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Ms. Lauren Sanchez
Chair
California Air Resources Board
1001 "I" Street
Post Office Box 2815
Sacramento, California 95812

Subject: Pacific Steel Group Comments and Recommendations on Potential Amendments to the Cap-and-Invest Program

Dear Chair Sanchez,

Pacific Steel Group ("PSG") appreciates the opportunity to comment on the California Air Resources Board's ("CARB") Cap-and-Invest Program Workshop held on October 29th, 2025. We commend CARB for its continued leadership in advancing California's carbon neutrality objectives while emphasizing the necessity of preserving in-state industrial competitiveness, economic opportunity, and emissions leakage mitigation.

PSG currently employs over 1,000 ironworkers engaged in bending and placing reinforcing steel bars (rebar) in critical infrastructure such as seismic support, bridges, and housing development. However, the rebar that provides the raw material for PSG's core business must be imported from out of state.

Currently, California imports 100 percent of the raw steel it consumes, including more than one million tons of rebar annually. Since the closure of the state's last steel mill in 2020,¹ production has shifted entirely to out-of-state facilities operating under weaker carbon policies and higher-emission electric grids, requiring transportation of heavy and bulky

¹ *Commercial Metals to Shutter Rancho Cucamonga Steel Mill, Citing High Costs in California*, Orange County Coast, Oct. 16, 2020 (available at <https://www.orangecountycoast.com/commercial-metals-to-shutter-rancho-cucamonga-steel-mill-citing-high-costs-in-california/> (last visited Nov. 12, 2025)).

materials over longer distances. This relocation has resulted in significant emissions leakage and the complete displacement of steel manufacturing beyond CARB's jurisdiction. In this context, PSG's perspective not only reflects a stakeholder affected by the Cap-and-Invest Program ("Program") but also a company actively investing in reestablishing in-state clean manufacturing.

PSG's development of a fully electrified, low-emission steel micro-mill is underway in Mojave, California. As the first new steel mill built in the state in more than 50 years, the \$630 million project will utilize innovative emissions reduction technologies, on-site renewable energy, and full electrification to produce 456,000 tons of rebar annually with world-class low emissions.

As CARB refines its policies in response to Assembly Bill ("AB") 1207 (Irwin, 2025), PSG recommends establishing updated baselines for emissions and energy intensity to account for the absence of California-based steel production, adopting a reduced cap decline factor to address the extreme trade exposure and energy intensity of steelmaking, and creating special allowance set-asides to incentivize investments in innovative technologies such as electrification and carbon capture. These measures are essential to fostering a regulatory framework that supports decarbonization, reduces emissions leakage, and encourages substantial investment in sustainable steel production, ultimately advancing California's climate goals and industrial competitiveness.

A. CARB Should Refine the Cap-and-Invest Program to Support Industrial Decarbonization and Minimize Emissions Leakage

CARB's Cap-and-Invest Program was established to reduce greenhouse gas ("GHG") emissions while preventing the relocation of industrial activity to higher-emitting regions that would increase overall global emissions. The extension of the Program under AB 1207 reaffirms the Legislature's intent to maintain core Program elements, such as industrial sector allowances, that "protect state utility ratepayers, encourages decarbonization of the state's economic sectors, and further enables Californians to affordably decarbonize and power their end uses."²

With respect to leakage risk, AB 1207 expressly requires the Program to "minimize leakage"³ and directs that industrial sector allowances be allocated "in a manner that minimizes emissions leakage risk."⁴ In the current environment marked by the expiration of federal industrial decarbonization incentives, CARB's role in sustaining in-state investment and manufacturing has become even more critical.

² AB 1207, Stats. 2025, ch. 117, § 38501(b)(4), effective Sept. 19, 2025) (available at https://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=202520260AB1207 (retrieved Nov. 10, 2025)).

³ *Id.* at § 38562 (a)-(b)(1-9).

⁴ *Id.* at § 38562(c)(2)(G).

Complementing this statutory mandate, CARB’s Industrial Leakage Assessment emphasizes this policy direction, observing that “targeted [emissions-intensive, trade exposed (“EITE”)] EITE electrification subsidies could be an effective tool for EITE sectors with electrification potential.”⁵ These findings suggest that targeted Program support for hard-to-decarbonize sectors, like the steel industry, is critical to achieving Program emissions reduction targets and retaining industrial activity and jobs in California.

PSG therefore encourages CARB to use its Cap-and-Invest authority to minimize emissions leakage for EITE sectors and provide incremental support for projects that demonstrate significant GHG reductions and strong potential for in-state reinvestment.

B. Updates to the Industrial Allocation Should Strengthen, Not Weaken, Leakage Protections

PSG appreciates CARB’s evaluation of industrial allocation options under the revised allowance budgets through 2030. The industrial allocation framework should serve as a strategic tool to restore critical industries and production capacity in California.

At a minimum, any revisions to the allocation framework, including cap adjustment factors (“CAFs”) or related parameters, must be structured to prevent, rather than exacerbate, emissions leakage. PSG respectfully urges CARB to prioritize approaches that enable the reestablishment and ongoing competitiveness of steel production and other EITE in California, thereby reducing the lifecycle emissions of goods consumed in the state.

CARB’s proposed industrial allocation CAF Concept 2, which offers stronger leakage protection under the modified allowance budgets, provides a more credible pathway for supporting EITE industries through the transition of the post-2030 Program than Concept 1.⁶

However, for the steel sector, which currently has no operating in-state facilities, more targeted adjustments are warranted. The current approach has proven insufficient to prevent or minimize emissions leakage of this specific industry, resulting in the complete loss of raw steel production in California. Applying a CAF from either proposed concept to a sector with no domestic production is ineffective in reducing global emissions. Instead, it imposes compliance pressure on a non-existent industry while imported steel remains outside the Program’s coverage.

In these program updates, CARB should not remain tied to allocation mechanics that have proven ineffective at minimizing emissions leakage for high-risk EITE industries. PSG

⁵ CARB, Cap-and-Invest Program Workshop (Oct. 29, 2025), *Industrial Leakage Assessment*, at Slides 31-35 (available at https://ww2.arb.ca.gov/sites/default/files/cap-and-trade/meetings/nc_CapInvestWorkshop_October2925.pdf (last visited Nov. 12, 2025)) (“CARB Workshop”).

⁶ *Id.* at Slides 43-45.

reiterates its previous comments,⁷ urging CARB to acknowledge the current market realities facing California’s steel sector and tailor industrial allocation updates accordingly. In the absence of an effective border carbon adjustment mechanism, CARB should consider establishing an iron and steel mills sector (NAICS 331111) direct and indirect emissions baseline that reflects the average delivered emissions of imported steel delivered today, including transportation, and adopt no more than a one percent annual cap decline factor.

C. CARB Should Adopt the Manufacturing Decarbonization Incentive Mechanism to Encourage Decarbonization Investments, Including to Offset Electricity Cost Impacts of Direct Emissions Reductions

Predictable and meaningful allocations encourage EITE companies to plan and make the significant capital investments required for decarbonization, such as electrifying industrial processes or installing carbon capture and storage systems for those industries that cannot substitute electricity for process heat. However, such investments often significantly increase a facility’s electricity demand, heightening its exposure to California’s high electricity rates.⁸ PSG supports CARB’s proposed Manufacturing Decarbonization Incentive (“MDI”) concept,⁹ as it aligns directly with proposed investments in next-generation steelmaking technologies and provides opportunities to offset increased electricity cost associated with such projects. This type of mechanism exemplifies the kind of “first-mover” industrial decarbonization effort that California’s Cap-and-Invest revenues are intended to unlock.

Moreover, the MDI is consistent with PSG’s previously submitted comment proposal of establishing “special allowance set asides for investments” that achieve deep, verifiable emissions reductions, rather than incremental improvements.¹⁰ PSG proposes that CARB prioritize funding for transformative projects by limiting the distribution of incentives to facilities that achieve emissions reductions exceeding 25% relative to prior best industry performance. Qualifying projects include innovative technologies such as electrification of industrial processes or carbon capture in novel applications. Establishing a performance-based threshold would reward ambitious innovation and investment, reduce emissions leakage, and maximize the climate return on each allowance dollar invested.

D. Conclusion

PSG appreciates CARB’s recognition during the October 29 workshop that minimizing emissions leakage and promoting industrial resilience are not competing goals but

⁷ PSG, *Pacific Steel Group (PSG) Comments and Recommendations on Potential Amendments to the Cap-and-Trade Regulation* (July 31, 2025) (available at <https://ww2.arb.ca.gov/form/public-comments/submissions/15176> (last visited Nov. 15, 2025) (“PSG Comments”).

⁸ Energy Information Agency, EIA-861M Monthly Electric Power Industry Report, Monthly sales to ultimate customers by state for all sectors, January 2010 – May 2025.

⁹ CARB Workshop, *supra* n. 5, at Slides 39-40.

¹⁰ PSG Comments, *supra* n. 7.



complementary. Aligning allowance allocation and incentive design with this principle will allow California to lead not only in setting ambitious climate targets but also in demonstrating how critical manufacturing and economic opportunity can thrive under those targets.

As discussed above, PSG respectfully urges CARB to:

1. Utilize the Cap-and-Invest Program's clear direction on emissions leakage and its expanded flexibility to support industrial decarbonization, minimize leakage in emissions-intensive, trade-exposed sectors, and provide targeted, incremental support for high-impact emission reduction investments in hard-to-decarbonize industries with strong potential for in-state reinvestment; and
2. Update industrial allocation parameters, including baselines and cap adjustment factors, for sectors that have experienced significant emissions leakage, such as the Iron and Steel Mills sector (NAICS 331111), to reflect the carbon intensity of imported materials, and to adopt, at most, a one percent annual cap decline factor.
3. Advance the proposed Manufacturing Decarbonization Incentive to encourage deep, verifiable emissions reductions exceeding 25 percent from prior best industry performance and to offset electricity cost impacts of direct emissions reductions.

Implementing these recommendations will not only promote the reemergence of California's steel industry in a clean and sustainable competitive way but also help ensure that the state's decarbonization efforts yield global, not exported, emissions reductions.

PSG remains committed to working collaboratively with CARB and other stakeholders to design policies that prevent emissions leakage, support industrial innovation, and secure California's leadership in clean manufacturing.

Sincerely,

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