CALIFORNIA STEEL INDUSTRIES, INC.

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November 4, 2016

Mr. Richard Corey
Executive Officer
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Comments by California Steel Industries, Inc., on Post-2020 Cap & Trade Plans

Dear Mr. Corey:

We appreciate the opportunity to provide comments and to express our deep concern with the Informal Staff Report released by ARB on 10/21/2016, which discusses and outlines the current plan for post 2020 Cap & Trade under AB32/SB32.

While we know that this is not the Final Scoping Plan, this version of the informal Staff Report is quite alarming for California Steel Industries, Inc. (CSI). A main component in the formula for GHG Allocations, the Assistance Factor, will be reduced drastically 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 CSI's Cap & Trade liability post-2020 will be significantly increased and could prove untenable for us.

BACKGROUND

CSI is the largest steel producer in the Western U.S. and one of the last survivors of the domestic steel industry in California. We have about 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 a 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 and serving hundreds of local trainees. The Intech 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 about 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. The rest of the Hot Rolled coil is 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 Staff Report's proposed new Assistance Factors, CSI would only receive about 27,000 GHG credit allocations per year post 2020. This amount is estimated to cover less than 13% of CSI's projected future annual GHG emissions. As you are well 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 $3.4 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 our 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 operations 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 to preheat steel for rolling.**

The EPA published in 2012 "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.** CSI, as a longstanding 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 the ARB's final stance. Additionally, we have already 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 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 U.S. 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 initial 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 together to correct these potentially devastating impacts. California needs the 1,000 well-paying, middle class jobs that we provide, as well as those at our numerous in-state California vendors and customers.

We respectfully request a meeting as soon as possible with you and the appropriate ARB program staff to discuss post-2020 scenarios. We remain committed to working cooperatively with ARB to find balanced solutions that satisfy California's environmental and economic concerns.

Sincerely,

Brett Guge

Brett Guge
Executive Vice President, Finance & Administration
California Steel Industries, Inc.

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