



OHIO STEEL INDUSTRY RAISES MAJOR ENERGY CONCERNS

OHIO'S ELECTRICITY MARKETS IN NEED OF REFORM

In Maryland, Plant Moves Out Because of Dysfunctional Power Market

More than five years after the passage of Senate Bill 3, Ohio's electricity markets remain dysfunctional, according to the Ohio Steel Council. These markets are not free and competitive, and they are not capable of producing true market determined prices. Ohio remains stalled in the transitional period with expiration of Rate Stabilization Plans (RSPs) rapidly approaching at the end of 2008.

According to the Ohio steel producers, Ohio policymakers should look to Maryland for a taste of what is to come if action is not taken to address Ohio's dysfunctional electricity markets.

In Maryland, Alcoa was forced to close its Frederick plant, putting 600 people out of work, because dysfunctional market pricing would result in the company's having to pay 80 percent more for electricity. Later, Alcoa announced plans to open smelters in Brazil and Trinidad.

In Ohio, the results could be similar, with some manufacturing companies moving plants out of state or out of the country.

The Ohio Steel Council urges Ohio to take the necessary steps to allow for the extension of RSPs until such time as the power markets cease to be dysfunctional.

The Council also urges policymakers to advocate before Congress and the Federal Energy Regulatory Commission (FERC) to bring about revisions in the policy known as "locational marginal pricing." This policy sets electricity prices for all providers based on the highest bid (last bid in), which usually comes from the least-efficient power generation facility.

"Locational marginal pricing inflates electricity prices beyond their true market value and provides no incentive for efficient power generation," said Chuck Glazer, manager of communications and public relations, **Mittal Steel USA**. "The policy for determining fair market prices is broken and must be fixed before truly competitive power markets can develop."

NATURAL GAS PRICES STILL HISTORICALLY HIGH

Natural gas prices continue to be a source of concern for the Ohio steel industry, which is the largest industrial energy consuming sector in the state.

While natural gas prices have fallen in the wake of a mild winter, they remain high compared with average prices over the last 15 years. A slight interruption could once again precipitate a situation like the one in the second half of 2005, when spot prices hit nearly \$14 per MMBtu.

For about 13 years running in the late 1980s and 1990s, natural gas prices hovered around \$2 per MMBtu. Today's spot prices are more than four times as high. Prices for the winter of 2006 are forecast to reach more than \$10 per MMBtu, a fivefold increase over the 1990s.

"Competitive steel production depends on a ready source of affordable energy, so it is imperative that state government pursue policies that will increase supply," explained John Willoughby, vice president of human resources and corporate affairs, **Republic Engineered Products, Inc.** "Ohio steel companies have invested millions of dollars to improve efficiency and conserve energy. State government must help, too, by forming a long-term energy policy that will improve the cost and supply of energy for Ohio manufacturers," Willoughby said.

Ohio steel-producing companies support an environmentally sound policy for opening Ohio public lands and the Great Lakes to oil and natural gas drilling and extraction. They are also calling for the streamlining of the approval process for new pipelines to bring additional supplies to Ohio.

The **United Steelworkers** union, which is a member of the Council, does not support drilling on public lands or Lake Erie and instead backs large-scale commitment to renewable energy. Steel producers also support alternative energy but believe that government policy must address the near-term supply of conventional energy sources.

Collectively, the nine steel companies that make up the Council spent \$1.56

OHIO STEEL INDUSTRY SUPPORTS KILOWATT-HOUR TAX CREDIT

The Ohio Steel Council supports legislation proposed by Sen. Kirk Schuring (R-Canton) that would grant a kilowatt-hour tax credit to industrial users that are closely connected to the state's automobile industry and that invest heavily in the state's economy.

The legislation would benefit the automobile industry, as well as the steel, plastics, glass and rubber industries, among others.

"The steel industry is the largest industrial energy consuming sector in the state, so the kilowatt-hour tax is a point of concern with us, and we are following this bill very closely," said Mark Morelli, vice president of operations for **Wheeling-Pittsburgh Steel's** Wheeling Corrugating Division and a member of the Ohio Steel Council.

"Ohio's steel industry must compete with steel in other parts of the United States and other parts of the world where energy costs are not as great," Morelli explained.

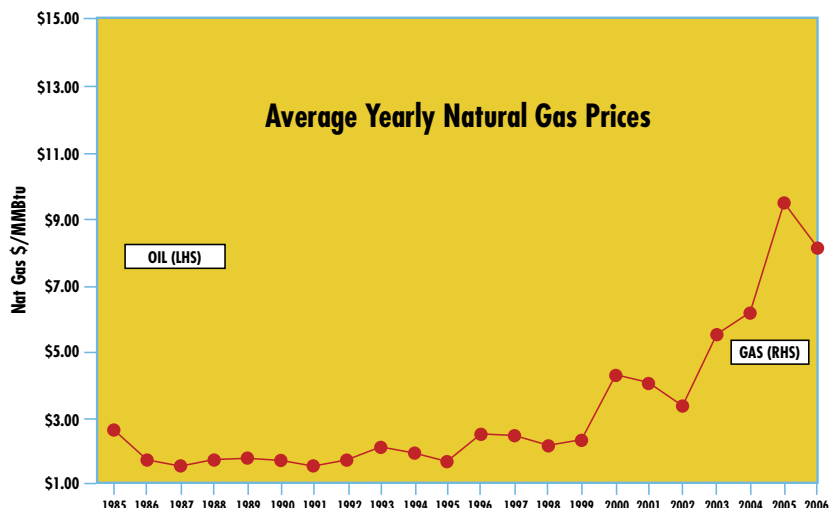
Senate Bill 335 would grant a kilowatt-hour tax credit to self-assessors that use more than 400 million kilowatts of electricity per year and have invested \$100 million in real or tangible personal property in the state.

Companies receiving the tax credit would be obligated to reinvest an amount equal to the tax credit in business operations in Ohio.

Each year, the steel industry spends about \$350 million in capital projects and about \$900 million in Ohio payroll.

The Ohio Steel Council passed a resolution that is consistent with S.B. 335 on Feb. 14, 2006.

billion annually for energy to operate their Ohio-based plants. Of this cost, approximately \$0.6 billion was spent on natural gas.



FOREIGN IMPORTS SURGE TO WARNING LEVEL

Foreign steel imported to the United States in March 2006 reached the highest point since November 1998, when unfairly traded steel imports seriously undermined the domestic steel industry.

Total steel imports increased 32 percent in March 2006 compared with the same month in 2005, according to preliminary data from the U.S. Census Bureau. Finished steel imports increased by 27 percent.

Many importing countries have a history of unfair trading, including China (up 86 percent), Turkey (up 116 percent) and Taiwan (up 139 percent).

For the first quarter of 2006, Census Bureau data show that imports are up 30 percent over the same period in 2005, with notable increases in categories where Ohio steel producers compete, including 30 percent for hot-rolled sheets, 36 percent for hot-dipped galvanized sheet and 61 percent for cold-rolled sheet.

"We must always watch import trends vigilantly to safeguard against a massive dumping of illegally traded imports," explained Tim Roberts, manager of public affairs for **WCI Steel, Inc.**

"The globally competitive Ohio steel industry can compete on a level playing field, but when other countries, such as China, are subsidizing steel production and producing quantities in excess of market capacity, there is cause for concern," Roberts said.

PUCO APPROVES COST RECOVERY FOR AEP OVER OBJECTIONS FROM INDUSTRY GROUPS

In spite of objections from industry groups, the Public Utilities Commission of Ohio (PUCO) recently granted a request from the American Electric and Power Company (AEP) to recover costs for the preconstruction phase of a new Integrated Gasification Combined Cycle (IGCC) power generating facility.

AEP is petitioning to recover costs related to all phases of construction, but the PUCO granted approval to recover costs from only the first phase for now. The other two phases will be considered later.

Unless the decision is overturned in appeal, Ohio ratepayers will pay for costs of the first phase of the project, estimated at \$25 million, through a charge on their electricity bills. Phases two and three are estimated to cost tax payers \$1.5 billion.

The Ohio Steel Council and other industry groups object to this cost recovery mechanism because the plant in question will employ experimental and unproven technology, which is more expensive than traditional coal-fired electricity.

The Ohio Steel Council also objects because this cost recovery could set a precedent for all Ohio utilities.

According to AEP's proposal, Ohio ratepayers would provide 100 percent of the cost for the new IGCC facility. And yet, Ohio ratepayers today represent just 40 percent of AEP's system-wide load. There is an inherent inequity in this proposal, the Council maintains.

In effect, the proposal would lead to an additional stranded-cost charge, which the Ohio ratepayer can ill afford.

UNIVERSITY PROFESSORS JOIN THE OHIO STEEL COUNCIL

The Ohio Steel Council welcomes two new members who will represent Ohio's state universities.

By law, two representatives of the state's public universities serve on the Council and are appointed by The Ohio Board of Regents.

Paul A. Bosela is chairman of the Department of Civil and Environmental Engineering at Cleveland State University.

William A. Baeslack III is dean of the College of Engineering at The Ohio State University.



Paul A. Bosela



William A. Baeslack

"While the Ohio Steel Council supports the development of alternative energy technology, we believe that AEP shareholders — not Ohio ratepayers — should be the ones to invest in unproven technologies," explained Bob Lapp, vice president, government affairs, **The Timken Company.**

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