



**American
Forest & Paper
Association**



AMERICAN WOOD COUNCIL



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

January 14, 2021

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

INTRODUCTION

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 four percent of the total U.S. manufacturing GDP, manufactures nearly \$300 billion in products annually and employs approximately 950,000 men and women. The industry meets a payroll of approximately \$55 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 (GHG) 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.

In 2011, AF&PA publicly announced the adoption of energy efficiency and GHG sustainability goals to be achieved by the year 2020. The original GHG sustainability goal was to reduce the intensity of the industry's emissions by at least 15 percent from 2005. When members surpassed the original goal, they raised the bar, increasing the goal to 20 percent. In 2018, members surpassed the new goal, reducing GHG emissions by 23.2 percent from the 2005 baseline. One of the main ways in which we have lowered our GHG emissions is through the use of carbon neutral biomass manufacturing residuals and wood waste.

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 product 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 manufacturing residuals for energy; using forest products manufacturing residuals to produce bioenergy can avoid even greater 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

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.” Regulatory Impact Analysis (RIA), p.33. AF&PA is limiting its comments on the Proposal to two issues: applicability and biomass emissions; other industry organizations will cover a broader group of issues.

Applicability

Generally, RGGI is intended to apply to the electric utility industry.² The Applicability section (Section 145.304), however, states that the Proposal broadly applies to an “owner or operator of a unit that at any time on or after January 1, 2005, served or serves an electricity generator with a nameplate capacity equal to or greater than 25 MWe.” Absent an exemption, this broad provision could capture manufacturing facilities that generate their own electricity, usually with Combined Heat and Power (CHP), also called cogeneration.

We believe that CHP should be clearly exempt from the RGGI regulations. The energy efficiency and GHG reduction benefits of CHP are well-recognized in federal and Pennsylvania policy. Indeed, the Pennsylvania Climate Action Plan and other provisions of the Proposal itself (see below) recognize the benefits of CHP. Subjecting CHP to the compliance obligations, reporting and other requirements of the RGGI program would

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.

² “The Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort among the states of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, Vermont, and Virginia to cap and reduce *power sector* CO₂ emissions” (emphasis added). <https://www.rggi.org/program-overview-and-design/elements>

be detrimental to existing CHP in Pennsylvania and a significant disincentive to investments in new CHP.

The Proposal seems to acknowledge that the broad applicability criteria would capture facilities that should not be subject to the RGGI program and provides two exemption in Section 145.305. That section exempts units with a permit “restricting the supply of the CO₂ budget unit's annual electrical output to the electric grid to no more than 10% of the annual gross generation of the unit, or restricting the supply less than or equal to 15% of its annual total useful energy to any entity other than the manufacturing facility to which the CO₂ budget source is interconnected and which complies with subsection (c)” (emphasis added).

While, as stated, we support a complete exemption for CHP, if the final rule does not contain such an exemption, we support a variation of the Section 145.305 exemption. Specifically, the first prong of the exemption should apply to units that supply no more than 10% of their annual net generation (as net sales) to the electric grid. The Commonwealth of Virginia, which has recently moved to join RGGI, utilizes “net,” instead of “gross.”³ Many industry CHP facilities, including those owned and operated by AF&PA members, have arrangements with their electricity suppliers to sell *and buy* electricity. For example, under the Public Utility Regulatory Policies Act (PURPA), utilities are obligated to sell back up and standby power to cogeneration Qualifying Facilities (as well as small power production facilities). Electric suppliers in Pennsylvania and elsewhere also may buy electricity from biomass CHP units to help achieve compliance with Renewable Portfolio Standards. Under these and other cases with purchases and sales between the CHP facility and the electricity supplier, those purchases and sales should be netted against each other to better characterize the relationship between the CHP facility and the utility, and ensure a CHP facility is not penalized for providing efficient and frequently renewable power to the grid.

Other sections of the Proposal appropriately recognize the benefits of CHP or cogeneration by providing set-aside allocations for CHP pursuant to § 135.332 (b)(3) and (k) to reduce the compliance obligations of non-exempt CHP units by the amount of CO₂ generated as a result of the energy they produce. Expanding the exemption by changing “gross” to “net” would be consistent with that recognition.

³ Virginia Clean Energy Act, Section 3 [10.1-1308.E](#).

Biomass Energy

We support the Proposal's recognition of the GHG reduction benefits of biomass energy. Specifically, Section 145.355 (Compliance) states in subsection (b)(1) that allowances in a budget unit's account are to be deducted for compliance "less any CO₂ emissions attributable to the burning of eligible biomass." This is consistent with the Environmental Quality Board's description of Section 145.377 that biomass can be a "compliance mechanism" under the Proposal. The climate benefits of biomass energy have been recognized by numerous policy makers in the U.S. and around the world, and Section 144.35 is consistent with those policies.

Thank you for your consideration of our comments. Please contact Jerry Schwartz at (202) 463-2581 or Jerry_Schwartz@afandpa.org if you have any questions.



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