



May 4, 2026

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Ms. Lauren Sanchez
Chair
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Subject: Comments of Pacific Steel Group on Proposed 15-Day Amendments to the California Cap-and-Invest Regulation

Dear Ms. Sanchez,

I. Introduction

Pacific Steel Group ("PSG") respectfully submits these comments in response to the California Air Resources Board's ("CARB" or "Board") proposed 15-Day Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms, as described in the Notice of Public Availability of Modified Text dated April 14, 2026 (the "15-Day Amendments" or "Notice").¹

PSG is constructing the Mojave Micro Mill in Kern County, a fully electrified steel manufacturing facility expected to commence operations in 2027 and the first new greenfield steel mill in California in more than 50 years. PSG is developing this over \$630 million project based on California's stated policy commitment to support clean industrial investment. The Mojave Micro Mill will produce up to 456,000 tons of rebar annually using electric arc furnace ("EAF")

¹Notice of Public Availability of Modified Text and Availability of Additional Documents and/or Information, Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (Apr. 14, 2026) ("15-Day Notice"); Attachment A-1, proposed Cal. Code Regs., tit. 17, § 95891(g)(1)(B) ("15-Day Amendments").

technology, on-site renewable energy and storage, and full electrification with zero natural gas combustion, resulting in substantially lower lifecycle greenhouse gas (“GHG”) emissions than those associated with any current imported out-of-state supply serving the California market.

California currently imports 100% of its raw steel supply. The last in-state steel melting facility ceased production in 2019,² transferring production to out-of-state facilities operating on higher-emitting grids, under less stringent environmental standards, with finished steel and raw material scrap transported over long distances with higher transportation emissions. The result is significant ongoing emissions leakage. The GHG emissions associated with California’s steel consumption are currently effectively unregulated. PSG’s investment directly addresses that leakage by restoring low-emission, in-state raw steel production under CARB’s jurisdiction.

II. PSG Supports Timely Adoption of the Amended Regulation

PSG strongly supports the prompt adoption of the amended Cap-and-Invest regulation. Regulatory certainty is a prerequisite for the capital-intensive decarbonization investments the Program is designed to encourage. Industrial facilities committing hundreds of millions of dollars to clean manufacturing in California require durable, predictable program parameters. Delays in finalizing the rules leave these investment decisions in limbo, may delay development, and signal instability to capital markets at precisely the moment when California’s policy leadership is most critical.

PSG also commends the meaningful improvements reflected in the 15-Day Amendments. In particular:

- The increases to the standard cap adjustment factor (“CAF”) for the 2027-2030 compliance period strengthen leakage protection for emissions-intensive, trade-exposed (“EITE”) facilities during the transition to the post-2030 program. These updates give facilities like PSG a more realistic allocation basis for investment planning.
- The flat 0.8 CAF modifier, applied uniformly across all MDI budget years through 2035, provides consistent treatment across eligible industrial sectors and a stable, predictable incentive level that supports long-range capital investment planning.
- Establishing a date certain for eligible MDI expenditures provides a clear starting point that recognizes decarbonization investments already in development.

²PSG, Comments of Pacific Steel Group, CARB Docket (Nov. 2025) (on file with CARB), at 2 (stating that “[t]he last remaining in-state steel mill stopped production in the state in 2019”); see also PSG, Pacific Steel Group Comments on Potential Amendments to the Cap-and-Trade Regulation (July 31, 2025), available at <https://ww2.arb.ca.gov/form/public-comments/submissions/15176> (“PSG July 2025 Comments”).

- Expanding MDI eligible expenditure categories to include design, engineering, and permitting costs associated with electrification projects recognizes the full cost structure of complex industrial capital projects and increases the practical value of the incentive.

The MDI is specifically designed to help eligible facilities overcome the higher energy and capital costs that accompany many decarbonization technologies. Replacing fossil fuel combustion with electricity increases a facility's electricity consumption and the associated cost. This dynamic is particularly significant in California, where electricity rates are among the highest in the western United States. For PSG, which electrifies processes that would rely on natural gas or coal combustion at conventional steel mills, electricity cost is the primary operating variable. By providing allowance value tied directly to decarbonization investment, the MDI helps offset that premium, making it more feasible to make investments and operate clean industrial facilities in California at competitive cost.

MDI allocation is important to the investment case for a high decarbonization investment greenfield project like PSG. The Mojave Micro Mill eliminates fossil fuel combustion entirely. MDI helps offset the capital cost of this electrified equipment and the electricity cost premium California producers face relative to out-of-state competitors and does so in direct proportion to the decarbonization investment made. That design is exactly right.

III. The MDI Framework Should Be Clarified to Ensure New Covered Facilities Receive Fair Treatment in Their First Years of Operation

Notwithstanding the improvements described above, PSG's comments address a discrete but material issue that the 15-Day Amendments, if not further clarified, may leave unresolved. As currently drafted, the MDI framework may exclude or undervalue new greenfield facilities for MDI allocation in their first years of operation. PSG respectfully submits that this uncertain treatment is inconsistent with the MDI's stated policy purpose and asks the Board to clarify the regulation during implementation to resolve any doubt.

A. The T-2 Data Requirement, If Not Clarified, May Exclude New Entrants from MDI in Their First Years

The language in Section 95891(g)(1)(B) states that to be eligible for MDI allocation for budget year t, a facility must have "reported and verified operating in an industrial sector covered under a NAICS code identified in Table 8-1" pursuant to MRR for year t-2.³ The Initial Statement of

³Staff Report: Initial Statement of Reasons, Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (Jan. 20, 2026), at 177-178 ("ISOR").



Reasons (“ISOR”) confirms this design: CARB requires t-2 MRR data so it can “accurately evaluate the facility’s eligibility.”⁴

This requirement, though reasonable for established facilities, creates a structural ambiguity that, if not resolved, could exclude new entrants from MDI in their first years of operation. A facility that commences operations in year t or t-1 has no MRR-reported and verified data for year t-2. It may therefore be unable to satisfy section 95891(g)(1)(B) for budget year t, in a new project’s first MDI-eligible year, regardless of how completely it otherwise qualifies.

Applied to PSG: the facility is expected to commence operations in 2027 (year t-1 relative to the 2028 budget year). For MDI in budget year 2028, the required t-2 data year is 2026. PSG has no 2026 MRR data because the facility does not yet exist. Under a strict reading of the current framework, PSG would be ineligible for MDI for 2028, its first MDI-eligible year, even though it would be in operation and invested in exactly the decarbonization measures the program intends to incentivize. The earliest that PSG would first become eligible for MDI is in budget year 2029, when 2027 MRR data is available as the t-2 year. PSG would lose at least one full year of MDI allocation, and if not clarified, that loss would be permanent.

B. The Standard Allocation Framework Accommodates New Entrants

CARB identified and corrected for this same data-lag problem in the standard industrial allocation framework through the “Facilities Newly Eligible for Allocation” methodology in section 95891(c)(3). Under that provision, a new entrant receives a first-year energy-based allocation without requiring t-2 data, using direct measurement of energy use in its first year of operation, with subsequent reconciliation through true-up allowances.⁵

No parallel accommodation appears to exist in the MDI framework as currently drafted. The 15-Day Amendments compound this problem by expressly removing the MDI cap adjustment factor modifier from the True Up variable in section 95891(b), meaning that MDI allocation does not carry through the true-up mechanism.⁶ There is no clear path for a new facility to recover the first year of MDI allocation it would lose due to the t-2 data gap. Without clarification, that loss would be permanent.

⁴ISOR at 177 (“Consistent with the current requirements for industrial allowance allocation, an eligible facility must have reported and verified operating in an eligible sector for the most recent available emissions data year in MRR at the time of application (year ‘t-2’) so that CARB can accurately evaluate the facility’s eligibility.”).

⁵15-Day Amendments, § 95891(c)(3). The “Facilities Newly Eligible for Allocation” methodology provides a first-year energy-based allocation calculated using direct measurement of energy use, with subsequent reconciliation through true-up allowances (TrueUpn), without requiring t-2 production or emissions data.

⁶15-Day Notice at 12 (item 7) (explaining that the 15-Day Amendments updated the TrueUp variable in § 95891(b) to remove the cap adjustment factor modifier for MDI allocation, specifying that “the cap adjustment factor modifier for providing Manufacturing Decarbonization Incentive Allocation does not provide allowances with true-up value”).

C. Excluding or Undervaluing New-Entrant MDI Inverts the Policy Purpose

The MDI is designed to incentivize “GHG emissions reduced or avoided” through electrification, low-carbon hydrogen, on-site renewable generation, alternative materials, and similar capital-intensive measures.⁷ The ISOR and Standardized Regulatory Impact Assessment (“SRIA”) are explicit that the MDI targets “hard to abate sectors” facing barriers to decarbonization, and that it is structured to support both retention of existing facilities and attraction of new clean industrial investment.⁸

PSG exemplifies the type of decarbonization investment the MDI is designed to incentivize. The Mojave Micro Mill incorporates full electrification, on-site renewable generation and storage, and zero fossil fuel combustion into its initial design and construction, achieving lower GHG emissions per ton of output than any historical California steel producer or current import source. Achieving these outcomes requires significantly higher capital investment and ongoing operating costs than conventional steelmaking. Full electrification, integrated renewable generation and storage, and supporting infrastructure represent real cost premiums that EITE facilities competing against lower-regulated producers cannot absorb without targeted policy support. The MDI is intended to provide exactly that support.

Denying or undervaluing MDI to new entrants in their first years of operation creates a perverse incentive: it penalizes the earliest-acting facilities, those that invest in innovative and industry-leading technology before commencing operations rather than retrofitting later. That is precisely the investment behavior the MDI is designed to encourage. Equity among covered facilities also requires consistent treatment: a new facility should receive the same MDI allocation as an existing facility with equivalent production in the same sector. There is no policy basis for treating facilities in the same sector differently based solely on when they entered the Program. The Board should not allow an administrative data-lag to produce that outcome.

The first years of a new facility’s operation are also when incentive support matters most. Capital costs are highest, debt service obligations are at their peak, and the facility has not yet achieved the production scale and operational efficiency that improves unit economics over time. Losing

⁷15-Day Amendments, § 95891(g)(2) (specifying that eligible expenditures include electrified equipment, low-carbon hydrogen, on-site renewable generation, electrified thermal energy procurement, alternative materials to reduce process emissions, and sequestration or utilization of captured CO₂).

⁸ISOR at 177–178; Standardized Regulatory Impact Assessment, Proposed Amendments to the Regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (“SRIA”) at 11 (describing the MDI as designed to “minimize emissions leakage and incentivize GHG emissions abatement actions in hard to abate sectors, such as electrification of natural-gas-fueled industrial processes”).

MDI support in year one, therefore, imposes the sharpest practical penalty at the most consequential moment in the project's financial life.

IV. PSG's Request: Clarify That New Covered Facilities Are Eligible for MDI Beginning in Their First Year of Operation

PSG respectfully requests that CARB clarify in the final implementation the appropriate path for new covered facilities to qualify for MDI allocation beginning in their first year of operation. The clarification needed is analogous to the accommodation CARB has already made for new entrants in the standard allocation framework under section 95891(c)(3).

Section 95891(g)(1)(A) requires that an MDI applicant be eligible for allowance allocation pursuant to section 95891(b) or (c).⁹ A new facility receiving initial allocation under section 95891(c)(3) satisfies that gateway requirement. Section 95891(g)(1)(B) should be clarified to accommodate such a facility in its first year, consistent with how CARB has already addressed the similar data-lag problem in the base allocation framework.

The application timeline makes this clarification especially important. Under section 95891(g)(5)(A), the first MDI application deadline is June 1, 2027, covering budget years 2028 through 2030.¹⁰ PSG expects to commence operations in 2027, prior to the start of the 2028 compliance year. A facility that is in production before the first compliance year and investing in qualifying decarbonization projects, is precisely the applicant the program envisions. The t-2 requirement's purpose, allowing CARB to "accurately evaluate the facility's eligibility," can be served by operational data for a facility actively producing and reporting under MRR, even without two prior years of verified history. Denying MDI to such a facility for budget year 2028 solely because it did not exist in 2026 is a mechanical result that the regulation, properly designed and interpreted, should not require. CARB may also consider accepting voluntary opt in MRR registration and reporting before the new facility is required to report for purposes of MDI qualification, subject to subsequent third-party verification and true up.

PSG also requests that CARB incorporate MDI into the "catch up" true up provision already contemplated for new entrants in the standard allocation framework under section 95891(c)(3). Because the 15-Day Amendments removed MDI from the TrueUp variable, any MDI allocation lost or under counted in initial reporting in the initial years of operation would not be retroactively corrected once the final production values were verified. PSG request that CARB incorporate a true up mechanism for the first years of production that would ensure that new facilities receive MDI allocation based on their actual production. PSG looks forward to working with CARB to

⁹15-Day Amendments, 00a7 95891(g)(1)(A) (requiring eligibility to receive allowance allocation pursuant to section 95891(b) or (c)).

¹⁰15-Day Amendments, § 95891(g)(5)(A) (establishing June 1, 2027 as the first MDI application deadline, for budget years 2028 through 2030); id. § 95891(g)(6) (establishing September 1 as the approval deadline).

address these concerns aligned with the clear policy intent for new facility investment in the final implementation.

VI. MDI Expenditure Eligibility Start Date

The 15-Day Amendments specify that the MDI value may be used for eligible expenditures incurred on or after September 1, 2026, the expected effective date of the regulation.¹¹ PSG requests that CARB revise this date to January 20, 2026, the date the ISOR was published and facilities first received specific, documented notice of the proposed MDI structure.¹²

PSG reviewed the ISOR and made project development decisions in reliance on the proposed MDI framework before the regulation's effective date. Facilities that took those steps in good faith should not be required or encouraged to defer qualifying expenditures until September 1 solely because the regulation had not yet formally taken effect. Setting the eligibility date on September 1 also creates a structural incentive for facilities to delay project spending that would otherwise begin earlier, working against the investment acceleration the MDI is designed to achieve.

PSG requests that CARB address this administrative concern upon final implementation.

VII. Conclusion

PSG supports the 15-Day Amendments and urges CARB to adopt the final regulation as soon as possible. The updated CAF structure and the refined MDI framework represent genuine progress toward a program that can deliver meaningful, long-term decarbonization investment in California's hardest-to-abate industrial sectors. Timely adoption provides the regulatory certainty that new and existing facilities alike require to proceed with capital-intensive decarbonization projects.

The discrete issues raised in these comments, uncertain MDI treatment for new covered facilities in their first years of operation and expenditure eligibility start date, does not require reopening the rulemaking or delaying adoption. PSG request these minor clarifications to addressed in the final implementation. Innovative projects like the Mojave Micro Mill are the type of investment the MDI is designed to attract. PSG would eliminate fossil fuel combustion at the outset, enter the Program with the global benchmark low GHG intensity, reduce emissions by displacing higher-emitting import supply, and return a critical EITE industry to CARB's regulatory jurisdiction. But all of that comes with significant capital and ongoing operational costs. The MDI should be fully and fairly available to new innovative facilities from their first year of covered operation.

¹¹15-Day Notice at 15 (item 22) (specifying that MDI value may be used for eligible GHG emissions reduction expenditures occurring on or after September 1, 2026).

¹²ISOR (Jan. 20, 2026).



PSG remains committed to working collaboratively with CARB and all stakeholders to ensure that the final program implementation delivers on the Legislature’s mandate under AB 1207 to minimize emissions leakage, support the state’s economic sectors, and achieve California’s 2030 and 2045 climate targets.¹³ We appreciate the opportunity to provide these comments and look forward to continued engagement.

Respectfully submitted,

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CC:

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¹³ AB 1207 (Irwin), Ch. 117, Statutes of 2025.