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To: Forest Service, USDA

**Subject:** Comments on Failure to Use the Social Cost of Greenhouse Gases in the Supplemental Draft Environmental Impact Statement for Coal Lease Modifications **COC-1362 and COC-67232**

**Submitted by:** Environmental Defense Fund, Institute for Policy Integrity at New York University School of Law, Natural Resources Defense Council, Sierra Club, and Union of Concerned Scientists

In the Supplemental Draft Environmental Impact Statement for the proposed expansion of the West Elk mine, the Forest Service fails to respond to a key ruling from *High Country Conservation Advocates v. U.S. Forest Service*. In 2014, the U.S. District Court of Colorado ruled that the prior EIS for the West Elk expansion had “inadequately disclosed the effects of greenhouse gas emissions,” in particular by failing to monetize climate damages using the Social Cost of Carbon and Social Cost of Methane.<sup>1</sup> Yet now, the Forest Service argues it cannot apply the Social Cost of Greenhouse Gas methodologies. The Forest Service argues that these methodologies are not appropriate “at the project level”; outside the context of a rulemaking; following the recent Executive Order 13,783 that disbanded the Interagency Working Group on the Social Cost of Greenhouse Gases; or in an EIS that contains no other monetary estimate of benefits and costs.<sup>2</sup> The Forest Service goes on to claim that “standardized protocols” to quantify the impacts of project-scale contributions “are presently unavailable,” and that significance thresholds for analysis have not been established.<sup>3</sup>

The Forest Service’s arguments are wrong. The protocols standardized by the Interagency Working Group on the Social Cost of Greenhouse Gas remain appropriate following the recent Executive Order, and are very well suited to EIS analyses of project-level decisions that increase greenhouse gas emissions. The Forest Service has in fact monetized the benefits of the proposed expansion in terms of federal revenue;<sup>4</sup> misleadingly labeling this a “regional economic analysis”<sup>5</sup> does not excuse the Forest Service’s “arbitrary and capricious [choice] to quantify the *benefits* of the lease modifications and then explain that a similar analysis of the *costs* was impossible when such an analysis was in fact possible.”<sup>6</sup> Though at some *de minimis* threshold level of greenhouse gas emissions the informational gain of analysis may not outweigh the expense, the Forest Service has not explained why the “1.67% of all federal coal produced nationally”<sup>7</sup> anticipated from the proposed action is *de minimis*. The Forest Service’s quantitative (but un-monetized) assessment of the greenhouse gas emissions from production

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<sup>1</sup> *High Country Conservation Advocates v. Forest Service*, 52 F. Supp. 3d 1174, 1191 (D. Colorado, 2014).

<sup>2</sup> Supplemental Draft Environmental Impact Statement for Coal Lease Modifications COC-1362 and COC-67232 (2017; hereinafter “SDEIS”), at 122.

<sup>3</sup> *Id.* at 123.

<sup>4</sup> *Id.* at 274.

<sup>5</sup> *Id.* at 123.

<sup>6</sup> *High Country*, 52 F. Supp. 3d at 1191.

<sup>7</sup> SDEIS at 128.

at West Elk<sup>8</sup> is further inadequate because it wrongly assumes—without analysis—that the West Elk expansion will not affect supply and prices in ways that increase demand for fossil fuels.<sup>9</sup>

Our organizations respectfully submit these comments encouraging the Forest Service to monetize the effects of increased greenhouse gases from its proposed action by valuing the social cost of those emissions as thoroughly, accurately, and transparently as possible, drawing from the best available scientific and economic data and methodologies. Our organizations may separately submit other comments regarding other aspects of the draft Environmental Impact Statement. These comments make the following key recommendations:

- First, under legal standards for rational decision-making, **agencies must monetize important greenhouse gas effects when their decisions are grounded in cost-benefit analysis.** Because the Forest Service has monetized benefits in this supplemental draft EIS, it must also monetize costs, including the social cost associated with greenhouse gas emissions. More broadly, it is appropriate to continue estimating the social cost of greenhouse gases in environmental impact statements, because monetizing such values advances the National Environmental Policy Act’s goals of informing decision-makers and the public.
- Second, **agencies must continue to use the best available data and methodologies to estimate the social cost of greenhouse gases.** Though Executive Order 13,783 withdrew the technical documents published by Interagency Working Group on the Social Cost of Greenhouse Gases, leaving agencies without specific guidance for how to incorporate the social cost of greenhouse gases, the estimates developed by the Group continue to reflect the best available data and methodological choices, consistent with NEPA’s requirements and the standards for economic analysis articulated in *Circular A-4*.<sup>10</sup> Agencies should avoid relying exclusively on a single model to derive their estimates, and instead should follow the Interagency Working Group’s reliance on multiple, peer-reviewed models. Agencies should continue to value the full global externalities of their greenhouse gas emissions, and should apply a 3% or lower discount rate—or a declining discount rate—for intergenerational climate damages. Such methodological choices are required by NEPA’s mandates for accurate science, a global perspective, and consideration of future generations.
- Third, the Forest Service assumes that the proposed action, which could “represent 1.67% of all federal coal produced nationally,”<sup>11</sup> will not affect coal supply or prices in a way that could increase demand. Instead, the agency contends that, in lieu of the proposed action, other suppliers would perfectly substitute this coal.<sup>12</sup> The Forest Service fails to provide evidence to justify that assumption. The Forest Service must explain how its assumption is consistent with the record, and, if the assumption is in fact inconsistent with the economics of the coal market, **the agency must analyze the potential increase in demand for coal and the resulting emissions from the proposed action.**

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<sup>8</sup> *Id.* at 109.

<sup>9</sup> *Id.* at 129 (“there are still far too many suppliers that could substitute their coal for West Elk’s in the market place . . . thus, at this time there is no credible reason to deny the modification on the basis of climate change.”).

<sup>10</sup> *Custer Cty. Action Ass’n v. Garvey*, 256 F.3d 1024, 1034 (10th Cir. 2001) (requiring the use of “the best available scientific information” in NEPA documents); *see also Marks v. Cent. Intelligence Agency*, 590 F.2d 997, 1003 (D.C. Cir. 1978) (explaining that “an executive order cannot supersede a statute”).

<sup>11</sup> SDEIS at 128.

<sup>12</sup> *Id.* at 129.

## 1. The Forest Service Must Monetize the Social Cost of Greenhouse Gases in a Project-Level EIS that Monetizes Project Benefits

To achieve the National Environmental Policy Act (NEPA)'s goals of informing decision-makers and the public, monetizing the costs and benefits of changes in greenhouse gas emissions is appropriate for any environmental impact statement (EIS) with substantial greenhouse gas effects. More broadly, under legal standards for rational decision-making, agencies must monetize important greenhouse gas effects when—as here—their decisions are grounded in cost-benefit analysis.

### ***NEPA Requires Monetizing Climate Effects If Other Costs and Benefits Are Monetized***

NEPA requires “hard look” consideration of beneficial and adverse effects of each alternative option for major federal government actions. The U.S. Supreme Court has called the disclosure of impacts the “key requirement of NEPA,” and held that agencies must “consider and disclose the actual environmental effects” of a proposed project in a way that “brings those effects to bear on [the agency’s] decisions.”<sup>13</sup> Courts have repeatedly concluded that an EIS must disclose relevant climate effects.<sup>14</sup> Though NEPA does not require a formal cost-benefit analysis,<sup>15</sup> agencies’ approaches to assessing costs and benefits must be balanced and reasonable. Courts have warned agencies, for example, that “[e]ven though NEPA does not require a cost-benefit analysis, it was nonetheless arbitrary and capricious to quantify the *benefits* of [federal action] and then explain that a similar analysis of the *costs* was impossible when such an analysis was in fact possible.”<sup>16</sup>

While often eschewing formal cost-benefit analysis in environmental impact statements, agencies typically include in their NEPA reviews of resource management decisions both quantitative and monetized analyses of the economic benefits and distributional effects of the decision, including estimated tons of recoverable resources per acre and the market value thereof; rental rates per acre and annual royalty rates; temporary and permanent job growth, including annual wages and indirect job effects from local expenditures; construction of infrastructure supporting the project; and other related benefits.<sup>17</sup> This supplemental draft EIS, for example, estimates that the proposed action will generate “\$69.2 million more” in royalty revenue “than what would be collected under the No Action Alternative.”<sup>18</sup> As the U.S. District Court of Colorado concluded, “[i]t is arbitrary to offer detailed projections of a project’s upside while omitting a feasible projection of the project’s costs.”<sup>19</sup> When agencies quantify and monetize the financial and distributional effects of resource management decisions, they must also treat climate effects with proportional analytical rigor.

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<sup>13</sup> *Baltimore Gas & Elec. Co. v. Natural Res. Def. Council*, 462 U.S. 87, 96 (1983).

<sup>14</sup> As the Ninth Circuit has held: “[T]he fact that climate change is largely a global phenomenon that includes actions that are outside of [the agency’s] control . . . does not release the agency from the duty of assessing the effects of *its* actions on global warming within the context of other actions that also affect global warming.” *Ctr. for Biological Diversity v. Nat’l Highway Traffic Safety Admin.*, 538 F.3d 1172, 1217 (9th Cir. 2008); *see also* *Border Power Plant Working Grp. v. U.S. Dep’t of Energy*, 260 F. Supp. 2d 997, 1028-29 (S.D. Cal. 2003) (failure to disclose project’s indirect carbon dioxide emissions violates NEPA).

<sup>15</sup> 40 C.F.R. § 1502.23 (“[T]he weighing of the merits and drawbacks of the various alternatives need not be displayed in a monetary cost-benefit analysis.”).

<sup>16</sup> *High Country*, 52 F. Supp. 3d at 1191.

<sup>17</sup> *See, e.g.*, Forest Service, Federal Coal Lease Modifications COC-1362 & COC-67232, at pp. 190–91 (Aug. 2012); Forest Service, Pawnee National Grassland Oil and Gas Leasing Final Environmental Impact Statement 317, at 291–98 (Dec. 2014); Bureau of Land Mgmt., Final Environmental Impact Statement for the Wright Area Coal Lease Applications, ES-60-61, 4-130-50 (July 2010).

<sup>18</sup> SDEIS at 74-75.

<sup>19</sup> *High Country*, 52 F. Supp. 3d. at 1195.

The recent withdrawal of the Council on Environmental Quality’s guidance on greenhouse gas emissions does not change the requirement to fully disclose the environmental impacts of greenhouse gas emissions. As CEQ explained in its withdrawal, the “guidance was not a regulation,” and “[t]he withdrawal of the guidance does not change any law, regulation, or other legally binding requirement.”<sup>20</sup> In other words, when the guidance originally recommended the appropriate use of the social cost of greenhouse gases in EISs,<sup>21</sup> it was simply explaining that the social cost of greenhouse gases is consistent with longstanding NEPA regulations and case law, all of which are still in effect today.

Numerous federal agencies support using the social cost of greenhouse gases in EISs. EPA has called on agencies to include a monetized estimate of anticipated greenhouse gas effects in their environmental impact statements,<sup>22</sup> and multiple agencies have applied the social cost of carbon in their environmental impact statements, including the Office of Surface Mining Reclamation and Enforcement,<sup>23</sup> the Bureau of Land Management,<sup>24</sup> the National Highway Traffic Safety Administration,<sup>25</sup> and the Forest Service.<sup>26</sup> Clearly there are no legal, conceptual, methodological, or practical barriers to applying the social cost of greenhouse gases in NEPA reviews, and principles of reasoned decision-making require its use where—as here—an agency has already quantified other costs and benefits.

### ***Economic Principles Support Monetizing Climate Effects to Fulfill NEPA’s Goals***

NEPA’s goals are to inform decision-makers and the public by providing a “hard look” at the full range of environmental consequences of the government’s proposed action and any feasible alternatives.<sup>27</sup> To inform decision-makers and the public, NEPA reviews should aim to present information in the manner that most easily facilitates comparison across alternatives and that best avoids any information-processing biases that might distort rational decision-making. The economic literature supports monetizing climate effects to achieve these goals.

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<sup>20</sup> 82 Fed. Reg. 16,576, 16,576 (Apr. 5, 2017).

<sup>21</sup> See CEQ, *Revised Draft Guidance on Consideration of Greenhouse Gas Emissions and the Effects of Climate Change in National Environmental Policy Act Reviews* at 16 (Dec. 2014), available at [https://obamawhitehouse.archives.gov/sites/default/files/docs/nepa\\_revised\\_draft\\_ghg\\_guidance\\_searchable.pdf](https://obamawhitehouse.archives.gov/sites/default/files/docs/nepa_revised_draft_ghg_guidance_searchable.pdf) (“When an agency determines it appropriate to monetize costs and benefits, then, although developed specifically for regulatory impact analyses, the Federal social cost of carbon, which multiple Federal agencies have developed and used to assess the costs and benefits of alternatives in rulemakings, offers a harmonized, interagency metric that can provide decisionmakers and the public with some context for meaningful NEPA review. When using the Federal social cost of carbon, the agency should disclose the fact that these estimates vary over time, are associated with different discount rates and risks, and are intended to be updated as scientific and economic understanding improves.”); see also CEQ, *Final Guidance for Federal Departments and Agencies on Consideration of Greenhouse Gas Emissions and the Effects of Climate Change in National Environmental Policy Act Reviews* at 33 n.86 (Aug. 2016), available at [https://obamawhitehouse.archives.gov/sites/whitehouse.gov/files/documents/nepa\\_final\\_ghg\\_guidance.pdf](https://obamawhitehouse.archives.gov/sites/whitehouse.gov/files/documents/nepa_final_ghg_guidance.pdf).

<sup>22</sup> Letter from Cynthia Giles, Assistant Adm’r, U.S. Environmental Protection Agency, to Jose W. Fernandez & Dr. Kerri Anne Jones, U.S. Department of State (Apr. 22, 2013), at 2.

<sup>23</sup> Available at <http://www.wrcc.osmre.gov/initiatives/fourCorners/documents/FinalEIS/Section%204.2%20-%20Climate%20Change.pdf>; see also <http://www.wrcc.osmre.gov/initiatives/fourCorners/documents/FinalEIS/Appendix%20A%20-%20Air%20Quality%20and%20Climate%20Change%20Information.pdf>.

<sup>24</sup> Bureau of Land Management, Environmental Assessment DOI-BLM-MT-C020-2014-0091-EA, 76 (May 2014).

<sup>25</sup> Available at [http://www.nhtsa.gov/staticfiles/rulemaking/pdf/cafe/FINAL\\_EIS.pdf](http://www.nhtsa.gov/staticfiles/rulemaking/pdf/cafe/FINAL_EIS.pdf) at 9-77; see also [http://ntl.bts.gov/lib/55000/55200/55224/Draft\\_Environmental\\_Impact\\_Statement\\_for\\_Phase\\_2\\_MDHD\\_Fuel\\_Efficiency\\_Standards.pdf](http://ntl.bts.gov/lib/55000/55200/55224/Draft_Environmental_Impact_Statement_for_Phase_2_MDHD_Fuel_Efficiency_Standards.pdf).

<sup>26</sup> Forest Service, *Rulemaking for Colorado Roadless Areas: Supplemental Final Environmental Impact Statement* (Nov. 2016), available at [https://www.fs.usda.gov/Internet/FSE\\_DOCUMENTS/fseprd525072.pdf](https://www.fs.usda.gov/Internet/FSE_DOCUMENTS/fseprd525072.pdf) (using both the social cost of carbon and the social cost of methane).

<sup>27</sup> See *Robertson v. Methow Valley Citizens Council*, 490 U.S. 332 (1989).

Monetization provides much-needed context for otherwise abstract consequences of climate change. If the NEPA review for an agency action merely quantifies greenhouse gas emissions by metric ton, or only qualitatively discusses the general effects of global climate change, decision-makers and the public will tend to overly discount that individual action's potential contribution. Without context, it is difficult for many decision-makers and the public to assess the magnitude and climate consequences of, for example, an additional million tons of carbon dioxide. Monetization, on the other hand, allows decision-makers and the public to weigh all costs and benefits of an action—and to compare alternatives—using the common metric of money. Monetizing climate costs, therefore, better informs the public and helps “brings those effects to bear on [the agency's] decisions.”<sup>28</sup>

The tendency to ignore non-monetized effects is the result of common but irrational mental heuristics like probability neglect and base-rate bias. For example, the phenomenon of probability neglect causes people to reduce small probabilities entirely down to zero, resulting in these probabilities playing no role in the decision-making process.<sup>29</sup> This heuristic applies even to events with long-term certainty or with lower-probability but catastrophic consequences, so long as their effects are unlikely to manifest in the immediate future. Weighing the real risks that, decades or centuries from now, climate change will fundamentally and irreversibly disrupt the global economy, destabilize earth's ecosystems, or compromise the planet's ability to sustain human life is challenging; without a tool to contextualize such risks, it is far easier to ignore them. Monetization tools like the social cost of carbon and social cost of methane are designed to solve this problem: by translating long-term costs into present values, instantiating the harms of climate change, and giving due weight to the potential of lower-probability but catastrophic harms.

Agencies and the public might also suffer from base-rate bias, which causes the undervaluation of information that is generally applicable across a range of scenarios.<sup>30</sup> Agencies fall into this trap when their NEPA reviews provide generic narrative descriptions of climate change yet conclude that climate change is too global and general a problem to address in a project-specific environmental impact statement. This approach inappropriately forecloses the possibility of mitigating the effects of climate change.

Metrics like the social cost of carbon and social cost of methane encourage agencies to identify such mitigation opportunities by monetizing the effects on climate change from the emission of as little as a single ton of greenhouse gases. In fact, these monetization tools were developed to assess the cost of actions with “marginal” impacts on cumulative global emissions, and so are well suited to projects or rules with even relatively small net changes in greenhouse gas emissions. The estimates are derived from integrated assessment models, which translate emissions into changes in atmospheric greenhouse concentrations, atmospheric concentrations into changes in temperature, and changes in temperature into economic damages. The marginal cost is attained by first running the models using a baseline emissions trajectory, and then running the same models again with one additional unit of emissions. The difference in damages between the two runs is the marginal cost of one additional unit. The approach assumes that the marginal damages from increased emissions will remain constant for small emissions increases relative to gross global emissions. In other words, the monetization tools are in fact perfectly suited to measuring the marginal effects of project-level resource management decisions.

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<sup>28</sup> See *Baltimore Gas & Elec. Co.*, 462 U.S. at 96.

<sup>29</sup> Cass R. Sunstein, *Probability Neglect: Emotions, Worst Cases, and Law* (John M. Olin Law & Economics, Working Paper No. 138, 2001), available at <http://ssrn.com/abstract=292149>.

<sup>30</sup> See Fallacy Files, *The Base Rate Fallacy*, <http://www.fallacyfiles.org/baserate.html>; David B. Graham, Capt. Thomas D. Johns, *The Corporate Emergency Response Plan: A Smart Strategy*, 27 NAT. RESOURCES & ENV'T 3 (2012) (on normalcy bias).

### ***Standards of Rationality Require Attention to and Consistent Treatment of Important Factors***

The Supreme Court defined the standard of rationality for agency actions under the Administrative Procedure Act as follows:

Normally, an agency rule would be arbitrary and capricious if the agency has relied on factors which Congress has not intended it to consider, *entirely failed to consider an important aspect of the problem*, offered an explanation for its decision that runs counter to the evidence before the agency, or is so implausible that it could not be ascribed to a difference in view of the product of agency expertise.<sup>31</sup>

Furthermore, the Court found that the standard requires agencies to “examine the relevant data and articulate . . . a ‘rational connection between the facts found and the choice made.’”<sup>32</sup>

Two courts of appeals have already applied arbitrary and capricious review to require the use of the social cost of greenhouse gases in agency decision-making.<sup>33</sup> In *Center for Biological Diversity v. National Highway Traffic Safety Administration*, the U.S. Court of Appeals for the Ninth Circuit ruled that, because the agency had monetized other uncertain costs and benefits of its vehicle fuel efficiency standard, its “decision not to monetize the benefit of carbon emissions reduction was arbitrary and capricious.”<sup>34</sup> Specifically, it was arbitrary to “assign[ ] no value to *the most significant benefit* of more stringent [vehicle fuel efficiency] standards: reduction in carbon emissions.”<sup>35</sup> When an agency bases a rulemaking on cost-benefit analysis, it is arbitrary to “put a thumb on the scale by undervaluing the benefits and overvaluing the costs.”<sup>36</sup>

More recently, in *Zero Zone Inc. v. Department of Energy*, the U.S. Court of Appeals for the Seventh Circuit found that “the expected reduction in environmental costs *needs* to be taken into account” for the Department of Energy “[t]o determine whether an energy conservation measure is appropriate under a cost-benefit analysis.”<sup>37</sup> More specifically, in response to petitioners’ challenge that the agency’s consideration of the global social cost of carbon was arbitrary, the Seventh Circuit responded that the agency acted reasonably in monetizing the global climate effects.<sup>38</sup>

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<sup>31</sup> *Motor Vehicle Manufacturers Assoc. v. State Farm Mutual Auto. Ins. Co.*, 463 U.S. 29, 41-43 (1983) (emphasis added); see also *id.* (“[W]e must ‘consider whether the decision was based on a consideration of the relevant factors and whether there has been a clear error of judgment.’”).

<sup>32</sup> *Id.*

<sup>33</sup> A few courts have also applied arbitrary and capricious review to the use or non-use of the social cost of carbon in environmental impact statements under the National Environmental Policy Act. In *High Country Conservation Advocates v. Forest Service*, the District Court of Colorado found that it was “arbitrary and capricious to quantify the *benefits* of the lease modifications and then explain that a similar analysis of the *costs* was impossible when such an analysis was in fact possible”—specifically, by applying the “social cost of carbon protocol.” 52 F. Supp. 3d 1174, 1191 (D. Colo. 2014). The District Court of Oregon declined to follow suit in *League of Wilderness Defenders v. Connaughton*, but only because in this case the Forest Service had not conducted a quantitative analysis of either costs or benefits of climate change but rather addressed climate change qualitatively. No. 3:12-cv-02271-HZ, decided Dec. 9, 2014.

<sup>34</sup> 538 F.3d 1172, 1203 (9th Cir. 2008).

<sup>35</sup> *Id.* at 1199.

<sup>36</sup> *Id.* at 1198.

<sup>37</sup> No. 14-2147, at 40 (Aug. 8, 2016) (emphasis added).

<sup>38</sup> *Id.* at 44.

In short, agencies must monetize important greenhouse gas effects when their decisions are grounded in cost-benefit analysis.<sup>39</sup>

### ***New Executive Order Encourages Continued Monetization of the Social Cost of Greenhouse Gases***

Executive Order 13,783 officially disbanded the Interagency Working Group on the Social Cost of Greenhouse Gases (IWG) and withdrew its technical support documents that underpinned their range of estimates.<sup>40</sup> Nevertheless, Executive Order 13,783 assumes that federal agencies will continue to “monetiz[e] the value of changes in greenhouse gas emissions” and instructs agencies to ensure such estimates are “consistent with the guidance contained in OMB Circular A-4.”<sup>41</sup> Consequently, while the Forest Service and other federal agencies no longer have technical guidance directing them to exclusively rely on the IWG’s estimates to monetize climate effects, by no means does the new Executive Order imply that agencies should not monetize important effects in their regulatory analyses or environmental impact statements. In fact, Circular A-4 instructs agencies to monetize costs and benefits whenever feasible.<sup>42</sup> The Executive Order does not prohibit agencies from relying on the same choice of models as the IWG, the same inputs and assumptions as the IWG, the same statistical methodologies as the IWG, or the same ultimate values as derived by the IWG. To the contrary, because the Executive Order requires consistency with Circular A-4, as agencies follow the Circular’s standards for using the best available data and methodologies, they will necessarily choose similar data, methodologies, and estimates as the IWG, since the IWG’s work continues to represent the best available estimates. The Executive Order does not preclude agencies from using the same range of estimates as developed by the IWG, so long as the agency explains that the data and methodology that produced those estimates are consistent with Circular A-4 and, more broadly, with standards for rational decision-making.

Similarly, as explained above, the Executive Order’s withdrawal of the CEQ guidance on greenhouse gases does not change agencies’ obligations to appropriately monetize climate effects in their EISs. The CEQ guidance had merely summarized and applied longstanding NEPA regulations and case law, all of which are still in effect today. Using the best available estimates of the social cost of greenhouse gases is still consistent with, and may be required by, NEPA.

As explained in the next section of these comments, the IWG’s estimates of the social cost of greenhouse gases in fact are already consistent with the Circular A-4 and represent the best existing estimates. Therefore, the IWG estimates or those of a similar or higher value<sup>43</sup> should be used in regulatory analyses and environmental impact statements.

## **2. The Forest Service Should Continue to Use Current Estimates of the Social Cost of Greenhouse Gases That Reflect the Best Available Data and Methodologies**

In 2016, IWG published updated central estimates for the social cost of greenhouse gases: \$50 per ton of carbon dioxide, \$1440 per ton of methane, and \$18,000 per ton of nitrous oxide (in 2017 dollars for

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<sup>39</sup> See generally Peter Howard & Jason Schwartz, *Think Global: International Reciprocity as Justification for a Global Social Cost of Carbon*, 42 Columbia J. Envtl. L. 203 (2017) for more on applying standards of rationality to the social cost of carbon.

<sup>40</sup> Exec. Order. No. 13,783 § 5(b), 82 Fed. Reg. 16,093 (Mar. 28, 2017).

<sup>41</sup> *Id.* § 5(c).

<sup>42</sup> OMB, Circular A-4 at 27 (2003) (“You should monetize quantitative estimates whenever possible.”).

<sup>43</sup> See, e.g., Richard L. Revesz et al., *Global Warming: Improve Economic Models of Climate Change*, 508 NATURE 173 (2014) (explaining that current estimates omit key damage categories and, therefore, are very likely underestimates).

year 2020 emissions).<sup>44</sup> Agencies should continue to use estimates of a similar or higher value<sup>45</sup> in their regulatory analyses and environmental impact statements. In particular, when estimating the social cost of greenhouse gases, agencies should use multiple peer-reviewed models, a global estimate of climate damages, and a 3% or lower discount rate for the central estimate. These methodological approaches are consistent with NEPA's directive that agencies adopt a global perspective and consider the effects of their actions on future generations.

### ***Agencies Should Not Rely on a Single Model, but Should Use Multiple, Peer-Reviewed Models***

NEPA requires “scientific accuracy” in environmental impact statements, and agencies must “insure the professional integrity, including scientific integrity, of the discussions and analyses.”<sup>46</sup> As the U.S. court of Appeals for the Tenth Circuit has explained, NEPA requires agencies to use “the best available scientific information.”<sup>47</sup> OMB's *Circular A-4* provides helpful guidance on the standards for accuracy in monetizing costs and benefits. *Circular A-4* requires agencies to use “the best reasonably obtainable scientific, technical, and economic information available. To achieve this, you should rely on peer-reviewed literature, where available.”<sup>48</sup>

Since 2010, federal agencies have used estimates of the social cost of greenhouse gases based on the three most cited, most peer-reviewed integrated assessment models (IAMs). These three IAMs—called DICE (the Dynamic Integrated Model of Climate and the Economy<sup>49</sup>), FUND (the Climate Framework for Uncertainty, Negotiation, and Distribution<sup>50</sup>), and PAGE (Policy Analysis of the Greenhouse Effect<sup>51</sup>)—draw on the best available scientific and economic data to link physical impacts to the economic damages of each marginal ton of greenhouse gas emissions. Each model translates emissions into changes in atmospheric greenhouse gas concentrations, atmospheric concentrations into temperature changes, and temperature changes into economic damages. These three models have been combined with inputs derived from peer-reviewed literature on climate sensitivity, socio-economic and emissions trajectories, and discount rates. The results of the three models have been given equal weight in federal agencies' estimates and have been run through statistical techniques like Monte Carlo analysis to account for uncertainty.

In a 2017 report, the National Academies of Sciences (NAS) recommended future improvements to this methodology. Specifically, over the next five years the NAS recommends unbundling the four essential steps in the IAMs into four separate “modules”: a socio-economic and emissions scenario module, a

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<sup>44</sup> U.S. Interagency Working Group on the Social Cost of Greenhouse Gases (IWG), “Technical support document: Technical update of the social cost of carbon for regulatory impact analysis under executive order 12866 & Addendum: Application of the methodology to estimate the social cost of methane and the social cost of nitrous oxide” (2016); <https://obamawhitehouse.archives.gov/omb/oira/social-cost-of-carbon>).

<sup>45</sup> See *supra* note 43.

<sup>46</sup> 40 CFR § 1502.24.

<sup>47</sup> *Custer Cty. Action Ass'n v. Garvey*, 256 F.3d 1024, 1034 (10th Cir. 2001).

<sup>48</sup> OMB, *Circular A-4*, at 17 (2003).

<sup>49</sup> William D. Nordhaus, *Estimates of the social cost of carbon: concepts and results from the DICE-2013R model and alternative approaches*, 1 JOURNAL OF THE ASSOCIATION OF ENVIRONMENTAL AND RESOURCE ECONOMISTS 1 (2014).

<sup>50</sup> David Anthoff & Richard S.J. Tol, THE CLIMATE FRAMEWORK FOR UNCERTAINTY, NEGOTIATION AND DISTRIBUTION (FUND), TECHNICAL DESCRIPTION, VERSION 3.6 (2012), available at <http://www.fund-model.org/versions>.

<sup>51</sup> Chris Hope, *The Marginal Impact of CO<sub>2</sub> from PAGE2002: An Integrated Assessment Model Incorporating the IPCC's Five Reasons for Concern*, 6 INTEGRATED ASSESSMENT J. 19 (2006).



climate change module, an economic damage module, and a discount rate module.<sup>52</sup> Unbundling these four steps into separate modules could allow for easier, more transparent updates to each individual component, to better reflect the best available science and capture the full range of uncertainty in the literature. These four modules could be built from scratch or drawn from the existing IAMs. Either way, the integrated modular framework envisioned by NAS for the future will require significant time and resource commitments from federal agencies.

In the meantime, the NAS has supported the continued near-term use of the existing social cost of greenhouse gas estimates based on the DICE, FUND, and PAGE models, as used by federal agencies to date.<sup>53</sup> In short, DICE, FUND, and PAGE continue to represent the state-of-the-art models. The Government Accountability Office found in 2014 that the estimates derived from these models and used by federal agencies are consensus-based, rely on peer-reviewed academic literature, disclose relevant limitations, and are designed to incorporate new information via public comments and updated research.<sup>54</sup> In fact, the social cost of greenhouse gas estimates used in federal regulatory proposals and EISs have been subject to over 80 distinct public comment periods.<sup>55</sup> The economics literature confirms that estimates based on these three IAMs remain the best available estimates.<sup>56</sup> In 2016, the U.S. Court of Appeals for the Seventh Circuit held the estimates used to date by agencies are “reasonable.”<sup>57</sup>

While Executive Order 13,783 withdrew the explicit guidance requiring federal agencies to rely on IWG’s technical support documents to estimate the social cost of greenhouse gases, nevertheless, the IWG’s choice of DICE, FUND, and PAGE, its use of inputs and assumptions, and its statistical analysis still represent the state-of-the-art approach based on the best available, peer-reviewed literature. This approach satisfies both NEPA’s and Circular A-4’s requirements for information quality and transparency. Therefore, as agencies comply with the Executive Order’s instructions to ensure that social cost of greenhouse gases are consistent with Circular A-4, agencies will necessarily have to rely on models like DICE, FUND, and PAGE, to use the same or similar inputs and assumptions as the IWG, and to apply statistical analyses like Monte Carlo.

If agencies choose not to rely directly on the IWG estimates, models should be chosen based on Circular A-4’s criteria of quality and transparency. DICE, FUND, and PAGE are still the dominant, most peer-

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<sup>52</sup> Nat’l Acad. Sci., Eng. & Medicine, *Valuing Climate Damages: Updating Estimates of the Social Cost of Carbon Dioxide 3* (2017) [hereinafter “NAS, Second Report”] (recommending an “integrated modular approach”).

<sup>53</sup> Specifically, NAS concluded that a near-term update was not necessary or appropriate and the current estimates should continue to be used while future improvements are developed over time. Nat’l Acad. Sci., Eng. & Medicine, *Assessment of Approaches to Updating the Social Cost of Carbon: Phase 1 Report on a Near-Term Update 1* (2016) [hereinafter “NAS, First Report”].

<sup>54</sup> Gov’t Accountability Office, *Regulatory Impact Analysis: Development of Social Cost of Carbon Estimates* (2014).

<sup>55</sup> Howard & Schwartz, *supra* note 39, at Appendix A.

<sup>56</sup> *E.g.*, Richard G. Newell et al., *Carbon Market Lessons and Global Policy Outlook*, 343 *SCIENCE* 1316 (2014); Bonnie L. Keeler et al., *The Social Costs of Nitrogen*, 2 *SCIENCE ADVANCES* e1600219 (2016); Richard L. Revesz et al., *Global Warming: Improve Economic Models of Climate Change*, 508 *NATURE* 173 (2014) (co-authored with Nobel Laureate Kenneth Arrow, among others).

<sup>57</sup> *Zero Zone v. Dept. of Energy*, No. 14-2147, at 44 (7<sup>th</sup> Cir., Aug. 8, 2016) (finding that the agency “acted reasonably” in using global estimates of the social cost of carbon, and that the estimates chosen were not arbitrary or capricious).

reviewed models,<sup>58</sup> and most estimates in the literature continue to rely on those models.<sup>59</sup> Each of these models has been developed over decades of research, and has been subject to rigorous peer review, documented in the published literature. Other models exist but lack DICE, FUND, and PAGE's long history of peer review or exhibit other limitations. For example, the World Bank has created ENVISAGE, which models a more detailed breakdown of market sectors,<sup>60</sup> but unfortunately does not account for non-market impacts and so would omit a large portion of significant climate effects. Models like ENVISAGE are not currently appropriate choices under the criteria of Circular A-4.<sup>61</sup>

An approach based on multiple, peer-reviewed models (like DICE, FUND, and PAGE) is more rigorous and more consistent with Circular A-4 than reliance on a single model or estimate. DICE, FUND, and PAGE each include many of the most significant climate effects, use appropriate discount rates and other assumptions, address uncertainty, are based on peer-reviewed data, and are transparent.<sup>62</sup> However, each IAM also has its own limitations and is sensitive to its own assumptions. No model fully captures all the significant climate effects.<sup>63</sup> By giving weight to multiple models—as the IWG did—agencies can balance out some of these limitations and produce more robust estimates.

Finally, while agencies should be careful not to cherry-pick a single estimate from the literature, it is noteworthy that various estimates in the literature are consistent with the numbers derived from a weighted average of DICE, FUND, and PAGE—namely, with a central estimate of about \$40 per ton of carbon dioxide, and a high-percentile estimate of about \$120, for year 2015 emissions (in 2016 dollars, at a 3% discount rate). The latest central estimate from DICE's developers is \$87 (at a 3% discount rate);<sup>64</sup> from FUND's developers, \$12;<sup>65</sup> and from PAGE's developers, \$123, with a high-percentile estimate of \$332.<sup>66</sup>

In fact, much of the literature suggest that a central estimate of \$40 per ton is a very conservative underestimate. A 2013 meta-analysis of the broader literature found a mean estimate of \$59 per ton of

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<sup>58</sup> See Interagency Working Group on the Social Cost of Carbon, *Response to Comments: Social Cost of Carbon for Regulatory Impact Analysis under Executive Order 12,866* at 7 (July 2015) ("DICE, FUND, and PAGE are the most widely used and widely cited models in the economic literature that link physical impacts to economic damages for the purposes of estimating the SCC."), citing Nat'l Acad. Sci., Eng. & Medicine, *Hidden Cost of Energy: Unpriced Consequences of Energy Production and Use* (2010) ("the most widely used impact assessment models").

<sup>59</sup> R.S. Tol, *The Social Cost of Carbon*, 3 Annual Rev. Res. Econ. 419 (2011); T. Havranek et al., *Selective Reporting and the Social Cost of Carbon*, 51 Energy Econ. 394 (2015).

<sup>60</sup> World Bank, *The Environmental Impact and Sustainability Applied General Equilibrium (ENVISAGE) Model* (2008), available at <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1193838209522/Envisage7b.pdf>.

<sup>61</sup> Similarly, Intertemporal Computable Equilibrium System (ICES) does not account for non-market impacts. See <https://www.cmcc.it/models/ices-intertemporal-computable-equilibrium-system>. Other models include CRED, which is worthy of further study for future use. Frank Ackerman, Elizabeth A. Stanton & Ramón Bueno, *CRED: A New Model of Climate and Development*, 85 ECOLOGICAL ECONOMICS 166 (2013). Accounting for omitted impacts more generally, E.A. Stanton, F. Ackerman, R. Bueno, *Reason, Empathy, and Fair Play: The Climate Policy Gap*, (Stockholm Environment Inst. Working Paper 2012-02), find a doubling of the SCC using the CRED model.

<sup>62</sup> While sensitivity analysis can address parametric uncertainty within a model, using multiple models helps address structural uncertainty.

<sup>63</sup> See Peter Howard, *Omitted Damages: What's Missing from the Social Cost of Carbon 5* (Cost of Carbon Project Report, 2014), <http://costofcarbon.org/>.

<sup>64</sup> William Nordhaus, *Revisiting the Social Cost of Carbon*, Proc. Nat'l Acad. Sci. (2017) (estimate a range of \$21 to \$141).

<sup>65</sup> D. Anthoff & R. Tol, *The Uncertainty about the Social Cost of Carbon: A Decomposition Analysis Using FUND*, 177 Climatic Change 515 (2013).

<sup>66</sup> C. Hope, *The social cost of CO2 from the PAGE09 model*, 39 Economics (2011); C. Hope, *Critical issues for the calculation of the social cost of CO2*, 117 Climatic Change, 531 (2013).

carbon dioxide,<sup>67</sup> and a soon-to-be-published update by the same author finds a mean estimate of \$108 (at a 1% discount rate).<sup>68</sup> A 2015 meta-analysis—which sought out estimates besides just those based on DICE, FUND, and PAGE—found a mean estimate of \$83 per ton of carbon dioxide.<sup>69</sup> Various studies relying on expert elicitation<sup>70</sup> from a large body of climate economists and scientists have found mean estimates of \$50 per ton of carbon dioxide,<sup>71</sup> \$96-\$144 per ton of carbon dioxide,<sup>72</sup> and \$80-\$100 per ton of carbon dioxide.<sup>73</sup> There is a growing consensus in the literature that even the best existing estimates of the social cost of greenhouse gases may severely underestimate the true marginal cost of climate damages.<sup>74</sup> Overall, a central estimate of \$40 per ton of carbon dioxide at a 3% discount rate, with a high-percentile estimate of about \$120 for year 2015 emissions, is consistent with the best available literature; if anything, the best available literature supports considerably higher estimates.<sup>75</sup>

Similarly, a comparison of international estimates of the social cost of greenhouse gases suggests that a central estimate of \$40 per ton of carbon dioxide is a very conservative value. Sweden places the long-term valuation of carbon dioxide at \$168 per ton; Germany calculates a “climate cost” of \$167 per ton of carbon dioxide in the year 2030; the United Kingdom’s “shadow price of carbon” has a central value of \$115 by 2030; Norway’s social cost of carbon is valued at \$104 per ton for year 2030 emissions; and various corporations have adopted internal shadow prices as high as \$80 per ton of carbon dioxide.<sup>76</sup>

### ***A Global Estimate of Climate Damages Is Required by NEPA***

The National Environmental Policy Act contains a provision on “International and National Coordination of Efforts” that broadly requires that “all agencies of the Federal Government *shall* . . . recognize the worldwide and long-range character of environmental problems.”<sup>77</sup> Using a global social cost of

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<sup>67</sup> R. Tol, *Targets for Global Climate Policy: An Overview*, 37 J. Econ. Dynamics & Control 911 (2013).

<sup>68</sup> R. Tol, *Economic Impacts of Climate Change* (Univ. Sussex Working Paper No. 75-2015, 2015).

<sup>69</sup> S. Nocera et al., *The Economic Impact of Greenhouse Gas Abatement through a Meta-Analysis: Valuation, Consequences and Implications in terms of Transport Policy*, 37 Transport Policy 31 (2015).

<sup>70</sup> Circular A-4, at 41, supports use of expert elicitation as a valuable tool to fill gaps in knowledge.

<sup>71</sup> Scott Holladay & Jason Schwartz, *Economists and Climate Change* 43 (Inst. Policy Integrity Brief, 2009 (directly surveying experts about the SCC)).

<sup>72</sup> Peter Howard & Derek Sylvan, *The Economic Climate: Establishing Expert Consensus on the Economics of Climate Change* (Inst. Policy Integrity Working Paper 2015/1) (using survey results to calibrate the DICE-2013R damage function).

<sup>73</sup> R. Pindyck, *The Social Cost of Carbon Revisited* (Nat’l Bureau of Econ. Res. No. w22807, 2016) (\$80-\$100 is the trimmed range of estimates at a 4% discount rate; without trimming of outlier responses, the estimate is \$200).

<sup>74</sup> *E.g.*, Howard & Sylvan, *supra* note 72; Pindyck, *supra* note 73. The underestimation results from a variety of factors, including omitted and outdated climate impacts (including ignoring impacts to economic growth and tipping points), simplified utility functions (including ignoring relative prices), and applying constant instead of a declining discount rate. See Howard, *supra* note 63; Revesz et al., *supra* note 56; J.C. Van Den Bergh & W.J. Botzen, A Lower Bound to the Social Cost of CO<sub>2</sub> Emissions, 4 Nature Climate Change 253 (2014) (proposing \$125 per metric ton of carbon dioxide in 1995 dollars, or about \$200 in today’s dollars, as the lower bound estimate). See also F.C. Moore & D.B. Diaz, *Temperature Impacts on Economic Growth Warrant Stringent Mitigation Policy*, 5 Nature Climate Change 127 (2015) (concluding the SCC may be six times higher after accounting for potential growth impacts of climate change). Accounting for both potential impacts of climate change on economic growth and other omitted impacts, S. Dietz and N. Stern find a two- to seven-fold increase in the SCC. *Endogenous growth, convexity of damage and climate risk: how Nordhaus’ framework supports deep cuts in carbon emissions*. 125 *The Economic Journal* 574 (2015).

<sup>75</sup> Note that the various estimates cited in the paragraph have not all been converted to standard 2017\$, and may not all reflect the same year emissions. Nevertheless, the magnitude of this range suggests that \$40 per ton of year 2015 emissions is a conservative estimate.

<sup>76</sup> See Howard & Schwartz, *supra* note 39, at Appendix B. All these estimates are in 2016\$.

<sup>77</sup> 42 U.S.C. § 4332(2)(f) (emphasis added).

greenhouse gases to analyze and set policy fulfills these instructions. Furthermore, the Act requires agencies to, “where consistent with the foreign policy of the United States, lend appropriate support to initiatives, resolutions, and programs designed to maximize international cooperation in anticipating and preventing a decline in the quality of mankind’s world environment.”<sup>78</sup> By continuing to use the global social cost of greenhouse gases to spur reciprocal foreign actions, federal agencies “lend appropriate support” to the National Environmental Policy Act’s goal of “maximize[ing] international cooperation” to protect “mankind’s world environment.” Furthermore, not only is it consistent with Circular A-4 and best economic practices to estimate the global damages of U.S. greenhouse gas emissions in regulatory analyses and environmental impact statements, but no existing methodology for estimating a “domestic-only” value is reliable, complete, or consistent with Circular A-4.

From 2010 through 2016, federal agencies based their regulatory decision and NEPA reviews on global estimates of the social cost of greenhouse gases. Though agencies often also disclosed a “highly speculative” range that tried to capture exclusively U.S. climate costs, emphasis on a global value was recognized as more accurate given the science and economics of climate change, as more consistent with best economic practices, and as crucial to advancing U.S. strategic goals.<sup>79</sup>

Opponents of climate regulation challenged the global number in court and other forums, and often attempted to use Circular A-4 as support.<sup>80</sup> Specifically, opponents have seized on Circular A-4’s instructions to “focus” on effects to “citizens and residents of the United States,” while any significant effects occurring “beyond the borders of the United States . . . should be reported separately.”<sup>81</sup> Importantly, despite this language and such challenges, the U.S. Court of Appeals for the Seventh Circuit had no trouble concluding that a global focus for the social cost of greenhouse gases was reasonable:

AHRI and Zero Zone [the industry petitioners] next contend that DOE [the Department of Energy] arbitrarily considered the global benefits to the environment but only considered the national costs. They emphasize that the [statute] only concerns “national energy and water conservation.” In the New Standards Rule, DOE did not let this submission go unanswered. It explained that climate change “involves a global externality,” meaning that carbon released in the United States affects the climate of the entire world. According to DOE, national energy conservation has global effects, and, therefore, those global effects are an appropriate consideration when looking at a national policy. Further, AHRI and Zero Zone point to no global

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<sup>78</sup> *Id.*; see also *Environmental Defense Fund v. Massey*, 986 F.2d 528, 535 (D.C. Cir. 1993) (confirming that Subsection F is mandatory); *Natural Resources Defense Council v. NRC*, 647 F.2d 1345, 1357 (D.C. Cir. 1981) (“This NEPA prescription, I find, looks toward cooperation, not unilateral action, in a manner consistent with our foreign policy.”); cf. COUNCIL ON ENVIRONMENTAL QUALITY, GUIDANCE ON NEPA ANALYSIS FOR TRANSBOUNDARY IMPACTS (1997), available at <http://www.gc.noaa.gov/documents/transguide.pdf>; Exec. Order No. 12,114, *Environmental Effects Abroad of Major Federal Actions*, 44 Fed. Reg. 1957 §§ 1-1, 2-1 (Jan. 4, 1979) (applying to “major Federal actions . . . having significant effects on the environment outside the geographical borders of the United States,” and enabling agency officials “to be informed of pertinent environmental considerations and to take such considerations into account . . . in making decisions regarding such actions”).

<sup>79</sup> See generally Howard & Schwartz, *supra* note 39.

<sup>80</sup> Ted Gayer & W. Kip Viscusi, *Determining the Proper Scope of Climate Change Policy Benefits in U.S. Regulatory Analyses: Domestic versus Global Approaches*, 10 Rev. Envtl. Econ. & Pol’y 245 (2016) (citing Circular A-4 to argue against a global perspective on the social cost of carbon); see also, e.g., Petitioners Brief on Procedural and Record-Based Issues at 70, in *West Virginia v. EPA*, case 15-1363, D.C. Cir. (filed February 19, 2016) (challenging EPA’s use of the global social cost of carbon).

<sup>81</sup> Circular A-4 at 15. Note that A-4 slightly conflates “accrue to citizens” with “borders of the United States”: U.S. citizens have financial and other interests tied to effects beyond the borders of the United States, as discussed further below.

costs that should have been considered alongside these benefits. Therefore, DOE acted reasonably when it compared global benefits to national costs.<sup>82</sup>

Circular A-4's reference to effects "beyond the borders" confirms that it is appropriate for agencies to consider the global effects of U.S. greenhouse gas emissions. While Circular A-4 may suggest that most typical decisions should focus on U.S. effects, the Circular cautions agencies that special cases call for different emphases:

[Y]ou cannot conduct a good regulatory analysis according to a formula. Conducting high-quality analysis requires competent professional judgment. ***Different regulations may call for different emphases*** in the analysis, ***depending on the nature and complexity*** of the regulatory issues and the sensitivity of the benefit and cost estimates to the key assumptions.<sup>83</sup>

In fact, Circular A-4 elsewhere assumes that agencies' analyses will not always be conducted from purely the perspective of the United States, as one of its instructions only applies "as long as the analysis is conducted from the United States perspective,"<sup>84</sup> suggesting that in some circumstances it is appropriate for the analysis to be global. For example, the Environmental Protection Agency and the Department of Transportation have adopted a global perspective on the analysis of potential monopsony benefits to U.S. consumers resulting from the reduced price of foreign oil imports following energy efficiency increases, and the Environmental Protection Agency assesses the global potential for leakage of greenhouse gas emissions owing to U.S. regulation.<sup>85</sup>

The nature of the issue of climate change requires such a "different emphasis" from the default domestic-only assumption. To avoid a global "tragedy of the commons" that could irreparably damage all countries, including the United States, every nation should ideally set policy according to the global social cost of greenhouse gases.<sup>86</sup> Climate and clean air are global common resources, meaning they are freely available to all countries, but any one country's use—i.e., pollution—imposes harms on the polluting country as well as the rest of the world. Because greenhouse pollution does not stay within geographic borders but rather mixes in the atmosphere and affects climate worldwide, each ton emitted by the United States not only creates domestic harms, but also imposes large externalities on the rest of the world. Conversely, each ton of greenhouse gases abated in another country benefits the United States along with the rest of the world.

If all countries set their greenhouse emission levels based on only domestic costs and benefits, ignoring the large global externalities, the aggregate result would be substantially sub-optimal climate protections and significantly increased risks of severe harms to all nations, including the United States. Thus, basic economic principles demonstrate that the United States stands to benefit greatly if all countries apply global social cost of greenhouse gas values in their regulatory decisions and project reviews. Indeed, the United States stands to gain hundreds of billions or even trillions of dollars in direct benefits from efficient foreign action on climate change.<sup>87</sup>

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<sup>82</sup> *Zero Zone v. Dept. of Energy*, No. 14-2147, at 44 (7<sup>th</sup> Cir., Aug. 8, 2016).

<sup>83</sup> Circular A-4 at 3.

<sup>84</sup> *Id.* at 38 (counting international transfers as costs and benefits "as long as the analysis is conducted from the United States perspective").

<sup>85</sup> See Howard & Schwartz, *supra* note 39, at 268-69.

<sup>86</sup> See Garrett Hardin, *The Tragedy of the Commons*, 162 *Science* 1243 (1968) ("[E]ach pursuing [only its] own best interest . . . in a commons brings ruin to all.").

<sup>87</sup> Policy Integrity, *Foreign Action, Domestic Windfall: The U.S. Economy Stands to Gain Trillions from Foreign Climate Action* (2015), <http://policyintegrity.org/files/publications/ForeignActionDomesticWindfall.pdf>

Therefore, a rational tactical option in the effort to secure that economically efficient outcome is for the United States to continue using global social cost of greenhouse gas values itself.<sup>88</sup> The United States is engaged in a repeated strategic dynamic with several significant players—including the United Kingdom, Germany, Sweden, and others—that have already adopted a global framework for valuing the social cost of greenhouse gases.<sup>89</sup> For example, Canada and Mexico have explicitly borrowed the U.S. estimates of a global Social Cost of Carbon to set their own fuel efficiency standards.<sup>90</sup> For the United States to now depart from this collaborative dynamic by reverting to a domestic-only estimate could undermine the country’s long-term interests and could jeopardize emissions reductions underway in other countries, which are already benefiting the United States.

For these and other reasons, federal agencies have, since 2009, properly relied on global estimates of the social cost of greenhouse gases to justify their decisions. At the same time, agencies have often disclosed a “highly speculative” estimate of the domestic-only effects of climate change. In particular, the Department of Energy always includes a chapter on a domestic-only value of carbon emissions in the economic analyses supporting its energy efficiency standards; the Environmental Protection Agency has also often disclosed similar estimates.<sup>91</sup> Such an approach is consistent with Circular A-4’s suggestion that agencies should usually disclose domestic effects separately from global effects. However, as explored more below, reliance on a domestic-only methodology would be inconsistent with the standards of Circular A-4, and existing estimates of domestic-only effects are severe underestimates. Consequently, it is appropriate under Circular A-4 for agencies to continue to rely on global estimates of the social cost of greenhouses to justify their regulatory decisions or their choice of alternatives under NEPA.

Moreover, no current methodology can accurately estimate a “domestic-only” value of the social cost of greenhouse gases. OMB, the National Academies of Sciences, and the economic literature all agree that existing methodologies for calculating a “domestic-only” value of the social cost of greenhouse gases are deeply flawed and result in severe and misleading underestimates.

The Interagency Working Group had offered some domestic estimates. Using the results of one economic model (FUND) as well as the U.S. share of global gross domestic product (“GDP”), the group generated an “approximate, provisional, and **highly speculative**” range of 7–23% of the global social cost of carbon as an estimate of the purely direct climate effects to the United States.<sup>92</sup> Yet, as the interagency group acknowledged—and as discussed more thoroughly in the next subsection of these comments—this range is almost certainly an underestimate because it ignores significant, indirect costs to trade, human health, and security that are likely to “spill over” into the United States as other regions experience climate change damages, among other effects.

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<sup>88</sup> See Robert Axelrod, *The Evolution of Cooperation* 10-11 (1984) (on repeated prisoner’s dilemma games).

<sup>89</sup> See Howard & Schwartz, *supra* note 39, at Appendix B.

<sup>90</sup> See Heavy-Duty Vehicle and Engine Greenhouse Gas Emission Regulations, SOR/2013-24, 147 Can. Gazette pt. II, 450, 544 (Can.), available at <http://canadagazette.gc.ca/rp-pr/p2/2013/2013-03-13/html/sor-dors24-eng.html> (“The values used by Environment Canada are based on the extensive work of the U.S. Interagency Working Group on the Social Cost of Carbon.”); Jason Furman & Brian Deese, *The Economic Benefits of a 50 Percent Target for Clean Energy Generation by 2025*, White House Blog, June 29, 2016 (summarizing the North American Leader’s Summit announcement that U.S., Canada, and Mexico would “align” their SCC estimates).

<sup>91</sup> Howard & Schwartz, *supra* note 39, at 220-21.

<sup>92</sup> INTERAGENCY WORKING GROUP ON SOCIAL COST OF CARBON, TECHNICAL SUPPORT DOCUMENT: SOCIAL COST OF CARBON FOR REGULATORY IMPACT ANALYSIS UNDER EXECUTIVE ORDER 12,866 at 11 (2010).

Neither the existing IAMs nor a share of global GDP are appropriate bases for calculating a domestic-only estimate. FUND, like other IAMs, includes some simplifying assumptions: of relevance, FUND and the other IAMs are not able to capture the adverse effects that the impacts of climate change in other countries will have on the United States through trade linkages, national security, migration, and other forces.<sup>93</sup> This is why the IWG characterized the domestic-only estimate from FUND as a “highly speculative” underestimate. Similarly, a domestic-only estimate based on some rigid conception of geographic borders or U.S. share of world GDP will fail to capture all the climate-related costs and benefits that matter to U.S. citizens.<sup>94</sup> U.S. citizens have economic and other interests abroad that are not fully reflected in the U.S. share of global GDP. GDP is a “monetary value of final goods and services—that is, those that are bought by the final user—produced in a country in a given period of time.”<sup>95</sup> GDP therefore does not reflect significant U.S. ownership interests in foreign businesses, properties, and other assets, as well as consumption abroad including tourism,<sup>96</sup> or even the 8 million Americans living abroad.<sup>97</sup> At the same time, GDP is also over-inclusive, counting productive operations in the United States that are owned by foreigners. Gross National Income (“GNI”), by contrast, defines its scope not by location but by ownership interests.<sup>98</sup> However, not only has GNI fallen out of favor as a metric used in international economic policy,<sup>99</sup> but using a domestic-only SCC based on GNI would make the SCC metrics incommensurable with other costs in regulatory impact analyses, since most regulatory costs are calculated by U.S. agencies regardless of whether they fall to U.S.-owned entities or to foreign-owned entities operating in the United States.<sup>100</sup> The artificial constraints of both metrics counsel against a rigid split based on either U.S. GDP or U.S. GNI.<sup>101</sup>

In 2015, OMB concluded, along with several other agencies, that “good methodologies for estimating domestic damages do not currently exist.”<sup>102</sup> Similarly, the National Academies of Sciences recently

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<sup>93</sup> See, e.g., Dept. of Defense, *National Security Implications of Climate-Related Risks and a Changing Climate* (2015), available at <http://archive.defense.gov/pubs/150724-congressional-report-on-national-implications-of-climate-change.pdf?source=govdelivery>.

<sup>94</sup> A domestic-only SCC would fail to “provide to the public and to OMB a careful and transparent analysis of the anticipated consequences of economically significant regulatory actions.” Office of Information and Regulatory Affairs, *Regulatory Impact Analysis: A Primer 2* (2011).

<sup>95</sup> Tim Callen, *Gross Domestic Product: An Economy’s All*, IMF, <http://www.imf.org/external/pubs/ft/fandd/basics/gdp.htm> (last updated Mar. 28, 2012).

<sup>96</sup> “U.S. residents spend millions each year on foreign travel, including travel to places that are at substantial risk from climate change, such as European cities like Venice and tropical destinations like the Caribbean islands.” David A. Dana, *Valuing Foreign Lives and Civilizations in Cost-Benefit Analysis: The Case of the United States and Climate Change Policy* (Northwestern Faculty Working Paper 196, 2009), <http://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1195&context=facultyworkingpapers>.

<sup>97</sup> Assoc. of Americans Resident Overseas, <https://www.aaro.org/about-aaro/6m-americans-abroad>. Admittedly 8 million is only 0.1% of the total population living outside the United States.

<sup>98</sup> *GNI, Atlas Method (Current US\$)*, THE WORLD BANK, <http://data.worldbank.org/indicator/NY.GNP.ATLS.CD>.

<sup>99</sup> *Id.*

<sup>100</sup> U.S. Office of Management and Budget & Secretariat General of the European Commission, *Review of Application of EU and US Regulatory Impact Assessment Guidelines on the Analysis of Impacts on International Trade and Development* 13 (2008).

<sup>101</sup> Advanced Notice of Proposed Rulemaking on Regulating Greenhouse Gas Emissions Under the Clean Air Act, 73 Fed. Reg. 44,354, 44,415 (July 30, 2008) (“Furthermore, international effects of climate change may also affect domestic benefits directly and indirectly to the extent U.S. citizens value international impacts (e.g., for tourism reasons, concerns for the existence of ecosystems, and/or concern for others); U.S. international interests are affected (e.g., risks to U.S. national security, or the U.S. economy from potential disruptions in other nations).”).

<sup>102</sup> In November 2013, OMB requested public comments on the social cost of carbon. In 2015, OMB along with the rest of the Interagency Working Group issued a formal response to those comments. Interagency Working Group on the Social Cost of

concluded that current IAMs cannot accurately estimate the domestic social cost of greenhouse gases, and that estimates based on U.S. share of global GDP would be likewise insufficient.<sup>103</sup> William Nordhaus, the developer of the DICE model, cautioned earlier this year that “regional damage estimates are both incomplete and poorly understood,” and “there is little agreement on the distribution of the SCC by region.”<sup>104</sup> In short, any domestic-only estimate will be inaccurate, misleading, and out of step with the best available economic literature, in violation of Circular A-4’s standards for information quality.

For more details on the justification for a global value of the social cost of greenhouse gases, please see Peter Howard & Jason Schwartz, *Think Global: International Reciprocity as Justification for a Global Social Cost of Carbon*, 42 Columbia J. Envtl. L. 203 (2017). Another strong defense of the global valuation as consistent with best economic practices appears in a letter published in the latest issue of *The Review of Environmental Economics and Policy*, co-authored by Nobel laureate Kenneth Arrow.<sup>105</sup>

### ***Reliance on a 3% or Lower Discount Rate for Intergenerational Effects—or a Declining Discount Rate—Is Consistent with NEPA’s Required Treatment of Future Generations***

Because of the long lifespan of greenhouse gases and the long-term or irreversible consequences of climate change, the effects of today’s emissions changes will stretch out over the next several centuries. The time horizon for an agency’s analysis of climate effects, as well as the discount rate applied to future costs and benefits, determines how an agency treats future generations of Americans. Current central estimates of the social cost of greenhouse gases are based on a 3% discount rate and a 300-year time horizon. Executive Order 13,783 instructs agencies to reconsider the “appropriate discount rates” when monetizing the value of climate effects.<sup>106</sup> By citing the official guidance on typical regulatory analyses (namely, the Office of Management and Budget’s *Circular A-4*), the Order implicitly called into question the Interagency Working Group’s choice not to use a 7% discount rate. However, use of a 7% discount would not only be inconsistent with best economic practices but would violate NEPA’s required treatment of future generations.

NEPA requires agencies to weigh the “relationship between local short-term uses of man’s environment and the maintenance and enhancement of long-term productivity,” as well as “any irreversible and irretrievable commitments of resources.”<sup>107</sup> That requirement is prefaced with a congressional declaration of policy that explicitly references the needs of future generations:

The Congress, recognizing the profound impact of man's activity on the interrelations of all components of the natural environment...declares that it is the continuing policy of the Federal Government...to use all practicable means and measures...to create and maintain conditions under which man and nature can exist in productive harmony, and fulfill the social, economic, and other requirements of present and **future generations** of Americans.<sup>108</sup>

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Carbon, *Response to Comments: Social Cost of Carbon for Regulatory Impact Analysis under Executive Order 12,866* at 36 (July 2015) [hereinafter, OMB 2015 Response to Comments].

<sup>103</sup> NAS Second Report, at 53.

<sup>104</sup> William Nordhaus, *Revisiting the Social Cost of Carbon*, 114 PNAS 1518, 1522 (2017).

<sup>105</sup> Richard Revesz, Kenneth Arrow et al., *The Social Cost of Carbon: A Global Imperative*, 11 REEP 172 (2017).

<sup>106</sup> Executive Order 13,783 § 5(c).

<sup>107</sup> 42 U.S.C. § 4332(2)(C).

<sup>108</sup> 42 U.S.C.A. § 4331.



When the Congressional Conference Committee adopted that language, it reported that the first “broad national goal” under the statute is to “fulfill the responsibilities of each generation as trustee of the environment for future generations. It is recognized in this [congressional] statement [of policy] that each generation has a responsibility to improve, enhance, and maintain the quality of the environment *to the greatest extent possible for the continued benefit of future generations.*”<sup>109</sup>

Because applying a 7% discount rate to the social cost of greenhouse gases could drop the valuation essentially to \$0, use of a 7% discount rate effectively ignores the needs of future generations. Doing so would arbitrarily fail to consider an important statutory factor that Congress wrote into the NEPA requirements.

Moreover, a 7% discount rate is inconsistent with best economic practices, including under *Circular A-4*. In 2015, OMB explained that “Circular A-4 is a **living document**. . . . [T]he use of **7 percent is not considered appropriate** for intergenerational discounting. There is wide support for this view in the academic literature, and it is recognized in Circular A-4 itself.”<sup>110</sup> While Circular A-4 tells agencies generally to use a 7% discount rate in addition to lower rates for typical rules,<sup>111</sup> the guidance does not intend for default assumptions to produce analyses inconsistent with best economic practices. Circular A-4 clearly supports using lower rates to the exclusion of a 7% rate for the costs and benefits occurring over the extremely long, 300-year time horizon of climate effects.

Circular A-4 clearly requires agency analysts to do more than rigidly apply default assumptions: “You cannot conduct a good regulatory analysis according to a formula. Conducting high-quality analysis requires competent professional judgment.”<sup>112</sup> Analysis must be “based on the best reasonably obtainable scientific, technical, and economic information available,”<sup>113</sup> and agencies must “**Use sound and defensible values** or procedures to monetize benefits and costs, and ensure that key analytical assumptions are defensible.”<sup>114</sup> Rather than assume a 7% discount rate should be applied automatically to every analysis, Circular A-4 requires agencies to justify the choice of discount rates for each analysis: “[S]tate in your report what assumptions were used, *such as . . . the discount rates* applied to future benefits and costs,” and explain “clearly how you arrived at your estimates.”<sup>115</sup> Based on Circular A-4’s criteria, there are numerous reasons why applying a 7% discount rate to climate effects that occur over a 300-year time horizon would be unjustifiable.

First, basing the discount rate on the **consumption rate of interest** is the correct framework for analysis of climate effects; a discount rate based on the private return to capital is inappropriate. Circular A-4 does suggest that 7% should be a “default position” that reflects regulations that primarily displace capital investments; however, the Circular explains that “When regulation primarily and directly affects private consumption . . . a lower discount rate is appropriate.”<sup>116</sup> The 7% discount rate is based on a private sector rate of return on capital, but private market participants typically have short time

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<sup>109</sup> See 115 Cong. Rec. 40419 (1969); see also same in Senate Report 91-296 (1969).

<sup>110</sup> OMB 2015 Response to Comments, at 36.

<sup>111</sup> Circular A-4 at 36 (“For regulatory analysis, you should provide estimates of net benefits using both 3 percent and 7 percent....If your rule will have important intergenerational benefits or costs you might consider a further sensitivity analysis using a lower but positive discount rate in addition to calculating net benefits using discount rates of 3 and 7 percent.”).

<sup>112</sup> *Id.* at 3.

<sup>113</sup> *Id.* at 17.

<sup>114</sup> *Id.* at 27.

<sup>115</sup> *Id.* at 3.

<sup>116</sup> *Id.* at 33.

horizons. By contrast, climate change concerns the public well-being broadly. Rather than evaluating an optimal outcome from the narrow perspective of investors alone, economic theory requires analysts to make the optimal choices based on societal preferences and social discount rates. Moreover, because climate change is expected to largely affect consumption,<sup>117</sup> a 7% rate is inappropriate.

In 2013, OMB called for public comments on the social cost of greenhouse gases; in the 2015 Response to Comment document,<sup>118</sup> OMB (together with the other agencies from the IWG) explained that:

[T]he consumption rate of interest is the correct concept to use . . . as the impacts of climate change are measured in consumption-equivalent units in the three IAMs used to estimate the SCC. This is consistent with OMB guidance in Circular A-4, which states that when a regulation is expected to primarily affect private consumption—for instance, via higher prices for goods and services—it is appropriate to use the consumption rate of interest to reflect how private individuals trade-off current and future consumption.<sup>119</sup>

The Council of Economic Advisers similarly interprets Circular A-4 as requiring agencies to choose the appropriate discount rate based on the nature of the regulation: “[I]n Circular A-4 by the Office of Management and Budget (OMB) the appropriate discount rate to use in evaluating the net costs or benefits of a regulation depends on whether the regulation primarily and directly affects private consumption or private capital.”<sup>120</sup> The National Academies of Sciences also explained that a consumption rate of interest is the appropriate basis for a discount rate for climate effects.<sup>121</sup> In short, 7% is an inappropriate choice of discount rate for the impacts of climate change.

Second, **uncertainty over the long time horizon** of climate effects should drive analysts to select a lower discount rate. As an example of when a 7% discount rate is appropriate, Circular A-4 identifies an EPA rule with a 30-year timeframe of costs and benefits.<sup>122</sup> By contrast, greenhouse gas emissions generate effects stretching out across 300 years. As Circular A-4 notes, while “Private market rates provide a

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<sup>117</sup> “There are two rationales for discounting future benefits—one based on consumption and the other on investment. The consumption rate of discount reflects the rate at which society is willing to trade consumption in the future for consumption today. Basically, we discount the consumption of future generations because we assume future generations will be wealthier than we are and that the utility people receive from consumption declines as their level of consumption increases. . . . The investment approach says that, as long as the rate of return to investment is positive, we need to invest less than a dollar today to obtain a dollar of benefits in the future. Under the investment approach, the discount rate is the rate of return on investment. If there were no distortions or inefficiencies in markets, the consumption rate of discount would equal the rate of return on investment. There are, however, many reasons why the two may differ. As a result, using a consumption rather than investment approach will often lead to very different discount rates.” Maureen Cropper, *How Should Benefits and Costs Be Discounted in an Intergenerational Context?*, 183 *RESOURCES* 30, 33.

<sup>118</sup> Note that this document was not withdrawn by Executive Order 13,783.

<sup>119</sup> OMB 2015 Response to Comments, at 22.

<sup>120</sup> Council of Econ. Advisers, *Discounting for Public Policy: Theory and Recent Evidence on the Merits of Updating the Discount Rate* at 1 (CEA Issue Brief, 2017), available at [https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701\\_cea\\_discounting\\_issue\\_brief.pdf](https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701_cea_discounting_issue_brief.pdf). In theory, the two rates would be the same, but “given distortions in the economy from taxation, imperfect capital markets, externalities, and other sources, the SRTP and the marginal product of capital need not coincide, and analysts face a choice between the appropriate opportunity cost of a project and the appropriate discount rate for its benefits.” *Id.* at 9. The correct discount rate for climate change is the social return to capital (i.e., returns minus the costs of externalities), not the private return to capital (which measures solely the returns).

<sup>121</sup> NAS Second Report at 28; see also Kenneth Arrow et al., *Is There a Role for Benefit-Cost Analysis in Environmental, Health, and Safety Regulation?*, 272 *Science* 221 (1996) (explaining that a consumption-based discount rate is appropriate for climate change).

<sup>122</sup> Circular A-4 at 34. See also OMB 2015 Response to Comments at 21 (“While most regulatory impact analysis is conducted over a time frame in the range of 20 to 50 years”).

reliable reference for determining how society values time within a generation, but for extremely long time periods no comparable private rates exist.”<sup>123</sup>

Circular A-4 discusses how uncertainty over long time horizons drives the discount rate lower: “the longer the horizon for the analysis,” the greater the “uncertainty about the appropriate value of the discount rate,” which supports a lower rate.<sup>124</sup> Circular A-4 cites the work of respected economist Weitzman and concludes that the “certainty-equivalent discount factor corresponds to **the minimum discount rate having any substantial positive probability.**”<sup>125</sup> The National Academies of Sciences makes the same point about discount rates and uncertainty.<sup>126</sup>

Third, a 7% percent discount rate would be inappropriate for climate change because it is based on **outdated data and diverges from the current economic consensus.** Circular A-4 requires that assumptions—including discount rate choices—are “based on the best reasonably obtainable scientific, technical, and economic information available.”<sup>127</sup> Yet Circular A-4’s own default assumption of a 7% discount rate was published 14 years ago and was based on data from decades ago.<sup>128</sup> Circular A-4’s guidance on discount rates is in need of an update, as the Council of Economic Advisers detailed earlier this year after reviewing the best available economic data and theory:

The discount rate guidance for Federal policies and projects was last revised in 2003. Since then a general reduction in interest rates along with a reduction in the forecast of long-run interest rates, warrants serious consideration for a reduction in the discount rates used for benefit-cost analysis.<sup>129</sup>

In addition to recommending a value below 7% as the discount factor based on private capital returns, the Council of Economic Advisers further explains that, because long-term interest rates have fallen, a discount rate based on the consumption rate of interest “should be at most 2 percent,”<sup>130</sup> which further confirms that applying a 7% rate to a context like climate change would be wildly out of step with the latest data and theory. Similarly, recent expert elicitations—a technique supported by Circular A-4 for

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<sup>123</sup> Circular A-4 at 36.

<sup>124</sup> Circular A-4 at 36.

<sup>125</sup> *Id.*; see also CEA, *supra* note 120, at 9: “Weitzman (1998, 2001) showed theoretically and Newell and Pizer (2003) and Groom et al. (2007) confirm empirically that discount rate uncertainty can have a large effect on net present values. A main result from these studies is that if there is a persistent element to the uncertainty in the discount rate (e.g., the rate follows a random walk), then it will result in an effective (or certainty-equivalent) discount rate that declines over time. Consequently, lower discount rates tend to dominate over the very long term, regardless of whether the estimated investment effects are predominantly measured in private capital or consumption terms (see Weitzman 1998, 2001; Newell and Pizer 2003; Groom et al. 2005, 2007; Gollier 2008; Summers and Zeckhauser 2008; and Gollier and Weitzman 2010).”

<sup>126</sup> NAS Second Report at 27.

<sup>127</sup> CEQ regulations implementing NEPA similarly require that information in NEPA documents be “of high quality” and states that “[a]ccurate scientific analysis . . . [is] essential to implementing NEPA.” 40 C.F.R. § 1500.1(b).

<sup>128</sup> The 7% rate was based on a 1992 report; the 3% rate was based on data from the thirty years preceding the publication of Circular A-4 in 2003. Circular A-4 at 33.

<sup>129</sup> CEA, *supra* note 120, at 1; *id.* at 3 (“In general the evidence supports lowering these discount rates, with a plausible best guess based on the available information being that the lower discount rate should be at most 2 percent while the upper discount rate should also likely be reduced.”); *id.* at 6 (“The Congressional Budget Office, the Blue Chip consensus forecasts, and the Administration forecasts all place the ten year treasury yield at less than 4 percent in the future, while at the same time forecasting CPI inflation of 2.3 or 2.4 percent per year. The implied real ten year Treasury yield is thus below 2 percent in all these forecasts.”).

<sup>130</sup> *Id.* at 1.

filling in gaps in knowledge<sup>131</sup>—indicate that a growing consensus among experts in climate economics for a discount rate between 2% and 3%; 5% represents the upper range of values recommended by experts, and few to no experts support discount rates greater than 5% being applied to the costs and benefits of climate change.<sup>132</sup> Based on current economic data and theory, the most appropriate discount rate for climate change is 3% or lower.

Fourth, Circular A-4 requires more of analysts than giving all possible assumptions and scenarios equal attention in a sensitivity analysis; if alternate assumptions would fundamentally change the decision, Circular A-4 requires analysts to select the **most appropriate assumptions from the sensitivity analysis**.

Circular A-4 indicates that significant intergenerational effects will warrant a special sensitivity analysis focused on discount rates even lower than 3%:

Special ethical considerations arise when comparing benefits and costs across generations. . . It may not be appropriate for society to demonstrate a similar preference when deciding between the well-being of current and future generations. . . If your rule will have important intergenerational benefits or costs you might consider a further sensitivity analysis using a lower but positive discount rate in addition to calculating net benefits using discount rates of 3 and 7 percent.<sup>133</sup>

Elsewhere in Circular A-4, OMB clarifies that sensitivity analysis should not result in a rigid application of all available assumptions regardless of plausibility. Circular A-4 instructs agencies to depart from default assumptions when special issues “call for different emphases” depending on “the sensitivity of the benefit and cost estimates to the key assumptions.”<sup>134</sup> More specifically:

If benefit or cost estimates depend heavily on certain assumptions, you should make those assumptions explicit and carry out *sensitivity analyses using plausible alternative assumptions*. If the value of net benefits changes from positive to negative (or vice versa) or if the relative ranking of regulatory options changes with alternative plausible assumptions, you should conduct further analysis to determine ***which of the alternative assumptions is more appropriate***.<sup>135</sup>

In other words, if using a 7% discount rate would fundamentally change the agency’s decision compared to using a 3% or lower discount rate, the agency must evaluate which assumption is most appropriate. Since OMB, the Council of Economic Advisers, the National Academies of Sciences, and the economic literature all conclude that a 7% rate is inappropriate for climate change, agencies should select a 3% or lower rate. Applying a 7% rate to climate effects cannot be justified “based on the best reasonably obtainable scientific, technical, and economic information available” and is inconsistent with the proper treatment of uncertainty over long time horizons.

Similarly, a 300-year time horizon is required by best economic practices. In 2017, the National Academies of Sciences issued a report stressing the importance of a longer time horizon for calculating the social cost of greenhouse gases. The report states that, “[i]n the context of the socioeconomic,

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<sup>131</sup> Circular A-4 at 41.

<sup>132</sup> Howard and Sylvan, *supra* note 72; M.A. Drupp, et al., *Discounting Disentangled: An Expert Survey on the Determinants of the Long-Term Social Discount Rate* (London School of Economics and Political Science Working Paper, May 2015) (finding consensus on social discount rates between 1-3%).

<sup>133</sup> Circular A-4 at 35-36.

<sup>134</sup> *Id.* at 3.

<sup>135</sup> *Id.* at 42.

damage, and discounting assumptions, the time horizon needs to be long enough to capture the vast majority of the present value of damages.”<sup>136</sup> The report goes on to note that the length of the time horizon is dependent “on the rate at which undiscounted damages grow over time and on the rate at which they are discounted. Longer time horizons allow for representation and evaluation of longer-run geophysical system dynamics, such as sea level change and the carbon cycle.”<sup>137</sup> In other words, after selecting the appropriate discount rate based on theory and data (in this case, 3% or below), analysts should determine the time horizon necessary to capture all costs and benefits that will have important net present values at the discount rate. Therefore, a 3% or lower discount rate for climate change implies the need for a 300-year horizon to capture all significant values. NAS reviewed the best available, peer-reviewed scientific literature and concluded that the effects of greenhouse gas emissions over a 300-year period are sufficiently well established and reliable as to merit consideration in estimates of the social cost of greenhouse gases.<sup>138</sup>

### **3. The Forest Service Should Reconsider Its Assumption That the Proposed Action Will Not Affect Demand for Coal**

The Forest Service assumes that:

Coal produced from the West Elk mine is a tiny fraction of the total coal mined and combusted in the U.S. on an annual basis. Absent policy, or a demand side shift away from coal, there are still far too many suppliers that could substitute their coal for West Elk’s in the market place regardless of the government’s influence with this decision. And, thus, at this time there is no credible reason to deny the modification on the basis of climate change.<sup>139</sup>

In other words, the Forest Service assumes that this proposed action will not increase the supply of coal in a way that could decrease the price and thus increase the demand for coal, resulting in increased emissions.

The Forest Service provides no justification for its assumption of perfect substitution. First, it does not explain why “1.67% of all federal coal produced nationally”<sup>140</sup> is a “tiny fraction” that could not possibly affect greenhouse gas emissions. In fact, the Forest Service suggests that, “when considered on a CO<sub>2</sub>e [carbon dioxide-equivalent] basis,” the greenhouse gas “emissions from the assumed combustion of the maximum projected West Elk production” could be about 2% of total U.S. emissions. (The Forest Service first estimates carbon dioxide emissions at 0.22%, but then says the “rates are roughly an order of magnitude higher” when factoring in the relative global warming potential of all greenhouse gases. An “order of magnitude” signifies a factor of 10.) The agency does not provide any evidence or explain why such emissions are not significant enough to be monetized.

Second, the agency fails to analyze whether such a quantity of additional coal could affect demand. Basic economic principles predict that increases in supply will decrease price and so increase consumption.<sup>141</sup> To the extent that combustion of the additional coal mined under the proposed action is not perfectly offset by decreased demand for substitute coal, the net greenhouse gas emissions of the

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<sup>136</sup> NAS Second Report at 78.

<sup>137</sup> *Id.*

<sup>138</sup> NAS First Report at 32

<sup>139</sup> SDEIS at 129.

<sup>140</sup> SDEIS at 128.

<sup>141</sup> N. Gregory Mankiw, *Principles of Economics* 74–78, 80–81 (5th ed. 2008).

proposed action will be higher than the Forest Service estimates. Notably, in *High Country Conservation Advocates*, the U.S. District Court of Colorado “[could] not make sense” of the Forest Service’s assumption that approving road construction through national forests to reach Colorado coal mines would not increase coal production and consumption.<sup>142</sup> There are several “widely used” models capable of analyzing such substitution effects on demand.<sup>143</sup>

Finally, the Forest Service’s assumption is contradicted by its own predictions of increased federal revenue resulting from the proposed action. If the coal anticipated to be mined under the proposed action really only would displace coal mined elsewhere, some of those substitute sources would surely have been other federal leases, given that over 40 percent of U.S. coal production already comes from federal leases. Therefore, under an assumption of perfect substitution, a significant portion of the revenue anticipated from the proposed action would simply displace other revenue from other federal leases.<sup>144</sup> Yet the Forest Service never indicates that it has subtracted revenue lost from other federal leases from its calculations of new federal revenue. If the Forest Service’s assumption of perfect substitution is correct, then its calculation of the economic benefits of the proposed action are inaccurate and misleadingly high. If instead the Forest Service’s assumption of perfect substitution is incorrect, then its presentation of the climate consequences of the proposed action is inaccurate and misleadingly low. Either way, the Forest Service has failed to execute its responsibilities under NEPA to fully inform decisionmakers and the public about the consequences of proposed actions.

Sincerely,

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\* No part of this document purports to present New York University School of Law’s views, if any.

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<sup>142</sup> 52 F. Supp. 3d at 1197. See also *Mid States Coal. For Progress v. Surface Transp. Bd.*, 345 F.3d 520, 549-550 (8<sup>th</sup> Cir. 2003) (finding it “illogical” to conclude that approving new railroad lines to Powder River Basin coal mines would not affect the demand for and consumption of coal, and noting the “widely used” models capable of forecasting such effects).

<sup>143</sup> *Mid States Coal. For Progress v. Surface Transp. Bd.*, 345 F.3d 520, 549-550 (8<sup>th</sup> Cir. 2003); see *Mayo Found. v. Surface Transp. Bd.*, 472 F.3d 535, 555 (8<sup>th</sup> Cir. 2006) (upholding the agency action on remand because “the Board undertook just such a study using the Energy Information Administration’s National Energy Modeling System”).

<sup>144</sup> Even in the unlikely case where this proposed action perfectly displaces only privately-sourced coal, there would still be a drop in federal revenue resulting from that displacement, since U.S. citizens earn much of the revenue from private coal leases, and that revenue is taxed by the federal government.