Regulation Review

Efficiency Standards for Walk-in Coolers and Electric Motors

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The Department of Energy (DOE) recently released a pair of energy efficiency rules that would update standards for walk-in coolers & freezers and commercial & industrial electric motors. Upon publication in the Federal Register, these will be the eighth and ninth efficiency standards rulemakings published in 2014. Together, the unofficial, pre-publication versions of the rules are 561 pages.

WALK-IN COOLERS AND FREEZERS

- Proposed Rule Cost: $7.2 billion
- Final Rule Cost: $9.8 billion
- *$1.6 billion cost increase*

COMMERCIAL AND INDUSTRIAL ELECTRIC MOTORS

- Proposed Rule Cost: $11.7 billion
- Final Rule Cost: $12.5 billion
- *$800 million cost increase*

Total Combined Cost: $22.3 billion

Total Cost Increase: $2.4 billion

ANALYSIS

The most notable part of this pair of rules is clearly the pronounced increase in costs compared to their proposed versions. The American Action Forum (AAF) previously reviewed the implications of the proposed versions of the cooler rule and the motor rule. The $2.4 billion increase is significant on its own, but it also follows a curious trend in 2014 DOE rulemakings. To this point, efficiency final rules published this year have seen a $5.4 billion cost increase from their proposed versions.

In general, these rules continue the trend of rising overall regulatory costs in recent months. While it is unclear whether May will catch up to April in terms of published regulatory burdens, it does mark yet another surge on the 2014 ledger. With these two rules, 2014 costs will likely exceed $80 billion to date. In terms of just final rules, they will add to the current $28 billion in total costs to push that figure close to the $50 billion mark.

Both rules trigger the Unfunded Mandates Reform Act by imposing annual expenditures on private entities that exceed $141 million. Annualized costs (at a 7 percent discount rate) could equal $511 million for the cooler rule and $517 million for the motor rule.

However, the Regulatory Flexibility Act (RFA) section is not as clear. The cooler rule states that it will not have "a significant impact on a substantial number of small businesses." The motor rule does not give a firm declaration, but that the agency prepared an RFA analysis indicates the rule could burden small businesses.

Using the NAICS codes provided in the RFA sections, AAF was able to identify which states contain the most affected entities.

Top 5 Affected States – Electric Motor Manufacturers	
State	**Percentage of US Market**
California	10.09%
Ohio	7.73%
Texas	6.44%
Wisconsin	6.01%
Michigan	5.79%

Top 5 Affected States – Walk-In Cooler Manufacturers	
State	**Percentage of US Market**
Texas	10.97%
California	9.65%
Florida	5.96%

Top 5 Affected States – Walk-In Cooler Manufacturers	
Pennsylvania	5.60%
Illinois	5.24%

The above tables are based on the relative concentrations of manufacturing facilities. These standards will also increase the up-front cost of products to consumers as well. While both product categories include equipment varying in size, capacity, and consumption, it should be possible to get a sense of the scale of these price increases. Using "Installed Cost" estimates provided in the rules' Technical Support Documents (TSD), the average price increases for each product are as follows:

	Walk-In Coolers	Electric Motors
Mean	$1,086	$313
Median	$449	$75

Of course, unlike some other new efficiency standards, the consumers of these products are generally not individual consumers. Your typical consumer is not going out and buying a walk-in cooler for their home; it's generally restaurants or food stores. Nonetheless, these price increases could bring substantial costs to such consumers. For instance, the average increase in price for coolers represents a 16 percent mark-up from the average baseline value.

The flow of new energy efficiency standards continues and seems to be strengthening. Other than last month's standards for certain kinds of lamps, these new rules are the most expensive standards in recent years. That they continue to increase costs from the proposed to final stages only adds to disconcerting trends.