

COMMENTS TO THE CALIFORNIA AIR RESOURCES BOARD IN RESPONSE TO THE REQUEST FOR COMMENT REGARDING THE NOTICE OF PUBLIC AVAILABILITY OF MODIFIED TEXT AND AVAILABILITY OF ADDITIONAL DOCUMENTS AND INFORMATION – CAP AND TRADE REGULATION

SUBMITTED BY: UNITED STATES GYPSUM COMPANY

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The Plaster Board Manufacturing Benchmark for the Gypsum Product Manufacturing Industry should remain labeled “Plaster Board Manufacturing” as opposed to “Stucco Manufacturing”

The Gypsum Product Manufacturing (“GPM”) industry processes raw gypsum into stucco which is then used to produce saleable plasterboard. The main activity remains Plasterboard Manufacturing. Therefore, USG requests that the Activity be changed back to “Plaster Board Manufacturing” from “Stucco Manufacturing”.

The Plaster Board Manufacturing Benchmark for the Gypsum Product Manufacturing Industry should be revised from a Weight Based Metric to a Production Based Metric

The GPM industry agreed to use a benchmark of metric tons CO₂e per short ton of stucco used to produce wallboard, which is in line with the EU ETS. With the GPM industry continually moving to lighter products using weight as a metric will not allow the industry to take advantage of improvements in energy utilization. Conceptually, if the denominator in the metric is weight based, and weight is continually decreased, members of the GPM industry may not be able to meet target CO₂e allocations regardless of energy usage.

California has revised the Cap and Trade Regulations to harmonize its system with the cap and trade system that has been assembled by Quebec. Quebec has adopted an area based metric for the GPM industry (metric tons CO₂e per cubic metre of gypsum panel). In keeping with the goal to harmonize these two cap and trade systems, the California Air Resource Board (“CARB”) should also adopt industry benchmarks that are comparable wherever possible. USG believes that Quebec’s method for setting the Plaster Board Manufacturing Benchmark is more appropriate as weight is not a factor in determining energy efficiency.

We propose that CARB solicit a new area based emissions benchmark from the GPM industry which may be coordinated through a trade association. The units of this benchmark should be in terms of *metric tons CO₂e per msf (“thousand square feet”) of wallboard produced.*

The Industry Assistance Factor for the Gypsum Product Manufacturing Industry in Table 8-1 should be 100% for the Third Compliance Period

Although USG appreciates the modifications to the Industry Assistance Factor for the GPM industry in the second and third compliance periods, USG believes that the annual Industry Assistance Factor 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, CARB has understated the risk leakage for the industry.

In assigning a leakage risk classification to an industry, CARB 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 CARB is understating the local trade exposure risk to the industry. USG is particularly concerned that using national and regional data (mostly from ports) for the calculation of Trade Share in Appendix K of the rule underestimates the potential trade exposure of gypsum products to the state of California from other States.

Gypsum board is a consistent quality, commodity material that can be cost-effectively transported by rail. As a consequence, gypsum board can be produced in a specific state or country and easily transported and sold in a different state or country. Our concern is that CARB has not taken this attribute fully into account when assigning the risk leakage classification to the GPM industry.

USG has gathered industry data in California for the years 2001-2012. *On average, our best estimate is that 21% of wallboard sold in California is produced outside of the state.* The data is confidential in nature and can be shared with CARB provided that it is protected accordingly. In reviewing the Proposed Trade Exposure Classification in Table K-6, a trade share in excess of 19% would be considered “High”. As a result, the GPM industry should be assigned a “High” leakage risk according to CARB’s original Leakage Analysis. We understand that CARB is currently reviewing the Industry Assistance Factors and would appreciate the opportunity to share data that we have collected with you.