

American Council for an Energy Efficient Economy • Consumer Federation of America • National Wildlife Federation • Public Citizen • Safe Climate Campaign • Sierra Club • Union of Concerned Scientists

March 19, 2010

Dr. Peter Orszag
Director
The Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

Hon. Ray LaHood
Secretary
Department of Transportation
1200 New Jersey Avenue, SE
Washington, DC 20590

Hon. Lisa Jackson
Administrator
Environmental Protection Agency
1200 Pennsylvania Avenue, NW
Washington, DC 20004

Dear Dr. Orszag, Administrator Jackson and Secretary LaHood:

On behalf of our millions of members nationwide, we are deeply concerned with OMB's recent efforts to skew cost-benefit analysis in a way that would undermine the final fuel economy and greenhouse gas rules for cars and light trucks. More broadly, this flawed approach to valuing consumer energy savings could bias the cost-benefit test which OMB applies to a broad range of critical energy efficiency laws and proposals.

Last May, President Obama was joined by Cabinet officials, State regulators, and representatives from the auto industry as he announced groundbreaking clean vehicle standards. In response, the Environmental Protection Agency and the Department of Transportation worked closely together to propose standards that deliver on the President's promise to save consumers money, cut America's oil dependence, and curb global warming emissions.

The substantial consumer benefits that come from saving money at the gas pump due to improved fuel economy are a cornerstone of these standards. These savings far outweigh the cost of applying fuel-saving technology to new vehicles sold between model years 2012 and 2016. Unfortunately, OMB has injected a deeply flawed approach that severely discounts these important consumer benefits.

Specifically, OMB is urging both EPA and DOT to include high discount rates of 20, 35, and 50 percent when calculating consumer benefits in this rulemaking.¹ This new proposal is vastly different from OMB's typical recommendation that agencies apply a discount rate of 3 and 7 percent.² The courts have found that these discount rates are more consistent with what consumers actually pay to borrow money or earn when they

¹ Docket Id. EPA-HQ-OAR-2009-0472-3598 at 83.

² See OMB Circular A-4.

save and invest money. OMB's recommendation is based on how economic theory indicates consumers would respond if there was a perfect free market for fuel economy. But in reality, consumers face a highly imperfect market with limited and even misleading information, little foresight on gasoline prices, and few options when it comes to fuel economy. Applying such high discount rates will simply reinforce the very market failures the clean vehicle standards are intended to address. Therefore, this is a flawed approach to assessing a critical energy savings standard and should not be included in the final rule.

In addition, language on consumer welfare has been included in the proposed rule which undermines any meaningful analysis of costs and benefits:

[T]he likely impacts of adopting higher CAFE standards on consumer welfare remain unknown. Because changes in consumer welfare are an important component of the total private costs and benefits resulting from higher standards, the magnitude and *even the direction* of the net private economic impact of adopting stricter CAFE standards also remains unknown.³

Suggesting that consumers might incur a net cost from higher standards is misleading and harmful and should be removed from the final rule.

OMB's approach to calculating consumer benefits risks undermining these historic clean vehicle standards. If included in the final rule, it would also seriously undercut the Obama administration's efforts across multiple agencies to promote energy efficiency. Since energy efficiency remains the quickest, easiest, and most cost-effective clean energy solution, we urge that the final rule drop flawed language and misguided discounting.

Sincerely,

Therese Langer
Transportation Program Director
American Council for an Energy Efficient Economy

Mark Cooper
Director of Research
Consumer Federation of America

Joseph Mendelson III
Director, Global Warming Policy
National Wildlife Federation

David Arkush
Director, Congress Watch
Public Citizen

³ 74 Fed. Reg. 49723, emphasis added.

Dan Becker
Director
Safe Climate Campaign
Center for Auto Safety

Debbie Sease
Director National Campaigns
Sierra Club

Michelle Robinson
Director
Clean Vehicles Program
Union of Concerned Scientists

cc. Carol Browner, John Holdren, David Strickland