

TABLE 8.1.—ANNUAL PRE-TAX COST OF THE RULE, \$2001—Continued

Sector	No. operations		Aggregate incremental costs			
	Large CAFOs	Medium CAFOs	Total	Large CAFOs	Medium CAFOs	Designated CAFOs
Total	10,526	4,452	326.0	283.2	39.1	3.8

Source: USEPA. May not add due to rounding. Number of operations do not include designated facilities. Assumes that the estimated costs for Medium CAFOs to comply with BPJ-based limitations under the revised NPDES regulations are similar to the costs that would be incurred by those sized operations if they had to comply with the ELG.

¹ "Layers: dry" are operations with dry manure systems. "Layers: wet" are operations with liquid manure systems.

b. Costs to the NPDES permitting authority. The NPDES permitting authority will incur additional costs to alter existing State programs and obtain EPA approval to develop new permits, review new permit applications, and issue revised permits that meet the final regulatory requirements. EPA expects that NPDES permitting authorities will incur administrative costs related to the development, issuance, and tracking of general or individual permits.

State and federal administrative costs to issue a general permit include costs for permit development, public notice and response to comments, and public hearings. States and EPA may also incur costs each time a facility operator applies for coverage under a general permit due to the expenses associated with a NOI. These per-facility administrative costs include initial facility inspections and annual record-keeping expenses associated with tracking NOIs. Administrative costs for an individual permit include application review by a permit writer, public notice, and response to comments. An initial facility inspection might also be necessary.

EPA assumes that under the final regulations an estimated 15,500 CAFOs would be permitted. This estimate consists of about 15,000 CAFOs covered by State permits and about 500 CAFOs covered by federal permits. Administrative costs incurred by State permitting authorities are expected to be \$8.7 million. EPA permitting authorities will incur the remaining \$0.3 million. EPA has expressed these costs in 2001 dollars, annualized over the 5-year permit term using a 7 percent discount rate. A summary of this analysis is available in section X.D of this preamble. More detailed information is in the *Technical Development Document*.

B. Economic Effects

1. Effects on the CAFO Operation

To estimate the impacts of the final regulations, EPA examined the economic effects on regulated CAFOs and national markets. This section

presents EPA's analysis of financial impacts on both existing and new CAFOs that will be affected by the final regulations. Results presented here focus on economic effects from the CAFO regulations affecting Large CAFOs because only large facilities will be subject to the effluent guidelines and NSPS. This section also presents EPA's analysis of the economic effects on existing operations that are small businesses. More detailed information on those effects are presented in the *Economic Analysis*.

The preamble to the proposed rule summarizes EPA's data collection activities and the sources of data that the Agency used to estimate economic effects for the final regulations (66 FR 3079–3080). Both the 2001 Notice (66 FR 58556) and the 2002 Notice (67 FR 48099) describe the public comments received by EPA on the baseline financial data and the methodological approach developed by the Agency to evaluate financial effects. More detailed information on these comments and how EPA addressed them is in section 2 of the final *Economic Analysis*. EPA's detailed responses to these public comments, and the comments themselves, are contained in the *Comment Response Document* in the administrative record for today's rule. Both Notices also present new data received following proposal that EPA used in conducting its final analysis.

a. Methodology used to assess impacts to the CAFO operation. EPA assessed financial effects on regulated CAFOs based on predicted changes to select financial criteria. The economic model that EPA used to evaluate financial impacts on CAFOs uses a representative farm approach. Under this general framework, EPA constructed a series of model facilities ("model CAFOs") that reflect EPA's estimated compliance costs and readily available financial data. EPA used these model CAFOs to develop an average characterization for a group of operations based on certain distinguishing characteristics for each sector, such as facility size and production region, that can be shared across a broad range of facilities.

EPA evaluated the economic achievability of the rule at existing operations based on changes in representative financial conditions across three financial criteria: (1) An initial screening comparing incremental post-tax costs to total gross revenue ("sales test"), (2) projected post-compliance cash flow over a 10-year period ("discounted cash flow analysis"), and (3) an assessment of an operation's debt-to-asset ratio under a post-compliance scenario ("debt-asset test"). EPA notes that its discounted cash flow analysis likely understates impacts because it does not include any allowance for depreciation or replacement of capital in its definition of cash flow. However, EPA has conducted a sensitivity analysis that shows that the number of estimated CAFO closures would not be different if allowances for replacement of capital are made (see section 3.3 of the *Economic Analysis*).

EPA used the results from these analyses to divide affected CAFOs into three financial impact categories: Affordable, Moderate, and Stress. CAFOs experiencing affordable or moderate impacts are considered to have some financial impact on operations, but EPA does not expect the costs of complying with this rule to make these operations vulnerable to closure. EPA considers that for CAFOs in both the "Affordable" and "Moderate" impact categories the final requirements are likely to be economically achievable. Operations experiencing financial stress, however, are considered to be vulnerable to closure because of the costs of this rule. EPA considers that for CAFOs in the "Stress" impact category, the final requirements are likely not economically achievable. EPA notes, as discussed below, that there may be mitigating factors that could reduce the number of facilities experiencing financial stress, such as the availability of cost-share assistance and long-run market adjustment.

EPA conducted its analysis first at the farm level based on data reflecting financial conditions for the entire farm