

6/21/2024

Ms. Liane M. Randolph
Chair
California Air Resources Board
1001 "I" Street
Post Office Box 2815
Sacramento, California 95812

Subject: Pacific Steel Group (PSG) Comments and Recommendations on Potential Amendments to the Cap-and-Trade Regulation

Dear Ms. Randolph

PSG appreciates the opportunity to provide comments related to the Cap-and-Trade Program Workshop hosted by the California Air Resources Board (CARB) held on May 31, 2024, specifically regarding the discussion on Industrial Allowance Allocation, minimizing emissions leakage and supporting decarbonization and innovation in California's industrial sector. We would like to emphasize our previous comments filed on 5/8/2024, regarding the extreme high energy intensity and trade exposure of the steel industry, the complete elimination of the steel production industry from California, and recommendations regarding the critical need for adjustments to the steel sector (Iron and steel mill, NAICS code 331111) direct and indirect baselines and cap decline factor.

As discussed in more detail in our previous comments, PSG has proposed to invest more than \$630 million in a state-of-the-art reinforcing steel (rebar) mill in California. The facility received approval of its Environmental Impact Report (EIR) by the Kern County Board of Supervisors in March 2024, and continues to advance its proposed project.

The proposed mill would utilize recycled scrap steel, set world-class efficiency standards, and include innovative emissions control technology. The mill will feature cutting-edge steelmaking technologies, including raw material scrap pre-heating and the efficient Danieli Micro-Mill technology, which eliminates the need for semi-finished billet reheating. Additionally, it will use on-site renewable energy and eliminate all consumption of natural gas by electrifying key processes. These advancements will result in a 59% reduction in carbon emissions compared to the U.S. electric arc furnace (EAF) average.

PSG is also working to introduce a pioneering carbon capture system for EAF steelmaking. The captured gas will be purified to food-grade quality for use in the beverage industry, underscoring

our commitment to sustainable practices. To fully realize the potential of such investments, and promote the resurgence of world-class steel production in California, we believe certain adjustments to program parameters are essential.

The recent closure of the last remaining California steel mill in 2019 has resulted in the state importing the entirety of its steel requirements, including over 1,000,000 tons annually of reinforcing steel bars (rebar) required for critical infrastructure. The closure of California steel making increased emissions due to production of steel out of state under less stringent environmental regulations, with a higher carbon intensity electrical grid, and accounting for longer shipping distances for finished goods and raw materials. With no California steel industry, the current Cap-and-Trade program cannot effectively regulate emissions in this sector, highlighting the need for updated baselines and cap decline factors.

The steel industry faces unique challenges given its extreme high trade exposure as evidenced by 100% of steel production currently imported into the state; and its extreme high energy intensity requiring process temperatures above 3,000 degrees Fahrenheit to achieve the mechanical and chemical properties required of the finished product.

Therefore, we urge CARB to consider specific adjustments to the baselines and cap decline factor in the steel sector, and allowance set-asides to support significant decarbonization efforts across industries. PSG recommends the following adjustments to encourage substantial investment in decarbonizing critical industries:

1. Establish new baselines for Iron and steel mills to reflect the current reality that no California industry exists today. Consider an updated **direct emissions baseline** of the average delivered emissions per ton including transportation of imported steel to California. Consider an updated **indirect emissions baseline** of the average delivered electricity intensity per ton of imported steel to California.
2. Recognize the extreme high trade exposure and energy intensity inherent to the process and chemical requirements of steel production and adopt at a maximum, a 1% cap decline factor for Iron and steel mills for both direct and indirect baselines from a new updated baseline.
3. Establish special allowance set asides for investments in innovative technologies such as electrification of industrial processes or carbon capture in novel applications, across industries that reduce emissions by more than 25% from prior best industry performance

These adjustments are crucial for fostering a regulatory environment that incentivizes investment in efficient production of critical materials and innovative emissions control technology while ensuring competitiveness in the global markets, ultimately supporting decarbonization targets and California's commitment to combatting climate change.

We appreciate the opportunity to participate in the workshop discussions and provide input on the proposed amendments to the Cap-and-Trade Regulation. PSG remains committed to working collaboratively with CARB to achieve our shared goals of reducing emissions leakage, supporting decarbonization, and fostering innovation in California's industrial sector, particularly in highly energy intensive and highly trade exposed industries like steel production.

Thank you for considering our comments and recommendations. We look forward to continued engagement on this important issue.

Mark Olson

Mark R Olson

Vice President of Mill Operations
Pacific Steel Group

CC:

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