CALIFORNIA STEEL INDUSTRIES, INC.

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August 11, 2008

Ms. Mary Nichols
Chair, California Air Resources Board
1001 I Street
Sacramento, CA 95814

Subject: CSI Comments on CARB Scoping Plan & Appendices

Dear Ms. Nichols:

Following are our comments on the draft scoping plan and appendices offered by CARB in relation to AB 32 implementation.

California Steel Industries, Inc. (CSI) is a manufacturer of flat-rolled steel and pipe products, located near Fontana, CA. We have been in business for 24 years without a layoff; and employ nearly 1,000 people in well-paying positions, with excellent medical, retirement, and profit sharing benefits.

In our manufacturing operations, we annually use about 300,000 MwH of electricity and approximately 4 million MMBTUs of natural gas. CSI does not make raw steel; instead, we purchase steel slabs from out-of-state domestic and offshore producers. These purchased slabs are then manufactured into sheet and pipe products in our rolling mill facilities.

Since 1990, increasing customer demand driven by California's population growth has required CSI to more than double its steel production, while using about the same volume of natural gas and with only slight increases in the use of electricity. We have achieved these operating efficiencies as a result of investments in new technology and improved process control and work practices. CSI is now among the most energy efficient steel rolling facilities in the U.S., and perhaps the world.

CSI is proud of this level of increased energy efficiency and reduced carbon intensity per ton of steel produced. We trust that the rules being contemplated at CARB will have no burdensome economic impact on our company, the result of which could lead to reduced product available to our customers. In that scenario, California would replace the steel from our clean and efficient in-state production, with steel from more polluting and less efficient production from outside the state. This potential "leakage," as you have addressed in a similar manner with the cement industry, would be counter-productive to the goals of AB32 and detrimental to the state as a whole.

CSI is competing against steel companies in other states and nations that have yet to embrace or even seriously consider an AB 32 type mandate regarding climate change. Therefore, the "leakage issue," whereby California consumers are forced to buy more steel from our domestic and foreign competitors, is very real; and would result in a net world greenhouse gas increase, as we know that many foreign and domestic steel operations are much more carbon intensive than our current operations in Fontana. The net result would be a significant negative impact on our local economy, higher unemployment -- and no net reduction in the emission of carbon dioxide.

Putting this issue in further perspective, CSI's annual production of rolled steel is about 2 million tons, in a U.S. market that produces about 100 million tons of steel in all forms. China produces **five times** the U.S. industry's output of steel; and the Chinese steel industry is estimated to emit **12 times** the amount of greenhouse gases as the American steel industry.

California must find a way to implement AB32 in a way that maintains environmentally responsible manufacturing enterprises which serve the state's growing consumption needs. We include ourselves in this mix. CSI has grown, as California has grown, even while operating in possibly the highest-cost environment of any steel mill in America.

A few additional points for your consideration:

- California lost more than 440,000 manufacturing jobs since 2001. A good portion of those losses are a direct result of overall business and energy costs that prohibit a manufacturer from being competitive in the State. The California Manufacturers and Technology Association (CMTA) has reported that the state's manufacturers face overall costs that are 23% higher than the national average; and electricity costs that are 34% higher. AB32 has the potential to make this disparity between California and non-California manufacturer's even greater.

- In the case of CSI, our electricity costs per MwH are about double those of competing mills in most areas of the country, a cost disadvantage that can range as high as $20 million per year for our firm. By all accounts, the costs of our electrical utility, Southern California Edison Company, will increase in order to comply with CPUC and CARB mandates regarding AB 32. If so, this will be passed along to us in rate increases that will significantly increase the already huge energy cost disadvantage facing our company.

- The yet-to-be-finalized California-only global warming regulations have the potential to devastate the State's economy if not implemented in a cost-effective and technologically feasible manner *(as the bill says they must be).* The cost impacts on consumers and business is still unknown. It is crucial that we understand the magnitude of these impacts before statewide policy decisions are made. When one contemplates the potential direct costs to CSI to meet AB 32 requirements, and adds the increased cost for energy described above, it is clear that we would be badly disadvantaged against all non-California competitors, foreign and domestic. California's industries and large supplier networks have already become the most energy-efficient in the country. With the far-reaching goals of AB 32, it's important for California to keep those efficient companies here, creating jobs and wealth. We encourage the State in its compliance strategies to use market mechanisms that have proven effective in reducingemissions, stimulating technological innovation, and lowering compliance costs.

- California companies should not have to buy carbon allowances through an auction. This will only add to the cost disparities that California manufacturers already suffer and place us at a competitive disadvantage compared to out-of state producers. Auctioning of allowances in order to continue operating is in reality a carbon tax, and is not a fair way to initiate this program. No other sector within the state is being asked to buy its allowances in order to operate. We would be in a further disadvantage compared to the other sectors in the state. This undue cost burden, if implemented, would cause many companies to simply fold up shop and leave the state. A no-cost allocation of credits for existing operational companies is the fairest method.

- Ensure growth by allocating credits based on carbon intensity. At CSI, we are in the process of spending $70 million toward an expansion of our production facilities, to cover the anticipated future growth of California. A major side benefit of this project is that as we grow, the technological innovations included in our expansion will dramatically reduce the carbon intensity per ton of steel below our current low numbers. We will be producing steel in our reheat furnace operation with less carbon emissions per ton than perhaps any steel hot rolling facility in the U.S., and the world.

- On the electricity side, encourage the protection of demand response and interruptible programs for industrial customers. These programs provide some rate relief from California's high-cost industrial power rates, and also help sustain the electricity grid during power shortages. A voluntary production curtailment by an industrial client, in order to stabilize the grid, is far better for the environment than firing up a gas-fired "peaker" plant to accomplish the same thing.

Thank you for your attention to our comments. While we must work together to ensure that the legal requirements of AB 32 are met, it is just as important that we protect and grow strong, efficient, and job-creating businesses in California, supplying the future needs of the state's citizens.

Sincerely,

Brett J Guge

Brett Guge
Vice President Administration and Corporate Secretary
California Steel Industries, Inc.