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October 31, 2012

The Honorable John D. Rockefeller
Chairman
The Honorable Kay Bailey Hutchison
Ranking Member
Committee on Commerce, Science, and Transportation
United States Senate

The Honorable Fred Upton
Chairman
The Honorable Henry A. Waxman
Ranking Member
Committee on Energy and Commerce
House of Representatives

Subject: *Environmental Protection Agency and Department of Transportation, National Highway Traffic Safety Administration: 2017 and Later Model Year Light-Duty Vehicle Greenhouse Gas Emissions and Corporate Average Fuel Economy Standards*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Environmental Protection Agency (EPA) and Department of Transportation, National Highway Traffic Safety Administration (NHTSA), entitled “2017 and Later Model Year Light-Duty Vehicle Greenhouse Gas Emissions and Corporate Average Fuel Economy Standards” (RINs: 2060-AQ54; 2127-AK79). We received the rule on September 6, 2012. It was published in the *Federal Register* as a final rule on October 15, 2012. 77 Fed. Reg. 62,624. The final rule is effective December 14, 2012.

The final rule contains final regulations to further reduce greenhouse gas emissions and improve fuel economy for light-duty vehicles for model years 2017 and beyond. NHTSA is finalizing Corporate Average Fuel Economy standards for model years 2017–2021 and issuing augural standards for model years 2022–2025 under the Energy Policy and Conservation Act, as amended by the Energy Independence and Security Act. NHTSA will set final standards for model years 2022–2025 in a future rulemaking. EPA is finalizing greenhouse gas emissions standards for model years 2017–2025 under the Clean Air Act. These standards apply to passenger cars, light-duty trucks, and medium-duty passenger vehicles, and represent the continuation of a harmonized and consistent National Program. Under the National Program automobile manufacturers will be able to continue building a single light-duty national fleet that satisfies all requirements under both programs while ensuring that consumers still have a full range of vehicle choices that are available today.

Enclosed is our assessment of EPA's and NHTSA's compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review of the procedural steps taken indicates that the agencies complied with the applicable requirements.

If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shirley A. Jones, Assistant General Counsel, at (202) 512-8156.

signed

Robert J. Cramer
Managing Associate General Counsel

Enclosure

cc: Nicole Owens
Director, Regulatory
Management Division
Environmental Protection Agency

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE ISSUED BY THE ENVIRONMENTAL PROTECTION AGENCY AND DEPARTMENT OF TRANSPORTATION, NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION ENTITLED "2017 AND LATER MODEL YEAR LIGHT-DUTY VEHICLE GREENHOUSE GAS EMISSIONS AND CORPORATE AVERAGE FUEL ECONOMY STANDARDS" (RINs: 2060-AQ54; 2127-AK79)

(i) Cost-benefit analysis

NHTSA estimated that the fuel economy increases would lead to fuel savings totaling about 170 billion gallons throughout the lives of light-duty vehicles sold in model years (MYs) 2017–2025. At a 3 percent discount rate, the present value of the economic benefits resulting from those fuel savings is between $481 billion and $488 billion; at a 7 percent private discount rate, the present value of the economic benefits resulting from those fuel savings is between $375 billion and $380 billion. NHTSA further estimated that these new Corporate Average Fuel Economy (CAFÉ) standards in the final rule will lead to corresponding reductions in carbon dioxide (CO_2) emissions totaling 1.8 billion metric tons during the lives of light-duty vehicles sold in MYs 2017–2025. NHTSA estimated the present value of the economic benefits from avoiding those emissions is approximately $49 billion, based on a global social cost of carbon value of about $26 per metric ton (in 2017, and growing thereafter).

EPA also analyzed the projected costs and benefits of the 2017–2025 greenhouse gas (GHG) standards for light-duty vehicles. EPA estimated the total costs of the program using a lifetime present value at a 3 percent discount rate, to be $150 billion, with associated fuel savings of $475 billion and quantified the other benefits at $126 billion. The benefits include impacts such as climate-related economic benefits from reducing emissions of CO_2 (but not other GHGs), reductions in energy security externalities caused by U.S. petroleum consumption and imports, the value of certain particulate matter-related health benefits (including premature mortality), the value of additional driving attributed to the vehicle miles traveled rebound effect, and the value of reduced refueling time needed to fill up a more fuel efficient vehicle. The analysis also included estimates of economic impacts stemming from additional vehicle use, such as the economic damages caused by accidents, congestion, and noise (from increased vehicle miles traveled rebound driving).

(ii) Agency actions relevant to the Regulatory Flexibility Act, 5 U.S.C. §§ 603-605, 607, and 609

EPA certified that the final rule will not have a significant economic impact on a substantial number of small entities. The final rule, as it relates to light-duty vehicles, regulates exclusively large vehicle manufacturers and exempts small vehicle manufacturers. NHTSA also certified that the final rule will not have a significant economic impact on a substantial number of small entities.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

EPA determined that the final rule contains no federal mandates for state, local, or tribal governments. EPA determined that the final rule contains a federal mandate that may result in expenditures of $100 million or more for the private sector in any one year. EPA believes that the rule represents the least costly, most cost-effective approach to revise the light-duty vehicle standards.

NHTSA determined that the final rule will not result in the expenditure by state, local, or tribal governments, in the aggregate, of more than $136 million annually, but it will result in the expenditure of that magnitude by vehicle manufacturers and/or their suppliers. NHTSA stated that it considered a variety of alternative average fuel economy standards lower and higher than those proposed. NHTSA is statutorily required to set standards at the maximum feasible level achievable by manufacturers based on its consideration and balancing of relevant factors and has concluded that the final fuel economy standards are the maximum feasible standards for the passenger car and light truck fleets for model years 2012–2016 in light of the statutory considerations.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

The proposed rules from EPA and NHTSA were published in the *Federal Register* on December 1, 2011 (76 FR 74854). Between January 17 and 24, 2012, EPA and NHTSA held three public hearings in Detroit, Philadelphia, and San Francisco. The agencies received extensive written comments on the proposed rule from more than 140 organizations, including auto manufacturers and suppliers, state and local governments and their associations, consumer groups, labor unions, fuels and energy providers, auto dealers, academics, national security experts and veterans, environmental and other non-governmental organizations (NGOs), and nearly 300,000 comments from private individuals. In addition to comments received on the proposal, the agencies met with many different stakeholder groups between issuance of the NPRM and this final rule. The agencies responded to these comments in the final rule.

Paperwork Reduction Act, 44 U.S.C. §§ 3501-3520

The final rule contains information collection requirements under the Paperwork Reduction Act. EPA submitted the requirements to the Office of Management and Budget (OMB) for approval. The final rule contains requirements that manufacturers submit information to ensure compliance with the provisions in the final rule. EPA estimates that the total annual reporting burden associated with the final rule is about 5,700 hours and $1.4 million, based on a projected 33 respondents.

Statutory authorization for the rule

EPA and NHTSA promulgated the final rule containing separate sets of standards for passenger cars and for light trucks, under their respective statutory authority. EPA set the national CO_2 emissions standards for passenger cars and light trucks under section 202 (a) of the Clean Air Act (CAA) (42 U.S.C. § 7521 (a)), and under its authority to measure passenger car and passenger car fleet fuel economy pursuant to the Energy Policy and Conservation Act (EPCA), as codified at 49 U.S.C. § 32904 (c). NHTSA set national corporate average fuel economy (CAFÉ) standards under the Energy Policy and Conservation Act (EPCA), as amended by the Energy Independence and Security Act (EISA) of 2007, as codified at 49 U.S.C. § 32902.

Executive Order No. 12,866 (Regulatory Planning and Review)

The final rule is an economically significant rule under the Executive Order, and has been submitted to OMB for review under the Order and the agencies prepared a final regulatory impact analysis. In addition, pursuant to Circular A-4, NHTSA prepared a formal probabilistic uncertainty analysis, which is required for complex rules where there are large, multiple uncertainties whose analysis raises technical challenges or where effects cascade and where the impacts of the final rule exceed $1 billion.

Executive Order No. 13,132 (Federalism)

EPA determined that the final rule does not have federalism implications, because it will not have substantial direct effects on the states, on the relationship between the national government and the states, or on the distribution of power and responsibilities among the various levels of government. NHTSA stated that it fulfilled the requirements of the Executive Order by consulting extensively with California and other states in the development of the proposal.