

Stakeholder Meeting Summary - Economics

EXECUTIVE SUMMARY

September 23-24, 1997

Reauthorization of the Safe Drinking Water Act (SDWA), passage of the Small Business Regulatory Enforcement Fairness Act and the Unfunded Mandates Reform Act, and a variety of stakeholder concerns have created a need for EPA to substantially restructure its program for conducting Regulatory Impact Assessments (RIAs) and Economic Impact Analyses within the Office of Ground Water and Drinking Water (OGWDW). Numerous efforts are underway to characterize future requirements to expand and upgrade existing methods and models, to design and develop new approaches, to collect essential data, and also to ensure that new documentation will effectively explain the decision making process behind the rules. Understanding the effort is further complicated by the different stages of development of various aspects of the program. For example, although the Agency fully appreciates the importance of having balanced cost and benefit analyses and is striving to provide them, benefits programs are at a much more formative stage. Because there are timing differences and given the extreme complexity of this undertaking, EPA is seeking broad stakeholder input on policy and direction related issues to supplement the many scientific reviews that will be conducted on its analytical products.

On September 23 and 24, OGWDW convened a public meeting in Washington, DC to discuss with the public and representatives of interested groups EPA's RIA and cost/ benefit evaluation approaches. The meeting objectives were these:

1. Provide an overview of the proposed programs and identify information EPA intends to provide in support of future water regulations;
2. Solicit input on the types of additional studies or information that should be included, and the priority among potential activities and upgrades; and
3. Develop a plan for more effective stakeholder involvement in program development.

The first day of the meeting considered how EPA is changing its cost analyses, while the second focussed on improving assessments of benefits. EPA provided participants with a detailed list of citations documenting the regulatory requirements the agency is now addressing. Participants at the sessions had a number of suggestions for EPA about how they would like to be involved. They urged the cost and benefit teams to make every effort to communicate and ensure that the two programs produced a balanced analysis.

Discussions were also held relating to a number of key components of the programs under development. A synopsis of the areas discussed and principal comments follows.

Summary

Defining the Baselines for Costs and Benefits. Drinking water regulations must consider what is the status quo for water utilities, the public and governmental units responsible for implementation of regulations. Defining these "baselines" is the starting point for what costs and benefits will result from a particular regulation. So far EPA has conducted the needed reviews of the literature and available data sources, and defined the technical, management, and financial characteristics that may be affected. Over the next two years the team will gradually be incorporating these new model systems and baselines into the regulatory proposals under development. Meeting participants urged the team to include sensitive sub-populations in the models and give careful attention to research by other organizations, voluntary

efforts by the regulated community, and the realities of funding. They were also concerned that the analyses reflect the costs and benefits directly attributable to regulatory changes and not those that would have occurred even in the absence of new regulations.

Technology Costing. In this area, the team is trying to bridge past differences between EPA and the water industry on national-level cost estimates. Meeting participants asked that EPA make clear the details of the criteria and assumptions embedded in the estimates and that modeling be done to maximize the use of input ranges rather than single point estimates.

Data Quality Objectives (DQOs). EPA is attempting in this effort to develop standardized methods for quantifying uncertainty and sensitivity in relation to the regulatory options it considers, and to develop a "blue-print" for new data collection efforts to improve estimates. During the meeting there was a lengthy and detailed discussion of the approaches EPA is taking to these problems. Participants applauded the team for developing DQOs, since they are seen as a crucial to providing meaningful RIA and cost/benefit analyses. They urged EPA to apply the DQO approach to the benefits side of the work, since the range of uncertainty for some benefits can be so large, thereby making the DQO work on the cost side much less relevant. Some also encouraged EPA to make the process iterative, but without incurring excessive delay.

Regulatory Support Documentation. EPA is attempting to develop more standardized documentation for the background information supporting regulations. The formats of individual standard support documents were discussed. The documents are being organized to facilitate subject area peer reviews and increase decision-making transparency. Meeting participants suggested that these documents have executive summaries and be focussed on the target audiences. They should also describe the criteria EPA uses to make decisions.

Benefits Program. As indicated in the first day's session, benefits analysis is in a much more formative stage and its incremental inclusion in the regulatory analyses will of necessity lag the cost analytical efforts. On the second day, EPA presented an overview of ongoing literature reviews, internal survey efforts, and other groundwork being undertaken to respond to SDWA requirements for a fuller consideration of all classes of benefits. Key potential benefits categories were discussed (e.g., human health improvements, enhanced aesthetic qualities, nonuse and information benefits, and the avoided costs of averting behaviors, materials damages and market production). Participants were asked to review the draft *Valuing Drinking Water Quality: Theory, Methods, and Research Needs* (available on request).

Several participants commenting on these efforts expressed reservations about inclusion of non-health benefits, arguing that health benefits are by far the most important and should therefore be emphasized. Others expressed the opinion that undervaluing these factors is a major perceived deficiency in past rulemakings. Participants also disagreed on whether costs and risk tradeoffs can be separated. Most participants agreed that maintaining a balanced analysis was important.

Methods for Valuing Benefits. The debate begun in the previous session, continued as the EPA team discussed methodologies, including techniques to determine damage functions, revealed preferences, stated preferences, and benefits transfers. Some participants were concerned that EPA adequately consider including non-out of pocket expenses (such as pain and suffering), stratifying contingent valuation studies by socio-economic classes, and including sensitive subgroups. Participants argued that EPA must be careful to omit benefits that would occur in the absence of regulation.

Health Effects Profiling. This part of the project is concerned with identifying sensitive populations, exposure factors, and other elements of a health effects profile, and then constructing a risk assessment paradigm. Participants in the meeting asked detailed questions concerning the definition of the immunity and sensitivity categories being used, how EPA was using previous outbreak studies, and whether new information is being collected. Many participants viewed data uncertainty a critical issue for EPA to

evaluate and address in the future. Another key factor of concern was the distinction between groups with higher exposure (potential high risk groups) and those with greater vulnerability (sensitive populations, including children).

The sessions concluded with considerable discussion about future involvement. Many participants saw this area as enormously complex and felt EPA would need to expend some effort further educating stakeholders about methodologies and associated problems. For them this meant getting EPA decision-makers to meetings, identifying appropriate forums for interested group participation, and making the process transparent and understandable to the public. As important as meetings are, participants asked that they be tied to products that need review. Ongoing communications should make greater use of mail, telephone, E-mail, and the Internet, as appropriate for each participant. Comments on the full meeting summary (now being prepared by RESOLVE, Inc. and available on request) and ideas on future public participation efforts may be submitted by October 24, 1997, to Corry Westbrook, US EPA, 401 M Street, NW (4607), Washington, DC 20460, or westbrook.corry@epamail.epa.gov.