



**American
Forest & Paper
Association**



AMERICAN WOOD COUNCIL



AF&PA and AWC Comments on Proposed CO₂ Budget Trading Program

August 30, 2021

The American Forest & Paper Association (AF&PA) and the American Wood Council (AWC) appreciate the opportunity to provide comments to the Independent Regulatory Review Commission (IRRC) on the proposed “Final Form” CO₂ Budget Trading Program (Proposal), the regulation to implement the Regional Greenhouse Gas Initiative (RGGI) in Pennsylvania.

INTRODUCTION

The American Forest & Paper Association (AF&PA) serves to advance U.S. paper and wood products manufacturers through fact-based public policy and marketplace advocacy. The forest products industry is circular by nature. AF&PA member companies make essential products from renewable and recycle resources, generate renewable bioenergy and are committed to continuous improvement through the industry’s sustainability initiative — Better Practices, Better Planet 2030: Sustainable Products for a Sustainable Future. The forest products industry accounts for approximately four percent of the total U.S. manufacturing GDP, manufactures nearly \$300 billion in products annually and employs approximately 950,000 people. The industry meets a payroll of approximately \$60 billion annually and is among the top 10 manufacturing sector employers in 45 states.

AF&PA’s sustainability initiative — Better Practices, Better Planet 2030: Sustainable Products for a Sustainable Future — 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. AF&PA members met or surpassed many of the goals outlined in our previous sustainability initiative, Better Practices, Better Planet 2020, including a 23.2 percent reduction in GHG emissions; 13.3 percent improvement in purchased energy

efficiency; 38.4 percent reduction in workplace injuries; and 12 percentage point increase in wood fiber procurement from certified forestlands.

AWC is the voice of North American wood products manufacturing, an industry that provides almost 450,000 men and women in the United States with family-wage jobs. AWC represents 86 percent of the structural wood products industry, and 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 products to assure their safe and efficient design, as well as provide information on wood design, green building, and environmental regulations.

AWC member companies met nearly 75 percent their energy needs from renewable, carbon neutral biomass energy in 2016. By using biomass manufacturing residuals, the wood products industry is harnessing the energy value of carbon before it is lost to the atmosphere through other means. The result is that by using biomass, the industry displaces fossil fuel use and its associated emissions.

The forest products industry is a major employer in Pennsylvania. According to recently released Bureau of Economic Analysis data, the industry directly employed nearly 52,000 people in 2019 and met an annual payroll of \$3 billion, with pulp and paper being the largest category with respect to compensation.

AF&PA and AWC members use biomass manufacturing residuals for producing energy along with combined heat and power to simultaneously produce thermal (steam) energy at the proper temperature and pressure for our down-stream manufacturing processes and generate electricity as a secondary product. Our use of forest products manufacturing residuals to produce bioenergy can avoid even greater GHG emissions than would have resulted had the residuals been disposed of. According to a study by the National Council for Air and Stream Improvement (NCASI), the use of biomass residuals each year by the forest products industry avoids the emission of approximately 181 million metric tons of carbon dioxide equivalents (CO₂e).¹

¹ 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>; 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.

DISCUSSION

The Proposal establishes a “cap and trade” or “cap and invest” system that would allow Pennsylvania to join RGGI. The CO₂ emission reductions resulting from the Proposal are characterized as “the catalyst needed to meet the climate goals for this Commonwealth, as outlined in Executive Order 2019-01.”² AF&PA and AWC filed comments on the original Budget Trading Program limited to two issues: the applicability of combined heat and power (CHP) under the program and support for the recognizing the GHG reduction benefits of biomass energy.

In response to our and others’ comments on applicability, the Pennsylvania Department of Environmental Protection (DEP) held discussions with AF&PA/AWC representatives as well as representatives of AF&PA members and others using Combined Heat and Power (CHP) in their manufacturing process. DEP also made changes in the proposed Final Form rule to address the issues discussed in the comments and at the meetings. We appreciate DEP’s willingness to consider our comments and make changes in the rules to try and address them. DEP did not make changes to the sections on biomass; nor did we request any.

Applicability and Exemptions

The original proposed rule provided two exemptions addressing CHP in Section 145.305. This section exempts CHP units with a permit restricting output to the electric grid.

In the Final Form regulation, which we are commenting on today, retains the CHP exemptions included in the proposal and adds a third approach addressing CHP in section 145.342(k) that provides retirement of set aside allowances covering the compliance obligation for those qualifying CHP units that meet certain efficiency criteria. These CHP units may request the retirement of CHP set aside allowances covering CO₂ emitted from the facility. In accordance with section 145.342(k)(4), to qualify for the allowances the CHP unit must document that the useful thermal energy is at least 25 percent of the total energy output of the CHP unit and that the overall efficiency of the unit is at least 60 percent, as calculated using the equation provided. DEP made these changes in recognition of the environmental, energy and other benefits

² Regulatory Impact Analysis (RIA), p.33

provided by CHP and to encourage the installation of additional CHP units in the Commonwealth.

Implementation of CO2 Allowance Retirement Provision

As we stated in our comments on the original proposal, we believe that CHP should be clearly and completely exempt from the RGGI regulations. While not doing so, DEP has attempted to address concerns regarding CHP, by adding into the Final Form regulation a third approach that provides set-aside allowances and retirement of those allowances for qualifying CHP. While we are encouraged DEP recognizes the environmental and climate benefits of CHP and support their willingness to look for alternative approaches to further incent the installation of additional CHP in the Commonwealth, unfortunately this change does not remove all the disincentives to install and deploy additional CHP under the Trading Program. We encourage DEP to further consult with impacted facilities to address the concerns below.

Our primary concern with this “new” third approach is that a CHP unit must apply every year in January for the exemption of the set aside allowances, based on data for the preceding year. Because the facility will not know whether it meets the exemption criteria to be awarded the set aside allowances for that year, it will need to include in its budget for that year funds sufficient to purchase allowances needed to fulfill its compliance obligation. This approach creates uncertainty and needlessly ties up capital that could be put to better uses, such as for expansion, modernization or efficiency improvements or funding projects to further reduce GHG emissions. The Final Form regulation should be modified so that facilities can apply one year in advance and the awarding set aside allowances should apply for a five-year period, subject to the facility not undergoing significant modifications during that period. If the facility is significantly modified, then it would submit a new application.

Some members raised concerns about whether sufficient CHP allowances will be available in the future. While the rule as drafted seems to state sufficient allowances will be available, the concern is whether that will be the case as the program matures

and the state-wide CO2 emissions budget continues to decline. We appreciate assurances and clarification that there will be sufficient CHP allowances in the future.³

Broad Definition of Boiler

The very board definition of boiler in the Final Form regulation states:

Boiler—An enclosed fossil or other fuel-fired combustion device used to produce heat and to transfer heat to recirculating water, steam or other medium.

This very broad definition of boiler might inadvertently capture recovery furnaces used in our industry. Recovery furnaces are not power boilers but rather process equipment that is integral to the kraft pulping process used to produce wood pulp from chips. The purpose of the recovery furnace is to recover pulping chemicals for reuse as part of the kraft pulping process chemical recovery loop.

While the recovery furnace is mostly powered by burning a liquid biomass, a limited amount of fossil fuel can be used during startup, etc. The energy generated from recovering of these process chemicals is captured as steam energy, is conditioned, and used in the manufacturing processes. Since these units are process equipment and are not expected to emit significant amounts of GHG emissions from fossil fuel combustion, DEP should further consult with the industry on the definition of “boiler” to avoid including recovery furnaces. To further clarify, DEP should consider specifically identifying recovery furnaces as not included in the definition of a boiler.

³ See, e.g., Regulatory Analysis Form for the IRRC, Response to Question 25 (“Incentivizing future CHP units provides economic development benefits and can be a significant factor for manufacturers and other industrial, commercial or institutional facilities looking to expand operations within or to this Commonwealth. The set-aside and limited exemption for CHP will benefit existing systems while encouraging new installations in this Commonwealth. CHP units use energy efficiently by simultaneously producing electricity and useful thermal energy from the same fuel source.”); Preamble to Draft Final Rule, pp. 17-18 (“Due to the efficiency and environmental benefits that CHP units provide, the Department understands that it is beneficial to incentivize new CHP buildout in this Commonwealth. In addition, incentivizing future CHP units provides economic development benefits and can be a significant factor for manufacturers and other industrial facilities looking to expand operations within or to this Commonwealth. In fact, the most recent Pennsylvania Climate Action Plan recognized the benefits and importance of incentivizing CHP.”)

Thank you for your consideration of our comments. Please contact Paul Noe at (703) 909-2895 or Paul_Noe@afandpa.org if you have any questions.

A handwritten signature in blue ink, appearing to read "Paul Noe". The signature is fluid and cursive, with the first name "Paul" and last name "Noe" clearly distinguishable.

Paul Noe
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