CALIFORNIA STEEL INDUSTRIES, INC.

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March 14, 2018

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

RE: Comments by California Steel Industries, Inc., on Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

Dear Chair Nichols and Mr. Corey:

We appreciate the opportunity to provide comments and participate in the workshop with regard to potential Amendments to the California Cap on GHG Emissions and Market-based Compliance Mechanisms.

We believe there are substantial leakage challenges that will uniquely impact California Steel Industries, Inc. (CSI). In particular, CSI's Hot Rolled Steel Sheet Production will be the only Hot Rolled steel facility facing millions of dollars in new compliance costs for what is a global climate change effort.

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 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 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 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. The majority of the Hot Rolled coil is further processed downstream and sold as Cold Rolled sheet, Pickled & Oiled sheet, Galvanized sheet and line pipe.

On average, 75% of CSI's GHG emissions, and compliance costs, are associated with Hot Rolled Steel Sheet Production. 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 expected cost for GHG compliance is estimated to be in excess of $15 million through 2029. We hope to grow our production levels, and as GHG prices increase, this cost will be magnified greatly. 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.

The proposed Industry Assistance 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 Industry Assistance program especially disadvantages CSI against in-state competitors who are less vertically integrated than CSI. 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, Pickled & Oiled, 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, Pickled & Oiled, and Galvanized sheet, 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 the hot rolling process.**

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.** 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 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. 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.

CSI has recently faced a similar challenge with reducing emissions of Nitrogen Oxides (NOx). With the technology to reduce emissions being reasonable and available, CSI's Board of Directors recently committed to spending more than $5 million on a new Selective Catalytic Reduction (SCR) unit, to establish best retrofit technology on NOx emissions from its steel reheating operations. This follows many millions of dollars spent over many years, to meet and exceed environmental requirements. If there was a similar solution for reduction of GHG emissions, CSI would be more than willing to implement those controls.

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 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

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 at our numerous in-state California vendors and customers. Ideally, due to its one-of-a-kind nature, CSI's Hot Roll steel production should be exempt from the obligation to purchase GHG emissions credits in the cap and trade auctions. We would of course continue to face credit purchase costs for our other downstream benchmarked processes, similar to our in-state competitors. Making this change for only our Hot Rolled Steel production would level the playing field with CSI's competitors in-state, and at least reduce the competitive cost advantage of our out-of-state competitors. At a minimum, the level of CSI's allocations post 2020 should be kept at the same level as the pre-2020 allocations. CSI requests that ARB investigate changes to the leakage program that may provide assistance outside of Industry Assistance or any other actions ARB can take to address leakage risk for companies like CSI.

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: Jason Gray, Branch Chief, California Air Resources Board
John Dunlap. Dunlap Group
D.J. Smith, Smith, Watts & Hartmann
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