American Forest & Paper Association

AMERICAN WOOD COUNCIL

September 19, 2016

California Environmental Protection Agency
Air Resources Board
Byron Sher Auditorium
1001 I Street
Sacramento, California 95814

Re: California's Proposed Compliance Plan for the Federal Clean Power Plan, Draft Dated August 5, 2016

Dear Sir or Madam:

The American Forest & Paper Association (AF&PA) and the American Wood Council (AWC) appreciate the opportunity to provide written comments to the Air Resources Board (ARB) on its proposed Compliance Plan for the Federal Clean Power Plan (CPP). AF&PA serves to advance a sustainable U.S. pulp, paper, packaging, tissue and wood products manufacturing industry through fact-based public policy and marketplace advocacy. AF&PA member companies make products essential for everyday life from renewable and recyclable resources and are committed to continuous improvement through the industry's sustainability initiative - *Better Practices, Better Planet 2020*. The forest products industry accounts for approximately 4 percent of the total U.S. manufacturing GDP, manufactures over $200 billion in products annually, and employs approximately 900,000 men and women. The industry meets a payroll of approximately $50 billion annually and is among the top 10 manufacturing sector employers in 45 states.

AF&PA's sustainability initiative - *Better Practices, Better Planet 2020* - comprises one of the most extensive quantifiable sets of sustainability goals for a U.S. manufacturing industry and is the latest example of our members' proactive commitment to the long-term success of our industry, our communities and our environment. We have long been responsible stewards of our planet's resources. We are proud to report that our members have already achieved the greenhouse gas reduction and workplace safety goals. Our member companies have also collectively made significant progress in each of the following goals: increasing paper recovery for recycling; improving energy efficiency; promoting sustainable forestry practices; and reducing water use.
AWC is the voice of North American wood products manufacturing, representing over 75 percent of an industry that provides approximately 400,000 men and women in the United States with family-wage jobs. AWC members make products that are essential to everyday life from a renewable resource that absorbs and sequesters carbon. Staff experts develop state-of-the-art engineering data, technology, and standards for wood

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products to assure their safe and efficient design, as well as provide information on wood design, green building, and environmental regulations. AWC also advocates for balanced government policies that affect wood products.

AWC members are very proud of their record of mill safety, energy management and efficiency, and protection of the environment while producing products that are central to the lives and homes of all Americans. The first published AWC Environment, Energy and Safety Report is based on 2010 and 2012 data collected from the industry in 2011 and 2013. It shows that despite the economic downturn from 2007 to mid-2009, causing a drop in wood products manufacturing, manufacturers have made considerable environment, energy and safety improvements. By using biomass manufacturing residuals, the wood products industry is harnessing the energy value of the CO_2 before it is lost to the atmosphere through other means. The result is that by using biomass, the industry displaces fossil fuel use and their associated emissions. The full report is available on the AWC website.

I. Use of Renewable Energy Has Reduced Our Members' GHG Emissions.

The forest products industry produces and uses renewable energy for manufacturing operations and is a significant contributor to our country's existing base of renewable energy. In fact, paper and wood products facilities account for 62 percent of the renewable biomass energy produced by the total U.S. manufacturing sector.[1] On average, approximately 67 percent of the energy used at AF&PA member pulp and paper mills, and almost 75 percent of the energy from AWC wood products facilities are generated from carbon-neutral biomass.

AF&PA members' early attainment of their *Better Practices, Better Planet 2020* greenhouse gas (GHG) emission reduction goal comes as a result of efforts reaching back to at least 2000. Since 2000, total direct and indirect absolute GHG releases at member manufacturing facilities have decreased by 42.2 percent to 51 million tons carbon dioxide (CO_2) equivalents. GHG emissions intensity, expressed as CO_2 equivalents released per ton of product produced, has decreased by 23.9 percent. These reductions have come about through member adoption of efficient manufacturing production measures, increased use of less carbon-intensive fossil fuels and carbon-neutral biomass-based energy sources.

Moreover, the forest products industry is the largest producer and user of bioenergy of any industrial sector and has long-standing operations in the U.S. The creation and use of biomass energy in forest products mills is integral to the manufacture of products such as pulp, paper, packaging, tissue and wood products. Pulp mills, integrated pulp and paper mills, and wood products mills convert biomass residuals to energy while manufacturing biobased products that are useful to society. There are substantial GHG reduction benefits from using manufacturing residuals for biomass energy in the forest products industry. According to a study by the National Council for Air and Stream

[1] The U.S. manufacturing sectors that use renewable biomass energy includes the paper and wood products industry, as well as the chemicals and bio-refineries manufacturing industries.

Improvement (NCASI), the use of biomass residuals each year by the forest products industry avoids the emission of approximately 181 million metric tons of CO_2e.[2] (This is equivalent to removing about 35 million cars from the road.) Despite our industry's use of, and dependency on wood fiber, the total volume of trees in U.S. forests has increased 50% since the 1950s.

The current inventory of wood structures in the U.S. is estimated to store 1.5 billion metric tons of carbon, which is equivalent to 5.4 billion tons of CO_2. Using more wood in construction could save 14 to 31 percent of global CO_2 emissions and 12 percent to 19 percent of global fossil fuel consumption.

II. AF&PA and AWC Members Operate in Global Markets and Energy is a Significant Cost That Impacts Competitiveness.

AF&PA and AWC members manufacture a wide variety of value-added forest products, such as paper, packaging, wood products, wood-based chemicals, and other innovative wood-based products. Because they operate in a highly competitive global market and face fierce international competition, they cannot automatically pass on higher raw material and energy costs to their customers and still remain competitive. Further, many AF&PA and AWC members' facilities are located in rural areas, and provide high-paying jobs for those communities. Those jobs are a critical driver of the overall economic health of those oftentimes vulnerable communities.

The paper and wood products manufacturing sector spent over $10 billion on purchased energy in 2014. As large consumers and ratepayers, AF&PA and AWC members will face base rate and fuel electricity cost increases as utilities seek cost recovery of their fixed and variable compliance costs for numerous environmental requirements, including: 1) CAA programs (e.g. Mercury and Air Toxics Standards (MATS) and ozone National Ambient Air Quality Standards (NAAQS)); 2) Clean Water Act Section 316(b) cooling water intake structures regulations; and 3) revised Resource Conservation and Recovery Act regulations pertaining to coal combustion residuals. These compliance costs passed along from utilities are in addition to the cumulative burden of regulations under the CAA, such as Boiler Maximum Achievable Control Technology standards and ozone and particulate matter NAAQS, along with several major pending regulations that could directly cost the forest products industry more than $10 billion over the next eight years.

III. The California Compliance Plan Should Be Implemented Pursuant to a Least Cost Approach.

[2] *See* NCASI, *Greenhouse Gas And Fossil Fuel Reduction Benefits of Using Biomass Manufacturing Residuals for Energy Production in Forest Products Facilities*, Technical Bulletin No. 1016 (Rev. Aug. 2014), *available at* http://www.ncasi.org/Downloads/Download.ashx?id=9603 (attached); Gaudreault, C. and Miner, R., *Temporal Aspects in Evaluating the Greenhouse Gas Mitigation Benefits of Using Residues from Forest Products Manufacturing Facilities for Energy Production*. *J. of Industrial Ecology* 19(6):994-1007 (2015), at 1,004.

While the above discussion describes the industry on a national level, competitiveness concerns are just as important for California mills as they are for mills in the rest of the country, if not more so. Some manufacturing energy costs are higher in California than the national average. For example, the average industrial electricity price in California is more than 78 percent higher than the national average. Moreover, on a percentage basis, California AF&PA members purchase more of their energy than mills in the rest of the country.

Accordingly, as ARB develops and implements a final Compliance Plan, it should seek to develop the least-costly approach to ratepayers possible to minimize the costs of reaching the CO_2 reduction goals required by the CPP. ARB should consider all costs, including both direct and indirect costs, such as short- and long-term energy costs (electricity rates, natural gas prices, etc.), the cost of maintaining grid reliability, and harm to existing industries, especially energy-intensive and trade-exposed (EITE) industries, such as industry members.

IV. The Compliance Plan Appropriately Does Not Propose to Make Changes to the Status of Biomass Energy.

As discussed in the Compliance Plan, ARB is primarily relying on its existing cap and trade program to meet its compliance obligations under the CPP. Section 4.3 of the Compliance Plan describes several amendments needed to the existing program to ensure it complies with CPP requirements (e.g., changes to conform to CPP provisions on compliance periods and interim targets). Appropriately, ARB is not amending any of the provisions of the program pertaining to the status of biomass-derived renewable energy (combustion emissions from specified biomass-derived fuels are excluded from compliance obligations, although they are included for reporting purposes). AF&PA and AWC support this approach, as it recognizes the carbon reduction benefits of biomass energy, and is consistent with cap and trade systems around the world.

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Thank you for the opportunity to comment on the Proposal. If you have any questions about these comments, please contact Jerry Schwartz, AF&PA and AWC Senior Director, Energy and Environmental Policy at (202) 463-2581 or Jerry_Schwartz@afandpa.org.

Sincerely,

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