

***RULEMAKING TO CONSIDER THE ADOPTION OF A PROPOSED CALIFORNIA CAP  
ON GREENHOUSE GAS EMISSIONS AND MARKET-BASED COMPLIANCE  
MECHANISMS REGULATION, INCLUDING COMPLIANCE OFFSET PROTOCOLS***

**Board Item: capandtrade10**

**Comments Submitted by the Gypsum Association to the California Environmental Protection  
Agency Air Resources Board**

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The Gypsum Association represents the collective interests of the United States gypsum board manufacturing industry. On May 12, 2011, the Association submitted aggregate average gypsum board industry CO<sub>2</sub>e emissions data to the ARB to assist in the ARB's effort to establish a product-based benchmark for the Gypsum Product Manufacturing sector. The data submitted represented the average CO<sub>2</sub>e emissions data for the gypsum wallboard (i.e., plasterboard) manufacturing facilities anticipated to be subject to the cap-and-trade regulations normalized to a production parameter of metric tons of stucco used to produce saleable plasterboard. The ARB used this data to establish a proposed product-based benchmark for plasterboard manufacturing within the gypsum product manufacturing sector (NAICS 327420) and to incorporate additional production reporting requirements for gypsum manufacturing facilities.

On August 11, 2011, the Gypsum Association submitted public comments on Board item *capandtrade10*. The public comments submitted by the Association were not incorporated into the Second Notice draft for *capandtrade10* posted by the ARB on September 12, 2011. At this time, we wish to submit a single, original comment on the draft (Comment #1 below) and to re-submit the previous comments for the public record. In re-submitting the previous comments, it is our understanding that the items proposed in comment #2 below were inadvertently excluded from the revised text and are to be incorporated in a subsequent edition of the regulation.

**Comment #1 – The Document Needs a Definition for Stucco**

Comments submitted by the Gypsum Association on *ghg2010* regarding the correct unit benchmarks for gypsum board caused a dialog to occur between the Association and ARB staff regarding the proper definition for stucco. On the basis of the conversations, the *ghg2010* document now includes a definition for stucco.

Since the proposed modification in Comment #2 incorporates the use of the term stucco, the *capandtrade10* document should incorporate the definition for stucco that is contained in the Proposed Second 15 Day Modifications for the *ghg2010* document. It is therefore proposed that the following definition be added to the *capandtrade10* document:

“Stucco means hemihydrate plaster (CaSO<sub>4</sub>• $\frac{1}{2}$ H<sub>2</sub>O) produced by heating (“calcining”) raw gypsum, thereby removing three-quarters of its chemically combined water. “

**Comment #2 - The Listed Unit for the Proposed Benchmarks for Plasterboard is Incorrect**

Our review indicates that the documents posted by the ARB on July 25, 2011, incorrectly identify the unit for the proposed plasterboard benchmark as “Allowances / Short Ton of Plaster Board” in the cap-and-trade regulations and incorrectly identify the production reporting requirement as “the amount of plaster board produced” in the mandatory reporting requirements. The Gypsum Association and its members request that the ARB change the relevant references to correctly identify that the benchmark unit for plasterboard production is based on the mass quantity of stucco used to produce salable plasterboard and not the

quantity of plasterboard produced. It is noted that the units of the EU ETS benchmark should also be changed to reflect the mass quantity of stucco used to produce plasterboard rather than mass of plasterboard itself as is currently listed in ARB's 15-day change documents.

Specifically, ARB needs to correct the errors in the following sections of the cap-and-trade regulations, and other 15-day change documents:

- Cap-and-Trade Regulations: Subchapter 10, Article 5, Subarticle 9, §95891. Allocation for Industry Assistance, Table 9-1: Product Based Emissions Efficiency Benchmarks. Units should be changed for the benchmark in the "Plaster Board Manufacturing" activity from "Allowance / Short Ton of Plaster Board" to "Allowance / Short Ton of Stucco Used to Produce Saleable Plasterboard".
- Appendix B: Development of Product Benchmarks for Allowance Allocation, Table B. Comparison of California and EU ETS Product Benchmarks. Units should be changed for all benchmarks (CA Imperial Units, CA SI Units, and EU ETS) in the "Plaster Board Manufacturing" activity from "...Ton of Plaster Board" to "...Ton of Stucco Used to Produce Saleable Plasterboard".

**Comment #3 - The Base Year Selected by ARB should Reflect Both Present and Future Production Constraints**

The Gypsum Association wants to ensure that the base year that the ARB selects to allocate 2013 allowances for each gypsum board manufacturing plant reflects a fair and reasonable production level. Specifically, the base year should acknowledge both the current economic recession and its impacts on the gypsum board industry and the impact on allocations that will occur when idled capacity is brought back on line at a future date. The Proposed Regulations do not appear to address this very important issue. In May of this year, The Gypsum Association submitted a chart that displays monthly shipments of gypsum board to locations in the State of California for the period 2005 to 2010. This data points out the precipitous decline in shipments in the state during the period noted and reinforces the need for the ARB to be judicious when it establishes a base year for the gypsum board manufacturing facilities located in the State of California. The Gypsum Association requests further information from the ARB on whether or not this base year has been determined for 2013 and would value the opportunity to enter into discussions with the ARB regarding the importance of setting an achievable allocation for 2013 and years beyond.

**Comment #4 - The Industry Assistance Factor for the Gypsum Product Manufacturing Industry in Table 8-1 Should be Higher**

The Gypsum Association believes that the annual Industry Assistance Factor for the Gypsum Product Manufacturing ("GPM") industry should be 100 percent for the entire period 2013 through 2020. It is our position that in assigning a "medium" leakage risk classification to the GPM industry the ARB has understated the risk leakage for the industry.

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In assigning a leakage risk classification to an industry, the ARB applies a methodology that assigns equal weight to the concepts of emissions intensity and trade exposure. While we are of the opinion that the GPM industry should not be evaluated as an “emissions intense” industry, we are concerned that the ARB may be understating the local trade exposure risk to the industry.

Gypsum board is a consistent quality, commodity material that is often transported by rail. As a consequence, gypsum board can be produced in a specific state or country and transported over land and sold in a different state or country. While the ARB is correct in its assessment that gypsum board is not readily imported from or into the State of California from locations outside of North America, it is our opinion that the Appendix K methodology and its reliance on national and regional data may be understating the potential intra-regional trade exposure for gypsum products in the State of California. Our concern is that the ARB has not taken this attribute fully into account when assigning the risk leakage classification to the GPM industry.

The Gypsum Association would value the opportunity to enter into discussions with the ARB regarding this matter.