



February 20, 2020

TO: Chair Holvey, Co-Vice Chair Drazan, Co-Vice Chair Smith Warner and
Members of the House Committee on Rules

FR: Peter B. Saba, Senior Vice President, General Counsel* and Corporate Secretary
Schnitzer Steel Industries, Inc.

RE: Testimony on HB 4167

On behalf of Schnitzer Steel Industries, Inc. (“Schnitzer”) please accept this testimony offering the Company’s concerns with HB 4167. I serve as Senior Vice President, General Counsel and Corporate Secretary for Schnitzer, which was founded in Portland in 1906 and as an Oregon company has grown into one of North America’s largest recyclers of metal and a manufacturer of steel from recycled scrap metal.

Schnitzer appreciates the opportunity to testify. Through this submittal, I will share how HB 4167 could impact Schnitzer’s steel mill, Cascade Steel Rolling Mills (“Cascade”), located in McMinnville - and its workers. While Cascade is located in Yamhill County, Schnitzer’s headquarters are located in downtown Portland.

Having completed the best review we can of HB 4167 our initial thought is, “Could it be any more complicated?” With every iteration, the cap and trade program creates levels of administration, new requirements for regulated entities, along with possible new opt-outs or opt-ins, depending on your point of view. Each of these creates additional work for both the regulators and regulated, specifically time and expense, and unfortunately no amount of administrative work will reduce carbon emissions.

A. Natural Gas and “Double Whammy” for EITEs

Those of you who were here one year ago may remember my testimony that requested elimination of what I called the “Double Whammy” regulation on natural gas for EITEs. The 2019 Legislature and the Governor’s Office worked with EITEs last year to institute a common sense fix to ensure no double charges. Now, 2020’s HB 4167 changes the structure, complicating it further by bringing the upstream natural gas suppliers into the mix and creating TENGUs to go with EITEs (soon the bill will have created its own language of acronyms). Now there are double the amount of allowances and requisite accounting involved.

Natural gas suppliers will have the compliance obligation, but natural gas utilities will receive allowances from the office for emissions from TENGUs that receive natural gas on the natural gas utility’s distribution system (as determined by the office after consulting with the PUC), which allowances are then consigned back to the office to be auctioned by the office with the proceeds credited to the appropriate trust account established by the PUC, and then the PUC will provide the TENGU with a bill credit pursuant to a formula to be developed by rule by the PUC. Rube Goldberg would be proud, and the

consultants will have a field day. On a serious note, this complexity creates administrative burdens, friction costs, and mismatches. The more “handling” of the allowances and the more time that passes between supplier’s receipt and customer’s rebate, the higher the likelihood of market pricing changes that could ultimately shortchange the customer. In addition, to ensure it receives these bill credits (or 97% of the credits in 2030 and thereafter), a TENGU must be in compliance with an energy management system audit and implementation plan approved by the PUC, which has to be completed every five years and has a host of requirements set forth in Section 50. This is only one example of how HB 4167 creates more uncertainty for entities regulated for natural gas in the cap and trade program.

At the same time, if the TENGU meets the threshold for being an EITE, it also has to comply with the BAT and GHG emissions intensity audit report provisions of Section 20/22 to obtain allowances as an EITE, including for its compliance obligations for its regulated emissions from natural gas consumption. We understand HB 4167 was intended to fix this. Per the -35 summary from the companion bill SB 1530:

If a manufacturer meets the threshold for being considered Emissions-Intensive Trade Exposed (EITE) as a result of their process emissions and must go through the “Best Available Technology” process, they don’t also have to do a separate energy audit for their natural gas use. The two can be combined.

We may have missed it in the 177 pages, but our reading of the interplay of Sections 5(2)(b) & (c), Section 17(1)(d) & (4), Sections 20/22, and Section 50 and the changes proposed in HB 4167 is that this only works for direct connect TENGUs that opt-in to Section 20/22 with respect to their natural gas consumption emissions. For an EITE such as Schnitzer that receives its natural gas through the local distribution system, we remain subject to both – the “Double Whammy.”

B. State Preemption

There is one other issue that I would like to raise today. I understand that state preemption of similar local ordinances was discussed by the Committee and others. Schnitzer is disappointed that preemption does not appear anywhere in HB 4167. As stated above, Schnitzer is headquartered in Portland and, in addition to Cascade in McMinnville, has locations in Sherwood, Eugene, White City and Bend. We urge the Legislature to adopt preemption here to prevent other jurisdictions around the state from passing their own competing programs. A patchwork of carbon-related regulations statewide would only serve to complicate matters and the detrimental effect on business would likely outweigh any measurable reduction in carbon emissions.

Please take these comments in the spirit in which they are intended. The last thing the state needs is to pass a program that is too complicated to administer and track or too expensive for businesses to bear. Schnitzer is a recycling company. When we talk about Cascade, we are talking about a state-of-the-art, energy-efficient, electric arc furnace. We use 100% recycled scrap metal primarily sourced from our own metals recycling operations throughout Oregon to keep our carbon footprint low. Furthermore, 90% of Cascade’s electricity consumption comes from non-carbon emitting hydroelectric power, and we use natural gas for our reheat furnaces.

Using recycled metal in steel manufacturing as we do at Cascade saves approximately 75% in energy input, reduces water use by approximately 40% and virgin material use by 90%, and minimizes mining

waste generation by 97% compared to steel manufacturing using newly mined ore. Most importantly for purposes of this conversation, using recycled scrap metal as our feedstock at Cascade results in significant greenhouse gas savings compared to traditional steel manufacturing from newly mined ore. Based on our output of finished steel products for fiscal year 2017, we estimate that production at Cascade resulted in approximately 1/7th of the greenhouse gas emissions on a CO₂ equivalent basis than producing the same amount of steel at a blast furnace, which is the most common form of steel production. In other words, if this steel was produced by a competitor using a blast furnace it would have resulted in 7 times the amount of GHG emissions.

At Schnitzer, sustainability is at the core of what we do as a leader in metals recycling industry and is at the core of how we operate. In 2019, we were recognized as one of the World's Most Ethical Companies for the fifth consecutive year by Ethisphere Institute, a global leader in defining and advancing the standards of ethical business practices. We were the only metals recycling company worldwide, the only U.S. steel manufacturing company, and one of only two companies in the "Metals, Minerals and Mining" category worldwide to attain this recognition. Environmental sustainability is a key criteria in this rigorous selection process, and this award underscores our employees' commitment to acting ethically, safely, and sustainably every day.

C. Conclusion

We urge the Committee to consider the complexity of this bill and whether or not it is ready to move forward. Consider including state preemption which would at least protect the state's program from other competing measures that could undermine its effectiveness. Let's simplify compliance requirements and eliminate the "Double Whammy" once and for all. For these reasons, we urge the Committee to continue working on amendments because HB 4167 is deficient.

**Member New York State and D.C. Bar. Not Admitted in the State of Oregon*