CALIFORNIA STEEL INDUSTRIES, INC.

14000 San Bernardino Avenue, P.O. Box 5080
Fontana, California 92335
Telex 201239 (909) 350-6300

January 20, 2017

Mary Nichols, Chair
Richard Corey, Executive Officer
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Dear Ms. Nichols and Mr. Corey:

Re: California Steel Industries, Inc.'s (CSI) Comments on Amendments to the California Cap on Green House Gas (GHG) Emissions and Market-based Compliance Mechanisms

We appreciate the opportunity to provide comments and to express our deep concern with the amendments to the California Cap on GHG Emissions and Market-based Compliance Mechanisms released on 12/21/2016.

These changes are quite alarming for CSI. A main component in the formula for GHG allocations - the Assistance Factor - will be drastically reduced in the case of hot rolled, cold rolled, pickled, and galvanized steel sheet production (NAICS Code 331221). As we understand it, this will result in a drastic reduction of the credits we are allocated; which means that, post-year 2020, CSI's Cap & Trade liability will be significantly increased and could prove untenable for us.

<u>BACKGROUND</u>

CSI is the largest steel producer in the western United States and one of the last survivors of the domestic steel industry in California. We have approximately 1,000, well-paying jobs at our facilities near Fontana, in San Bernardino County; and we are proud of our positive impact on the Inland Empire. In fact, we have never had a layoff of regular employees in our 32-year history.

We also recently partnered with local community colleges for an on-site, regional training center called "InTech Center." To make that happen, CSI made available - at no cost - a 33,000 square foot building, which is being operated by Chaffey College, which is serving hundreds of local trainees. The Center provides instruction in electrical and mechanical technical fields, and other industrial specialties, for high school students, prospective employees, and current employees of area businesses.

CSI produces approximately 1.5 million tons per year of steel sheet in various forms, using purchased steel slabs as our raw material. Steel slabs, weighing about 25 tons each, are reheated in natural gas-fired furnaces and hot rolled in our rolling mill. Some of the resulting coils are sold as hot rolled sheet or converted to pipe. Other hot rolled coils are further processed downstream as cold rolled sheet, pickled sheet, and galvanized sheet.

On average, CSI received 193,828 GHG credit allocations per year during the first four years of the AB32 program. Based on the information contained in Attachment B of the proposed amendments released on December 21, 2016, CSI would only receive about 34,000 GHG credit allocations per year, post 2020. This amount is estimated to cover less than 15% of CSI's projected future annual GHG emissions.

As you are aware, no one knows the future cost of GHG credits. However, as an example, at just $20 per ton of GHG credit, assuming no increase in steel production, the increased annual purchase requirement for CSI will cost approximately $3.3 million per year. These cost increases will reduce CSI's ability to grow our business, to create and retain good jobs, to provide pay increases and profit sharing to our employee team members, and to supply excellent employee benefits.

The California Manufacturers & Technology Association (CMTA) has previously submitted comments regarding Industry concerns of the ARB studies that were used as a basis for the Staff Report. These studies were noted as flawed. In CSI's case, the studies and the Staff Report do not take into consideration the unique nature of CSI's business and the global competition/situation that 'makes or breaks' our business and the company's ability to remain competitive.

The proposed Assistance Factor reduction will result in CSI's competitiveness being severely threatened as **we will be the only hot rolled steel sheet facility in the U.S. facing tens of millions of dollars of new compliance costs** in coming years, for what is ostensibly a global climate change "demonstration" effort. Our foreign competitors in China and other nations, as well as our domestic competitors, will be happy to undercut our costs and take away our business, if they can. We are at high risk for losses to these competitors as we endure unique, CSI-only, regulatory costs, which no other steel sheet rolling operation must bear.

The Assistance Factor reduction especially disadvantages CSI against in-state competitors. Unlike CSI, our steel sheet competitors in California have no hot rolling capability. They use hot rolled sheet from other states and nations as their feedstock to produce cold rolled and galvanized sheet, which competes with CSI's similar products. Their hot rolled sheet feedstock will not be burdened with these additional costs. Since we produce our own hot rolled sheet in California, and use that as our feedstock for cold rolled and galvanized product, our costs will be increased even in comparison to our in-state sheet competitors.

Furthermore, any resulting loss of CSI's steel production will simply be replaced by less efficient production in other states and other nations. This will be accompanied by additional shipping distances, resulting in greater truck and rail emissions. Altogether, this means increases, not decreases, in global GHG emissions, and an accompanying decrease in steel manufacturing jobs and associated supply chain jobs in California.

The proposed cuts in Industry Assistance are unfair from another standpoint – **there are no existing technologies available to make any significant decrease in GHG emissions from natural gas-fired furnaces such as used in the hot rolling process.**

In 2012, the U.S. EPA published *Available and Emerging Technologies for Reducing Greenhouse Gas Emissions from the Iron and Steel Industry*. It is important to note that this report **shed no light on any reasonably available, highly effective technologies.** The study lists 11 recommendations for energy efficiency measures that are specific to Hot Rolling Mills; 9 of these measures are currently employed in CSI's Hot Rolling Mill.

CSI, as a long-standing producer in California, is **easily among the most efficient steel rolling operations in the U.S., if not the world.** We have already implemented many technologies for energy efficiency and will continue to do so, regardless of ARB's final stance. These efforts have enabled CSI to reduce its GHG per ton of steel so that it is at 60% of 1990 levels. Additionally, we have spent millions of dollars on emission controls of various types not typically employed elsewhere in the world. However, these technologies typically address only indirect GHG and/or particulate emissions, with no effect on our direct GHG emissions, which are based solely on natural gas consumption.

There is simply little that we can do to further reduce direct GHG process emissions except cut production of rolled steel, and that will only allow our out-of-state competitors the opportunity to take advantage of our situation by producing more steel elsewhere for sale to our California and western U.S. customers.

Finally, CSI already pays one of the highest electricity rates in the global steel industry, due in large part to the strong portfolio of renewable energy we use, as mandated for public utilities in California. We have great incentive to use energy efficiently; and daresay, there is no "greener" steel sheet production facility in the United States. This is another reason why regulatory policies should be assisting us to stay in business and grow and prosper in California – rather than placing steel production and related jobs under undue cost pressure, with highly questionable effectiveness at lowering global GHG emissions.

OUR REQUEST

Regretfully, the position taken by ARB on CSI's post-2020 Industry Assistance Factor is unbalanced and is injurious to the environment and the economy in the Golden State. We hope to work with you to correct these potentially devastating impacts. California needs the 1,000, well-paying, middle-class jobs that we provide, as well as those of our numerous California vendors and customers.

Ideally, CSI's hot rolled steel production should be exempt from the obligation to purchase GHG emission credits in the cap and trade auctions. This would level the playing field with CSI's competitors, in-state and out-of-state. At a minimum, the level of CSI's allocations, post 2020, should be kept at the same level as the pre-2020 allocations. Additional information is attached on CSI and its exposure to competition from outside California.

CSI remains committed to working cooperatively with ARB to find balanced solutions that satisfy California's environmental and economic concerns.

Sincerely,

Brett J. Guge
Executive Vice President, Finance & Administration

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Attachments
cc: Eddie Chang, Deputy Executive Officer - California Air Resources Board
John Dunlap - Dunlap Group
D. J. Smith - Smith, Watts & Hartmann
Audra Hartman – Smith, Watts & Hartmann

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