

January 20, 2017

California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: USS-POSCO Industries Comments on Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

Pursuant to the *Notice of Availability of Modified Text and Availability of Additional Documents and/or Information*, issued by the California Air Resources Board (ARB) on December 21, 2016, USS-POSCO Industries (UPI) submits these comments on proposed amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (Cap-and-Trade). UPI's comments focus on the proposed decrease in the post-2020 Industry Assistance Factors¹ for the ARB Cap-and-Trade program, in particular for the Rolled Steel Shape Manufacturing Sector.

UPI operates a modern, highly efficient steel finishing plant in Pittsburg, California, that provides employment for approximately 650 men and women. UPI takes its environmental stewardship responsibilities very seriously, and supports ARB's efforts to implement environmentally and economically sensible mechanisms for controlling greenhouse gas (GHG) emissions. UPI believes, however, that ARB's proposed decrease in the post-2020 Industry Assistance Factors will unduly burden UPI and other California manufacturers, and that it will greatly enhance the potential for "GHG leakage." This is an important consideration that ARB should not underestimate.

Leakage Would Result in an Overall Increase in GHG Emissions

In addition to direct compliance requirements for fuel usage, UPI incurs significant Cap-and-Trade costs associated with its electricity consumption. Some of these costs are offset through allocated allowances provided to "trade exposed" industries and certain GHG cost credits to help mitigate electricity cost increases. These adjustments help UPI remain competitive and reduce the risk of losing production to other regions that would probably be less energy efficient and more carbon intensive.

¹ <https://www.arb.ca.gov/regact/2016/capandtrade16/attachb.pdf>.

As UPI noted in its comments on the 2030 Target Scoping Plan Update Discussion Draft,² production that is displaced to facilities outside California would emit the same or probably more GHG because production that moves outside of California and is not subject to GHG regulations would be more likely to generate higher overall direct emissions, and higher indirect emissions due to electric generation profiles and increased transportation costs. Therefore, the Cap-and-Trade program should be designed and implemented in a manner that ensures that it will not have the unintended consequence of actually increasing overall GHG emissions. The proposed post-2020 Industry Assistance Factors would drastically reduce UPI's Industry Assistance Factors from 75% of the compliance obligation in 2020 to 20% in 2021,³ resulting in significantly increased compliance costs for UPI (especially in light of the declining cap on emissions) and a heightened risk of leakage.

Lack of Adequate Basis for Decrease in Industry Assistance Factors

ARB's proposed amendments are based on the results of two leakage studies⁴ that are not sufficiently rigorous to support such a sudden and drastic reduction in Industry Assistance Factors post-2020. As UPI pointed out in its Comments on the Cap-and-Trade Regulation Amendments Workshop in November 2016,⁵ these studies are inconclusive at best and, therefore, should not form the basis for such a risky and economically burdensome policy.

This issue is further exacerbated by the high degree of uncertainty surrounding the federal Clean Power Plan (CPP). Andrew Campbell, of the Energy Institute at Haas,⁶ emphasized the importance of considering leakage when undertaking unilateral policy development such as California's Cap-and-Trade program, specifically referencing the potential impact of the demise of the CPP. The proposed substantial decrease to Industry Assistance Factors, including those

² USS-POSCO Industries Comments on 2030 Target Scoping Plan Update Discussion Draft, pgs.1-2, <https://www.arb.ca.gov/lists/com-attach/50-sp2030disc-dec16-ws-Wi9RJwNrUV1SN1U6.pdf> (submitted December 16, 2016).

³ First Notice of Public Availability of 15-Day Amendment Text, Proposed Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation, Proposed Regulation Order, Tables 8-1 and 8-3, <https://www.arb.ca.gov/regact/2016/capandtrade16/attacha.pdf>.

⁴ Measuring Leakage Risk, Fowlie, et al, May 2016, <https://www.arb.ca.gov/cc/capandtrade/meetings/20160518/ucb-intl-leakage.pdf>; and Employment and Output Leakage under California's Cap-and-Trade Program, Gray et al, May 2016, <https://www.arb.ca.gov/cc/capandtrade/meetings/20160518/rff-domestic-leakage.pdf>.

⁵ Comments of USS-POSCO Industries, Cap-and-Trade Regulation Amendments Workshop, pgs. 1-2, <https://www.arb.ca.gov/lists/com-attach/47-ct-amendments-ws-UTJUPQdrBTsKaQNt.pdf> (submitted November 4, 2016). Also see, California Council for Environmental and Economic Balance Comments on October 21, 2016 MRR and Cap-and-Trade Regulation Workshop, pg. 4, <https://www.arb.ca.gov/lists/com-attach/60-ct-amendments-ws-Am9TJ1UmBQIQNwVr.pdf> (submitted November 4, 2016); and Climate Change Policy Coalition Comments on California Air Resources Board's Consideration of the Proposed Amendments to the Cap-and-Trade Regulation, pgs. 2-3, <https://www.arb.ca.gov/lists/com-attach/65-ct-amendments-ws-BWYBZF0sVmYHXgJh.pdf> (submitted November 4, 2016).

⁶ <https://energyathaas.wordpress.com/2017/01/09/risks-of-going-it-alone/>

for the Rolled Steel Shape Manufacturing Sector, would reduce support for California's already-fragile industrial businesses while increasing the risk of higher GHG emissions from production moved elsewhere – thus providing economic benefit to less environmentally responsible areas.

UPI Proposal

As UPI stated in its November comments, UPI supports a more measured decrease to Industry Assistance Factors,⁷ such as the decrease that will take place from the second compliance period (2015-2017) to the third compliance period (2018-2020). Further, UPI can only support decreasing the Industry Assistance Factors for the Rolled Steel Shape Manufacturing Sector to a percentage level that is conclusively determined, through robust analysis, to promote both the environmental objectives of the Cap-and-Trade program and the sustainability of California industry.

UPI appreciates this opportunity to provide comments on this very important issue.

Very truly yours,

GOODIN, MACBRIDE,
SQUERI & DAY, LLP

/s/ Suzy Hong

Suzy Hong

⁷ Comments of USS-POSCO Industries, Cap-and-Trade Regulation Amendments Workshop, pg. 2.