



ELECTRICITY PRICING TO SKYROCKET UNLESS ACTION TAKEN

Ohio's steel companies are gravely concerned about the prospect of electricity prices skyrocketing at the end of 2008, which certainly will occur unless legislative action is taken soon.

Rate Stabilization Plans (RSPs), which were put in place to ease the transition toward free and competitive electricity markets in Ohio, are set to expire at the end of 2008. But, electricity markets have not developed and remain, to date, dysfunctional and unable to generate fair and competitive pricing.

The steel industry is the largest industrial energy-consuming sector in the state, spending more than \$1.6 billion in energy per year.

The Ohio Steel Council is looking forward to working with Gov. Ted Strickland, the governor's energy adviser Mark Shanahan and the General Assembly to develop a solution.

In a March 20 meeting, the Council adopted a resolution asking the governor and the legislature, as well as the Department of Development, the Office of Consumer Counsel and the Public Utilities Commission to:

- Strongly advocate before Congress and the Federal Energy Regulatory Commission (FERC) to revise "last-bid-in" marginal pricing for electricity wholesale markets, thereby allowing true competitive market-driven electricity pricing; and
- Allow extensions or successors to the current RSPs until power markets

are no longer dysfunctional; or

- Restructure the electricity industry in order to bring about long-term stability in the price of electricity.

In addition, the resolution calls for the development of a favorable regulatory climate in Ohio for co-generation, self-generation, distributed generation and cost-effective renewable energy technologies.

"Senate Bill 3 was enacted with the best of intentions but, unfortunately, the market has not developed and is not fair or competitive," said Pat Tatom, president and chief executive officer of WCI Steel, Inc., and co-chair of the Ohio Steel Council. "Now we have to deal with the possibility of a major, rapid increase in electricity prices in the very near future."

Last-bid-in marginal pricing sets wholesale prices for all electricity providers based on the highest bid from

the least efficient power generator in the system. The process inflates electricity prices beyond their true market value and provides no incentive for efficient power generation.

He added that in Maryland, where RSPs were allowed to expire, Alcoa was forced to close a plant and eliminate 600 jobs. Later, the company announced plans to open smelters in Brazil and Trinidad.

"Manufacturing operations in Ohio must compete globally with companies that are not facing the same burdensome energy costs as we are here in Ohio," Tatom said.

Tatom noted that Ohio's steel industry is a significant contributor to the state's economy. Each year, it generates \$6.18 billion in value-added steel production and purchases \$2.2 billion in goods and services from Ohio companies.



Ohio Steel Council members discussed energy issues with state government leaders at the Council Legislative Reception March 20. Pictured, left to right: Mark Shanahan, the governor's energy advisor; Pat Tatom, president and chief executive officer, WCI Steel, Inc., and co-chairman, Ohio Steel Council; and Sal Miraglia, Jr., president-steel, The Timken Company.

STEEL BY-PRODUCT HAS MANY USEFUL COMMERCIAL APPLICATIONS

Almost every manufacturing process creates some type of by-product, and steel is no exception. But one of steel's primary by-products, slag, has important commercial uses, especially as an ingredient in asphalt, concrete and other stabilization materials used in road pavement.

Despite slag's commercial applications, Gov. Bob Taft's administration appeared to be moving in a direction that would make selling slag for commercial projects far more difficult. The Ohio Steel Council plans to work with Gov. Ted Strickland's administration to ease restrictions on slag usage.

Steel slag comes from the process by which iron and scrap are combined with lime in furnaces that produce steel. Its principal chemical elements are calcium silicates and aluminoferrites with fused oxides of calcium, iron, magnesium and manganese. When used properly, it is a versatile and reliable ingredient in many products because it is strong, hard, durable and dense, and made up of roughly cubicle particles. Among its commercial applications are:

- Road base and shoulders for highway construction. Steel slag is highly stable and will bridge over soft soils due to the angularity and interlocking nature of the aggregate.
- Raw material for the manufacture of cement. Because of its chemical composition, slag reduces carbon dioxide emissions in the production process.
- Pavement for roads, parking lots, tennis courts, basketball courts and other facilities. Not many pavements can withstand the stress caused by cars

zooming at 200 miles per hour or more, but pavement made with steel slag can. That's why officials at the Indianapolis Motor Speedway, site of the annual Indy 500 auto race, chose steel slag as the coarse aggregate for its pavement.

- Waste water treatment. Scientists have recently discovered that slag's chemical makeup enables it to neutralize the pH of waste water. This is important to farmers seeking to limit the amount of nitrogen and phosphorus in the water used to irrigate their crops.

"Steel slag, produced by Ohio's steel industry, has already proved to be a valuable construction material," noted Paul Bosela, professor and chair of the Department of Civil Engineering at Cleveland State University. "And while Ohio has been blessed with readily available natural aggregate, those supplies are not limitless, and we have a responsibility to promote resource conservation, sustainable design and 'green building.' Using slag can help to attain all of those goals."

Other states recognize the value of slag and even encourage its use. In neighboring Pennsylvania, for example, contractors who use slag in their asphalt or concrete are awarded a 5 percent credit when bidding on state contracts in order to promote recycling.

The Taft administration had proposed revising the Ohio EPA's waste disposal requirements so that a beneficial use permit would be required to sell slag for commercial use, making its sale much more difficult.

SOARING CHINESE EXPORTS POSE THREAT TO OHIO STEELMAKERS

Chinese production and exports of steel continue to grow at alarming rates, with potentially devastating consequences for Ohio's steel industry.

Preliminary estimates of Chinese steel imports into the United States during 2006 were 5.4 million net tons, an increase of 125 percent over 2005. China's steel production nearly doubled between 2003 and 2006 and now accounts for 35 percent of the world's steel production – four times the U.S. share. China's growth has continued despite flat demand, leading many observers to conclude that the growth in production is intended entirely for export.

China's steel exports pose a threat to Ohio's steel industry and should be watched very closely, according to Pat Tatom, president and chief executive officer of WCI Steel, Inc., and co-chair of the Ohio Steel Council.

"Ohio's steel industry is prepared to compete on a level playing field, but China is not playing by the rules. The government in China heavily subsidizes the steel industry, enabling production far in excess of demand," Tatom said.

"The Ohio steel industry has never asked for anything more than the fair enforcement of existing trade laws," Tatom added.

In China, state-owned enterprises account for nearly 60 percent of the steel production.

In other trade-related matters, Lt. Gov. Lee Fisher testified April 12 before the International Trade Commission in favor of retaining the anti-dumping orders against Argentina,

Italy, Japan, Korea and Mexico for Oil Country Tubular Goods. These are countries that have a long history of importing steel in violation of international trade rules. The anti-dumping measures were put in place following the imports crisis of the late 1990s and are now up for renewal.

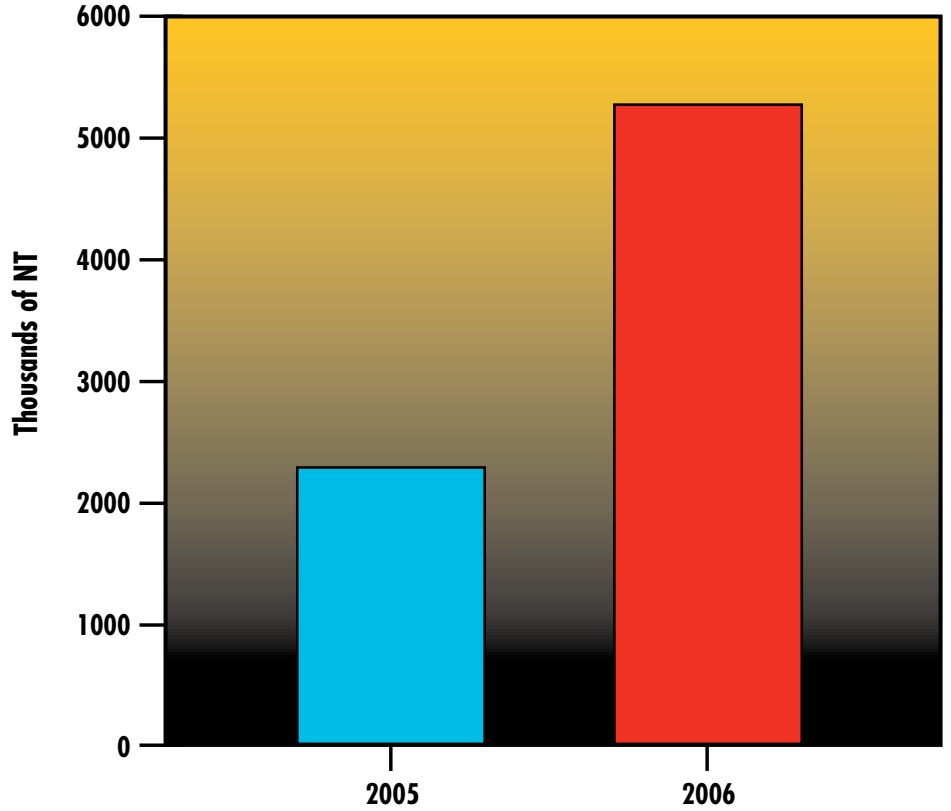
The Ohio Steel Council asked the lieutenant governor, who is also co-chair

of the Council, to testify at the hearing because the anti-dumping measures directly affect two Ohio Steel Council members, U.S. Steel Corporation and V&M STAR.

The Council maintains that if the anti-dumping duties are lifted, the offending countries will return to their unfair trading practices.

Total U.S. Imports from China

Source: AISI and IM-145 data.



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