



GERDAU



The Clean Power Plan Avoiding Emissions and Economic Leakage

New Jersey Clean Air Council
April 28th 2016



Gerdau Long Steel North America

- Annual manufacturing capacity of over 11 million tons of finished steel products in North America
- Employs approximately 9,000 people in the United States and Canada (29 U.S. states and 2 Canadian provinces)
- 2014 revenue of Gerdau Long Steel North America is US\$6.0B



Gerda Long Steel North America

Mill Locations



Gerda in New Jersey



Sayreville
Mill

PRODUCTS

Sayreville mill products are used in the civil construction and consumer product markets



Rebar

HISTORY

1978

Started production

2002

Acquired by Gerdau Ameristeel

MELT SHOP CAPACITY

800,000 tons per year

EMPLOYEES*

213 employees

TOTAL WAGES AND BENEFITS*

US \$23.9 M

ANNUAL PROPERTY TAXES*

US \$753.3 K

CAPEX APPROVED (2015-2018)

US \$9.7 M

* Year ended December 31, 2014

Our Commitment to Efficiency & the Environment

- The DOE completed a study in 2012 that concluded the US steel industry is the most energy efficient globally
- Gerdau's North American steel mills produce steel using an electric arc furnace, which involves the melting and conversion of recycled steel scrap into high quality steel products
- The consumption of scrap, which would otherwise sit in landfills, makes Gerdau one of the top recyclers in the world
- Gerdau has a team of Energy and Technology specialists that drive best practices globally.



The Clean Power Plan - Costs

- States have the option of using the Mass-based or Rate-based goal in the development of the SIP
- New Jersey should request a 2 year extension and submit a State Plan
- Modeling should be done on multiple scenarios to achieve the lowest cost outcome for ratepayers
- Modeling should be thorough and consider:
 - the effect of CO2 allowances on the marginal price of power and the flow of inframarginal revenues to non-carbon emitters
 - how allowances should be allocated to achieve the lowest cost
 - costs of infrastructure upgrades
 - Natural gas pipelines
 - Transmission to accommodate renewables
 - trading allowances with other jurisdictions
 - PJM's modeling results

The Clean Power Plan - Leakage

- What's missing is the discussion of leakage in the industrial sector
- Industrials that manufacture commodity type products like steel are unable to pass their costs through
- If costs are imposed on this sector that their out of state, or worse yet, off-shore competitors do not face, then leakage of emissions and jobs will occur
- This results in a lose-lose for the environment and the economy
- In the steel sector we are already seeing 30% of steel consumed in the country being imported

The Clean Power Plan – Leakage Mitigation

- In California leakage was identified as an issue and protection for EITE industrials was implemented
 - Revenue from the auction of allowances is returned to EITE customers to offset their electricity cost increase
- American Clean Energy and Security Act of 2009 (Waxman-Markey)
 - Identified leakage was an unintended outcome for U.S. manufacturing if protection was not included for EITE's
- Duke University – Nicholas Institute recently published a Working Paper on Options for Allowance Allocation
 - Suggested States could grant allowances to EITE industry designed to offset the program cost

The Clean Power Plan – Recommendations

- New Jersey should:
 - request a 2 year extension to submitting a Final Plan
 - develop a State Implementation plan that results in the lowest cost option for ratepayers
 - design a State Implementation Plan that does not adversely affect local industry's ability to compete in domestic and international markets
 - Protection must be provided for EITE industry
 - recognize that leakage will increase global emissions and negate efforts made in the State to be a global leader in climate change