

Submitted to ARB Portal

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Ms. Rajinder Sahota  
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Deputy Executive Officer  
California Air Resources Board  
1001 I Street  
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Sacramento, CA 95814

RE: Comments by California Steel Industries, Inc., on Potential Amendments to ARB's Cap-and-Trade Regulation

Dear Ms. Sahota

We appreciate the opportunity to provide comments regarding potential amendments to the Cap-and-Trade Regulation. As the California Air Resources Board (ARB) reviews options to meet the state's GHG reduction goals, it is important to point out that hard-to-decarbonize industries like California Steel Industries, Inc. (CSI) will have a hard time making additional GHG reductions and will be required to purchase allowances in a market that has a declining number of allowances available. This puts additional cost pressures on a California producer that is at risk of leakage due to the large number of imported steel. As detailed below, CSI has taken every practical measure that we can to be an efficient producer and minimize GHG emissions. Without question, these efforts have placed CSI among the lowest GHG emitters for steel production facilities with the same processes around the globe. This accomplishment is due, in no small part, to environmental requirements in California. We have chosen to meet or exceed those California-only regulations rather than leave the state as other steel producers have done.

Given our difficulties in making further reductions in GHG emissions due to our required heat-intensive combustion processes, we ask that ARB work with hard-to-decarbonize companies like CSI to explore practicable options that might allow us to potentially lower our GHG emissions while avoiding leakage, as mandated by AB32. ARB's focus on minimizing emissions leakage in the industrial sector is essential for the state to achieve its long-term climate goals. Any state policy that results in the shifting of production of essential materials out of state does not further the state's climate efforts.

#### Background on CSI

California Steel Industries (CSI) is a Nucor-JFE company operating in San Bernardino County since 1984. CSI is jointly owned by Nucor Corporation and JFE Steel and is on the site of the former Kaiser Steel Mill in Fontana, California. CSI has the capacity to produce more than 2 million tons of rolled steel per year and is the largest facility in the Western United States. We produce Flat Rolled Steel (Hot Rolled, Picked & Oiled, Cold Rolled & Galvanized) from steel slabs. CSI sells to over 200 California and Western customers. CSI's nearly 900 teammates enjoy great wages, benefits, and profit sharing, and CSI has never had a layoff in its 39-year history. Our team members are comprised of 50% minorities and 11% veterans.

We have multiple generations of families working at the site. The average annual total compensation is approximately \$110,000 per full-time team member (salary plus 10-year average profit sharing, plus benefits). Additionally, CSI provides onsite craft training and educational degree programs through the InTech Center operated by Chaffey College, an onsite recreation center, and a CSI Family Health Center with \$0 co-pay and wellness programs.

The Industrial Technical Learning Center (InTech) is a regional training center designed to train and upskill a workforce pipeline for business and industry in the Inland Empire region and provides training at no cost to all individuals. The InTech Center provides in-demand technical training and professional development programs that include nationally recognized stackable certifications and lead to good-paying careers.

We have invested well over a billion dollars in safety, environmental, quality, and productivity performance at our California facility and have put to effective use the tax incentives that have been available during that time. CSI wants to grow our business in California and across the Western U.S. by investing more and producing more in California. We have proposed a new galvanizing mill that will be located at CSI's Fontana site.

#### Leakage

The risk of leakage for the steel industry is real. California has lost all but one of its steel operations. CMC closed operations at its mill in Rancho Cucamonga at the end of 2020, stating the decision was made due to the increasingly high cost of doing business in California and the excessive regulatory environment imposed by the state. UPI announced the closure of its Pittsburgh, CA facility at the end of 2023, stating many of the same reasons as CMC for its decision. With the closure of both operations, in excess of 700 jobs were lost in areas that are identified as Disadvantaged Communities (DAC's) by the state of California. The leakage that has happened so far has been based on cap-and-trade costs, environmental regulations, and the cost of electricity. All these cost pressures will increase over the coming years. As the availability of cap-and-trade allowances decreases and the cost of purchasing allowances increases, the steel industry in California will face significant challenges and have few options to mitigate them.

#### CSI Has Made Significant Improvements in Emissions Reductions

CSI, as an Energy Intensive, Trade Exposed (EITE) facility under Cap-and-Trade, has invested significant efforts to reduce GHG and criteria emissions, including:

- Installing high efficiency motors for rolling mill (in progress, \$36MM) (electricity)
- Installing high efficiency boilers (NOx, CO, SOx, PM, GHG) (in progress, \$2.2MM)
- Installing Selective Catalytic Reduction (NOx) (in place and in progress)
- Making facility wide fuel efficiency improvements (NOx, CO, SOx, PM, GHG)
- Installing a waste heat steam generator (NOx, CO, SOx, PM, GHG)
- Installing afterburners to ensure complete combustion (CO)
- Switching mobile equipment to cleaner burning or electric units (NOx, CO, SOx, PM)
- Reducing VOCs through product approval program
- Installing Wet Scrubbers (PM, Toxics)
- Installing Baghouses, filtration and carbon absorber units and other various controls (PM, VOCs, Toxics)

We are committed to continuing to make improvements when technology is commercially available, and it is feasible to install. CSI employs all federal EPA “best practice” recommendations for rehear furnace carbon emission reduction that can be employed without building an entirely new hot rolling plant. In addition to these improvements, CSI has been analyzing alternatives to natural gas that might be incorporated into its processes. However, all of these options are unproven at the scale that CSI would need, and they have issues that make them impracticable for adoption now.

Compliance Options for Hard-to-Decarbonize, Heat-Intensive Industries

As we discussed in the prior section, further reductions in the steel industry and other heat-intensive industries will be difficult to achieve because the technology to enable the reductions is not available at the scale needed. Companies like CSI need an alternative compliance option or a combination of options and incentives to install technology that is not yet ready to be installed at the scale needed for large industries. We ask ARB to consider adjustments to the cap-and-trade regulations as follows:

- 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 all Iron and steel mills in California for both direct and indirect baselines.
- Establish special allowance set asides for investments in innovative technologies such as using hydrogen or other alternative fuels or carbon capture in novel applications, across industries that reduce emissions by more than 25% from prior best industry performance.

We look forward to the opportunity to further these discussions as we work together for a sustainable solution.

Best regards,



Drew Linder  
General Manager  
California Steel Industries, Inc.  
A Nucor-JFE-CSI Corporation

cc:

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