

## High Energy Costs Threaten Ohio's Steel Industry

### To Our Legislators and Other Friends of Steel:

In 2005, Ohio's steel industry performed at a level comparable to 2004 – a notable achievement since that year set a high-water mark for the industry in the wake of five difficult years of restructuring. Strong steel markets enabled Ohio producers to reinvest in technology for their Ohio facilities, with \$315.4 million spent on capital improvements in 2005.

Demand for steel remains strong in most markets, such as construction and oil and gas, but is moderate in automotive markets. In general, worldwide demand and pricing are steady.

The cost side of our business, however, is a source of extreme concern. Prices for raw materials remain at historically high levels, and energy costs are unsustainable. As one of the largest energy consumers in the state – spending more than \$1.5 billion annually – Ohio's steel industry cannot withstand a four-fold increase in natural gas prices over five years.

Many Ohio Steel Council members, with the notable exception of the United Steelworkers, support Rep. John P. Hagan's proposal for oil and natural gas drilling on state lands and Lake Erie. We must consider all possible short- and long-term means of increasing our supply of natural gas in Ohio. We recommend increasing natural gas pipeline capacity and streamlining the approval process for new pipeline projects bringing natural gas into the state.

Council members believe that Ohio must develop an energy policy that will address immediate needs for conventional energy resources and provide long-range solutions, including renewable and alternative energy resources. The industry has made considerable strides in reducing energy consumption in the steelmaking process, but progress on energy's supply side has not been sufficient.

Electricity markets are another source of concern. Five years after the passage of Senate Bill 3, wholesale and retail electricity markets remain dysfunctional. We are stalled in the transition period, with the expiration of Rate Stabilization Plans (RSPs) rapidly approaching at the end of 2008. If RSPs were to expire before true market pricing was established, it would cause our industry – as well as other industries and Ohio's residential customers – great hardship. From our viewpoint, one obstacle to a functional and competitive open market is "location marginal pricing," a method for determining wholesale electricity prices that favors the least efficient power generation facility.

Last year at this time, we were celebrating the recent passage of the tax reform package, which eliminated the tangible personal property tax that had unfairly burdened capital-intensive industries for decades. We continue to appreciate this important legislation. We are banking on the success of the new CAT tax, and we urge you to resist appeals to undermine it with exemptions for certain businesses or industries.

We look forward to working closely with you in the coming year. In turn, we trust that you will continue to value our input on important legislative issues. Recently, we opened the Council to four new associate members, who will assist us in speaking with a united voice for our industry.

Respectfully,

**William A. Brake Jr.**  
Co-Chairman  
Ohio Steel Council  
Executive VP, Operations  
Mittal Steel USA

**Bruce Johnson**  
Co-Chairman  
Ohio Steel Council  
Lieutenant Governor  
Director, Ohio Department of Development



## **A New Look for Ohio Steel**

In 2005, we revised our Ohio Steel Council logo to underscore our commitment to our local communities, the environment and the state's economy. Our new slogan, "Investing in Ohio," reflects the extensive efforts undertaken by the Council and our member companies and organizations to make Ohio a better place. In this year's annual report, we would like to share some of what we are doing to improve the quality of life in our communities.

## **Ohio Steel Council Members**

AK Steel Corp.  
Lorain Tubular Operations, United States Steel Corporation  
Mittal Steel USA  
Ohio Department of Development  
Ohio House of Representatives  
Ohio Senate  
PRO-TEC Coating Company, United States Steel Corporation  
Republic Engineered Products, Inc.  
The Timken Company  
United Steelworkers  
V&M STAR  
WCI Steel, Inc.  
Wheeling-Pittsburgh Steel Corp.

## **Associate Members**

Cleveland-Cliffs Inc.  
Precision Strip, Inc.  
Stein, Inc.  
Tube City IMS  
Wheeling Lake Erie Railroad

Ohio Steel Industry Advisory Council  
c/o Ohio Department of Development  
77 S. High Street, 28th Floor  
Columbus, Ohio 43216  
Phone: (614) 466-4551  
Fax: (614) 644-1789

Ohio Steel Information Line:  
1-800-OHIOSTL (1-800-644-6785)  
[www.ohiosteel.org](http://www.ohiosteel.org)



Making Ohio a better place through investment in our communities, the environment and the state's economy.

# INVESTING IN THE ENVIRONMENT

Ohio steel producers are proud stewards of the environment, leading the way in emission controls, energy conservation and recycling.

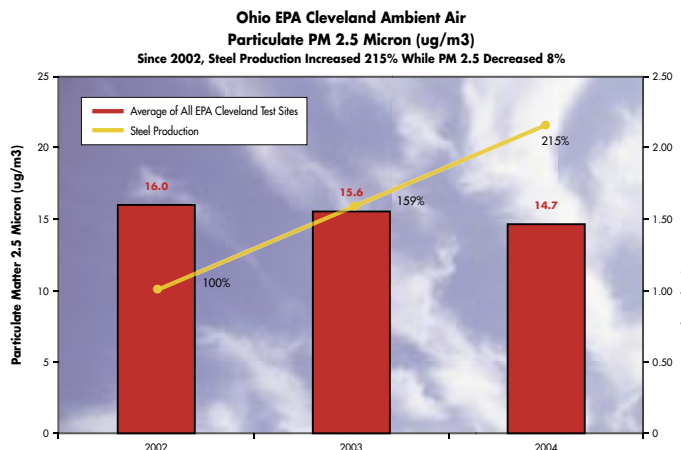
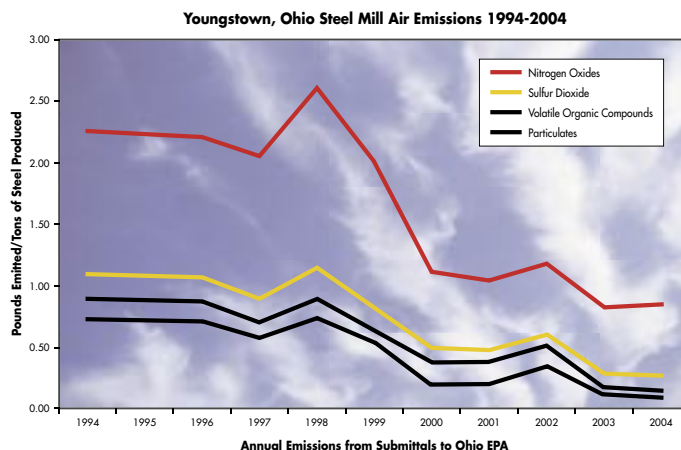
## Tracking Environmental Performance

**Republic Engineered Products, Inc., in Fairlawn** has established itself as a leader in emission controls, having recently achieved ISO 14001 compliance. To meet this high standard, the company implemented an Environmental Management System that identified company goals and then derived specific action steps at the plant and department level.

**V&M STAR in Youngstown**, also ISO 14001 compliant, won Youngstown State University's Ohio Green Team Award for outstanding recycling and waste minimization efforts in 2004. V&M STAR recycles approximately 90 percent of the waste generated by the Youngstown facility.

According to Ohio EPA data, particulate matter in Cleveland continues to fall even as steel production at **Mittal Steel USA** has more than doubled. The reductions may be attributed to Mittal's ongoing efforts to reduce emissions.

**PRO-TEC Coating Company, United States Steel Corporation, in Leipsic** is a member of the U.S. EPA's National Environmental Performance Track, a voluntary program for companies dedicated to exceeding regulatory requirements. The steelmaker has reduced its use of alkaline cleaners, phosphoric acid, manganese compounds, nickel compounds and water.



## Conserving Energy

In conjunction with the Energy Industries of Ohio (EIO), the Ohio Office of Energy Efficiency (OEE) and the U.S. Department of Energy (DOE), **Republic Engineered Products, Inc., in Fairlawn** took part in a successful experiment using a new highly durable material, aluminum bronze, for skirting material on its BOF. The new material has prevented downtime, which is costly because firing the furnace back up burns large amounts of energy.

**The Timken Company in Canton** has refined processes and introduced new technology to reduce the amount of natural gas consumed per ingot of steel produced. At the Harrison facility, for example, the reduction in energy use is 17 percent.



## Improving Air Quality

**AK Steel Corp. in Middletown** recently completed phase one of a \$66 million upgrade in emission controls. New blast furnace controls capture 90 percent of fugitive emissions, or about 300 tons of non-hazardous dust per year.



# INVESTING IN THE **COMMUNITY**

Ohio steel companies and the United Steelworkers are active in their communities, helping in times of difficulty, creating opportunity, building hope and inspiring young people.



## **Building Parks and Playgrounds**

**United Steelworkers** throughout Ohio assume responsibility for renovating homes, beautifying parks and building playgrounds. For example, the Central Ohio Labor Council rebuilt the Richter Worker's Memorial Park in Columbus and continues to beautify and maintain it as a memorial for workers who have lost their lives on the job.

## **Reaching Out to Hurricane Victims**

Following the devastation of Hurricane Katrina, **Mittal Steel USA** adopted the city of Long Beach, Miss. The company committed \$1 million up front and continues to contribute materials, people and capital.



## **Teaching in the Schools**

Visiting classrooms in his community, Dave Moore of **WCI Steel, Inc., in Warren** conducts hands-on activities and science experiments relating to steel. Moore also serves on the school board.



## **Charitable Donations**

Each year, Ohio steel companies and **United Steelworkers** donate on average more than \$4.1 million to charitable endeavors. In addition, the industry donated \$1.76 million to hurricane relief in 2005.



Steelworkers across Ohio are among the most generous supporters of the United Way, with a per-capita contribution of \$324.

## **Scholarships to College**

**The Timken Company in Canton** awards a four-year college scholarship to five undergraduate students each year. The program covers tuition, fees and books.

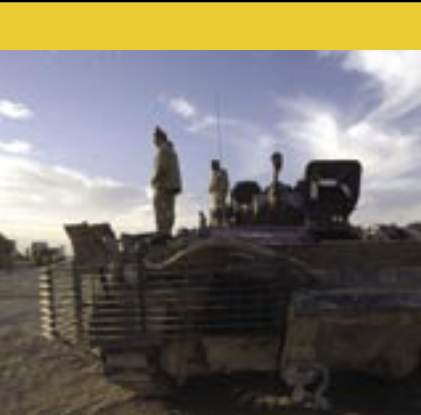
**AK Steel Foundation in Middletown** awards the Louie F. Cox Memorial AK Steel African-American Scholarship to two college students each year. They are renewable and potentially worth a total of \$16,000 each.



# INVESTING IN THE **ECONOMY**

Ohio's steel industry constitutes a formidable force in the state's economy. Together, steel producers and processors generate steel products with a net value of \$3.2 billion. More than 35,000 Ohioans work for companies that produce, process or forge steel.\*

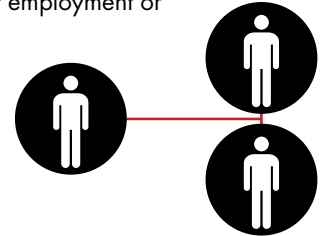
\*All economic data comes from the latest version of IMPLAN, a widely used economic model.



## Total Economic Impact

Ohio steel's total economic impact on the state is estimated at \$7.2 billion. More than 96,000 Ohio jobs can be linked to the steel industry – through direct employment or ripple effects throughout the economy.

*For every one job in the steel industry, two more jobs are generated.*



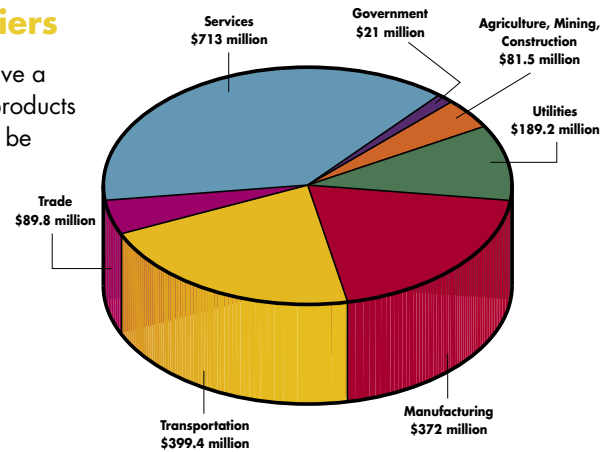
## Mission Critical Products

Armor plate from **Mittal Steel USA** helps to protect U.S. servicemen and women in Iraq, where it is employed as slat armor on the U.S. Army's Stryker. Insurgents fired 91 rocket propelled grenades at the Stryker during its first year of deployment, but the armor prevented any loss of life. Mittal Steel is the largest domestic producer of armor plate.

## Generating Business for Suppliers

Many industries – from retail to agriculture – derive a significant portion of their business from selling products to the steel industry. More than 28,000 jobs can be tied to products and services sold to Ohio's steel industry.

*Pie chart shows the impact of Ohio's steel industry on its suppliers, with a total impact of \$2.2 billion.*



## Capital Investments in Ohio

Ohio steel producers invested in excess of \$315.4 million in capital upgrades to Ohio facilities in 2005.

## World's Most Advanced EAF

**In Mingo Junction, Wheeling-Pittsburgh Steel Corp.** operates what is probably the world's most advanced and efficient continuous electric arc furnace (EAF). It is a continuous EAF because it does not start each batch anew with a dry pile of unmelted scrap. Rather, it retains some molten metal from batch to batch. The electrodes heat the molten metal, which in turn heats the scrap, reducing electricity consumption. The furnace cost \$120 million.



## State-of-the-Art Caster

**Republic Engineered Products, Inc., in Fairlawn** has invested in a new caster in the Canton facility, along with refining and processing upgrades in the melt shop. The two capital projects together total \$60 million.

