June 7, 2010

California Air Resources Board
1001 "I" Street
P.O. Box 2815
Sacramento, CA 95812

RE: GANA Comments to May 17 Allocation Workshop

SUMMARY

GANA supports and encourages the adoption of the following:

1. Retention of free/subsidized allocations for flat glass producers below benchmark levels.
2. Specific regulatory treatment and a working group meeting for the flat glass industry.
3. Benchmarks based upon
   a) the entire U.S. and not just California manufacturers;
   b) differentiation between regenerative furnaces and oxy-fuel furnaces;
   c) differentiation for different glass colors/types; and
   d) consideration of the long life-cycle of a flat glass furnace.
4. Multi-year averaging for allocations instead of currently proposed single year basis.
5. Retention of the assistance factor at 100% for the flat glass industry.

DISCUSSION

The Glass Association of North America (GANA) appreciates the opportunity to participate and comment on CARB's proposal for allocations within a cap-and-trade program in California. The Glass Association of North America is the leading association serving flat glass manufacturers, fabricators and glazing contractors. The flat glass industry in California is highly energy intensive and trade exposed and would therefore be greatly impacted by any GHG cap-and-trade program in California.

In order to preserve the viability of manufacturing in California, GANA suggests that any state or regional cap-and-trade program be deferred in favor of a more unified national approach. A patchwork of state and/or regional programs would create uncertainty for businesses that operate nationwide and would expose the manufacturing sector in the regulated states/regions to great business risk. In California, the increased costs associated with a state cap-and-trade program would be in addition to the already high cost of doing business in California as a result of the existing stringent environmental regulatory requirements. This situation has a high probability of causing carbon leakage to other areas of the country or indeed to other countries, such as Mexico, not covered by such programs.

2945 SW Wanamaker Drive, Suite A, Topeka, KS 66614-5321
P: (785) 271-0208 F: (785) 271-0166
www.glasswebsite.com

With this said, GANA recognizes CARB's current proposals to lessen the impact on manufacturing by offering allocations to vulnerable industries as a way of reducing the immediate impact of the cap-and-trade program in California. GANA supports this approach for the flat glass industry due to a) its energy intensity, b) its general inability to pass costs along to consumers and c) its inability to respond quickly to any significant step change requirements to lower CO2 emissions from its glass melting furnaces. GANA also notes that some flat glass products are integral to "green" technologies like solar energy that form an integral part of the overall GHG reduction goals of AB32.

In response to the allocation proposals presented by CARB in the May 17th workshop, GANA offers the following comments for consideration. In general, GANA requests that CARB establish a workgroup meeting specifically for the flat glass industry to make sure that industry-specific issues are considered when applying the allocation formula. Some of these issues are presented below and GANA would welcome the opportunity to further discuss them with CARB.

Benchmark Emissions Intensity

First, GANA suggests that CARB include all applicable regenerative type float glass furnaces nationwide in the establishment of the emission intensity benchmark, as opposed to restricting such scope to only California or the WCI region. The primary reasons for this are: a) due to operational differences, container glass furnaces and flat glass furnaces must be considered separately, and b) there are only three flat glass plants located in California. Restricting the basis of the benchmark to California produces too small a sample for establishing a representative intensity factor.

Second, GANA suggests that some consideration for furnace type be included in the emission intensity benchmark. Specifically, separate benchmarks should be developed for oxy-fuel type furnaces and regenerative type furnaces. If a separate benchmark for oxy-fuel furnaces is not practical due to the very small number of furnaces in the flat glass sector, then GANA suggest that some other mechanism for allocations to these sources be established. A full oxy-fuel fired glass furnace represents a fundamentally different furnace design and would not be considered in the same category as any operational or add-on controls that may be employed for control of emissions. Including full oxy-fuel fired furnaces in establishing a benchmark based on direct GHG emissions only would artificially skew the benchmark against regenerative furnaces and force the industry to a specific furnace type. Changing the furnace type from a regenerative furnace to an oxy-fuel furnace represents a significant capital investment that may not be feasible for many flat glass sites, thereby making the benchmark impractical to achieve and unrepresentative of general industry. This approach is similar to the approach taken in the EU for rolled glass furnaces versus float glass furnaces. In the EU case, the few rolled glass furnaces were excluded from the float glass benchmark in recognition of the fact that rolled glass furnaces are a fundamentally different design than a float glass furnace and have a very different emissions baseline.

Third, GANA suggests that there be some consideration for product mix produced from the various furnaces. Specifically, a furnace that produces dark tinted glass products will have a different efficiency baseline than a furnace that produces exclusively clear glass or light tinted glass products irrespective of any other energy efficiency measure that may be taken or that may be in place to reduce GHG emissions.

Finally, GANA suggests that CARB consider an average emission intensity factor over time when establishing a benchmark for the flat glass industry. Irrespective of any operational control that may be in place, the energy efficiency of a float glass furnace degrades over the course of a furnace campaign (which can last between 10 and 20 years) as the refractory wears. All else being equal, a GHG emission intensity factor right after a furnace cold tank repair (CTR) is likely to be lower than the factor right before a CTR is made.

For the reasons stated above, GANA suggests that the flat glass industry benchmark be based on the national industry average instead of best available performance, with a separate benchmark or allocation method established for oxy-fuel furnaces.

Output Factor for Flat Glass

GANA understands that CARB is proposing to base allocations to the flat glass industry on prior year output. This approach may be problematic for the flat glass industry in any year where there is a hot hold or CTR. During a hot hold (idling conditions), no product is being produced but the furnace is kept hot. On average, a typical regenerative furnace uses 50% of the energy needed to operate the furnace at full production capacity to maintain the heat in the furnace during a hot hold with no production. This amount of energy represents the minimum amount of heat needed to run the furnace and is independent of output. Hot holds are generally done for emergency repairs of the furnace and are not done very often. They can generally last up to a couple of months so they can affect the allocations given for a site in the following year when production is full under the currently proposed allocation method. Similarly for CTRs, there are periods of time in which fuel is being combusted for heat-up and initial raw material charge, but no product is being produced. Under the current proposal, these activities would result in under allocation for the following year during normal production.

Hot holds and cold repairs are considered standard maintenance activities within the flat glass industry and thus do not necessarily represent an intent to cease operations. Under these conditions, in order to avoid the effects of leakage, it will be necessary to retain allocations for use upon start-up to normal production. For these reasons, GANA suggests that a one-year basis for adjustment of the allocations may be too short a time and that a longer averaging period may be more appropriate with the ability to adjust the averaging period to exclude hot hold and cold repair periods. This is similar to the approach that was used in the EU to establish allocations for the flat glass industry.

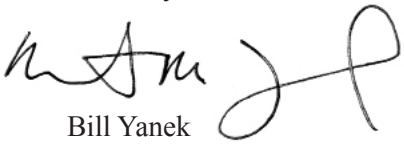
Assistance Factors

GANA agrees with the assistance factors included in the formula, but suggests that the factor remain at 100% for industries that are the most subject to leakage and that the transition assistance factor be retained for a longer period of time for industries like flat glass for which GHG reduction technology is limited, the ability to implement significant design changes is limited due to the 10-20 year campaign life of the furnaces and the fact that some changes can only be implemented while the furnace is cold.

GANA would welcome the opportunity to discuss these issues further with CARB to ensure a fair allocation system that supports the retention of glass manufacturing in California while meeting overall GHG reduction goals.

If you have any questions, please contact me at (785) 271-0208 or byanek@glasswebsite.com.

Sincerely,



Bill Yanek
GANA Executive Director