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January 12, 2024

Ms. Melissa Ollevier
Ministry of the Environment, Conservation and Parks
Financial Instruments Branch
40 St. Clair Avenue West, Floor 8
Toronto, Ontario
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RE: Domtar comments on the proposed regulatory amendments to clarify program requirements and improve program efficiency for Ontario's Emission Performance Standards (EPS) and GHG reporting programs – ERO Number 019-7649

Dear Ms. Ollevier:

Domtar appreciates the opportunity to provide the Ontario Ministry of the Environment, Conservation and Parks (MECP) input on the proposed amendments to its Emission Performance Standards (EPS) program to clarify program requirements and improve program efficiency for Emissions Performance Standards (EPS) and GHG reporting programs.

We look forward to continued engagement and dialog with MECP to discuss detailed aspects of the EPS program to ensure a sustainable policy that supports industrial competitiveness, sustains economic growth, and effectively reduces greenhouse gas (GHG) emissions for the short term and longer term.

At Domtar, we are driven by a commitment to turn sustainable wood fiber into useful products that people rely on every day. The foundation of our business is a network of fiber converting assets that produce paper-grade, fluff, and specialty pulps. While much of our pulp production is consumed internally to manufacture paper, we are also a large volume pulp exporter. Domtar is the largest integrated marketer of uncoated freesheet paper in North America. In addition, we manage Canadian forest lands. Domtar has pulp and paper making operations located in Ontario, Quebec and the in United States. Domtar has over 115 years of history in Canada and is part of the Paper Excellence group of companies.

Domtar applauds the Government of Ontario for its work with the federal government to have Ontario's EPS program as an alternative to the Federal Output-Based Pricing System (OBPS) carbon pricing program. We are also pleased to learn of MECP's recent decision to allocate EPS proceeds to facilities based on their 2022 compliance payment. We view this as a positive

measure to further support decarbonization for a low carbon economy. While we appreciate and support the need for changes to improve the EPS program, we believe there is a need to ensure any proposed amendments will not inadvertently result in increased compliance costs or see policies implemented that may disadvantage facilities that compete in global markets. This is especially true in industries where international competition comes from jurisdictions that do not have carbon pricing programs. An example of what we mean by this is noted below, but please be assured that we are committed to working with MECP to ensure that the EPS program supports the forest products industry continued operation, which is so vital to Northern Ontario's economy, while meeting federal requirements and achieving the province's economic and environmental goals.

For these proposed amendments, MECP provided information to the regulated community via a high-level summary document and a PowerPoint presentation. Prior to any proposed changes coming in force, we respectfully request an opportunity to review any detailed regulatory language changes or redline revisions to existing EPS documents. "The devil is in the details" and we are concerned that without specific language we cannot fully assess the potential impact of the proposed changes. We encourage MECP to provide stakeholders with redline changes to the documents and undertake consultation with stakeholders once these documents are available.

Our comments address the following issues:

- Sector based standards
- BEI calculations
- Facility compliance obligations – idling operations
- Facility compliance obligations – starting-up an idled facility
- Renewable natural gas

Additional explanation is provided below.

Sector based standards

In the proposed amendments, MECP is considering a wider application of sector-based standards. For the pulp and paper industry, the EPS is currently using a facility-based approach (Method E) to determine performance standards. **We recommend the Method E approach continue to be applied for pulp and paper facilities.**

Within the pulp and paper sector there are large differences in products and grades produced at the various mills. Some mills produce specialty papers which are considerably more energy intense than commodity paper grades and some mills only produce pulp. As we saw with the federal OBPS sector-based approach, mills that produce higher energy intensity grades for customers were disadvantaged and had considerable higher compliance costs.

The made-in-Ontario EPS approach solved this problem with using a facility-based approach, which we strongly supported. There are not enough pulp and paper facilities in Ontario to subcategorize by product type so as not to create winners and losers within a sector.

Baseline Emission Intensity (BEI) calculations

If a BEI calculation contains errors, then the BEI should be adjusted accordingly. Furthermore, Domtar suggests MECP be receptive to working with existing facilities to adjust the performance standard if it is no longer accurate due to product changes. Facilities undergo changes to take advantage of new markets and changes in product mix to meet customer requirements and demands. When changes make historical information no longer representative of the current facility, the ability to adjust the baseline and performance standard is needed to avoid unintended consequences and higher facility compliance costs because of outdated information.

Domtar requests MECP develop a process to allow facilities to work with MECP to revise the baseline/adjust the performance standard if no longer representative of the operations or products produced at the facility. As markets change and facilities transform and transition to make new products in a low carbon economy, facility data used historically may no longer be accurate and the ability to request a 5-year review on a case-by-case basis may better reflect the specific circumstances at a facility.

Facility compliance obligations – Idling operations

MECP is proposing adjustments to facility compliance obligations when facilities need to be down for a year or more to “re-tool” and continue to emit GHGs while no longer producing products. With the EPS limits tied to facility production output, and no current methodology in place to adjust for a large discrepancy between emissions and emission limits, an imbalance is created in compliance obligations.

While pulp and paper facilities have significantly transformed in support of market demands, market conditions can still provide unique challenges which can result in temporary mill curtailments or idling. Like with periods of “re-tooling” that may be relevant to other sectors, idled facilities will still have GHG emissions as buildings and equipment need to be maintained in a manner that will enable it to be fully operational again. Current compliance obligations can perversely incentivise complete facility shutdowns, instead of idling, creating challenges for the future restart of operations and impacting the creation of local jobs. We understand that this was not the intention, but it is a significant and problematic unintended consequence, including jeopardizing the future viability of idled facilities.

In short, the way the policy is currently proposed, unless a carve-out or special policy is offered to account for the circumstances of an idled plant, it may become uneconomical to keep the heat on in an idled plant. This is the circumstance we may be facing at the Espanola mill where application of the EPS as written could cost many millions of dollars, against zero production and revenue. This is a cost that may force the decision to turn the heat off, and without heat in an idled plant, the harsh northern-Ontario climate will quickly damage equipment and further make re-starting the plant very difficult and challenging.

To address this, Domtar recommends that the EPS regulations be amended to include a provision that addresses situations where a facility is idled or temporarily curtailed due to market conditions to minimize barriers to restarting operations. We recommend and request that MECP consider meeting with Domtar before finalizing the EPS regulation to specifically discuss a mechanism – such as a site-specific carve-out for an idled facility - that can be added to the policy.

Facility compliance obligations – Starting-up an idled Facility

Another scenario that requires consideration is the unique challenges created by current compliance obligations for facilities in the process of restarting following a temporary period of idling. It can take up to several months for a facility to go from a state of idling to producing quality product for customers. Meeting compliance costs during this start-up period can act as a deterrent for a company or a potential new owner looking to invest and re-start a facility. Domtar recommends the Ontario government use this opportunity to remove barriers to re-starting a facility and creating local jobs in Northern Ontario. To accommodate the unique needs of a regulated facility in the process of restoring operations, we recommend that EPS program regulations provide authority for the Minister of Environment, Conservation and Parks to work with regulated companies to amend, delay or eliminate compliance fees during start-up periods.

We would appreciate the opportunity to meet with MECP to discuss these implications further and to discuss potential approaches to address them.

Renewable natural gas

Domtar supports the proposed expansion of eligibility to include renewable natural gas as a deduction to a facility's verified emissions providing certain criteria are met. To further encourage use of biogas, Domtar suggests a provision also be included to address self-generated biogas in addition to purchased renewable natural gas provided by a distribution system. The pulp and paper industry is uniquely positioned to make investments to produce biogas from woody residues. Including this provision may incentivize further innovation and even greater investments.

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We appreciate the ability to provide input on the proposed EPS amendments. If you have any questions or to arrange for further discussions, please contact me via mobile phone at (715) 459-9257 or via email at annabeth.reitter@domtar.com.

Sincerely,



Annabeth Reitter
Corporate Manager, Environmental Regulations