

Bryan W. Shaw, Ph.D., P.E., *Chairman*
Toby Baker, *Commissioner*
Zak Covar, *Commissioner*
Richard A. Hyde, P.E., *Executive Director*



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

February 26, 2014

Mr. Howard Shelanski, Administrator
Office of Information and Regulatory Affairs
Office of Management and Budget
Executive Office of the President
725 17th Street, NW
Washington, D.C. 20503

Re: Docket ID OMB-OMB-2013-0007

Dear Mr. Shelanski:

The Texas Commission on Environmental Quality (TCEQ) appreciates the opportunity to respond to the Office of Management and Budget's Notice of Availability and Request for Comments for the Technical Support Document: Technical Update of the Social Cost of Carbon (SCC) for Regulatory Impact Analysis under Executive Order No. 12866 published in the Federal Register on November 26, 2013. While we acknowledge the 30-day extension that was granted, the TCEQ continues to be concerned that the timeframe for submittal of comments has not allowed sufficient time to review and understand the multiple years of previous work on the SCC that was not subject to adequate public comment. In any event, we offer the following comments.

The SCC estimates will be used in various federal agency rulemakings to determine the cost/benefit of reductions in carbon emissions. As such, the SCC estimates are of significant importance in determining whether a new federal regulation is justified. While the TCEQ understands that the SCC estimates have been used in past and present rulemakings, there has not been an opportunity until this specific Notice of Availability and Request for Comments for specific input and comment. In addition, the assumptions, both scientific and economic, of the Interagency Working Group that developed the initial SCC estimates are largely unknown and were not subject to independent peer review as called for by the Information Quality Act and OMB's own internal guidelines. The TCEQ strongly recommends that the SCC estimates not be used in present and future rulemakings until the entire process and data used in developing the SCC estimates be subjected to thorough and independent peer review.

The models used to derive SCC estimates suffer from considerable uncertainty and speculation in critical inputs including the amount of future carbon emissions, the impact of those emissions on the climate, and the monetization of those impacts. The uncertainty associated with

Mr. Howard Shelanski

Page 2

February 26, 2014

Re: Docket ID OMB-OMB-2013-0007

temperature increases is just one example. The models used by the United Nations Intergovernmental Panel on Climate Change (IPCC) have not predicted the current stoppage of global warming, as evidenced by global temperature measurements, over the last 15 years. To the extent that IPCC model data was used in developing the SCC estimates, their use for the short term is clearly circumspect, and extrapolation of temperature increases and its impacts over the 300 year modeling time horizon is of even greater uncertainty.

A key variable in estimating the SCC is the discount rate. OMB Circular A-94 states that a discount rate of 7% should be used as a base case for regulatory analysis as a default position while acknowledging that in some cases, other discount rates may be appropriate. OMB Circular A-4 states that "For regulatory analysis, you should provide estimates of net benefits using both 3 percent and 7 percent". The interagency workgroup developed the SCC estimates based on discount rates of 2.5, 3, and 5 percent, but did not include the 7 percent discount rate. The impact of the use of different discount rates can be significant. In the revised Technical Support Document, the social cost of carbon for 2050 is \$97/metric ton of CO₂ using a 2.5 percent discount factor while it is \$26/metric ton of CO₂ using a 5 percent discount factor. OMB should follow its own guidance in its development of the SCC and, at a minimum, include the results using a 7 percent discount rate.

The TCEQ understands that the SCC estimates are based on the global benefits of CO₂ reductions vs. the benefits that would occur domestically in the United States. Given that the SCC estimates will be used to compare benefits to the domestic costs of a regulatory action, the SCC estimates should be directly related to domestic benefits. We note that OMB Circular A-4 states that "analysis of economically significant proposed and final regulations from the domestic perspective is required, while analysis from the international perspective is optional." In the 2010 Technical Support Document: Social Cost of Carbon for Regulatory Impact Analysis Under Executive Order 12866, the Interagency Working Group concluded that a global measure of benefits from reducing U.S. emissions is preferable in order to address the global nature of climate change and to show that international action is necessary since "even if the United States were to reduce its greenhouse gas emissions to zero, that step would be far from enough to avoid substantial climate change." The TCEQ disagrees that a global measure is preferable in that the public has the right to know the domestic benefits vs. the domestic costs of a regulatory action. The use of a global SCC could show that benefits exceed costs when they actually may not provide any net benefits for the U.S.

In addition, the Interagency Working Group determined that the models were currently inadequate to determine region- or country-specific estimates of the SCC, but "that a range of values from 7-23 percent should be used to adjust the global SCC to calculate domestic effects." This range was based on very generalized key parameter assumptions using a 2.5 or 3 percent discount rate (which in itself is a subjective and questionable rate) or alternatively by proportionally determining benefit by the U.S. share of global GDP. The Working Group itself acknowledged that this range was highly speculative. The TCEQ submits that the method of translating global benefits to domestic benefits is so speculative at this time that its use is not appropriate.

Mr. Howard Shelanski

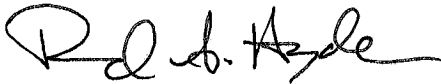
Page 3

February 26, 2014

Re: Docket ID OMB-OMB-2013-0007

In summary, the TCEQ recommends that the SCC estimates not be used in present or future rulemakings until there has been a complete and thorough independent peer review of the process and model data. If you have any questions, please contact Mr. Minor Hibbs, P.E., Special Assistant to the Deputy Executive Director, at 512/239-6590, or at minor.hibbs@tceq.texas.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "R. A. Hyde". The signature is fluid and cursive, with a large initial "R" and "H".

Richard A. Hyde, P.E.

Executive Director

Texas Commission on Environment Quality