 3% discount rate.

concentration-response functions supplied by experts. Figure 7-3 shows a breakdown of monetized benefits by engine size.

The benefit-per-ton estimates shown in this RIA are different than the benefit-per-ton estimates cited in the 2010 final SI RICE RIA for two reasons. First, these estimates are based on updated air quality modeling, which results in slightly higher benefits per ton for other non-EGU point sources than the previous modeling. Second, these estimates have been inflated to 2010\$. Third, the new air quality modeling did not provide estimates associated with reducing VOCs. Since the reconsideration proposal, EPA has made several updates to the approach we use to estimate mortality and morbidity benefits in the PM NAAQS RIAs (U.S. EPA, 2012a,b) including updated epidemiology studies, health endpoints, and population data. Although we have not re-estimated the benefits for this rule to apply this new approach, these updates generally offset each other, and we anticipate that the rounded benefits estimated for this rule are unlikely to be different than those provided below.

**Table 7-2: General Summary of Monetized PM<sub>2.5</sub>-Related Health Co-Benefits Estimates for the SI RICE NESHAP Reconsideration (millions of 2010\$)\***

Pollutant	Emissions Reductions (tons)	Benefit per ton (Pope, 3%)	Benefit per ton (Laden, 3%)	Benefit per ton (Pope, 7%)	Benefit per ton (Laden, 7%)	Total Monetized Benefits (millions of 2010\$ at 3%)	Total Monetized Benefits (millions of 2010\$ at 7%)
<b>PM<sub>2.5</sub> Precursors</b>							
NO <sub>x</sub>	9,648	\$6,400	\$16,000	\$5,700	\$14,000	\$62 to \$150	\$55 to \$140
<b>Total</b>						<b>\$62 to \$150</b>	<b>\$55 to \$140</b>

\* All estimates are for the analysis year (2013), and are rounded to two significant figures so numbers may not sum across columns. It is important to note that the monetized benefits do not include reduced health effects from direct exposure to NO<sub>2</sub>, ozone exposure, ecosystem effects, or visibility impairment. All fine particles are assumed to have equivalent health effects, but the benefit per ton estimates vary because each ton of precursor reduced has a different propensity to form PM<sub>2.5</sub>. The monetized benefits incorporate the conversion from precursor emissions to ambient fine particles. Confidence intervals are unavailable for this analysis because of the benefit-per-ton methodology. Although we have not re-estimated the benefits for this rule to apply the updated methods in the PM NAAQS RIA (U.S. EPA, 2012b), these updates generally offset each other, and we anticipate that the rounded benefits estimated for this rule are unlikely to be different than those provided here.

**Table 7-3: Summary of Reductions in Health Incidences from PM<sub>2.5</sub>-Related Co-Benefits for the SI RICE NESHAP Reconsideration\***

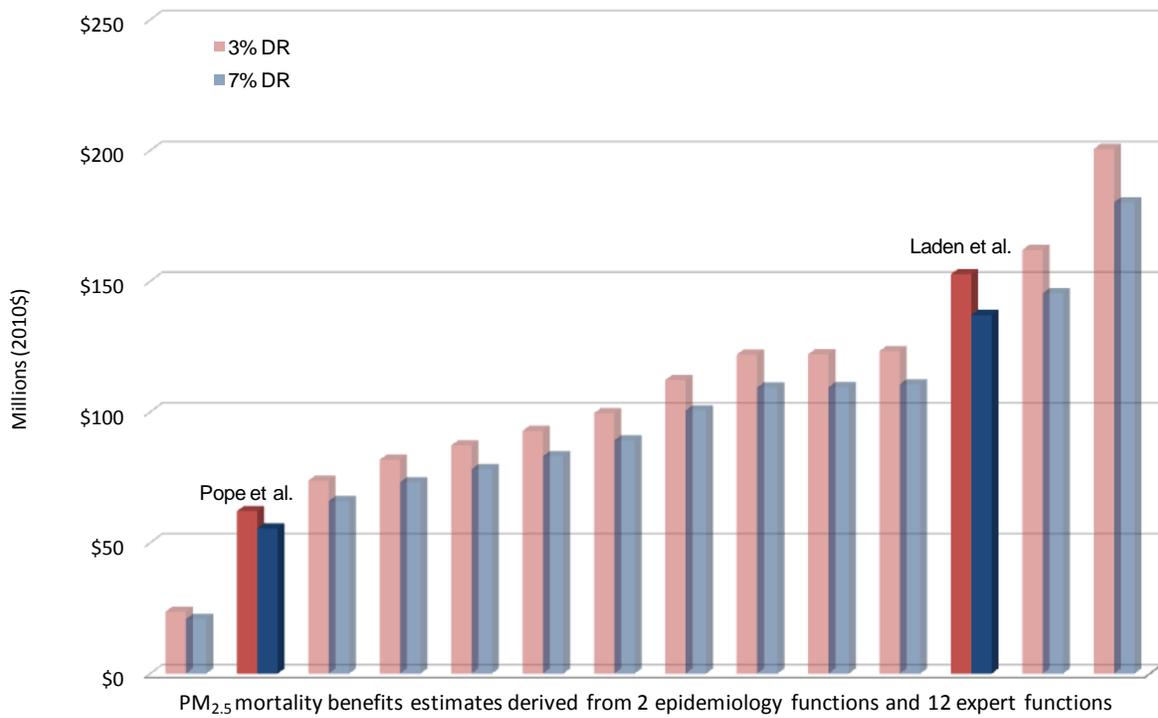
<b>Avoided Premature Mortality</b>	
Pope et al.	7
Laden et al.	18
<b>Avoided Morbidity</b>	
Chronic Bronchitis	5
Emergency Department Visits, Respiratory	5
Hospital Admissions, Respiratory	1
Hospital Admissions, Cardiovascular	3
Acute Bronchitis	11
Lower Respiratory	140
Upper Respiratory	110
Minor Restricted Activity Days	5,600
Work Loss Days	950
Asthma Exacerbation	230
Acute Myocardial Infarction	8

\* All estimates are for the analysis year (2013) and are rounded to whole numbers with two significant figures. All fine particles are assumed to have equivalent health effects because the scientific evidence is not yet sufficient to allow differentiation of effects estimates by particle type. Confidence intervals are unavailable for this analysis because of the benefit-per-ton methodology.

**Table 7-4: All PM<sub>2.5</sub> Co-Benefits Estimates for the SI RICE NESHAP Reconsideration at discount rates of 3% and 7% in 2013 (in millions of 2010\$)\***

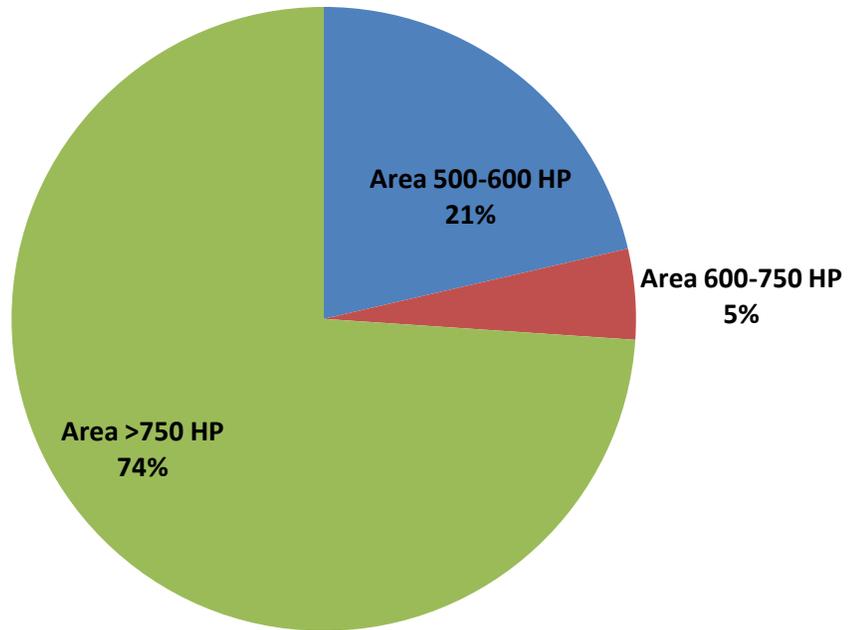
	3%	7%
<b>Benefit-per-ton Coefficients Derived from Epidemiology Literature</b>		
Pope et al.	\$62	\$55
Laden et al.	\$150	\$140
<b>Benefit-per-ton Coefficients Derived from Expert Elicitation</b>		
Expert A	\$160	\$150
Expert B	\$120	\$110
Expert C	\$120	\$110
Expert D	\$87	\$78
Expert E	\$200	\$180
Expert F	\$110	\$100
Expert G	\$74	\$66
Expert H	\$93	\$83
Expert I	\$120	\$110
Expert J	\$100	\$89
Expert K	\$24	\$21
Expert L	\$82	\$73

\*All estimates are rounded to two significant figures. The benefits estimates from the Expert Elicitation are provided as a reasonable characterization of the uncertainty in the mortality estimates associated with the concentration-response function. Confidence intervals are unavailable for this analysis because of the benefit-per-ton methodology



**Figure 7-2: Total Monetized PM<sub>2.5</sub> Co-Benefits of SI RICE NESHAP Reconsideration in 2013**

\*This graph shows the estimated benefits at discount rates of 3% and 7% using effect coefficients derived from the Pope et al. study and the Laden et al study, as well as 12 effect coefficients derived from EPA’s expert elicitation on PM mortality. The results shown are not the direct results from the studies or expert elicitation; rather, the estimates are based in part on the concentration-response function provided in those studies.



**Figure 7-3: Breakdown of Total Monetized PM<sub>2.5</sub> Co-Benefits of SI RICE NESHAP Reconsideration by Engine Size**

## 7.2 Unquantified Benefits

The monetized benefits estimated in this RIA only reflect a subset of benefits attributable to the health effect reductions associated with ambient fine particles. Data, time, and resource limitations prevented EPA from quantifying the impacts to, or monetizing the benefits from several important benefit categories, including benefits from reducing exposure to HAP, CO, NO<sub>2</sub>, and ozone exposure, as well as ecosystem effects, and visibility impairment. This does not imply that there are no benefits associated with these emission reductions. These benefits are described qualitatively in this section.

### 7.2.1 HAP Benefits

Even though emissions of air toxics from all sources in the U.S. declined by approximately 42% since 1990, the 2005 National-Scale Air Toxics Assessment (NATA) predicts that most Americans are exposed to ambient concentrations of air toxics at levels that have the potential to cause adverse health effects (U.S. EPA, 2011c).<sup>10</sup> The levels of air toxics to which people are exposed vary depending on where people live and work and the kinds of activities in which they engage. In order to identify and prioritize air toxics, emission source types and locations that are

<sup>10</sup>The 2005 NATA is available on the Internet at <http://www.epa.gov/ttn/atw/nata2005/>.

of greatest potential concern, U.S. EPA conducts the NATA.<sup>11</sup> The most recent NATA was conducted for calendar year 2005 and was released in March 2011. NATA includes four steps:

- 1) Compiling a national emissions inventory of air toxics emissions from outdoor sources
- 2) Estimating ambient and exposure concentrations of air toxics across the United States
- 3) Estimating population exposures across the United States
- 4) Characterizing potential public health risk due to inhalation of air toxics including both cancer and noncancer effects

Based on the 2005 NATA, EPA estimates that about 5% of census tracts nationwide have increased cancer risks greater than 100 in a million. The average national cancer risk is about 50 in a million. Nationwide, the key pollutants that contribute most to the overall cancer risks are formaldehyde and benzene.<sup>12</sup> Secondary formation (e.g., formaldehyde forming from other emitted pollutants) was the largest contributor to cancer risks, while stationary, mobile and background sources contribute almost equal portions of the remaining cancer risk.

Noncancer health effects can result from chronic,<sup>13</sup> subchronic,<sup>14</sup> or acute<sup>15</sup> inhalation exposures to air toxics, and include neurological, cardiovascular, liver, kidney, and respiratory effects as well as effects on the immune and reproductive systems. According to the 2005 NATA, about three-fourths of the U.S. population was exposed to an average chronic concentration of air toxics that has the potential for adverse noncancer respiratory health effects. Results from the 2005 NATA indicate that acrolein is the primary driver for noncancer respiratory risk.

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<sup>11</sup> The NATA modeling framework has a number of limitations that prevent its use as the sole basis for setting regulatory standards. These limitations and uncertainties are discussed on the 2005 NATA website. Even so, this modeling framework is very useful in identifying air toxic pollutants and sources of greatest concern, setting regulatory priorities, and informing the decision making process. U.S. EPA.(2011). 2005 National-Scale Air Toxics Assessment. <http://www.epa.gov/ttn/atw/nata2005/>

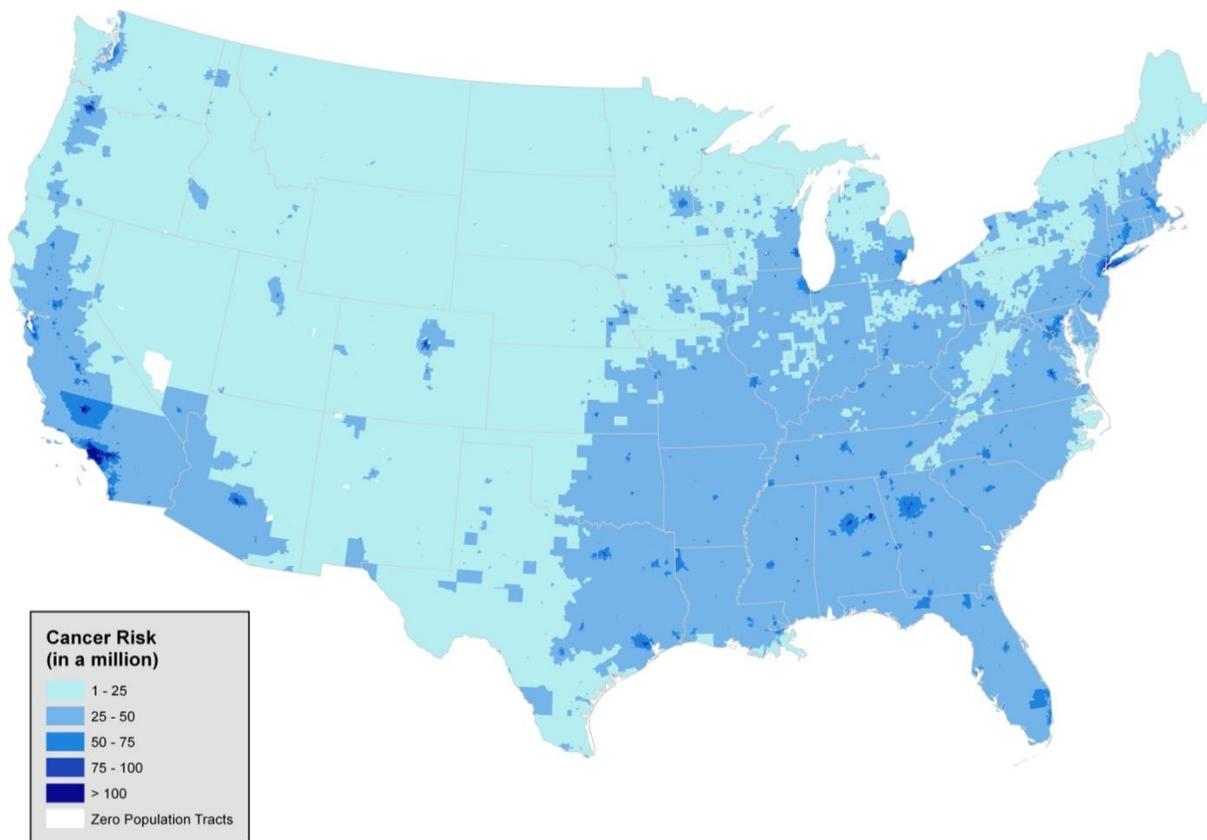
<sup>12</sup> Details about the overall confidence of certainty ranking of the individual pieces of NATA assessments including both quantitative (e.g., model-to-monitor ratios) and qualitative (e.g., quality of data, review of emission inventories) judgments can be found at <http://www.epa.gov/ttn/atw/nata/roy/page16.html>.

<sup>13</sup> Chronic exposure is defined in the glossary of the Integrated Risk Information (IRIS) database (<http://www.epa.gov/iris>) as repeated exposure by the oral, dermal, or inhalation route for more than approximately 10% of the life span in humans (more than approximately 90 days to 2 years in typically used laboratory animal species).

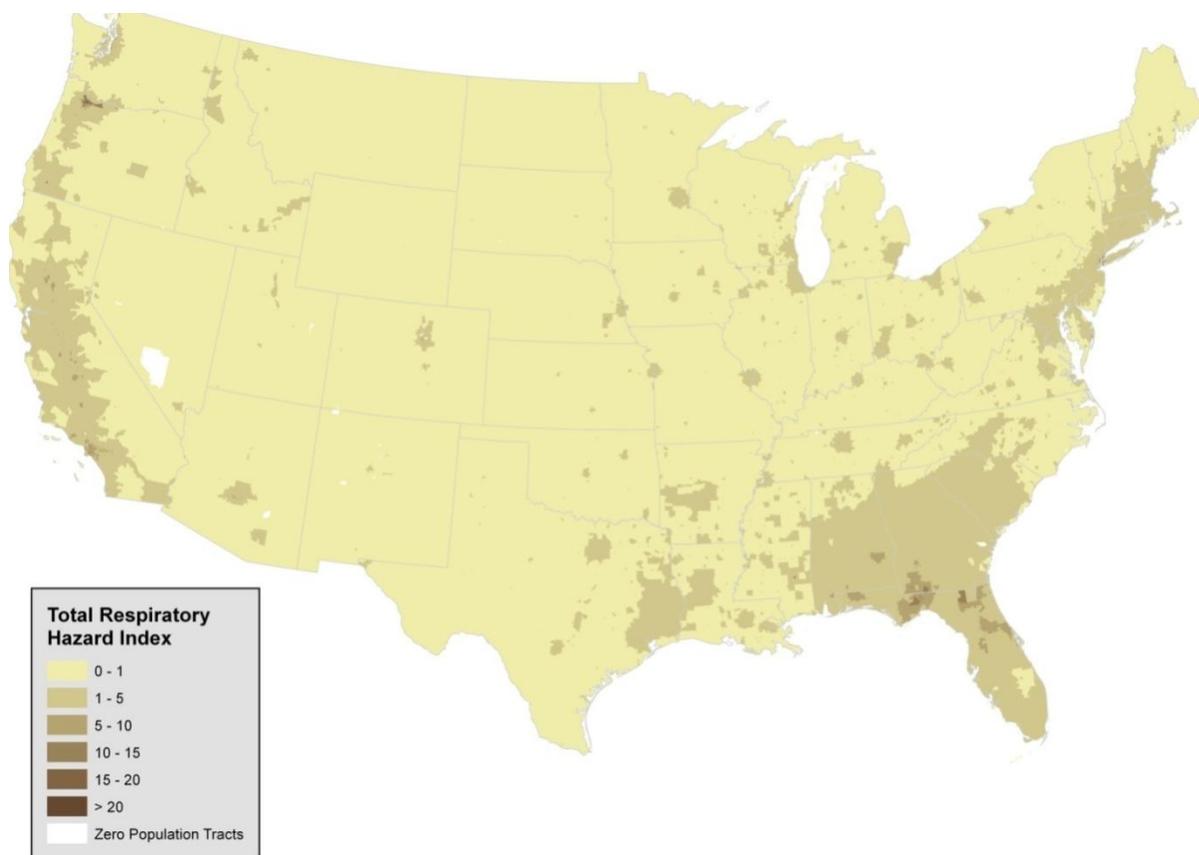
<sup>14</sup> Defined in the IRIS database as repeated exposure by the oral, dermal, or inhalation route for more than 30 days, up to approximately 10% of the life span in humans (more than 30 days up to approximately 90 days in typically used laboratory animal species).

<sup>15</sup> Defined in the IRIS database as exposure by the oral, dermal, or inhalation route for 24 hours or less.

Figure 7-4 and Figure depict the estimated census tract-level carcinogenic risk and noncancer respiratory hazard from the assessment. It is important to note that large reductions in HAP emissions may not necessarily translate into significant reductions in health risk because toxicity varies by pollutant, and exposures may or may not exceed levels of concern. For example, acetaldehyde mass emissions are more than double acrolein emissions on a national basis, according to EPA's 2005 National Emissions Inventory (NEI). However, the Integrated Risk Information System (IRIS) reference concentration (RfC) for acrolein is considerably lower than that for acetaldehyde, suggesting that acrolein could be potentially more toxic than acetaldehyde. Thus, it is important to account for the toxicity and exposure, as well as the mass of the targeted emissions.



**Figure 7-4 Estimated Chronic Census Tract Carcinogenic Risk from HAP exposure from outdoor sources (2005 NATA)**



**Figure 7-5 Estimated Chronic Census Tract Noncancer (Respiratory) Risk from HAP exposure from outdoor sources (2005 NATA)**

Due to methodology and time limitations under the court-ordered schedule, we were unable to estimate the benefits associated with the hazardous air pollutants that would be reduced as a result of these rules. In a few previous analyses of the benefits of reductions in HAP, EPA has quantified the benefits of potential reductions in the incidences of cancer and non-cancer risk (e.g., U.S. EPA, 1995). In those analyses, EPA relied on unit risk factors (URF) developed through risk assessment procedures.<sup>16</sup> These URFs are designed to be conservative, and as such, are more likely to represent the high end of the distribution of risk rather than a best or most likely estimate of risk. As the purpose of a benefit analysis is to describe the benefits most likely to occur from a reduction in pollution, use of high-end, conservative risk estimates would overestimate the benefits of the regulation. While we used high-end risk estimates in past analyses, advice from the EPA’s Science Advisory Board (SAB) recommended that we avoid

<sup>16</sup>The unit risk factor is a quantitative estimate of the carcinogenic potency of a pollutant, often expressed as the probability of contracting cancer from a 70-year lifetime continuous exposure to a concentration of one  $\mu\text{g}/\text{m}^3$  of a pollutant.

using high-end estimates in benefit analyses (U.S. EPA-SAB, 2002). Since this time, EPA has continued to develop better methods for analyzing the benefits of reductions in HAP.

As part of the second prospective analysis of the benefits and costs of the Clean Air Act (U.S. EPA, 2011a), EPA conducted a case study analysis of the health effects associated with reducing exposure to benzene in Houston from implementation of the Clean Air Act (IEc, 2009). While reviewing the draft report, EPA's Advisory Council on Clean Air Compliance Analysis concluded that "the challenges for assessing progress in health improvement as a result of reductions in emissions of hazardous air pollutants (HAPs) are daunting...due to a lack of exposure-response functions, uncertainties in emissions inventories and background levels, the difficulty of extrapolating risk estimates to low doses and the challenges of tracking health progress for diseases, such as cancer, that have long latency periods" (U.S. EPA-SAB, 2008).

In 2009, EPA convened a workshop to address the inherent complexities, limitations, and uncertainties in current methods to quantify the benefits of reducing HAP. Recommendations from this workshop included identifying research priorities, focusing on susceptible and vulnerable populations, and improving dose-response relationships (Gwinn et al., 2011).

In summary, monetization of the benefits of reductions in cancer incidences requires several important inputs, including central estimates of cancer risks, estimates of exposure to carcinogenic HAP, and estimates of the value of an avoided case of cancer (fatal and non-fatal). Due to methodology and time limitations under the court-ordered schedule, we did not attempt to monetize the health benefits of reductions in HAP in this analysis. Instead, we provide a qualitative analysis of the health effects associated with the HAP anticipated to be reduced by these rules. EPA remains committed to improving methods for estimating HAP benefits by continuing to explore additional concepts of benefits, including changes in the distribution of risk.

Although numerous HAPs may be emitted from SI RICE, a few HAPs account for over 90% of the total mass of HAPs emissions emitted. These HAPs are formaldehyde (72%), acetaldehyde (8%), acrolein (7%), methanol (3%), and benzene (3%). Although we do not have estimates of emission reductions for each HAP, this rule is anticipated to reduce 1,800 tons of HAPs each year. Below we describe the health effects associated with the top 5 HAPs by mass emitted from SI RICE.

## *Formaldehyde*

Since 1987, EPA has classified formaldehyde as a probable human carcinogen based on evidence in humans and in rats, mice, hamsters, and monkeys.<sup>17</sup> Substantial additional research since that time informs current scientific understanding of the health effects associated with exposure to formaldehyde. These include recently published research conducted by the National Cancer Institute (NCI) which found an increased risk of nasopharyngeal cancer and lymphohematopoietic malignancies such as leukemia among workers exposed to formaldehyde.<sup>18,19</sup> In an analysis of the lymphohematopoietic cancer mortality from an extended follow-up of these workers, NCI confirmed an association between lymphohematopoietic cancer risk and peak formaldehyde exposures.<sup>20</sup> A recent NIOSH study of garment workers also found increased risk of death due to leukemia among workers exposed to formaldehyde.<sup>21</sup> Extended follow-up of a cohort of British chemical workers did not find evidence of an increase in nasopharyngeal or lymphohematopoietic cancers, but a continuing statistically significant excess in lung cancers was reported.<sup>22</sup>

In the past 15 years there has been substantial research on the inhalation dosimetry for formaldehyde in rodents and primates by the Chemical Industry Institute of Toxicology (CIIT, now renamed the Hamner Institutes for Health Sciences), with a focus on use of rodent data for refinement of the quantitative cancer dose-response assessment.<sup>23,24,25</sup> CIIT's risk assessment of

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<sup>17</sup> U.S. EPA. 1987. Assessment of Health Risks to Garment Workers and Certain Home Residents from Exposure to Formaldehyde, Office of Pesticides and Toxic Substances, April 1987. Docket EPA-HQ-OAR-2010-0162.

<sup>18</sup> Hauptmann, M.; Lubin, J. H.; Stewart, P. A.; Hayes, R. B.; Blair, A. 2003. Mortality from lymphohematopoietic malignancies among workers in formaldehyde industries. *Journal of the National Cancer Institute* 95: 1615-1623. Docket EPA-HQ-OAR-2010-0162.

<sup>19</sup> Hauptmann, M.; Lubin, J. H.; Stewart, P. A.; Hayes, R. B.; Blair, A. 2004. Mortality from solid cancers among workers in formaldehyde industries. *American Journal of Epidemiology* 159: 1117-1130. Docket EPA-HQ-OAR-2010-0162.

<sup>20</sup> Beane Freeman, L. E.; Blair, A.; Lubin, J. H.; Stewart, P. A.; Hayes, R. B.; Hoover, R. N.; Hauptmann, M. 2009. Mortality from lymphohematopoietic malignancies among workers in formaldehyde industries: The National Cancer Institute cohort. *J. National Cancer Inst.* 101: 751-761. Docket EPA-HQ-OAR-2010-0162.

<sup>21</sup> Pinkerton, L. E. 2004. Mortality among a cohort of garment workers exposed to formaldehyde: an update. *Occup. Environ. Med.* 61: 193-200. Docket EPA-HQ-OAR-2010-0162.

<sup>22</sup> Coggon, D, EC Harris, J Poole, KT Palmer. 2003. Extended follow-up of a cohort of British chemical workers exposed to formaldehyde. *J National Cancer Inst.* 95:1608-1615. Docket EPA-HQ-OAR-2010-0162.

<sup>23</sup> Conolly, RB, JS Kimbell, D Janszen, PM Schlosser, D Kalisak, J Preston, and FJ Miller. 2003. Biologically motivated computational modeling of formaldehyde carcinogenicity in the F344 rat. *Tox Sci* 75: 432-447. Docket EPA-HQ-OAR-2010-0162.

<sup>24</sup> Conolly, RB, JS Kimbell, D Janszen, PM Schlosser, D Kalisak, J Preston, and FJ Miller. 2004. Human respiratory tract cancer risks of inhaled formaldehyde: Dose-response predictions derived from biologically-motivated computational modeling of a combined rodent and human dataset. *Tox Sci* 82: 279-296. Docket EPA-HQ-OAR-2010-0162.

formaldehyde incorporated mechanistic and dosimetric information on formaldehyde. These data were modeled using a biologically-motivated two-stage clonal growth model for cancer and also a point of departure based on a Benchmark Dose approach. However, it should be noted that recent research published by EPA indicates that when two-stage modeling assumptions are varied, resulting dose-response estimates can vary by several orders of magnitude.<sup>26,27,28,29</sup> These findings are not supportive of interpreting the CIIT model results as providing a conservative (health protective) estimate of human risk.<sup>30</sup> EPA research also examined the contribution of the two-stage modeling for formaldehyde towards characterizing the relative weights of key events in the mode-of-action of a carcinogen. For example, the model-based inference in the published CIIT study that formaldehyde's direct mutagenic action is not relevant to the compound's tumorigenicity was found not to hold under variations of modeling assumptions.<sup>31</sup>

Based on the developments of the last decade, in 2004, the working group of the IARC concluded that formaldehyde is carcinogenic to humans (Group 1), on the basis of sufficient evidence in humans and sufficient evidence in experimental animals - a higher classification than previous IARC evaluations. After reviewing the currently available epidemiological evidence, the IARC (2006) characterized the human evidence for formaldehyde carcinogenicity as "sufficient," based upon the data on nasopharyngeal cancers; the epidemiologic evidence on leukemia was characterized as "strong."<sup>32</sup>

Formaldehyde exposure also causes a range of noncancer health effects, including irritation of the eyes (burning and watering of the eyes), nose and throat. Effects from repeated

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<sup>25</sup> Chemical Industry Institute of Toxicology (CIIT).1999. Formaldehyde: Hazard characterization and dose-response assessment for carcinogenicity by the route of inhalation. CIIT, September 28, 1999. Research Triangle Park, NC. Docket EPA-HQ-OAR-2010-0162.

<sup>26</sup> U.S. EPA. Analysis of the Sensitivity and Uncertainty in 2-Stage Clonal Growth Models for Formaldehyde with Relevance to Other Biologically-Based Dose Response (BBDR) Models. U.S. Environmental Protection Agency, Washington, D.C., EPA/600/R-08/103, 2008. Docket EPA-HQ-OAR-2010-0162.

<sup>27</sup> Subramaniam, R; Chen, C; Crump, K; .et .al. (2008) Uncertainties in biologically-based modeling of formaldehyde-induced cancer risk: identification of key issues. Risk Anal 28(4):907-923. Docket EPA-HQ-OAR-2010-0162.

<sup>28</sup> Subramaniam RP; Crump KS; Van Landingham C; et. al. (2007) Uncertainties in the CIIT model for formaldehyde-induced carcinogenicity in the rat: A limited sensitivity analysis-I. Risk Anal, 27: 1237-1254. Docket EPA-HQ-OAR-2010-0162.

<sup>29</sup> Crump, K; Chen, C; Fox, J; .et .al. (2008) Sensitivity analysis of biologically motivated model for formaldehyde-induced respiratory cancer in humans. Ann Occup Hyg 52:481-495. Docket EPA-HQ-OAR-2010-0162.

<sup>30</sup> Crump, K; Chen, C; Fox, J; .et .al. (2008) Sensitivity analysis of biologically motivated model for formaldehyde-induced respiratory cancer in humans. Ann Occup Hyg 52:481-495. Docket EPA-HQ-OAR-2010-0162.

<sup>31</sup> Subramaniam RP; Crump KS; Van Landingham C; et. al. (2007) Uncertainties in the CIIT model for formaldehyde-induced carcinogenicity in the rat: A limited sensitivity analysis-I. Risk Anal, 27: 1237-1254. Docket EPA-HQ-OAR-2010-0162.

<sup>32</sup> International Agency for Research on Cancer (2006) Formaldehyde, 2-Butoxyethanol and 1-tert-Butoxypropan-2-ol. Monographs Volume 88. World Health Organization, Lyon, France. Docket EPA-HQ-OAR-2010-0162.

exposure in humans include respiratory tract irritation, chronic bronchitis and nasal epithelial lesions such as metaplasia and loss of cilia. Animal studies suggest that formaldehyde may also cause airway inflammation – including eosinophil infiltration into the airways. There are several studies that suggest that formaldehyde may increase the risk of asthma – particularly in the young.<sup>33,34</sup>

The above-mentioned rodent and human studies, as well as mechanistic information and their analyses, were evaluated in EPA's recent Draft Toxicological Review of Formaldehyde – Inhalation Assessment through the Integrated Risk Information System (IRIS) program. This draft IRIS assessment was released in June 2010 for public review and comment and external peer review by the National Research Council (NRC). The NRC released their review report in April 2011 ([http://www.nap.edu/catalog.php?record\\_id=13142](http://www.nap.edu/catalog.php?record_id=13142)). The EPA is currently revising the draft assessment in response to this review.

### *Acetaldehyde*

Acetaldehyde is classified in EPA's IRIS database as a probable human carcinogen, based on nasal tumors in rats, and is considered toxic by the inhalation, oral, and intravenous routes.<sup>35</sup> Acetaldehyde is reasonably anticipated to be a human carcinogen by the U.S. Department of Health and Human Services (DHHS) in the 11<sup>th</sup> Report on Carcinogens and is classified as possibly carcinogenic to humans (Group 2B) by the IARC.<sup>36,37</sup> The primary noncancer effects of exposure to acetaldehyde vapors include irritation of the eyes, skin, and respiratory tract.<sup>38</sup>

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<sup>33</sup> Agency for Toxic Substances and Disease Registry (ATSDR). 1999. Toxicological profile for Formaldehyde. Atlanta, GA: U.S. Department of Health and Human Services, Public Health Service. <http://www.atsdr.cdc.gov/toxprofiles/tp111.html>. Docket EPA-HQ-OAR-2010-0162.

<sup>34</sup> WHO (2002) Concise International Chemical Assessment Document 40: Formaldehyde. Published under the joint sponsorship of the United Nations Environment Programme, the International Labour Organization, and the World Health Organization, and produced within the framework of the Inter-Organization Programme for the Sound Management of Chemicals. Geneva. Docket EPA-HQ-OAR-2010-0162.

<sup>35</sup> U.S. Environmental Protection Agency (U.S. EPA). 1991. Integrated Risk Information System File of Acetaldehyde. Research and Development, National Center for Environmental Assessment, Washington, DC. This material is available electronically at <http://www.epa.gov/iris/subst/0290.htm>.

<sup>36</sup> U.S. Department of Health and Human Services National Toxicology Program 11th Report on Carcinogens available at: <http://ntp.niehs.nih.gov/go/16183>.

<sup>37</sup> International Agency for Research on Cancer (IARC). 1999. Re-evaluation of some organic chemicals, hydrazine, and hydrogen peroxide. IARC Monographs on the Evaluation of Carcinogenic Risk of Chemical to Humans, Vol 71. Lyon, France.

<sup>38</sup> U.S. Environmental Protection Agency (U.S. EPA). 1991. Integrated Risk Information System File of Acetaldehyde. Research and Development, National Center for Environmental Assessment, Washington, DC. This material is available electronically at <http://www.epa.gov/iris/subst/0290.htm>.

## *Acrolein*

EPA determined in 2003 that the human carcinogenic potential of acrolein could not be determined because the available data were inadequate. No information was available on the carcinogenic effects of acrolein in humans and the animal data provided inadequate evidence of carcinogenicity.<sup>39</sup> The IARC determined in 1995 that acrolein was not classifiable as to its carcinogenicity in humans.<sup>40</sup>

Acrolein is extremely acrid and irritating to humans when inhaled, with acute exposure resulting in upper respiratory tract irritation, mucus hypersecretion and congestion. The intense irritancy of this carbonyl has been demonstrated during controlled tests in human subjects, who suffer intolerable eye and nasal mucosal sensory reactions within minutes of exposure.<sup>41</sup> These data and additional studies regarding acute effects of human exposure to acrolein are summarized in EPA's 2003 IRIS Human Health Assessment for acrolein.<sup>42</sup> Evidence available from studies in humans indicate that levels as low as 0.09 ppm (0.21 mg/m<sup>3</sup>) for five minutes may elicit subjective complaints of eye irritation with increasing concentrations leading to more extensive eye, nose and respiratory symptoms.<sup>43</sup> Lesions to the lungs and upper respiratory tract of rats, rabbits, and hamsters have been observed after subchronic exposure to acrolein.<sup>44</sup> Acute exposure effects in animal studies report bronchial hyper-responsiveness.<sup>45</sup> In a recent study, the acute respiratory irritant effects of exposure to 1.1 ppm acrolein were more pronounced in mice with allergic airway disease by comparison to non-diseased mice which also showed decreases in

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<sup>39</sup> U.S. Environmental Protection Agency (U.S. EPA). 2003. Integrated Risk Information System File of Acrolein. Research and Development, National Center for Environmental Assessment, Washington, DC. This material is available at <http://www.epa.gov/iris/toxreviews/0364tr.pdf>.

<sup>40</sup> International Agency for Research on Cancer (IARC). 1995. Monographs on the evaluation of carcinogenic risk of chemicals to humans, Volume 63, Dry cleaning, some chlorinated solvents and other industrial chemicals, World Health Organization, Lyon, France.

<sup>41</sup> U.S. Environmental Protection Agency (U.S. EPA). 2003. Integrated Risk Information System File of Acrolein. EPA/635/R-03/003. p. 10. Research and Development, National Center for Environmental Assessment, Washington, DC. This material is available at <http://www.epa.gov/iris/toxreviews/0364tr.pdf>.

<sup>42</sup> U.S. Environmental Protection Agency (U.S. EPA). 2003. Integrated Risk Information System File of Acrolein. 2003. Research and Development, National Center for Environmental Assessment, Washington, DC. EPA/635/R-03/003. This material is available at <http://www.epa.gov/iris/toxreviews/0364tr.pdf>.

<sup>43</sup> U.S. Environmental Protection Agency (U.S. EPA). 2003. Integrated Risk Information System File of Acrolein. Research and Development, National Center for Environmental Assessment, Washington, DC. EPA/635/R-03/003. p. 11. This material is available at <http://www.epa.gov/iris/toxreviews/0364tr.pdf>.

<sup>44</sup> U.S. Environmental Protection Agency (U.S. EPA). 2003. Integrated Risk Information System File of Acrolein. Research and Development, National Center for Environmental Assessment, Washington, DC. EPA/635/R-03/003. This material is available at <http://www.epa.gov/iris/toxreviews/0364tr.pdf>.

<sup>45</sup> U.S. Environmental Protection Agency (U.S. EPA). 2003. Integrated Risk Information System File of Acrolein. Research and Development, National Center for Environmental Assessment, Washington, DC. EPA/635/R-03/003. This material is available at <http://www.epa.gov/iris/toxreviews/0364tr.pdf>.

respiratory rate.<sup>46</sup> Based on these animal data and demonstration of similar effects in humans (i.e., reduction in respiratory rate), individuals with compromised respiratory function (e.g., emphysema, asthma) are expected to be at increased risk of developing adverse responses to strong respiratory irritants such as acrolein.

### *Benzene*

The EPA's IRIS database lists benzene as a known human carcinogen (causing leukemia) by all routes of exposure, and concludes that exposure is associated with additional health effects, including genetic changes in both humans and animals and increased proliferation of bone marrow cells in mice.<sup>47,48,49</sup> EPA states in its IRIS database that data indicate a causal relationship between benzene exposure and acute lymphocytic leukemia and suggest a relationship between benzene exposure and chronic non-lymphocytic leukemia and chronic lymphocytic leukemia. The IARC has determined that benzene is a human carcinogen and the DHHS has characterized benzene as a known human carcinogen.<sup>50,51</sup> A number of adverse noncancer health effects including blood disorders, such as preleukemia and aplastic anemia, have also been associated with long-term exposure to benzene.<sup>52,53</sup>

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<sup>46</sup> Morris JB, Symanowicz PT, Olsen JE, et al. 2003. Immediate sensory nerve-mediated respiratory responses to irritants in healthy and allergic airway-diseased mice. *J Appl Physiol* 94(4):1563-1571.

<sup>47</sup> U.S. Environmental Protection Agency (U.S. EPA). 2000. Integrated Risk Information System File for Benzene. Research and Development, National Center for Environmental Assessment, Washington, DC. This material is available electronically at: <http://www.epa.gov/iris/subst/0276.htm>.

<sup>48</sup> International Agency for Research on Cancer, IARC monographs on the evaluation of carcinogenic risk of chemicals to humans, Volume 29, Some industrial chemicals and dyestuffs, International Agency for Research on Cancer, World Health Organization, Lyon, France, p. 345-389, 1982.

<sup>49</sup> Irons, R.D.; Stillman, W.S.; Colagiovanni, D.B.; Henry, V.A. (1992) Synergistic action of the benzene metabolite hydroquinone on myelopoietic stimulating activity of granulocyte/macrophage colony-stimulating factor in vitro. *Proc. Natl. Acad. Sci.* 89:3691-3695.

<sup>50</sup> International Agency for Research on Cancer (IARC). 1987. Monographs on the evaluation of carcinogenic risk of chemicals to humans, Volume 29, Supplement 7, Some industrial chemicals and dyestuffs, World Health Organization, Lyon, France.

<sup>51</sup> U.S. Department of Health and Human Services National Toxicology Program 11th Report on Carcinogens available at: <http://ntp.niehs.nih.gov/go/16183>.

<sup>52</sup> Aksoy, M. (1989). Hematotoxicity and carcinogenicity of benzene. *Environ. Health Perspect.* 82: 193-197.

<sup>53</sup> Goldstein, B.D. (1988). Benzene toxicity. *Occupational medicine. State of the Art Reviews.* 3: 541-554.

## *Methanol*

Exposure of humans to methanol by inhalation or ingestion may result in central nervous system depression and degenerative changes in the brain and visual systems. After inhaled or ingested, methanol is converted to formate, a highly toxic metabolite that within the course of a few hours can cause narcosis, metabolic acidosis, headaches, severe abdominal and leg pain and visual degeneration that can lead to blindness.<sup>54</sup>

Methanol has been demonstrated to cause developmental toxicity in rats and mice, and reproductive and developmental toxicity in monkeys. A number of studies have reported adverse effects in the offspring of rats and mice exposed to methanol by inhalation including reduced weight of brain pituitary gland, thymus, thyroid, reduced overall fetal body weight and increased incidence of extra ribs and cleft palate.<sup>55,56,57</sup> Methanol inhalation studies using rhesus monkeys have reported a decrease in the length of pregnancy, and limited evidence of impaired learning ability in offspring.<sup>58,59,60,61</sup> EPA has not classified methanol with respect to its carcinogenicity.

## *Other Air Toxics*

In addition to the compounds described above, other toxic compounds might be affected by these rules. Information regarding the health effects of those compounds can be found in EPA's IRIS database.<sup>62</sup>

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<sup>54</sup> Rowe, VK and McCollister, SB. 1981. Alcohols. In: Patty's Industrial Hygiene and Toxicology, 3rd ed. Vol. 2C, GD Clayton, FE Clayton, Eds. John Wiley & Sons, New York, pp. 4528-4541.

<sup>55</sup> New Energy Development Organization (NEDO). 1987. Toxicological research of methanol as a fuel for power station: summary report on tests with monkeys, rats and mice. Tokyo, Japan.

<sup>56</sup> Nelson, BK; Brightwell, WS; MacKenzie, DR; Khan, A; Burg, JR; Weigel, WW; Goad, PT. 1985. Teratological assessment of methanol and ethanol at high inhalation levels in rats. *Toxicol Sci*, 5: 727-736.

<sup>57</sup> Rogers, JM; Barbee, BD; Rehnberg, BF. 1993. Critical periods of sensitivity for the developmental toxicity of inhaled methanol. *Teratology*, 47: 395.

<sup>58</sup> Burbacher, T; Grant, K; Shen, D; Damian, D; Ellis, S; Liberato, N. 1999. Reproductive and offspring developmental effects following maternal inhalation exposure to methanol in nonhuman primates Part II: developmental effects in infants exposed prenatally to methanol. Health Effects Institute. Cambridge, MA.

<sup>59</sup> Burbacher, T; Shen, D; Grant, K; Sheppard, L; Damian, D; Ellis, S; Liberato, N. 1999. Reproductive and offspring developmental effects following maternal inhalation exposure to methanol in nonhuman primates Part I: methanol disposition and reproductive toxicity in adult females. Health Effects Institute. Cambridge, MA.

<sup>60</sup> Burbacher, TM; Grant, KS; Shen, DD; Sheppard, L; Damian, D; Ellis, S; Liberato, N. 2004. Chronic maternal methanol inhalation in nonhuman primates (*Macaca fascicularis*): reproductive performance and birth outcome. *Neurotoxicol Teratol*, 26: 639-650.

<sup>61</sup> Burbacher, TM; Shen, DD; Lalovic, B; Grant, KS; Sheppard, L; Damian, D; Ellis, S; Liberato, N. 2004. Chronic maternal methanol inhalation in nonhuman primates (*Macaca fascicularis*): exposure and toxicokinetics prior to and during pregnancy. *Neurotoxicol Teratol*, 26: 201-221.

<sup>62</sup> U.S. EPA Integrated Risk Information System (IRIS) database is available at: [www.epa.gov/iris](http://www.epa.gov/iris)

### 7.2.2 Additional NO<sub>2</sub> Co-Benefits

In addition to being a precursor to PM<sub>2.5</sub>, NO<sub>x</sub> emissions are also associated with a variety of respiratory health effects. Unfortunately, we were unable to estimate the health benefits associated with reduced NO<sub>2</sub> or ozone exposure in this analysis because we do not have air quality modeling data available. Therefore, this analysis only quantifies and monetizes the PM<sub>2.5</sub> benefits associated with the reductions in NO<sub>2</sub> emissions.

Following an extensive evaluation of health evidence from epidemiologic and laboratory studies, the Integrated Science Assessment (ISA) for Nitrogen Dioxide concluded that there is a likely causal relationship between respiratory health effects and short-term exposure to NO<sub>2</sub> (U.S. EPA, 2008c). Persons with preexisting respiratory disease, children, and older adults may be more susceptible to the effects of NO<sub>2</sub> exposure. Based on our review of this information, we identified four short-term morbidity endpoints that the NO<sub>2</sub> ISA identified as a “likely causal relationship”: asthma exacerbation, respiratory-related emergency department visits, and respiratory-related hospitalizations. The differing evidence and associated strength of the evidence for these different effects is described in detail in the NO<sub>2</sub> ISA. The NO<sub>2</sub> ISA also concluded that the relationship between short-term NO<sub>2</sub> exposure and premature mortality was “suggestive but not sufficient to infer a causal relationship” because it is difficult to attribute the mortality risk effects to NO<sub>2</sub> alone. Although the NO<sub>2</sub> ISA stated that studies consistently reported a relationship between NO<sub>2</sub> exposure and mortality, the effect was generally smaller than that for other pollutants such as PM.

NO<sub>x</sub> emissions also contribute to a variety of adverse welfare effects, including acidic deposition, visibility impairment, nutrient enrichment. Deposition of nitrogen causes acidification, which can cause a loss of biodiversity of fishes, zooplankton, and macro invertebrates in aquatic ecosystems, as well as a decline in sensitive tree species, such as red spruce (*Picea rubens*) and sugar maple (*Acer saccharum*) in terrestrial ecosystems. In the northeastern United States, the surface waters affected by acidification are a source of food for some recreational and subsistence fishermen and for other consumers and support several cultural services, including aesthetic and educational services and recreational fishing. Biological effects of acidification in terrestrial ecosystems are generally linked to aluminum toxicity, which can cause reduced root growth, which restricts the ability of the plant to take up water and nutrients. These direct effects can, in turn, increase the sensitivity of these plants to stresses, such as droughts, cold temperatures, insect pests, and disease leading to increased mortality of canopy trees. Terrestrial acidification affects several important ecological services, including declines in habitat for threatened and endangered species (cultural), declines in forest aesthetics (cultural),

declines in forest productivity (provisioning), and increases in forest soil erosion and reductions in water retention (cultural and regulating). (U.S. EPA, 2008d)

Deposition of nitrogen is also associated with aquatic and terrestrial nutrient enrichment. In estuarine waters, excess nutrient enrichment can lead to eutrophication. Eutrophication of estuaries can disrupt an important source of food production, particularly fish and shellfish production, and a variety of cultural ecosystem services, including water-based recreational and aesthetic services. Terrestrial nutrient enrichment is associated with changes in the types and number of species and biodiversity in terrestrial systems. Excessive nitrogen deposition upsets the balance between native and nonnative plants, changing the ability of an area to support biodiversity. When the composition of species changes, then fire frequency and intensity can also change, as nonnative grasses fuel more frequent and more intense wildfires. (U.S. EPA, 2008d)

### **7.2.3 *Ozone Co-Benefits***

In the presence of sunlight, NO<sub>x</sub> and VOCs can undergo a chemical reaction in the atmosphere to form ozone. Reducing ambient ozone concentrations is associated with significant human health benefits, including mortality and respiratory morbidity (U.S. EPA, 2008a). Epidemiological researchers have associated ozone exposure with adverse health effects in numerous toxicological, clinical and epidemiological studies (U.S. EPA, 2006c). These health effects include respiratory morbidity such as fewer asthma attacks, hospital and ER visits, school loss days, as well as premature mortality.

### **7.2.4 *Carbon Monoxide Co-Benefits***

Carbon monoxide in ambient air is formed primarily by the incomplete combustion of carbon-containing fuels and photochemical reactions in the atmosphere. The amount of CO emitted from these reactions, relative to carbon dioxide (CO<sub>2</sub>), is sensitive to conditions in the combustion zone, such as fuel oxygen content, burn temperature, or mixing time. Upon inhalation, CO diffuses through the respiratory system to the blood, which can cause hypoxia (reduced oxygen availability). Carbon monoxide can elicit a broad range of effects in multiple tissues and organ systems that are dependent upon concentration and duration of exposure. The Integrated Science Assessment for Carbon Monoxide (U.S. EPA, 2010a) concluded that short-term exposure to CO is “likely to have a causal relationship” with cardiovascular morbidity, particularly in individuals with coronary heart disease. Epidemiologic studies associate short-term CO exposure with increased risk of emergency department visits and hospital admissions. Coronary heart disease includes those who have angina pectoris (cardiac chest pain), as well as those who have experienced a heart attack. Other

subpopulations potentially at risk include individuals with diseases such as chronic obstructive pulmonary disease (COPD), anemia, or diabetes, and individuals in very early or late life stages, such as older adults or the developing young. The evidence is suggestive of a causal relationship between short-term exposure to CO and respiratory morbidity and mortality. The evidence is also suggestive of a causal relationship for birth outcomes and developmental effects following long-term exposure to CO, and for central nervous system effects linked to short- and long-term exposure to CO.

### **7.2.5 *Visibility Impairment Co-Benefits***

Reducing secondary formation of PM<sub>2.5</sub> would improve visibility throughout the U.S. Fine particles with significant light-extinction efficiencies include sulfates, nitrates, organic carbon, elemental carbon, and soil (Sisler, 1996). Suspended particles and gases degrade visibility by scattering and absorbing light. Higher visibility impairment levels in the East are due to generally higher concentrations of fine particles, particularly sulfates, and higher average relative humidity levels. Visibility has direct significance to people's enjoyment of daily activities and their overall sense of wellbeing. Good visibility increases the quality of life where individuals live and work, and where they engage in recreational activities. Previous analyses (U.S. EPA, 2006; U.S. EPA, 2011a; U.S. EPA, 2011b) show that visibility benefits are a significant welfare benefit category. Without air quality modeling, we are unable to estimate visibility related benefits, nor are we able to determine whether VOC emission reductions would be likely to have a significant impact on visibility in urban areas or Class I areas.

### **7.3 *Characterization of Uncertainty in the Monetized Co-Benefits***

In any complex analysis, there are likely to be many sources of uncertainty. Many inputs are used to derive the final estimate of economic benefits, including emission inventories, air quality models (with their associated parameters and inputs), epidemiological estimates of concentration-response (C-R) functions, estimates of values, population estimates, income estimates, and estimates of the future state of the world (i.e., regulations, technology, and human behavior). For some parameters or inputs it may be possible to provide a statistical representation of the underlying uncertainty distribution. For other parameters or inputs, the necessary information is not available. As discussed in the PM<sub>2.5</sub> NAAQS RIA (Table 5.5) (U.S. EPA, 2006), there are a variety of uncertainties associated with these PM benefits. Therefore, the estimates of annual benefits should be viewed as representative of the magnitude of benefits expected, rather than the actual benefits that would occur every year.

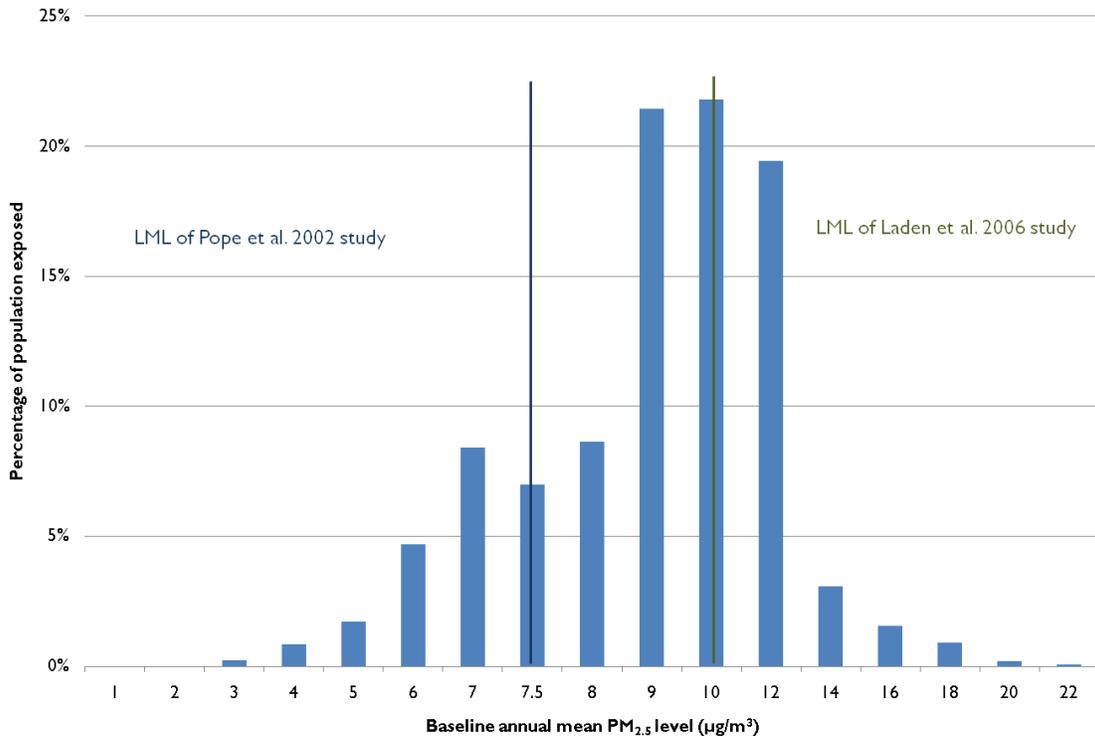
It is important to note that the monetized benefit-per-ton estimates used here reflect specific geographic patterns of emissions reductions and specific air quality and benefits

modeling assumptions. For example, these estimates do not reflect local variability in population density, meteorology, exposure, baseline health incidence rates, or other local factors. Use of these \$/ton values to estimate benefits may lead to higher or lower benefit estimates than if benefits were calculated based on direct air quality modeling. Great care should be taken in applying these estimates to emission reductions occurring in any specific location, as these are all based on national or broad regional emission reduction programs and therefore represent average benefits-per-ton over the entire United States. The benefits-per-ton for emission reductions in specific locations may be very different than the estimates presented here. For more information, see the TSD describing the calculation of the new benefit-per-ton estimates (U.S. EPA, 2012).

PM<sub>2.5</sub> mortality benefits are the largest benefit category that we monetized in this analysis. To better characterize the uncertainty associated with mortality impacts that are estimated to occur in areas with low baseline levels of PM<sub>2.5</sub>, we included the LML assessment. For this analysis, policy-specific air quality data is not available due to time or resource limitations, thus we are unable to estimate the percentage of premature mortality associated with this specific rule's emission reductions at each PM<sub>2.5</sub> level. As a surrogate measure of mortality impacts, we provide the percentage of the population exposed at each PM<sub>2.5</sub> level using the source apportionment modeling used to calculate the benefit-per-ton estimates for this sector. A very large proportion of the population is exposed at or above the lowest LML of the cohort studies (Figures 7-6 and 7-7), increasing our confidence in the PM mortality analysis. Figure 7-6 shows a bar chart of the percentage of the population exposed to various air quality levels in the pre- and post-policy policy. Figure 7-7 shows a cumulative distribution function of the same data. Both figures identify the LML for each of the major cohort studies. As the policy shifts the distribution of air quality levels, fewer people are exposed to PM<sub>2.5</sub> levels at or above the LML. Using the Pope et al. (2002) study, the 77% of the population is exposed to annual mean PM<sub>2.5</sub> levels at or above the LML of 7.5 µg/m<sup>3</sup>. Using the Laden et al. (2006) study, 25% of the population is exposed above the LML of 10 µg/m<sup>3</sup>. As we model avoided premature deaths among populations exposed to levels of PM<sub>2.5</sub>, we have lower confidence in levels below the LML for each study. It is important to emphasize that we have high confidence in PM<sub>2.5</sub>-related effects down to the lowest LML of the major cohort studies. Just because we have greater confidence in the benefits above the LML, this does not mean that we have no confidence that benefits occur below the LML.

A large fraction of the baseline exposure occurs below the level of the National Ambient Air Quality Standard (NAAQS) for annual PM<sub>2.5</sub> at 15 µg/m<sup>3</sup>, which was set in 2006. It is

important to emphasize that NAAQS are not set at a level of zero risk. Instead, the NAAQS reflect the level determined by the Administrator to be protective of public health within an adequate margin of safety, taking into consideration effects on susceptible populations. While benefits occurring below the standard may be less certain than those occurring above the standard, EPA considers them to be legitimate components of the total benefits estimate.

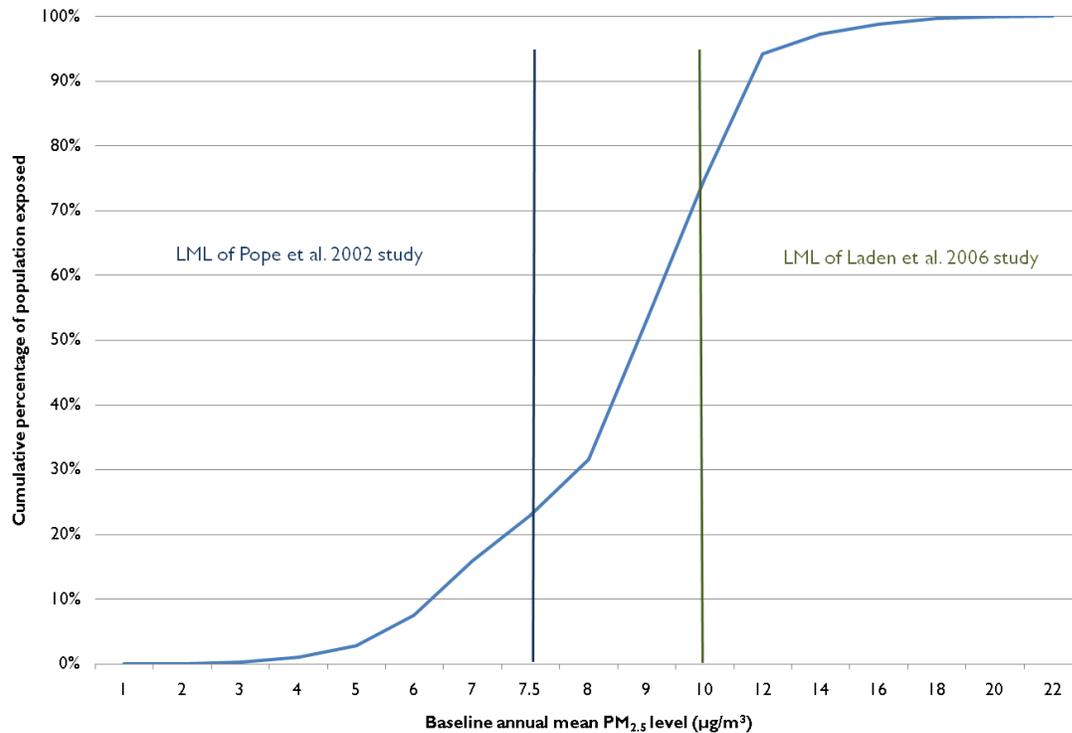


Among the populations exposed to PM<sub>2.5</sub> in the baseline:

77% are exposed to PM<sub>2.5</sub> levels at or above the LML of the Pope et al. (2002) study

25% are exposed to PM<sub>2.5</sub> levels at or above the LML of the Laden et al. (2006) study

**Figure 7-6. Percentage of Adult Population by Annual Mean PM<sub>2.5</sub> Exposure in the Baseline**



Among the populations exposed to PM<sub>2.5</sub> in the baseline:

- 77% are exposed to PM<sub>2.5</sub> levels at or above the LML of the Pope et al. (2002) study
- 25% are exposed to PM<sub>2.5</sub> levels at or above the LML of the Laden et al. (2006) study

**Figure 7-7. Cumulative Distribution of Adult Population by Annual Mean PM<sub>2.5</sub> Exposure in the Baseline**

Above we present the estimates of the total benefits, based on our interpretation of the best available scientific literature and methods and supported by the SAB-HES and the NAS (NRC, 2002). The benefits estimates are subject to a number of assumptions and uncertainties. For example, for key assumptions underlying the estimates for premature mortality, which typically account for more than 90% of the total benefits, we were able to quantify include the following:

1. PM<sub>2.5</sub> benefits were derived through benefit per-ton estimates, which do not reflect local variability in population density, meteorology, exposure, baseline health incidence rates, or other local factors that might lead to an over-estimate or under-estimate of the actual benefits of controlling PM precursors. We do not have data on the specific location of the air quality changes associated with this rulemaking; as such, it is not feasible to estimate the proportion of benefits occurring in different locations, such as designated nonattainment areas. In addition, the benefit-per-ton estimates are based on emissions from existing sources. To the extent that the geographic distribution of the emissions reductions for this rule are different than the

modeled emissions, the benefits may be underestimated or overestimated. In general, there is inherently more uncertainty for new sources, which may not be included in the emissions inventory, than existing sources.

2. We assume that all fine particles, regardless of their chemical composition, are equally potent in causing premature mortality. This is an important assumption, because PM<sub>2.5</sub> produced via transported precursors emitted from EGUs may differ significantly from direct PM<sub>2.5</sub> released from diesel engines and other industrial sources, but no clear scientific grounds exist for supporting differential effects estimates by particle type.
3. We assume that the health impact function for fine particles is linear down to the lowest air quality levels modeled in this analysis. Thus, the estimates include health benefits from reducing fine particles in areas with varied concentrations of PM<sub>2.5</sub>, including both regions that are in attainment with fine particle standard and those that do not meet the standard down to the lowest modeled concentrations.
4. To characterize the uncertainty in the relationship between PM<sub>2.5</sub> and premature mortality (which typically accounts for 85% to 95% of total monetized benefits), we include a set of twelve estimates based on results of the expert elicitation study in addition to our core estimates. Even these multiple characterizations omit the uncertainty in air quality estimates, baseline incidence rates, populations exposed and transferability of the effect estimate to diverse locations. As a result, the reported confidence intervals and range of estimates give an incomplete picture about the overall uncertainty in the PM<sub>2.5</sub> estimates. This information should be interpreted within the context of the larger uncertainty surrounding the entire analysis. For more information on the uncertainties associated with PM<sub>2.5</sub> benefits, please consult the PM<sub>2.5</sub> NAAQS RIA (Table 5.5).

This RIA does not include the type of detailed uncertainty assessment found in the PM NAAQS RIA because we lack the necessary air quality input and monitoring data to run the benefits model. In addition, we have not conducted any air quality modeling for this rule. Moreover, it was not possible to develop benefit-per-ton metrics and associated estimates of uncertainty using the benefits estimates from the PM RIA because of the significant differences between the sources affected in that rule and those regulated here. However, the results of the Monte Carlo analyses of the health and welfare benefits presented in Chapter 5 of the PM RIA can provide some evidence of the uncertainty surrounding the benefits results presented in this analysis.

## 7.4 Comparison of Co-Benefits and Costs

Using a 3% discount rate, we estimate the total combined monetized co-benefits of the reconsidered SI RICE NESHAP to be \$62 million to \$150 million in the implementation year (2013). Using a 7% discount rate, we estimate the total monetized co-benefits of the final rule to be \$55 million to \$140 million. The annualized social costs of the reconsidered SI RICE NESHAP are \$115 million at a 7% interest rate.<sup>63</sup> Thus, the net benefits are \$-53 million to \$35 million at a 3% discount rate and \$-60 million to \$25 million at a 7% discount rate. All estimates are in 2010\$ for the year 2013.

Table 7-5 shows a summary of the monetized co-benefits, social costs, and net benefits for the reconsidered SI RICE NESHAP, respectively. Figures 7-8 and 7-9 show the full range of net benefits estimates (i.e., annual co-benefits minus annualized costs) utilizing the 14 different PM<sub>2.5</sub> mortality functions at discount rates of 3% and 7%. In addition, the benefits from reducing 22,000 tons of carbon monoxide and 1,800 tons of HAPs each year from SI RICE have not been included in these estimates.

**Table 7-5. Summary of the Monetized Benefits, Compliance Costs and Net benefits for the 2010 Rule with the Amendments to the Stationary SI Engine NESHAP in 2013 (millions of 2010 dollars)<sup>a</sup>**

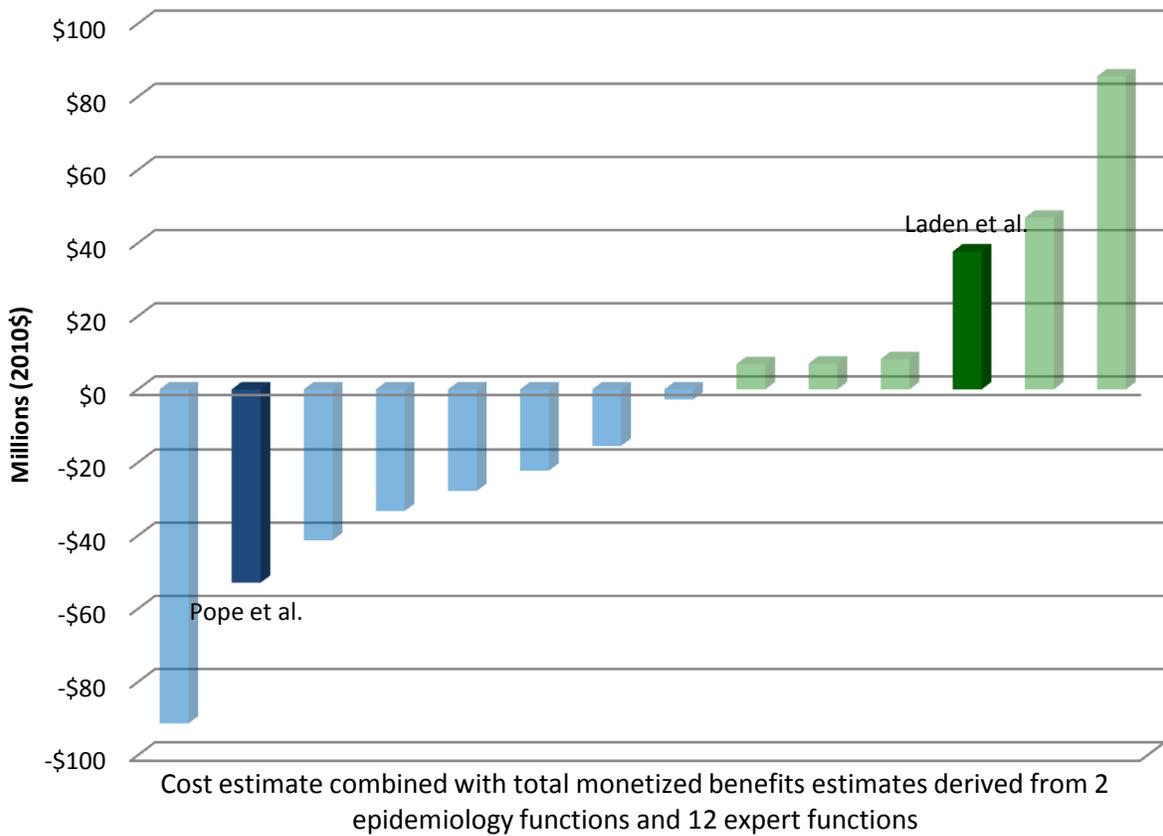
	3% Discount Rate			7% Discount Rate		
Total Monetized Benefits <sup>2</sup>	\$62	to	\$150	\$55	to	\$140
Total Compliance Costs <sup>3</sup>			\$115			\$115
Net Benefits	\$-53	to	\$35	\$-60	to	\$25
Non-monetized Benefits	Health effects from HAP exposure Health effects from CO, NO <sub>2</sub> , and ozone exposure Ecosystem effects Visibility impairment					

<sup>1</sup>All estimates are for the implementation year (2013), and are rounded to two significant figures.

<sup>2</sup>The total monetized benefits reflect the human health benefits associated with reducing exposure to PM<sub>2.5</sub> through reductions of PM<sub>2.5</sub> precursors such as NO<sub>x</sub>. Human health benefits are shown as a range from Pope et al. (2002) to Laden et al. (2006). These models assume that all fine particles, regardless of their chemical composition, are equally potent in causing premature mortality because the scientific evidence is not yet sufficient to allow differentiation of effects estimates by particle type. Although we have not re-estimated the benefits for this rule to apply the updated methods in the PM NAAQS RIA (U.S. EPA, 2012b), these updates generally offset each other, and we anticipate that the rounded benefits estimated for this rule are unlikely to be different than those provided here.

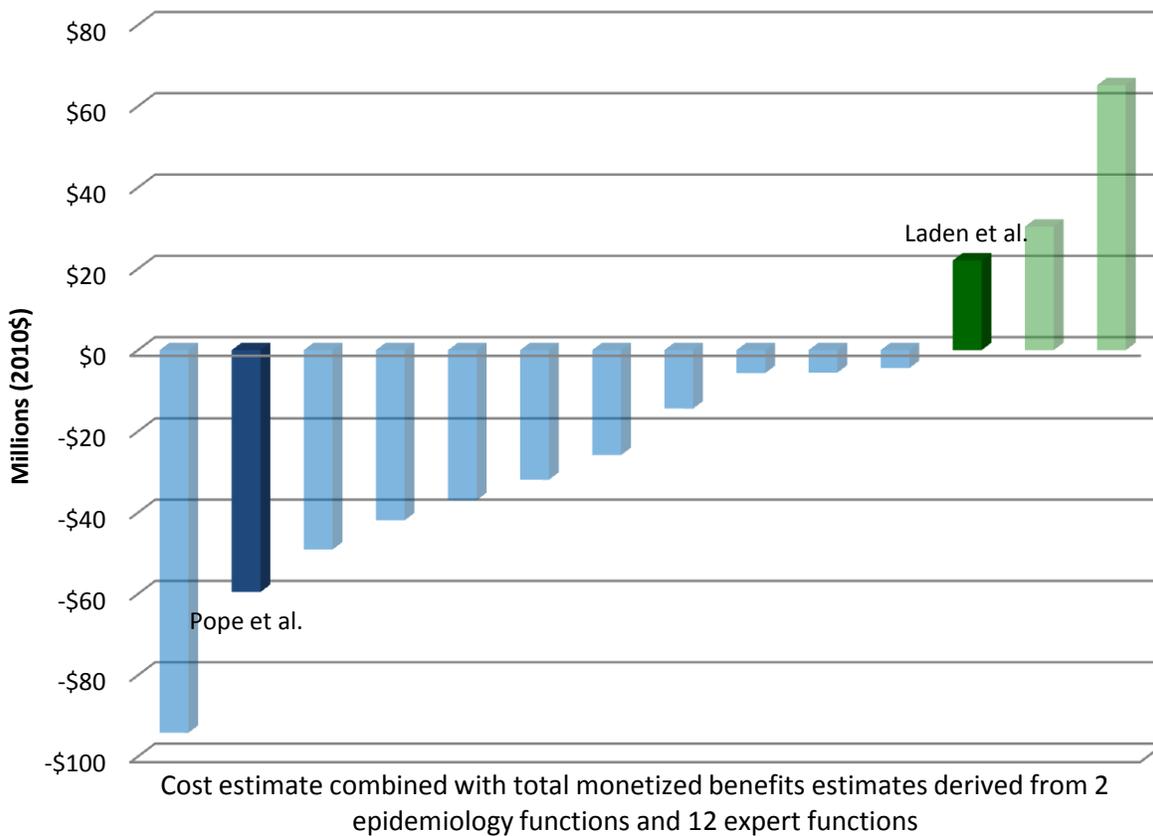
<sup>63</sup> For more information on the annualized social costs, please refer to Section 5 of this RIA.

<sup>3</sup> The annual compliance costs serve as a proxy for the annual social costs of this rule given the lack of difference between the two. The engineering compliance costs are annualized using a 7 percent discount rate.



**Figure 7-8. Net Benefits for SI RICE NESHAP Reconsideration at 3% discount rate\***

\*Net Benefits are quantified in terms of PM<sub>2.5</sub> at a 3% discount rate for 2013 and are in 2010\$. This graph shows 14 benefits estimates combined with the cost estimate. All fine particles are assumed to have equivalent health effects. The monetized benefits incorporate the conversion from precursor emissions to ambient fine particles.



**Figure 7-9. Net Benefits for SI RICE NESHAP Reconsideration at 7% discount rate\***

\*Net Benefits are quantified in terms of PM<sub>2.5</sub> benefits at a 7% discount rate at a 3% discount rate for 2013 and are in 2010\$. This graph shows 14 benefits estimates combined with the cost estimate. The monetized benefits incorporate the conversion from precursor emissions to ambient fine particles.

## 7.5 References

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**Section 8**  
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