

Cost-Benefit Analysis and the Incentives for Regulation

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Proposed Hazardous Liquid Rule

Information Gathering

- Reporting for gathering lines
- Reporting for gravity lines

Post-Natural Disaster Actions

- Inspections and remedial action

Non-HCA Pipeline Requirements

- Periodic assessments
- Use of leak detection systems

Post-Assessment Repair Deadlines

IM Requirements

- Make pipelines piggable
- Clarify risk management process

Categories of Costs

Labor (personnel) costs

Costs of equipment and material

How Much?

Labor costs

- Reporting
- IM Planning

Costs of activities

- Air patrols
- Inspection costs for assessment
- Repair costs
- Retrofitting costs for ILL

How Much?

Labor costs

- Reporting: \$.02 million
- IM Planning: \$5.7 million

Costs of activities

- Air patrols: \$1.5 million
- **Inspection costs for assessment: \$8.4 million**
- **Repair costs: \$6.41 million**
- Retrofitting costs for ILI: \$3.3 million

Total: \$25.33 million

Benefits

Quantified benefits from avoided incidents

- Deaths and injuries
- Property damage
- Environmental damage

Unquantified benefits

- Increased regulatory certainty
- Increased situational awareness
- Other costs of incidents (litigation, less severe injuries, evacuations, long-term health consequences, public confidence)
- Information about requirements
- Level playing field
- Energy security

How Much?

Avoided Incidents

- **Property damage, fatalities and injuries: \$45 million to \$61.25 million**

Other Benefits

- Unknown

Net benefits of \$19.67 million

Common Criticisms

Discount benefits over time

Monetize deaths and injuries, which are priceless

Focus on costs, which are easier to calculate

Focus on quantification over real but unquantifiable benefits

Incentives

Establish standards that have low costs of regulation

- Industry standards
- Standards that most firms are already following
- Delayed requirement
- Exceptions if too expensive/not feasible

Establish standards that can be justified by quantified benefits

- Standards that use critical assumptions (such as the effectiveness rate)
- Standards that can be tied to reported incident information (i.e., damage)
- Standards that replace a more expensive, quantified option

Result

Standards that have few costs and few benefits
Less stringent standards now and in future