

# **Regulation Review**

# Final EPA Tier 3 Fuel Standards

**MARCH 3, 2014** 

The Environmental Protection Agency (EPA) has released the final version of its Tier 3 emissions and fuel standards. The rule would require further emission control measures in vehicles and reductions in the level of sulfur in gasoline. The American Action Forum (AAF) reviewed its proposed version last year. The unofficial, pre-publication version of the rule is 1,118 pages, not including the 618-page Regulatory Impact Analysis (RIA).

The final version largely includes the same standards as its proposed version. There are some flexibility and hardship measures included for small refineries to mitigate the effects of a 2017 compliance deadline. The most significant difference from the proposal is the imposition of stricter evaporative emissions standards. EPA "will require covered vehicles to have essentially zero fuel vapor emissions in use." The agency is taking this action to harmonize manufacturing practices with those already in place due to California's recent fuel regulations.

### **Proposed Rule**

Total Costs: \$35.1 Billion
Annual Cost: \$3.4 Billion
Paperwork: 160,942 Hours

#### **Final Rule**

Total Costs: \$14.5 Billion
Annual Cost: \$1.5 Billion
Paperwork: 158,617 Hours

Total Net Change: -\$20.6 Billion (-\$1.9 Annually) and -2,325 Hours

# **ANALYSIS**

The most significant part of the rule's final version is the dramatic drop in cost estimates, a \$20.6 billion, or nearly 60 percent, reduction. Although it is still one of the more costly rules in recent years, the sheer level of the reduction is profound. However, this rulemaking still results in significant costs. Furthermore, because this rule focuses on certain industries, some states will bear a greater burden of the costs. Below are the states most affected by this rule:

#### **Vehicle Manufacturer Costs**

Michigan: \$504 million
Texas: \$418 million
Ohio: \$404 million
Florida: \$390 million
Indiana: \$361 million

# **Refinery Costs**

• Texas: \$1 billion

Louisiana: \$504 million
Pennsylvania: \$313 million
Oklahoma: \$256 million
Illinois: \$199 million

It appears that a large part of the adjustment in EPA's math comes from different cost assumptions, rather than from any real adjustment in the stringency of the standards. According to EPA's RIA, the reduction in costs from the proposed version stems from updated estimates about certain pieces of technology and different assumptions about the scope of the standards in light of other regulatory actions (such as recent CAFE standards).

EPA notes that "the significant change" in total costs is the result of the exclusion of "vehicles sold in all states (California and elsewhere) that have adopted the California LEVIII program" from its market pool. Since, as EPA claims, these vehicles are already compliant or nearly compliant under the California regulations, there is no need to count them as affected units. This group of vehicles accounts for 36 percent of overall national sales.

Much of the analysis follows the lead of the proposed version. Although EPA still admits that manufacturers and refiners will pass these costs on to consumers in the form of higher prices, they also maintain the caveat that such price increases will likely be minor. For example, EPA estimates gas price increases of approximately one cent, although industry figures are far higher. Furthermore, EPA continues to acknowledge that such price pass-throughs could diminish sales, and therefore employment. However, they claim increased, compliance-based employment will balance that effect.