



January 12, 2016

Mr. Stuart Spencer, Associate Director  
Office of Air Quality  
Arkansas Department of Environmental Quality  
5301 Northshore Drive  
North Little Rock, AR 72118-5317

SUBJECT:

**Domtar Ashdown Mill Input for ADEQ Consideration in Development of Comments on EPA's Proposed Clean Power Plan Federal Plan and Model Training Rules**

Dear Mr. Spencer:

The Domtar Ashdown Mill appreciates the opportunity to provide ADEQ with input for the State's comments on the U.S. Environmental Protection Agency (EPA) proposed *Federal Rule Requirements for Greenhouse Gas Emissions From Electric Generating Units Constructed on or Before January 8, 2014, Model Trading Rules, Amendments to Framework Regulations* (the "Proposal").

These comments address providing for flexibility to allow for least cost compliance options to minimize negative competitiveness impacts for energy intense trade exposed entities, the use of biomass as a compliance option, and recognizing the benefits of Combined Heat and Power (CHP) technology.

Domtar Corporation (NYSE: UFS) (TSX: UFS) designs, manufactures, markets and distributes a wide variety of fiber-based products, including communication papers, specialty and packaging papers, and absorbent hygiene products. The foundation of our business is a network of world-class wood fiber-converting assets that produce papergrade, fluff and specialty pulp. The majority of our pulp production is consumed internally to manufacture paper and consumer products. Domtar is the largest integrated marketer and manufacturer of uncoated freesheet paper in North America with recognized brands such as Cougar®, Lynx® Opaque Ultra, Husky® Opaque Offset, First Choice®, EarthChoice® and Xerox® Paper and Specialty Media. Domtar is also a marketer and producer of a broad line of absorbent hygiene products marketed primarily under the Attends®, IncoPack® and Indasec® brand names. In 2014, Domtar had sales of \$5.6 billion from some 50 countries. The Company employs approximately 9,800 people.

The Ashdown Mill manufactures pulp and paper and is considered to be energy intense and trade exposed. We compete in very competitive global markets and are limited in our ability to pass additional costs, due to higher raw material and energy costs, onto our customers.

As a large ratepayer, the Ashdown Mill is already facing increased electricity cost as the utilities seek cost recovery of their compliance costs from other existing Clean Air Act (CAA) programs, the Clean Water Act Section 316(b) Cooling Water Intake Structures rule, revised Resource Conservation and Recovery Act regulations pertaining to coal combustion residuals, etc.

For the final Federal plan and the model trading rules, U.S. EPA needs to carefully consider the impacts to state economies and the need to ensure strong economic growth, jobs and a healthy manufacturing sector, especially for those industries that are energy intense and trade exposed (EITE). Adverse effects on EITE industries needs to be mitigated to prevent emission leakage due facilities relocating to international jurisdictions. The use of allocation set asides or other means could be used to prevent emission leakage for EITE industries.

We are providing the following key issues for further consideration in the comments Arkansas provides for the final design of the Federal Plan and Model Trading Rules:

### **The Final Federal Plan and Model Rules Should Be Based on a Principle of Least Cost Compliance**

- Least cost compliance approaches need to include both short-term and long-term costs
- EPA acknowledges the Proposal is less flexible than the rules in the Clean Power Plan. The final Federal plan and model trading rules should be as flexible as possible.
- For flexibility, include both rate-based and mass-based approaches in the final Federal plan and allow the Federal plan to be “tailored” for particular State circumstances to achieve least cost compliance for all ratepayers. Banking and borrowing should be available under both approaches.
- The final Federal Plan and model trading rules should provide as many design features as possible to minimize costs and competitiveness impacts.
  - Minimize impact on electricity price
  - Maintain electric grid reliability
  - Minimize impact on natural gas price and volatility
- Include GHG emission reductions from sources outside of the EGU sector only on a voluntary basis.
  - GHG reductions from voluntary participation (e.g. industrial energy efficiency) should be recognized as a compliance approach. However, electricity consumers engaging in these activities in association with the Section 111(d) rules for EGUs that result in verified GHG emission reductions, should be exempted from, or given credit towards, compliance with any subsequent future standards of performance issued under Section 111. Otherwise a source maybe subject to regulation under NSPS GHG standards of performance for multiple source categories.

### **The Final Federal Plan and Model Rules Should Expand the Clean Energy Incentive Program (CEIP) to Allow for all Eligible Renewable Resources**

- All eligible renewable energy resources available in the final Clean Power Plan should be included in the CEIP for the final Federal Plan and both model trading rules.
- EPA reasons for allowing only solar and wind resources to participate in the CEIP do not create a level playing field for all renewable energy resources and may not allow for least costs for compliance.

### **Inclusion of Biomass as a Compliance Approach**

- Qualified biomass should be included in the final Federal Plan and both model trading rules.
- EPA policy should also encourage (not discourage) sustainable forestry.
- Under the Federal plan and both model trading rules, EPA should include a list of pre-approved qualified biomass fuels. We support listing forest products manufacturing residuals, waste-derived biomass materials and other biomass feedstocks as pre-approved fuels. See Appendix A for a detailed listing of recommended pre-approved biomass fuels.
- Under the Federal plan and both model trading rules, EPA should allow sources to seek approval for other types of biomass that are not on the pre-approved list.
  - If a source can demonstrate that the use of a biomass feedstock not on the pre-approved list can be used as a method to control increases in CO<sub>2</sub> levels in the atmosphere, it should be approved. Once a new biomass feedstock is approved, it should be added to the pre-approved qualified biomass list.
- Eligible resources that use qualified biomass feedstocks from the pre-approved list should count the biogenic CO<sub>2</sub> emissions from these feedstocks as zero/carbon neutral.
- We do not support the idea that forest products manufacturing residuals must have “no alternative markets” to be considered pre-approved “qualified biomass.”
  - This notion raises highly complex issues, and it is not clear how it could be implemented and EPA has not provided any guidance.
  - It would be an unwarranted intervention in the biomass supply and demand marketplace. The issue is best left to the market (not the government) to determine, given the complexities and dynamic nature of biomass markets.

### **Combined Heat and Power (CHP) Units Should be Excluded as Affected EGUs**

- The final Federal plan or model trading rules should ensure that the “net-electric sales” definition is included or otherwise incorporated into those measures.
- CHP should be included as a voluntary compliance option in the final Federal plan and model trading rules and the fully value the benefits of CHP

- EPA gives full credit for thermal output in the Clean Power Plan. The same should be done in the final Federal plan and model trading rules.
- The phrases “reference CO2 emission rate” or “applicable CO2 emission rate for affected EGUs” need to be defined because they are important for calculating the benefits of CHP as compared to non-CHP units.
- Clarify line losses can be credited in the calculation for ERC for CHP units since CHP units directly serve on-site end use and avoid transmission and distribution losses.

### **Include a Reliability Safety Value for the Final Federal Rule and Model Trading Rules**

- Reliable energy is critical for manufacturing.
- We also support including creating an allowance set aside available in emergency circumstances in which an affected EGU was compelled to provide reliability critical generation and demonstrated that a supply of allowances needed to offset emissions was not available.

### **EPA Should Allow States to Consider Offsets as a Compliance Measure in the Final Federal Plan and Model Trading Rules**

- The proposals do not discuss the use of out-of-sector CO2 offsets.
- States should be able to consider voluntary offset projects as a compliance measure that can reduce CO2 emissions.
  - Growing and expanding forests sequester carbon from the atmosphere resulting in a reduction in GHGs.
  - EPA should clarify that voluntary offset projects such as product and permanent wood structure sequestration, active forest management, afforestation, reforestation, and recycling are cost effective and viable options to reduce CO2 emissions.

We appreciate the opportunity to provide comments for consideration by ADEQ in the development of state comments. If there are any questions or follow up, please contact me.

Sincerely,



Kelley Crouch  
Manager, Environmental & Technical  
Ashdown Mill

Enclosure



## **Appendix A: Recommended List of Pre-approved Biomass Fuels**

- Forest-derived industrial byproducts (known also as forest products manufacturing residuals). These by-products/residuals should be defined as forest-derived biomass from pulp and paper mills, wood products manufacturing facilities, and downstream manufacturing facilities including, but not limited to:
  - spent pulping liquors (e.g., black liquor, red liquor, liquor solids) and pulping by-products and substances (e.g., rectified methanol, black liquor soap, red oil, lignin);
  - woody manufacturing residuals, such as:
    - pulping, paper, and converting process residuals (e.g., bark, knots, shives, non-recoverable trim and broke);
    - bark;
    - wood product process residuals (e.g., residual sawmill chips, sawdust, shavings, sander dust, resinated wood residuals, veneer residuals, slabs, cutoffs, knots, woody residuals from air emission control systems), manufactured wood residuals (e.g., furniture, crate and pallet plant residuals);
    - off-specification materials; reinjection char (unburnt biomass); paper machine cleaner, screening and other rejects; and
    - similar residuals;
  - paper recycling residuals (e.g., materials removed from recovered paper and paperboard during the recycling process, such as non-recyclable fiber or old corrugated containers rejects);
  - wastewater and process water treatment plant residuals.
- Waste-derived feedstocks, such as landfill gas and post-life wood products (e.g., used crates, pallets, construction and demolition wood, biomass materials listed under 40 CFR Part 241, etc.)
- Biomass feedstocks from sustainably managed forests lands.
  - Roundwood should qualify where the growth rate of forests are greater than or equal to harvest levels on a broad regional scale, consistent with the four regions of USDA's FIA program.
  - Regional scale should be no smaller than the four regions of USDA's FIA program, and states should not calculate the growth and harvest rates at a state level. Forest geography and "wood baskets" cross state lines and a broad regional scale is a more practical for measuring changes to carbon stocks. Data availability also varies from state to state and FIA data provides a consistent measurement methodology.