

April 13, 2023

Via e-mail at: mkrause@aqmd.gov

Michael Krause
Assistant Deputy Executive Officer
South Coast Air Quality Management District
21865 Copley Drive
Diamond Bar, CA 91765

Re: SCAQMD Use of New Health Benefit-Based Cost-Effectiveness Threshold for PAR 1153.1 - Emissions of Oxides of Nitrogen from Commercial Food Ovens

Dear Mr. Krause,

We are contacting you on behalf of BizFed, the Los Angeles County Business Federation. We are an alliance of over 200 business organizations who represent over 400,000 employers in Los Angeles County, including large and small businesses from a wide range of industries throughout the South Coast Air Basin (SCAB). We are writing to comment on the use of the health benefit-based cost-effectiveness threshold in rule development. Many of the businesses we represent have or will be writing their own individual comment letters that specifically address the impacts to their industries. Our comments address the impacts to the business community as a whole and include overarching concerns of our diverse membership.

SCAQMD is in rule development for Proposed Amended Rule 1153.1 (PAR 1153.1), which appears to be the first rulemaking where SCAQMD is applying the new health benefit-based cost-effectiveness threshold established in the SCAQMD 2022 Air Quality Management Plan (AQMP).¹ BizFed offers the following comments on the use of this threshold.

1. SCAQMD has not established a methodology for conducting cost effectiveness determinations with the cost effectiveness threshold established under the 2022 AQMP. Such a methodology needs to be developed in consultation with stakeholders before using this cost effectiveness threshold for rulemaking purposes.

Under the 2022 Air Quality Management Plan (AQMP), SCAQMD established a new health benefit-based cost-effectiveness threshold of \$325,000/ton. This threshold is significantly different from the 2016 AQMP thresholds (i.e., \$30,000 per ton of VOC reduced, \$50,000 per ton of NOx reduced)² in both its value and its economic basis.

The 2016 AQMP cost effectiveness thresholds were strictly tied to facility-level costs (e.g., capital costs, installation costs, operation and maintenance (O&M) costs) divided by facility-level emission reductions.³ The 2022 AQMP health benefit-based cost-effectiveness threshold is different in that it considers projected regional-level public health benefits which might occur from projected improvements to regional air quality. The informational basis presented to AQMP stakeholders suggested that these benefits would include reduced societal costs from reduced hospitalizations, reduced premature mortality, and other improved public health outcomes. Because this cost-effectiveness threshold is based on regional benefits, a number

¹ SCAQMD 2022 AQMP. Available at: <http://www.aqmd.gov/docs/default-source/clean-air-plans/air-quality-management-plans/2022-air-quality-management-plan/final-2022-aqmp/final-2022-aqmp.pdf?sfvrsn=16>.

² SCAQMD 2016 AQMP. Available at: <http://www.aqmd.gov/docs/default-source/clean-air-plans/air-quality-management-plans/2016-air-quality-management-plan/final-2016-aqmp/final2016aqmp.pdf?sfvrsn=15>.

³ Ibid.

of AQMP stakeholders noted that SCAQMD would need to establish a new methodology to ensure that control measure (or rule) costs are also evaluated on a regional basis.⁴ No such methodology was presented in the 2022 AQMP.

With PR1153.1, SCAQMD is now applying the new threshold but has yet to provide stakeholders with a methodology. Rather, it appears that SCAQMD is simply using the old method with the new cost effectiveness threshold. This would be a flawed approach because it mismatches a regional benefit without considering the full costs of the proposed rule.

2. Determining the regional costs for PR1153.1 requires SCAQMD to conduct a socioeconomic analysis as detailed in the USEPA Guidelines for Preparing Economic Analyses. SCAQMD has not conducted such an analysis for the rule.

A social cost/benefit analysis would require a full socioeconomic analysis. USEPA published Guidelines for Preparing Economic Analyses (Guidelines) to establish a scientific framework for performing economic analyses of environmental regulations and policies.⁵ The Guidelines establish methodology for a benefit-cost analysis (BCA) and state that in conducting a BCA, the correct measure to use is the social cost, where:

Social cost represents the total burden that a regulation will impose on the economy. It is defined as the sum of all opportunity costs incurred as a result of a regulation where an opportunity cost is the value lost to society of any goods and services that will not be produced and consumed as a result of a regulation.

Per the guidelines, a Partial Equilibrium Analysis (PEA) is appropriate for estimation of societal cost when a regulation is limited to a single sector or a small number of sectors. SCAQMD typically does not conduct a full socioeconomic analysis, such as that required by a PEA, for a single rulemaking. However, in order to match the societal cost with societal benefit, a PEA must be performed.

Per the Guidelines, costs include:⁶

- Explicit and implicit costs, where explicit costs are those for which an explicit monetary payment is made, and an implicit cost is a cost for which a monetary value does not exist, such as the value of current output lost or reduced flexibility of response to changes in market conditions.
- Direct and indirect costs, where direct costs are those costs that fall directly on the regulated entity, and indirect costs are costs incurred in related markets or experienced by consumers or government agencies not under the scope of the regulation. For example, a change in the price of a good this could impact the rest of the economy, causing prices to rise or fall in other sectors and ultimately affect consumers income.
- Private sector and public sector costs, where private sector costs include the cost borne by households and facilities, and public sector costs are those borne by government entities.

The Guidelines provide additional detail on types of costs, as follows:

⁴ SCAQMD Mobile Source Committee Meeting, September 16, 2022. Available at: <http://www.aqmd.gov/home/news-events/webcast/live-webcast?ms=zSMKn4miXuk>

⁵ US EPA Guidelines for Preparing Economic Analyses. Available at: <https://www.epa.gov/environmental-economics/guidelines-preparing-economic-analyses>.

⁶ Ibid.

- Incremental costs, determined by subtracting the total cost of environmental regulations and policies already in place from the total cost after a new regulation or policy has been imposed.
- Capital costs, which include cost of installation or retrofit of structures or equipment and include the primary equipment, installation, and startup
- Operation and maintenance (O&M) costs, which are annual expenditures on salaries and wages, energy inputs, materials and supplies, purchased services, and maintenance of equipment associated with pollutant abatement.
- Industry costs, which include the effects of actual or expected market reactions, including plant closures, reduced industry output, or the passing on of costs directly to consumers.
- Transaction costs, which are those incurred in making an economic exchange beyond the cost of production of a good or service.
- Government Regulatory Costs, such as those borne by government entities in the course of researching, enacting, and enforcing a policy
- Transitional costs, which may include cost of training workers in the use of new air pollution control equipment.
- Distributional costs, which relate to how certain entities or societal groups are impacted by the imposition of a policy or regulation.

SCAQMD is obligated to include all social costs in evaluation of the cost of a rule, including the traditional costs typically used to establish control cost (i.e. capital, O&M, and additional utility usage), as well as other, not previously evaluated costs (i.e. industry costs, transaction costs, and distributional cost, among others). Without this evaluation, the true cost of the rulemaking is unknown. The costs captured in the US EPA Guidelines acknowledge that the imposition of an environmental regulation could have significant effects in markets beyond those that are directly subject to the regulation. SCAQMD is obligated to substantiate that there are no broader market effects. However, even without market effects, SCAQMD needs to include all societal costs, as delineated in the Guidelines.

3. Besides failing to consider societal costs, the cost analysis presented for PR1153.1 fails to account for the full range of facility-level costs.

SCAQMD is currently in the rule development process for PAR 1153.1. This is the first rulemaking in which Staff is referencing the new health benefit-based cost-effectiveness threshold established in the 2022 AQMP. SCAQMD has suggested that the Health and Safety Code only requires staff to evaluate the cost of the potential control option, and thus have only included direct facility costs, such as cost for equipment (capital and installation), O&M costs, and electrical upgrades and infrastructure at the facility).⁷ In estimating the cost-effectiveness of the control options, SCAQMD must follow the US EPA Guidelines. BizFed expects these costs would reasonably include:

- Direct Costs:
 - Capital cost of proposed equipment
 - Installation cost
 - O&M cost
 - Cost of stranded assets resulting from early retirement of equipment
 - Training Cost

⁷ PAR1153.1 WGM #7. Available at: <http://www.aqmd.gov/docs/default-source/rule-book/Proposed-Rules/1153-1/par-1153-wgm7-presentation.pdf?sfvrsn=18>.

- Electrical upgrades and infrastructure at the facility
- Electrical utility service upgrades directly related to the requirement for installation of control, including:
 - Meter upgrades
 - Distribution infrastructure upgrades including transformers and substations
- Indirect costs:
 - Potential cost of plant closures and resultant job loss
 - Cost of reduced industry output
 - Cost of rule development, and associated adoption and EPA approval
 - Other regional grid upgrades that may be needed to support electrification

It should be noted that the costs for the electrical utility service upgrades described above are typically directly borne by the facility requiring the infrastructure upgrades to meet its increase electrical demand.⁸

The EPA Guidelines delineate the challenges in estimation of costs, including estimation of cost over time, and difficulties in developing numeric values for social cost. The EPA Guidelines note:⁹

"Most regulations cause permanent changes in production and consumption activities, leading to permanent (ongoing) social costs."

Districts must therefore carefully consider the time horizon for calculating the producer and consumer adjustments from a new regulation. For example, SCAQMD has proposed a phased-in approach for implementation of Rule 1153.1 based on age of equipment. When questioned during a recent working group meeting, Staff stated that they have not evaluated the current age of equipment in the universe being impacted by PAR1153.1 (reported as 202 units in total). By not completing such an evaluation, SCAQMD risks causing a potentially large number of units with identical and/or near-term compliance deadlines. This has impacts both for equipment availability, infrastructure readiness, and availability of energy. It appears that none of these factors has been considered under PAR1153.1.

The US EPA Guidelines also note that for social cost analysis, it is difficult to represent:¹⁰

- Irreversible environmental impacts
- Substantial changes in economic opportunities for segments of the population
- Social costs that span very long time horizons
- Socioeconomic effects on populations, and
- Effects on large-scale ecosystems.

The US EPA Guidelines also note the uncertainties that can be introduced by economic models, and state that these uncertainties should be carefully evaluated and reported. All of these items must be taken into account when developing a rule that relies on a social health benefit-based cost-effectiveness threshold.

⁸ California electric utility tariff rules. Example: [Southern California Edison Rule 16 \(Service Extensions\), Section E \(Allowances and Payments by Applicant\)](#).

⁹ US EPA Guidelines for Preparing Economic Analyses. Available at: <https://www.epa.gov/environmental-economics/guidelines-preparing-economic-analyses>.

¹⁰ Ibid.

In order to align with the BCA, SCAQMD should be considering all costs associated with implementation of the proposed rule (e.g., PR1153.1) and the broader context in which the rule will be applied. SCAQMD's 2022 AQMP and the California Air Resources Board's (CARB) State Implementation Plan¹¹ plot a transition towards zero emission technologies across a variety of sectors spanning both stationary and mobile sources. These actions will clearly have a cumulative impact on the state's electric grid infrastructure that needs to be taken into consideration for the benefit-cost analysis of proposed regulations.

The immediate impacts and challenges of broad-based electrification policies are only now beginning to be understood. At a recent CARB infrastructure-focused workgroup, electric utilities and fleet operators operating in the SCAB ~~South Coast Air Basin~~ discussed potential timelines and costs for grid infrastructure upgrades necessitated by another electrification mandate.¹² The timelines discussed at that meeting ranged from 2-3 years for small system upgrades (e.g., increases in cable or conductor size) up to 7 or more years for larger projects (e.g., projects needing new or upgraded substations).¹³ In one presented example, a fleet operator needing 10 megawatts (MW) of new charging capacity faced electric utility infrastructure costs ranging from a minimum of \$300,000 for a 10 MW connection (assuming availability at the local substation) to as much as \$25 million for full dual 66 KV lines, transformers, and a dedicated substation.¹⁴ So the direct costs of an technology electrification mandate can be significant. Furthermore, the piecemealing of electrification mandates across a variety of rules can cause an understatement of the costs to be borne by individual facilities. This would be economically inefficient and could result in higher facility expenses for the combined control measures.

The SCAB ~~South Coast Air Basin~~ is home to a significant number of facilities that will be competing for limited grid (i.e., transmission and distribution) capacity as this transition gets underway. A capacity analysis from the California Energy Commission's (CEC's) EDGE model recently demonstrated that a majority of the electric grid in the SCAB ~~South Coast Air Basin~~ is presently unable to accommodate additional load without any thermal or voltage violations. According to CEC, significant upgrades will be necessary to meet rising electrical demand.¹⁵

SCAQMD recently presented the impacts of the potential increase in energy demand from PAR 1153.1. SCAQMD presented a 90 MW increase in power demand as a result of PR1153.1. Assuming a conservative 50% capacity factor, that would translate to roughly 400 GWh of new energy demand just for PR1153.1. Given the number of control measures in the 2022 AQMP that rely on equipment electrification, there will be significant impacts to the grid.

In their benefit-cost analysis, SCAQMD must consider not only the costs associated with the transition to zero emission technology under the proposed regulation, but also the costs for grid infrastructure upgrades that will be borne by businesses, ratepayers, and public entities alike as conflicting demands for limited electric capacity increase under CARB's and SCAQMD's proposed suite of regulations.

The District has made significant strides in air reductions during the past 30 years, despite a significant population increase, and it should be proud of its accomplishments. Those reductions were accomplished in collaboration with many stakeholders, in particular the

¹¹ 2022 State Implementation Plan. CARB. 2022. Available at: https://ww2.arb.ca.gov/sites/default/files/2022-08/2022_State_SIP_Strategy.pdf

¹² CARB Transit Infrastructure Work Group Meeting, January 31, 2023. Available at: https://ww2.arb.ca.gov/sites/default/files/2023-02/transitinfrastructure_wkgmtg_1.31.23_full%20presentation.pdf.

¹³ Ibid.

¹⁴ Ibid.

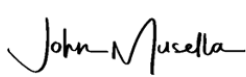
¹⁵ Final Environmental Analysis for the Advanced Clean Cars II Regulation. CARB. 2022. Available at: <https://ww2.arb.ca.gov/sites/default/files/barcu/regact/2022/accii/acciifinalea.docx>

business community. We respect that SCAQMD is placed in a uniquely challenging situation to demonstrate attainment of the 2015 ozone NAAQS, and the business community stands ready to help the District achieve all practicable reductions as soon as possible.

We look forward to continuing our work with the District to see progress made in a way that is equitable and lasting.

Thank you for your consideration of our letter. If you have any questions, please contact BizFed's Director of Policy and Advocacy Sarah Wiltfong at sarah.wiltfong@bizfed.org.

Sincerely,



John Musella
BizFed Chair



David Fleming
BizFed Founding Chair



Tracy Hernandez
BizFed Founding CEO



David Englin
BizFed President

Cc: Wayne Nastri, SCAQMD
Sarah Rees, SCAQMD
Healthier Farr, SCAQMD
Sarady Ka, SCAQMD
Chris Bradley, SCAQMD

BizFed Association Members

7-11 Franchise Owners Association for SoCal
Action Apartment Association
Alhambra Chamber
American Beverage Association
Antelope Valley Chamber formerly Lancaster Chamber of Commerce
Apartment Association of Greater Los Angeles Apartment Association, CA Southern Cities, Inc .
Arcadia Association of Realtors
AREAA North Los Angeles SFV SCV
Armenian Trade & Labor Association
Arts District Los Angeles
Associated Builders & Contractors SoCal (ABC SoCal)
Association of Club Executives
Association of Independent Commercial Producers
AV Edge California
Azusa Chamber
Beverly Hills Bar Association
Beverly Hills Chamber
BioCom
Black Business Association
BNI4SUCCESS
Bowling Centers of SoCal
Boyle Heights Chamber of Commerce
Building Industry Association - LA/Ventura Counties
Building Industry Association of Southern California
Building Industry Association- Baldyview
Building Owners & Managers Association of Greater Los Angeles
Burbank Association of Realtors
Burbank Chamber of Commerce
Business and Industry Council for Emergency Planning and Preparedness
Business Resource Group
CABIA California Business and Industrial Alliance
Calabasas Chamber of Commerce
CalAsian Chamber
CalChamber
California Apartment Association- Los Angeles
California Asphalt Pavement Association
California Bankers Association
California Business Properties
California Business Roundtable
California Cannabis Industry Association
California Cleaners Association
California Contract Cities Association
California Fashion Association
California Gaming Association
California Grocers Association
California Hispanic Chamber
California Hotel & Lodging Association
California Independent Oil Marketers Association (CIOMA)
California Independent Petroleum Association
California Life Sciences Association
California Manufacturers & Technology Association
California Metals Coalition
California Natural Gas Producers Association
California Restaurant Association
California Retailers Association
California Self Storage Association
California Small Business Alliance
California Society of CPAs - Los Angeles Chapter
California Trucking Association+
Carson Chamber of Commerce
Carson Dominguez Employers Alliance
Central City Association
Century City Chamber of Commerce
Cerritos Regional Chamber of Commerce
Chatsworth Porter Ranch Chamber of Commerce
Citrus Valley Association of Realtors
Claremont Chamber of Commerce
Commercial Industrial Council/Chamber of Commerce
Compton Chamber of Commerce
Construction Industry Air Quality Coalition
Construction Industry Coalition on Water Quality
Council on Infil Builders
Crenshaw Chamber of Commerce
Culver City Chamber of Commerce
Downey Association of REALTORS
Downey Chamber of Commerce
Downtown Alhambra Business Association
Downtown Center Business Improvement District
Downtown Long Beach Alliance
El Monte/South El Monte Chamber
El Segundo Chamber of Commerce
Employers Group
Encino Chamber of Commerce
Energy Independence Now EIN
Engineering Contractor's Association
FastLink DTLA
Filipino American Chamber of Commerce
Friends of Hollywood Central Park
FuturePorts
Gardena Valley Chamber
Gateway to LA
Glendale Association of Realtors
Glendale Chamber
Glendora Chamber
Greater Antelope Valley AOR
Greater Bakersfield Chamber of Commerce
Greater Lakewood Chamber of Commerce
Greater Leimert Park Crenshaw Corridor BID
Greater Los Angeles African American Chamber
Greater Los Angeles Association of Realtors
Greater Los Angeles New Car Dealers Association
Greater San Fernando Valley Chamber
Harbor Association of Industry and Commerce
Harbor Trucking Association
Historic Core BID of Downtown Los Angeles
Hollywood Chamber
Hong Kong Trade Development Council
Hospital Association of Southern California
Hotel Association of Los Angeles
Huntington Park Area Chamber of Commerce
ICBWA- International Cannabis Women Business Association
Independent Cities Association
Industrial Environmental Association
Industry Business Council
Inglewood Board of Real Estate
Inland Empire Economic Partnership
International Franchise Association
Irwindale Chamber of Commerce
Kombucha Brewers International
La Cañada Flintridge Chamber
LA Coalition
LA Fashion District BID
LA South Chamber of Commerce
Larchmont Boulevard Association
Latin Business Association
Latino Food Industry Association
Latino Restaurant Association
LAX Coastal Area Chamber
League of California Cities
Long Beach Area Chamber
Long Beach Economic Partnership
Los Angeles Area Chamber
Los Angeles Economic Development Center
Los Angeles Gateway Chamber of Commerce
Los Angeles Latino Chamber
Los Angeles LGBTQ Chamber of Commerce
Los Angeles Parking Association
Los Angeles World Affairs Council/Town Hall Los Angeles
MADIA
Malibu Chamber of Commerce
Manhattan Beach Chamber of Commerce
Marketplace Industry Association
Monrovia Chamber
Motion Picture Association of America, Inc.
MoveLA
MultiCultural Business Alliance
NAIOP Southern California Chapter
NAREIT
National Association of Minority Contractors
National Association of Tobacco Outlets
National Association of Women Business Owners
National Association of Women Business Owners - LA
National Association of Women Business Owners- California
National Federation of Independent Business Owners California
National Hookah
National Latina Business Women's Association
Orange County Business Council
Orange County Hispanic Chamber of Commerce
Pacific Merchant Shipping Association
Panorama City Chamber of Commerce
Paramount Chamber of Commerce
Pasadena Chamber
Pasadena Foothills Association of Realtors
PGA
PhRMA
Pico Rivera Chamber of Commerce
Planned Parenthood Affiliates of California
Pomona Chamber
Rancho Southeast REALTORS
ReadyNation California
Recording Industry Association of America
Regional CAL Black Chamber, SVF
Regional Hispanic Chambers
San Dimas Chamber of Commerce
San Gabriel Chamber of Commerce
San Gabriel Valley Economic Partnership
San Pedro Peninsula Chamber
Santa Clarita Valley Chamber
Santa Clarita Valley Economic Development Corp.
Santa Monica Chamber of Commerce
Sherman Oaks Chamber
South Bay Association of Chambers
South Bay Association of Realtors
South Gate Chamber of Commerce
South Pasadena Chamber of Commerce
Southern California Contractors Association
Southern California Golf Association
Southern California Grantmakers
Southern California Leadership Council
Southern California Minority Suppliers Development Council Inc.
Southern California Water Coalition
Southland Regional Association of Realtors
Sportfishing Association of California
Structural Engineers Association of Southern California
Sunland/Tujunga Chamber
Sunset Strip Business Improvement District
Torrance Area Chamber
Tri-Counties Association of Realtors
United Cannabis Business Association
United Chambers - San Fernando Valley & Region
United States-Mexico Chamber
Unmanned Autonomous Vehicle Systems Association
US Green Building Council
US Resiliency Council
Valley Economic Alliance, The
Valley Industry & Commerce Association
Venice Chamber of Commerce
Vermont Slauson Economic Development Corporation
Veterans in Business
Vietnamese American Chamber
Warner Center Association
West Hollywood Chamber
West Hollywood Design District
West Los Angeles Chamber
West San Gabriel Valley Association of Realtors
West Valley/Warner Center Chamber
Western Electrical Contractors Association
Western Manufactured Housing Association
Western States Petroleum Association
Westside Council of Chambers
Whittier Chamber of Commerce
Wilmington Chamber
Women's Business Enterprise Council
World Trade Center