

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). 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 the process of rule development for Proposed Amended Rule 1153.1 (PAR 1153.1), Emissions of Oxides of Nitrogen from Commercial Food Ovens. While SCAQMD addressed several concerns expressed by stakeholders regarding the feasibility of proposed technologies and cost-effectiveness at working group meeting (WGM) #8, BizFed continues to have concerns that the District has not addressed the full cost impacts in their cost-effectiveness analysis. BizFed offers the following comments on the cost considerations presented in WGM #8.

1. As outlined in the USEPA Guidelines for Preparing Economic Analyses, SCAQMD should be conducting a socioeconomic analysis that includes the regional costs required to implement PAR 1153.1. SCAQMD has not conducted such an analysis for the rule and continues to assert that cost-effectiveness will not include regional costs.

To assess the cost-effectiveness of implementing measures proposed in PAR 1153.1, the District is referencing the health-based cost-effectiveness threshold of \$325,000 per ton of NO_x emissions reduced established in the 2022 Air Quality Management Plan (AQMP).¹ PAR 1153.1 is the first rulemaking where SCAQMD is applying this cost-effectiveness threshold and it is significantly different from the 2016 AQMP thresholds in both value and economic basis.² The new threshold considers regional projections of public health benefits which may be attributed to projected improvements to regional air quality improvements under PR1153.1. The

¹ SCAQMD 2022 Air Quality Management Plan. 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 Air Quality Management Plan. 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>.

costs associated with the implementation of PR1153.1 to accomplish those regional air quality benefits need to incorporate the corresponding regional costs.

USEPA's Guidelines for Preparing Economic Analyses (Guidelines) establish a scientific framework for performing economic analyses of environmental regulations and policies.³ 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:⁴

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.

Social cost can be assessed based on the effects of a proposed regulation and can be categorized as a partial or general equilibrium analysis. 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 light of the revised regional health-based cost-effectiveness threshold, the District must perform a PEA to capture the full societal costs with the relative societal health benefit.

Since the social cost will include the total burden of a regulation on the economy, the social cost will include a wide range of additional costs. Some examples of these costs include, but are not limited to, the following:

- Capital costs (i.e., installation costs, equipment upgrades, equipment replacement costs, startup costs)
- Operation and maintenance (O&M) costs (i.e., ongoing annual expenditures on salaries and wages, energy costs, materials and supplies, purchased services, and maintenance of equipment associated with pollutant abatement)
- Industry costs (i.e., changes in market demand, plant closures, impacts to output, impacts to consumer costs)
- Transaction costs, (i.e. costs incurred in an economic exchange beyond the cost of production of a good or service).
- Transitional costs (i.e., costs to train workers in the use of new equipment required by the rule).
- Distributional costs (i.e. costs related to how certain entities or societal groups are impacted by the imposition of a policy or regulation).

SCAQMD must include all social costs in their cost-effectiveness analysis to truly evaluate the full extent of costs associated with the regional benefit of the rule.

³ US EPA Guidelines for Preparing Economic Analyses. Available at: <https://www.epa.gov/environmental-economics/guidelines-preparing-economic-analyses>.

⁴ Ibid.

While the District has now included capital, O&M, and additional utility usage costs, the District continues to omit the industry costs related to the utility-side infrastructure from their analysis as well as other costs required by the Guidelines. Without considering the totality of costs in rule evaluation, it is uncertain what the full economic impacts of rule implementation will be. The US EPA Guidelines state that the total cost of regulation can include both direct costs to the facility, as well as indirect costs on the market. These costs could result in significant effects in markets other than those directly affected by rulemaking. However, even without market effects, SCAQMD needs to include all societal costs.

2. The utility-side upgrade costs presented by the District underestimate the costs likely to be passed to facilities. BizFed requests that SCAQMD revisit this estimate and/or provide substantiation to support its estimate.

In WGM #8, SCAQMD presented updated cost-effectiveness estimates for the proposed control technologies.⁵ Costs included direct facility costs, cost of facility- and utility-side electrical upgrades, and annual O&M costs.

SCAQMD also presented utility-side upgrade cost estimates for additional infrastructure required to accommodate higher energy demand loads driven by PAR 1153.1. SCAQMD noted that these costs are expected to be case-by-case depending on the state of the grid and available capacity at the facility location.⁶ SCAQMD estimated that utility-side upgrades would cost anywhere from \$2,000 for smaller units (≤ 3 MMBtu/hr) to \$50,000 for larger units (> 3 MMBtu/hr), however substantiation for these cost estimates were not provided.⁷

Large-scale electrification policies are only starting to be implemented and the full economic impacts have not been observed, however costs to facilitate these electrical upgrades are not small. In a series of scenarios presented by a major electric utility, projects requiring > 1 MW of demand can result in costs for interconnection and distribution upgrades that are significantly higher than what was presented in WGM #8.⁸ Further, distribution upgrades alone can cause significant cost increases compared to what was presented by the District. A study prepared by Navigant Consulting, Inc. for the California Energy Commission (CEC) states:⁹

"Study results indicate the cost of interconnection and distribution upgrades for 4,800 MW of DG on SCE's [Southern California Edison's] distribution system could range from a low of \$1 billion to a high of \$2 billion, depending on DG size, location, and amount of clustering of DG on distribution feeders."

⁵ PAR 1153.1 WGM #8, June 7, 2023. Available at: <http://www.aqmd.gov/docs/default-source/rule-book/Proposed-Rules/1153-1/par-1153-1-wgm-8.pdf?sfvrsn=12>.

⁶ Ibid.

⁷ Ibid.

⁸ SCE Attachment A Unit Cost Guide. Available at: [Attachment A-Unit Cost Guide.xlsx \(sce.com\)](Attachment A-Unit Cost Guide.xlsx (sce.com)).

⁹ Distributed Generation Integration Cost Study. Available at: <https://efiling.energy.ca.gov/GetDocument.aspx?tn=73791>.

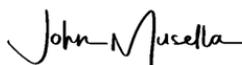
The study goes on to state that transmission upgrades could add \$1 billion to \$5 billion.¹⁰ Based on these estimates, the estimated power demand of 17.2 MW presented in WGM #8, would suggest potential additional costs of \$3.6 - \$7.2 million for distributed generation investment alone. When transmission upgrades are considered, additional costs increase to a range of \$7.2 - \$25.1 million. While the distribution and transmission upgrades would be completed by the utilities, facilities that may require a significant service extension would be responsible for bearing the brunt of the costs. Under most utilities rules, the project applicant is considered responsible for paying costs in excess of their current facility allowance, including installation costs (i.e., connectors, service conductors, transformers, metering equipment, etc.).¹¹

While we appreciate the effort the District has made to incorporate the costs associated with the transition to zero-emission technology, additional costs must be considered to allow Governing Board members to understand the costs to facilities and the utilities. SCAQMD must reassess these proposed cost estimates, as the costs to conduct grid infrastructure upgrades will be yet another cost borne by businesses as they navigate the implementation of Rule 1153.1.

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

¹⁰ Ibid.

¹¹ Example: Rule 16. SCE. Available at: <https://www.sce.com/sites/default/files/inline-files/Rule16.pdf>.

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 American Business Association
Armenian Trade & Labor Association
Arts District Los Angeles
ASCM Inland Empire Chapter
Asian American Advertising Federation- 3AF
Associated Builders & Contractors SoCal (ABC SoCal)
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
Bridge Compton Org
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
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 Fuels & Convenience Alliance- Formerly California Independent Oil Marketers Association (CIOMA)
California Gaming Association
California Grocers Association
California Hispanic Chamber
California Hotel & Lodging Association
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 +
Civil Justice Association of California CJAC
Claremont Chamber of Commerce
Commerce Business Council formerly Commercial Industrial Council/Chamber of Commerce
Community Foundation of the Valleys
Compton Chamber of Commerce
Compton Community Development Corporation
Compton Entertainment Chamber of Commerce
Construction Industry Air Quality Coalition
Construction Industry Coalition on Water Quality
Council of Infill Builders
Crenshaw Chamber of Commerce
Culver City Chamber of Commerce
Downey Chamber of Commerce
Downtown Alhambra Business Association

Downtown Center Business Improvement District
Downtown Long Beach Alliance
DTLA Chamber of Commerce
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
EXP The Opportunity Engine
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 Downey Association of REALTORS
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
Independent Hospitality Coalition
Industrial Environmental Association
Industry Business Council
Inglewood Board of Realtors
Inland Empire Economic Partnership
International Franchise Association
Irwindale Chamber of Commerce
Kombucha Brewers International
La Cañada Flintridge Chamber
LA County Medical Association
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
Licensed Adult Residential Care Association- LARCA
Long Beach Area Chamber
Long Beach Economic Partnership
Long Beach Major Arts Consortium
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 Regional Food Bank
Los Angeles World Affairs Council/Town Hall Los Angeles
MADIA Tech Launch
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 Theatre Owners
CA/Nevada
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
Norwegian American Chamber of Commerce
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
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 of Commerce
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
Specialty Equipment Market Association
Sportfishing Association of California
Structural Engineers Association of Southern California
Sunland/Tujunga Chamber
Sunset Strip Business Improvement District
Swiss American Chamber of Commerce
The LA Coalition for the Economy & Jobs
The Los Angeles Taxpayers Association
The Two Hundred for Homeownership
Torrance Area Chamber
Tri-Counties Association of Realtors +
United Chambers - San Fernando Valley & Region +
United States-Mexico Chamber
Unmanned Autonomous Vehicle Systems Association
Urban Business Council
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