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#### Proposed Rule, Economic and Benefits Analysis

EPA-821-R-02-001; February 2002

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[Cover, Table of Contents \(PDF\)](#) (187 KB)

Part A: Background Information

- [Chapter A1 \(PDF\)](#) (443 K) Introduction and Overview
- [Chapter A2 \(PDF\)](#) (532 K) Need for the Regulation
- [Chapter A3 \(PDF\)](#) (1.6 Mb) Profile of the Electric Power Industry

Part B: Costs and Economic Impacts

Industrial Water Pollution Controls Home

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# **Economic and Benefits Analysis for the Proposed Section 316(b) Phase II Existing Facilities Rule**

# **Economic and Benefits Analysis for the Proposed Section 316(b) Phase II Existing Facilities Rule**

**U.S. Environmental Protection Agency  
Office of Science and Technology  
Engineering and Analysis Division**

**Washington, DC 20460  
February 28, 2002**

## **ACKNOWLEDGMENTS AND DISCLAIMER**

This document was prepared by the Office of Water staff. The following contractors provided assistance and support in performing the underlying analysis supporting the conclusions detailed in this document.

Abt Associates Inc.  
Science Applications International Corporation  
Stratus Consulting Inc.  
Tetra Tech

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# Table of Contents

## PART A: BACKGROUND INFORMATION

### Chapter A1: Introduction and Overview

A1-1	Scope of the Proposed Rule .....	A1-1
A1-2	Definitions of Key Concepts .....	A1-2
A1-3	Summary of the Proposed Rule .....	A1-3
A1-3.1	Proposed Performance Standards .....	A1-3
A1-4	Summary of Alternative Regulatory Options .....	A1-6
A1-5	Compliance Responses of the Proposed Rule and Alternative Options .....	A1-8
A1-6	Organization of the EBA Report .....	A1-10
References	.....	A1-12

### Chapter A2: The Need for Section 316(b) Regulation

A2-1	Overview of Regulated Facilities .....	A2-1
A2-1.1	Phase II Sector Information .....	A2-1
A2-1.2	Phase II Facility Information .....	A2-2
A2-2	The Need for Section 316(b) Regulation .....	A2-4
A2-2.1	Low Levels of Protection at Phase II Facilities .....	A2-5
A2-2.2	Reducing Adverse Environmental Impacts .....	A2-7
A2-2.3	Addressing Market Imperfections .....	A2-8
A2-2.4	Reducing Differences Between the States .....	A2-10
A2-2.5	Reducing Transaction Costs .....	A2-12
References	.....	A2-14

### Chapter A3: Profile of the Electric Power Industry

A3-1	Industry Overview .....	A3-1
A3-1.1	Industry Sectors .....	A3-2
A3-1.2	Prime Movers .....	A3-2
A3-1.3	Ownership .....	A3-3
A3-2	Domestic Production .....	A3-5
A3-2.1	Generating Capacity .....	A3-6
A3-2.2	Electricity Generation .....	A3-7
A3-2.3	Geographic Distribution .....	A3-8
A3-3	Existing Plants with CWIS and NPDES Permits .....	A3-11
A3-3.1	Existing Section 316(b) Utility Plants .....	A3-13
A3-3.2	Existing Section 316(b) Nonutility Plants .....	A3-18
A3-4	Industry Outlook .....	A3-24
A3-4.1	Current Status of Industry Deregulation .....	A3-24
A3-4.2	Energy Market Model Forecasts .....	A3-25
Glossary	.....	A3-27
References	.....	A3-29

## PART B: COSTS AND ECONOMIC IMPACTS

### Chapter B1: Summary of Compliance Costs

B1-1	Unit Costs .....	B1-1
B1-1.1	Technology Costs .....	B1-2
B1-1.2	Energy Costs .....	B1-6
B1-1.3	Administrative Costs .....	B1-9
B1-2	Assigning Compliance Years to Facilities .....	B1-13
B1-3	Total Private Compliance Costs .....	B1-14
B1-3.1	Methodology .....	B1-14
B1-3.2	Total Private Costs of the Proposed Rule .....	B1-16
B1-4	Limitations and Uncertainties .....	B1-17
References	.....	B1-18
Appendix to Chapter B1	.....	B1-20
B1-A.1	Assignment of Compliance Years for Cooling Tower Options .....	B1-20
B1-A.1.1	Methodology .....	B1-20
B1-A.1.2	Summary of Cooling Tower Facilities by Compliance Year .....	B1-21

### Chapter B2: Cost Impact Analysis

B2-1	Cost-to-Revenue Measure .....	B2-1
B2-1.1	Facility Analysis .....	B2-2
B2-1.2	Firm Analysis .....	B2-3
B2-2	Cost Per Household .....	B2-4
B2-3	Electricity Price Analysis .....	B2-6
References	.....	B2-8

### Chapter B3: Electricity Market Model Analysis

B3-1	Summary Comparison of Energy Market Models. ....	B3-1
B3-2	Integrated Planning Model Overview .....	B3-3
B3-2.1	Modeling Methodology .....	B3-3
B3-2.2	Specifications for the Section 316(b) Analysis .....	B3-6
B3-2.3	Model Inputs .....	B3-7
B3-2.4	Model Outputs .....	B3-8
B3-3	Economic Impact Analysis Methodology .....	B3-9
B3-3.1	Market-level Impact Measures .....	B3-9
B3-3.1	Facility-level Impact Measures .....	B3-10
B3-4	Analysis Results for the Proposed Rule .....	B3-11
B3-4.1	Market Analysis .....	B3-13
B3-4.2	Analysis of Phase II Facilities .....	B3-15
B3-5	Summary of Findings .....	B3-17
B3-6	Uncertainties and Limitations .....	B3-17
References	.....	B3-19
Appendix to Chapter B3	.....	B3-20
B3-A.1	Summary Comparison of Energy Market Models .....	B3-20
B3-A.2	Differences Between EPA Base Case 2000 and Previous Model Specifications. ....	B3-25

### Chapter B4: Regulatory Flexibility Analysis

B4-1	Number of In-Scope Facilities Owned by Small Entities .....	B4-2
B4-1.1	Identification of Domestic Parent Entities .....	B4-2
B4-1.2	Size Determination of Domestic Parent Entities .....	B4-3
B4-2	Percent of Small Entities Regulated .....	B4-5
B4-3	Sales Test for Small Entities .....	B4-6
B4-4	Summary .....	B4-7
References	.....	B4-8

## Chapter B5: UMRA Analysis

B5-1	Analysis of Impacts on Government Entities .....	B5-1
B5-1.1	Compliance Costs for Government-Owned Facilities .....	B5-2
B5-1.2	Administrative Costs .....	B5-2
B5-1.3	Impacts on Small Governments .....	B5-6
B5-2	Compliance Costs for the Private Sector .....	B5-7
B5-3	Summary of UMRA Analysis .....	B5-8
References	.....	B5-9

## Chapter B6: Other Administrative Requirements

B6-1	E.O. 12866: Regulatory Planning and Review .....	B6-1
B6-2	E.O. 12898: Federal Actions to Address Environmental Justice in Minority Populations and Low-Income Populations .....	B6-1
B6-3	E.O. 13045: Protection of Children from Environmental Health Risks and Safety Risks .....	B6-3
B6-4	E.O. 13132: Federalism .....	B6-4
B6-5	E.O. 13158: Marine Protected Areas .....	B6-5
B6-6	E.O. 13175: Consultation with Tribal Governments .....	B6-6
B6-7	E.O. 13211: Energy Effects .....	B6-6
B6-8	Paperwork Reduction Act of 1995 .....	B6-7
B6-9	National Technology Transfer and Advancement Act .....	B6-7
References	.....	B6-8

## Chapter B7: Alternative Options - Costs and Economic Impacts

B7-1	Waterbody/Capacity-based Option .....	B7-2
B7-1.1	Compliance Costs .....	B7-2
B7-1.2	Cost-to-Revenue Measure .....	B7-4
B7-1.3	SBREFA Analysis .....	B7-6
B7-2	Impingement Mortality and Entrainment Controls Everywhere Option .....	B7-6
B7-2.1	Compliance Costs .....	B7-6
B7-2.2	Cost-to-Revenue Measure .....	B7-8
B7-2.3	SBREFA Analysis .....	B7-9
B7-3	All Cooling Towers Option .....	B7-9
B7-3.1	Compliance Costs .....	B7-9
B7-3.2	Cost-to-Revenue Measure .....	B7-11
B7-3.3	SBREFA Analysis .....	B7-12
B7-4	Dry Cooling Option .....	B7-12
B7-4.1	Compliance Costs .....	B7-12
B7-4.2	Cost-to-Revenue Measure .....	B7-14
B7-4.3	SBREFA Analysis .....	B7-15

**Chapter B8: Alternative Options - Electricity Market Model Analysis**

B8-1	Overview of IPM Analysis of Alternative Options	B8-1
B8-2	Market Analysis Level	B8-2
B8-3	Analysis of Phase II Facilities	B8-12
B8-3.1	Group of Phase II Facilities	B8-12
B8-3.2	Individual Phase II Facilities	B8-20
B8-4	Uncertainties and Limitations	B8-22
References		B8-24
Appendix to Chapter B8		B8-26
B8-A1	Market Analysis	B8-26
B8-A2	Phase II Facility Analysis	B8-31
B8-A2.1	Group of Phase II Facilities	B8-31
B8-A2.2	Individual Phase II Facilities	B8-35

**PART C: NATIONAL BENEFITS****Chapter C1: Introduction to the Case Studies**

C1-1	Why Case Studies were Undertaken	C1-1
C1-2	What Sites were Chosen and Why	C1-1
C1-3	Steps Taken in the Case Studies	C1-3
C1-4	Summary of Case Study Analyses	C1-3
C1-5	Data Uncertainties Leading to Underestimates of Case Study Impacts and Benefits	C1-6
C1-5.1	Data Limitations	C1-6
C1-5.2	Estimated Technology Effectiveness	C1-6
C1-5.3	Potential Cumulative Impacts	C1-6
C1-5.4	Recreational Benefits	C1-7
C1-5.5	Secondary (indirect) Economic Impacts	C1-7
C1-5.6	Commercial Benefits	C1-7
C1-5.7	Forage Species	C1-7
C1-5.8	Nonuse Benefits	C1-8
C1-5.9	Incidental Benefits	C1-8
Appendix to Chapter C1		C1-10
C1-A.1	Options with Benefit Estimates	C1-10
C1-A.2	Impingement Reductions and Benefits	C1-11
C1-A.3	Entrainment Reductions and Benefits	C1-12
C1-A.4	Benefits Associated with Various Percentage Reductions	C1-13
C1-A.5	Benefits Associated with the Proposed Option	C1-13

**Chapter C2: Summary of Case Study Results**

C2-1	The Delaware Estuary Watershed (Mid-Atlantic Estuaries)	C2-1
C2-2	Tampa Bay Watershed Study (Gulf Estuaries)	C2-3
C2-3	The Ohio River Watershed Study (Large Rivers)	C2-4
C2-4	San Francisco Bay/Delta (Western Estuaries)	C2-6
C2-5	Mount Hope Bay (New England Estuaries)	C2-7
C2-6	Oceans (New England Coast)	C2-8
C2-7	The Great Lakes	C2-9
C2-8	Large River Tributary to the Great Lakes	C2-10



C2-9	National Baseline Losses Due to I&E at In-Scope Facilities .....	C2-11
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### **Chapter C3: National Extrapolation of Baseline Economic Losses**

C3-1	Extrapolation Methodology .....	C3-1
C3-1.1	Consideration of Volume of Water (Flow) .....	C3-2
C3-1.2	Consideration of Level of Recreational Angling .....	C3-2
C3-1.3	Consideration of Waterbody Type .....	C3-3
C3-1.4	Angling and Flow Indices .....	C3-4
C3-1.5	Waterbody Considerations .....	C3-4
C3-1.6	Advantages and Disadvantages of EPA's Extrapolation Approach .....	C3-5
C3-2	Results of National Benefits Extrapolation .....	C3-5
C3-2.1	Case Study Baseline Losses .....	C3-6
C3-2.2	Extrapolation of Baseline Losses to All Facilities Using Flow Index .....	C3-7
C3-2.3	Extrapolation of Baseline Losses to All Facilities Using Angling Index .....	C3-8
C3-2.4	Average of Flow-Based and Angling-Based Losses .....	C3-9
C3-2.5	Best Estimates .....	C3-10
References	.....	C3-12

### **Chapter C4: Benefits**

C4-1	Options with Benefit Estimates .....	C4-1
C4-2	Impingement Reductions and Benefits .....	C4-2
C4-3	Entrainment Reductions and Benefits .....	C4-3
C4-4	Certainty Levels Associated with the Benefits Estimates of Various Options .....	C4-4
C4-5	Benefits Associated with Various Impingement and Entrainment Percentage Reductions .....	C4-5
C4-6	Impingement and Entrainment Benefits Associated with The Proposed Option .....	C4-5

## **PART D: NATIONAL BENEFIT-COST ANALYSIS**

### **Chapter D1: Comparison of National Costs and Benefits**

D1-1	Social Costs .....	D1-2
D1-2	Summary of National Benefits and Social Costs .....	D1-4
Glossary	.....	D1-5

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# Chapter D1: Comparison of National Costs and Benefits

## INTRODUCTION

This chapter summarizes total private costs, develops social costs, and compares total social costs to total benefits at the national level for the proposed rule and five alternative regulatory options.

### CHAPTER CONTENTS

D1-1 Social Costs .....	D1-2
D1-2 Summary of National Benefits and Social Costs .....	D1-4
Glossary .....	D1-5

Table D1-1 shows compliance response assumptions for the proposed rule and five alternative regulatory options based on each facility's current technologies installed, capacity utilization, waterbody type, annual intake flow, and design intake flow as a percent of source waterbody mean annual flow. *Chapter A1: Introduction and Overview* includes a more detailed discussion of compliance responses under the proposed rule and alternative regulatory options.

Table D1-1: Number of Facilities by Compliance Assumption and Regulatory Option (based on 539 sample facilities)							
Facility Compliance Assumption	Waterbody/Capacity-Based Option (Allows two tracks)		Proposed Rule <sup>a</sup> (Option 3)	Impingement Mortality and Entrainment Controls Everywhere Option (Option 3a)	All Cooling Towers Option (Option 4)	Dry Cooling Option (Option 5)	Waterbody-Based Option (Option 6)
	Option 1	Option 2					
Cooling tower in baseline (no action)	69	69	69	69	69	69	69
Impingement Controls Only	241	241	241	53	53	241	241
Impingement and Entrainment Controls	178	198	229	417	0	178	120
Flow Reduction Technology	51	31	0	0	417	51	109

<sup>a</sup> Alternative less stringent requirements based on both costs and benefits are allowed. There is some uncertainty in predicting compliance responses because the number of facilities requesting alternative less stringent requirements based on costs and benefits is unknown.

Source: U.S. EPA analysis, 2002.

## D1-1 SOCIAL COSTS

This section develops EPA's estimates of the costs to society associated with the proposed rule. The **social costs** of regulatory actions are the **opportunity costs** to society of employing scarce resources in pollution prevention and pollution control activities. The compliance costs used to estimate total social costs differ in their consideration of taxes from those in *Part B: Costs and Economic Impacts*, which were calculated for the purpose of estimating the private costs and impacts of the rule. For the impact analyses, compliance costs are measured as they affect the financial performance of the regulated facilities and firms. The analyses therefore explicitly consider the tax deductibility of compliance expenditures.<sup>1</sup> In the analysis of costs to society, however, these compliance costs are considered on a pre-tax basis. The costs to society are the full value of the resources used, whether they are paid for by the regulated facilities or by all taxpayers in the form of lost tax revenues.

To assess the economic costs to society of the proposed regulation, EPA relied first on the estimated costs to facilities for the labor, equipment, material, and other economic resources needed to comply with the proposed rule. In this analysis, EPA assumes that the market prices for labor, equipment, material, and other compliance resources represent the opportunity costs to society for use of those resources in regulatory compliance. EPA also assumes that the lost revenue from energy penalties and construction outage – which is recognized as a compliance cost – approximates the cost of the replacement energy that would be provided by other generating units. Implicit in this assumption is that the variable production cost of the replacement energy sources is essentially the same as the energy price received, on the margin, for production of the replacement energy. This assumption is consistent with the market equilibrium concept that the variable production cost of the last generating unit to be dispatched will be approximately the same as the price received for the last unit of production. Finally, EPA assumes in its social cost analysis that the regulation does not affect the aggregate quantity of electricity that would be sold to consumers and, thus, that the regulation's social cost will include no loss in consumer and producer surplus from lost electricity sales *by the electricity industry in aggregate*. Given the very small impact of the regulation on electricity production cost for the total industry, EPA believes this assumption is reasonable for the social cost analysis.

Other components of social costs include costs to federal and state governments of administering the permitting and compliance monitoring activities under the proposed regulation.<sup>2</sup> *Chapter B5: UMRA Analysis* presents more information on state and federal implementation costs.

EPA's estimate of social costs includes three components:

- ▶ (1) direct costs of compliance incurred by in-scope facilities,
- ▶ (2) administrative costs incurred by state governments, and
- ▶ (3) administrative costs incurred by the federal government.

The estimated after-tax annualized compliance costs incurred by facilities under the proposed Phase II rule are \$182 million (see *Chapter B1: Summary of Compliance Costs*, Table B1-6). The estimated social value of these compliance costs, calculated on a pre-tax basis is \$279 million. EPA estimates that state implementation costs for the proposed rule are \$3.6 million annually and that federal implementation costs are approximately \$62,000. The estimated total social costs of the Proposed Phase II Existing Facilities Rule are therefore \$283 million.

Total social costs for the four alternative regulatory options range from \$300 million for the impingement mortality and entrainment controls everywhere option (Option 3a) to \$3,507 million for the all cooling towers option (Option 4).<sup>3</sup>

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<sup>1</sup> Costs incurred by government facilities and cooperatives are not adjusted for taxes, since these facilities are not subject to income taxes.

<sup>2</sup> State and federal implementation costs were developed for the proposed rule and Options 1 and 2 only. EPA assumed that the costs for Option 3a would be similar to the proposed rule and that the costs for Options 4 and 5 would be similar to Option 1.

<sup>3</sup> Note that EPA did not develop costs for Option 6.

Table D1-2 summarizes the total private and social costs of the proposed rule and five alternative regulatory options.

<b>Table D1-2: Total Private and Social Costs of Compliance by Option (\$2001; million)</b>						
<b>Option</b>		<b>Total Private Compliance Costs to Facilities (Post-tax)</b>	<b>Social Costs</b>			
			<b>Pre-Tax Compliance Costs to Facilities</b>	<b>State Implementation Costs</b>	<b>Federal Implementation Costs</b>	<b>Total Social Costs</b>
Waterbody/ Capacity-Based Option (Allows two tracks)	All Track I (Option 1)	\$595	\$968	\$1.4	\$0.04	\$969
	Track I and II (Option 2)	\$379	\$609	\$1.4	\$0.04	\$610
<b>Proposed Rule (Option 3)</b>  <b>Alternative less stringent requirements based on both costs and benefits are allowed.</b>		<b>\$182</b>	<b>\$279</b>	<b>\$3.6</b>	<b>\$0.1</b>	<b>\$283</b>
Impingement Mortality and Entrainment Controls Everywhere Option (Option 3a)		\$195	\$296	\$3.6	\$0.1	\$300
All Cooling Towers Option (Option 4)		\$2,316	\$3,506	\$1.4	\$0.04	\$3,507
Dry Cooling Option (Option 5)		\$1,252	\$2,052	\$1.4	\$0.04	\$2,054
Waterbody-Based Option (Option 6)		Not costed. Costs expected to be greater than Option 1 (51 have flow reduction), but significantly less than Option 5 (417 have flow reduction).				

Source: U.S. EPA analysis, 2002.

## D1-2 SUMMARY OF NATIONAL BENEFITS AND SOCIAL COSTS

The summary of national benefit estimates for the proposed option and five regulatory options is reported in *Chapter C4: Benefits*. Table D1-3 presents EPA's national social cost and benefit estimates for the proposed Phase II rule and five alternative regulatory options. The table shows that the proposed rule, the impingement mortality and entrainment controls everywhere option, and the waterbody/capacity-based option all have estimated benefits that exceed social costs. The all cooling towers option and dry cooling option have negative net benefits (i.e., social costs exceed benefits). The Agency's proposed rule has the largest estimated net benefits, \$452 million, of the five regulatory options analyzed.

Table D1-3: Total National Social Costs, Benefits, and Net Benefits by Option (\$2001; million)				
Option		Total Benefits	Total Social Costs	Net Benefits (Benefits minus Costs)
Waterbody/ Capacity- Based Option (Allows two tracks)	All Track I (Option 1)	\$1,034	\$969	\$65
	Track I and II (Option 2)	\$890	\$610	\$280
<b>Proposed Rule (Option 3)</b>				
Alternative less stringent requirements based on both costs and benefits are allowed.		\$735	\$283	\$452
Impingement Mortality and Entrainment Controls Everywhere Option (Option 3a)		\$749	\$300	\$449
All Cooling Towers Option (Option 4)		\$1,223	\$3,507	(\$2,284)
Dry Cooling Option (Option 5)		\$1,536	\$2,054	(\$518)
Waterbody-Based Option (Option 6)		\$1,159	Not costed: greater than Option 1, significantly less than Option 5.	N/A

Source: U.S. EPA analysis, 2002.

## **GLOSSARY**

**opportunity cost:** The lost value of alternative uses of resources (capital, labor, and raw materials) used in pollution control activities.

**social costs:** The costs incurred by society as a whole as a result of the proposed rule. Social costs do not include costs that are transfers among parties but that do not represent a net cost overall.

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