

HIGH NATURAL GAS PRICES WILL UNDERCUT STEEL INDUSTRY INVESTMENT, TECHNOLOGY

Steel Producers Call for Increased Drilling on Public Lands, Lake Erie

The cost of energy, especially natural gas, is the most serious issue to face the steel industry since the imports crisis of the late 1990s, and unless the current trend is reversed, it will undermine the industry's ability to compete worldwide.

"Ohio's steel industry cannot continue to invest in new technology, new manufacturing equipment and air quality controls at the levels necessary, while paying exorbitant prices for natural gas," said William A. Brake Jr., chairman of the Ohio Steel Council and executive vice president, Eastern Operations, Mittal Steel USA. "The current energy crisis will erode our competitive edge, if it continues. Government action is imperative."

Natural gas prices have increased 400 percent in five years and are expected to rise another 70 percent this winter. In the most recent price run-up, natural gas costs per ton of steel produced have tripled.

In addition, high natural gas prices will drive up electricity prices, according to utility experts. (See story page 2.)

The Council is urging state legislators to consider a more flexible yet environmentally sound policy to open Ohio public lands and the Great Lakes to oil and natural gas drilling

and extraction. The Council is also calling for streamlining the approval process for new pipelines to bring additional supplies to Ohio.

The Council supports a proposal by Ohio Rep. John P. Hagan (R-Alliance) to bring oil and gas wells to Ohio's public lands and Lake Erie. Hagan is expected to introduce legislation in the very near future.

However, the United Steelworkers of America, which is a voting member of the Council, does not support the proposed legislation. Rather, the union backs the Apollo Initiative, which calls for large-scale federal commitment to the development of renewable energy resources, including wind, solar and biomass, as well as conservation incentives.

Steel producing companies also support the development of alternative and renewable energy resources, but maintain that government policy must address the immediate supply and availability of conventional energy resources. Ohio steel producers have made great strides in reducing consumption of both natural gas and electricity per ton of steel produced.

"Natural gas has been on the steel industry's radar screen since 2000 and is now going to be on every homeowner's radar screen as

they face winter heating bills," noted Peggy Claytor, manager - state government affairs, The Timken Company. "Perhaps the increased visibility of this issue will have a positive outcome in motivating public policy decision makers to do what is necessary to increase supply in an environmentally friendly way."

Of the natural gas usage in Ohio, approximately 11 percent is from native resources. It is estimated that for every native MCF of natural gas used, Ohio consumers on average save at least \$1. Additional drilling sites in the state will increase the available supply, keeping prices lower.

"Supply and demand sets the price in the market. We are depleting our supply base faster than we are replenishing it. To the extent that continues, we are going to have supply/demand tension that is going to increasingly push prices higher," Claytor said.

Collectively, the nine steel companies that make up the Council spend nearly \$1.5 billion annually for energy to operate their Ohio-based plants. Of this cost, approximately \$1 billion is spent on natural gas. A 70 percent increase in natural gas prices could bring the annual energy total to more than \$2.2 billion.

NEW COUNCIL MEMBERS

APPOINTMENTS

- The Honorable John P. Hagan, Representative, Ohio Legislature (R-Alliance) - reappointment
- The Honorable Kirk Schuring, Senator, Ohio Senate (R-Canton) - replacing former Senator Scott Nein (R-Middletown)
- Salvatore J. Miraglia Jr., president of Timken's Steel Group - representing The Timken Company and replacing Ward J. Timken Jr.



John P. Hagan



Kirk Schuring



Sal Miraglia

ASSOCIATE MEMBERS

Associate members to the Ohio Steel Council are invited to attend meetings and voice their issues, concerns and opinions. New associate members include:

- Cleveland-Cliffs Inc. - Cleveland, Ohio
- Precision Strip Inc. - Minster, Ohio
- Stein Inc. - Cleveland, Ohio
- Tube City IMS - Glassport, Pa.

INVESTING IN OHIO'S ECONOMY

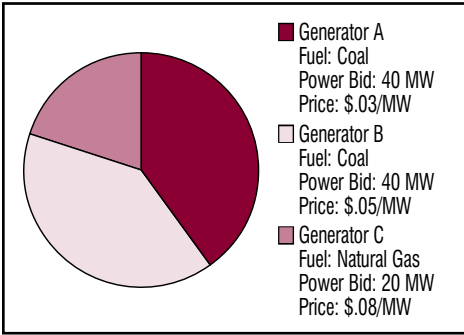
In spite of the high cost of energy and raw materials, the Ohio steel industry continues to make a very significant impact on the Ohio economy, in terms of capital investments, employment and payroll, and steel production. Ohio remains the No. 1 state in steel production and processing.

Ohio Steel Industry 2005 Data Year-To-Date

Category	First Nine Months of 2005*	Change Compared to Same Period in 2004*
Steel Production (tons)	10,751,607	-2.74%
Shipments (tons)	11,498,016	0.09%
Payroll	\$722,564,283	6.15%
Average Employment	15,178	-0.63%
Capital Investment Spending	\$245,405,886	39.04%

* Data compiled by Youngstown State University's Center for Urban Studies

HOW NATURAL GAS PRICES DRIVE UP ELECTRICITY PRICES



A regional transmission organization requests 100 megawatts (MW) of power. The highest price bid into the pool is \$.08/MW. Therefore, all 100 MW will be priced at \$.08, and all generators will receive \$.08/MW. In spite of making up the lowest percentage of the pool, natural gas-fired power sets the market clearing price.

A larger percentage of Ohio's electric generation is coming from natural gas-fired plants. Therefore, escalating gas prices will have an increasingly greater effect on electricity prices.

Rising energy costs negatively impact Ohio steel producers, one of the largest energy users in the state.

To purchase an allotment of power, regional transmission organizations, or power pools, request bids from electricity generators. Multiple suppliers place bids to meet the allotment, and the power may come from coal-fired, gas-fired and other plants.

The highest price bid into the pool sets the market clearing price, meaning all customers will pay that rate for all of the power. If a natural gas-fired plant is in the pool, the price for the entire pool will likely be set by the gas price given current market conditions.

Further contributing to rate instability is the fact that electric-generation facilities built in Ohio during the last five years are predominantly natural gas-fired plants.

At issue is the need to reduce electric generation costs to ensure energy security.

"Ohio can't increasingly have natural gas as the fuel of choice for electric generation while constraining the growth in supply that is necessary to meet that incremental demand," said Peggy Claytor, manager - state government affairs, The Timken Company.

OHIO STEEL INDUSTRY EXTENDS HELPING HAND

Ohio steel producing companies and the United Steelworkers have a well-established tradition of becoming involved in community initiatives and charitable activities. On average, the Ohio steel industry donates about \$4.1 million to local charitable endeavors each year.

Most recently, Ohio Steel Council member companies and employees raised more than \$440,000 for the victims of hurricanes Katrina and Rita - and the fund-raising is still ongoing. Significant donations were also given this year for the victims of the December 26, 2004, tsunami and the Evansville, Ind., tornado in November 2005.

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Ohio Department of Development
77 S. High Street / 28th Floor
Columbus, Ohio 43216

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