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New Report Provides Guide to Economic Analysis of EPA's Clean Air Transport Rule

Review Finds that Studies of the Rule Estimate Significant Net Benefits for Society

Boston, MA, April 14, 2011 — In a new report released today, two prominent economists from Harvard University and the Massachusetts Institute of Technology, respectively, review existing studies on the Environmental Protection Agency's (EPA) proposed Clean Air Transport Rule, and find that those studies estimate benefits of the Rule that far outweigh the estimated compliance costs. The report, "A Guide to Economic and Policy Analysis of EPA's Transport Rule," coauthored by Professors Robert N. Stavins and Richard Schmalensee with support from economic consulting firm Analysis Group, interprets existing research on the likely compliance costs and benefits of the Transport Rule.

The soon-to-be-finalized Clean Air Transport Rule aims to reduce sulfur dioxide and nitrogen oxide emissions from power plants in 31 states in the East and Midwest. In addition to having local impact, these pollutants are carried downwind from the states where they are produced to other regions.

"A number of existing studies providing estimates of the Transport Rule's benefits and costs consistently find that benefits outweigh costs on a national basis," said Richard Schmalensee, the Howard W. Johnson Professor of Economics and Management at MIT and a former member of President George H. W. Bush's Council of Economic Advisers. "Our review of existing studies found that the benefits of the Transport Rule could outweigh its costs by as much as 130 to 1."

The new report concurs with the conclusion of other recent reports that investments in pollution control technologies needed to comply with the Transport Rule could increase short-term employment, which complements other policy initiatives aimed at supporting the nation's economic recovery. Long-term impacts on employment are less clear.

"Expanded supplies of low-cost natural gas, and the use of currently underutilized labor supply to help install pollution control equipment, may well lower the social cost of the Transport Rule and mitigate any impact on electricity rates," said Dr. Stavins, the Albert Pratt Professor of Business and Government at Harvard University and a former EPA adviser during the Clinton Administration. "The Transport Rule will produce important health and environmental benefits, which studies have found are likely to significantly outweigh compliance costs."

Some of the other **key points** from authors' review include:

- EPA estimates, supported by previous studies, show the **benefits of the Transport Rule are 25 to 130 times greater than the corresponding estimated costs** – with the vast majority of benefits coming from fewer premature deaths and reduced incidence of respiratory and heart disease. These anticipated benefits include billions of dollars in savings from reduced health care costs and improved worker productivity, which alone may more than offset the Transport Rule's compliance costs.
- Utilities are already working to meet existing sulfur dioxide and nitrogen oxide regulations, so much of the capital investment costs needed to comply with the Transport Rule are already being incurred. In addition, the estimated \$10 to \$30 billion cost of installing pollution controls is **less than 3 percent of the \$1.5 trillion in capital expenditures forecast as needed** over the next two decades to modernize the power industry's infrastructure and meet growing demand. (MORE)

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- Compliance with the Transport Rule has been estimated to lead to a **less than 3 percent reduction in the nation's coal-fired capacity**, and there are mechanisms in place that ensure the nation can meet emission targets while reliably meeting customer demand.
- **The studies reviewed estimate that electricity rate increases will be modest**, and will be greatest in areas that currently enjoy the lowest rates. For example, the EPA estimates that compliance with the Transport Rule will increase regional electricity rates by no more than 5 percent.

To [download](http://www.analysisgroup.com/uploadedFiles/Publishing/Articles/2011_StavinsSchmalensee_TransportRuleReport.pdf) a copy of the report, which was commissioned by the Exelon Corporation, visit: http://www.analysisgroup.com/uploadedFiles/Publishing/Articles/2011_StavinsSchmalensee_TransportRuleReport.pdf.

About Richard Schmalensee

Richard Schmalensee is the Howard W. Johnson Professor of Economics and Management at the Massachusetts Institute of Technology and the John C. Head III Dean Emeritus of the MIT Sloan School of Management. He served as a member of the Council of Economic Advisers with primary responsibility for environmental and energy policy from 1989 through 1991. He is a research associate of the National Bureau of Economic Research and a fellow of the Econometric Society and the American Academy of Arts and Sciences. He has served as a member of the EPA's Environmental Economics Advisory Committee and as chairman of its Clean Air Act Compliance Analysis Committee.

About Robert N. Stavins

Robert N. Stavins is the Albert Pratt Professor of Business and Government at the John F. Kennedy School of Government at Harvard University. He is a university fellow at Resources for the Future and a research associate of the National Bureau of Economic Research. He is an elected fellow of the Association of Environmental and Resource Economists, and was chairman of the EPA's Environmental Economics Advisory Committee. He also served as a lead author for the Intergovernmental Panel on Climate Change.

About Analysis Group

Analysis Group (www.analysisgroup.com) is the largest privately held economic consulting firm in North America, providing economic, financial, and business strategy consulting to leading law firms, corporations, and government agencies. The firm's 500 professionals, most with advanced degrees in economics, statistics, finance, accounting, or management, work with an extensive network of prominent academic and industry experts to develop research and analysis for law firms, corporate clients, and government agencies. Analysis Group has offices in Boston, Chicago, Dallas, Denver, Los Angeles, Menlo Park, New York, San Francisco, Washington, and Montreal.

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