



ELCON – What Is It? How Does It Work?

ELCON – formally the Electricity Consumers Resource Council – is the national association representing large industrial users of electricity. It was created in 1976 as the federal government began to address electricity issues and industrial users realized that they could advocate policy in a more constructive manner by forming a united front. At the same time, industrial users hoped to create a technical resource for useful data and information that could be shared by member companies.

Since 1976, ELCON, at the direction of its member companies, has focused on federal and state policies that affect the price, availability and reliability of electricity service. ELCON's overarching goal is to allow members to purchase electricity in a competitive manner, thus lowering the cost of power for industrial users.

What Does ELCON Do?

Federal Regulatory Activities

ELCON and its member companies recognize that much of the "real world" impact in electricity markets is determined through the regulatory process. Accordingly, ELCON is active at the Federal Energy Regulatory Commission (FERC). Activities undertaken at FERC include the following:

- On average, ELCON intervenes in more than 20 FERC cases per year. ELCON has been especially active on issues involving the transmission grid (RTOs, ISOs, etc.), market design and market power, reliability, demand response, and rates, tariffs and conditions.
- ELCON and member company representatives meet with FERC commissioners and staff on a regular basis.
- In addition to its legal briefs, ELCON prepares documents and technical papers for FERC use.

Federal Legislative Activities

Through the years ELCON has worked both independently and through groups and coalitions to advance legislation consistent with its policy objectives. Following are examples of ELCON's legislative activities:

- Member companies and ELCON staff are frequently asked to testify at congressional hearings on electricity issues.
- ELCON staff and member company representatives meet regularly with Hill staff, often at the staff 's request.

- ELCON prepares fact sheets, talking points, technical papers and other documents for Hill use.

Other Federal Activities

ELCON has been involved in the other major arenas influencing the development of electricity policy on a national basis. Examples:

- ELCON believes that the North American Electric Reliability Corporation (NERC) plays a crucial role in electricity policy as NERC develops the "rules of the road" for the transmission system by promulgating important new rules and standards on reliability. ELCON and member companies are active members of several NERC committees and working groups.
- ELCON regularly interacts with members and staff of the National Association of Regulatory Utility Commissioners (NARUC), the national association of state regulators. ELCON staff and member company representatives participate in many NARUC meetings, and ELCON has testified before State Commissions. ELCON's active participation helps state regulators understand the interstate nature of electricity issues and the impact of state rules and regulations on large industrial electricity consumers.

State Activities

Through the years ELCON has been mindful of two, sometimes contradictory, paradigms. First, for many large electricity consumers, actions and policies undertaken at the state level can be more important than those at the federal level. Second, unanimity on policy objectives at the federal level can sometimes be difficult to replicate among consumers in a particular state.

Every state has at least one (and in some instances more than one) group of industrial electricity users. ELCON's most usual course of action at the state level is to work closely with these state groups, as follows:

- ELCON facilitates networking among the state groups, hosting one or two meetings a year for state groups to convene and share notes and strategies. In most years, these are the only meetings where the state groups can interact.
- ELCON is a resource organization for the state groups, so that states can avoid duplication of activities (and thus duplication of fees).
- ELCON testifies in state proceedings and participates in state activities when requested by the state groups.

How Does ELCON Work?

ELCON is organized around a committee structure that includes:

- A nine-member Board of Directors headed by three officers, a Chairman, a Vice-Chairman, and a Secretary-Treasurer (each serving a one-year term). Most Board meetings take place via teleconference.

- A Technical Committee -- the "work horse" of the organization -- which meets six to ten times per year and is responsible for all papers, issue profiles, analyses, etc.
- A Federal Relations Committee which meets as needed (usually one or two times per year) to coordinate lobbying strategy to further ELCON's objectives.

ELCON's dues are based on electricity consumed by a company at its domestic operations. There are five categories, ranging from \$8,000 to \$45,000 annually. Legal activities are undertaken "off-budget" and are billed annually as costs are incurred. Off-budget legal obligations are also apportioned according to electricity consumption, with fees ranging from \$1,625 to \$8,335 per year.



Why Join ELCON? Here's What ELCON Members Say

In evaluating whether to join ELCON, the national association representing large industrial users of electricity, many energy managers ask about the benefits that they can expect for them or their company. While it is difficult to calculate a precise "value added," the following quotations from active ELCON members are a sampling of benefits that current ELCON members value.

My company has been a member of ELCON for over 20 years. Active participation in ELCON allows DuPont to efficiently keep abreast of all the new developments everywhere my company has facilities. ELCON has been a key resource which has facilitated our ability to effectively source power in today's ever-changing electricity market. We have undoubtedly saved our annual dues many times over.

Thomas Harrigan, Executive Buyer, E.I. DuPont
(Thomas.L.Harrigan@usadupont.com), 302-992-3243

Each year there is at least one case before FERC that I would like my company to intervene in. As an active ELCON member, when that important case comes along, I can usually get the whole association to intervene in the case that is important to me. And the total cost of my ELCON dues are less than it would likely cost me to file just that one intervention.

Gary Kajander, Manager, Energy Procurement, Monsanto
(gary.r.kajander@monsanto.com), 314-694-3367

I think the most important thing about being an ELCON member is staying ahead of the curve. ELCON, through its meetings, its distribution of material, and simply by having a knowledgeable staff source to call, has helped me be a better energy manager and saved my company many thousands of dollars.

Mike Miller, Director, Energy Services, Shell Oil Products
(mike.r.miller@shell.com), 713-241-2664

I enjoy the give-and-take that is part of the ELCON meetings. The ability to exchange ideas with others who are in different industries, to hear their views and share my own, is something that I get from my ELCON membership. ELCON provides a meaningful forum in which its members collaborate to address significant issues and contribute to the policy setting process in the evolving electric power sector.

Walt Brockway, Manager, Regulatory Affairs – Energy, Alcoa, Inc.
(Walter.Brockway@alcoa.com), 865-594-4624

My company primarily manufactures commodity products such as corn sweeteners, industrial and food-grade starches, and fuel ethanol. As part of controlling costs in our commodity business, we eliminated our Washington governmental affairs office. But I understand all too well that many decisions affecting my company and my job are made in Congress and at the Federal Energy Regulatory Commission. ELCON provides an economical alternative to maintaining a Washington presence by allowing us to share the costs of advocacy with other ELCON members. ELCON advocacy is truly first rate and when I need information or political insight, I know exactly who to call. ELCON also provides access to Capitol Hill and only ELCON provides face-to-face access to FERC. Finally, ELCON provides an ideal forum for networking with other industrial energy users.

Jim Hoyt, Manager Energy Purchases, Tate & Lyle
(james.hoyt@tateandlyle.com), 217-421-2503

**Feel free to contact any of the above for further information.
Or contact ELCON at 202-682-13**



ELCON MEMBERSHIP -- ITS VALUE TO MEMBER COMPANIES

ELCON was established in 1976 as large industrial electricity users recognized the need to form an organization and present a united front as the federal government began to address electricity issues.

ELCON members are companies that want to increase their understanding of the market and technologies and take an active role in shaping the form and substance of electricity markets that seem to be in an endless transition.

ELCON members are acting today to prepare for the electricity markets of tomorrow -- gaining education, networking with their peers, and advocating policies that lead to cost-effective restructuring opportunities. Benefits of ELCON membership include:

Education

- Forums for discussing breaking developments in new and emerging electricity markets.
- Workshops for ELCON members only -- expert presentations on skills and knowledge needed to succeed in today's and tomorrow's electricity markets.
- Regular "info memos" on current events including legislative and regulatory events of interest to large electricity consumers.
- Monthly legal updates to keep abreast of ongoing developments.

Advocacy, Federal Affairs

- Opportunities to help impact national policy by representing large industrial power users in regular meetings regularly at FERC and on Capitol Hill.
- Participate in cutting-edge advocacy on issues such as demand response and greenhouse gas emissions.
- Speaking and advocacy opportunities at national conferences, seminars and technical sessions.
- Representation at and participation in meetings of NERC as it develops new "rules of the road" for grid governance and reliability.

Networking

- Regular meetings with colleagues in the field to share experiences and discuss common objectives and problems.

- Participation in a wide range of coalitions and other forums where stakeholders from different backgrounds and mindsets work together for mutual benefits.
- Forums for discussing policies and developing consensus positions, papers and issue profiles.

Legal Activities

- Opportunities to join in supporting and sharing the cost of legal interventions of critical importance to industrial electricity consumers.
- Forums for in-depth discussions of legal cases, allowing for clarification and prioritization of pending issues.

The Bottom Line

How do member companies gain from their membership in ELCON? Can these gains be quantified?

One member justified his membership as follows. His corporate electricity bill was approximately \$500 million per year. If the combination of ELCON advocacy and legal interventions, together with the expertise gained by participation, resulted in a savings of one-tenth of one percent, his company would save \$500,000 a year.



ASSOCIATION MEMBERSHIP: WHY BELONG TO ELCON AND AN INDUSTRY TRADE ASSOCIATION

Prospective ELCON members often ask what benefits come from ELCON membership that they don't already receive from membership in a major industry trade association. In fact, ELCON provides a number of benefits above and beyond those that any industry-specific association can even begin to offer.

ELCON is the national association representing large industrial electricity users. ELCON's purpose is specialized and its efforts are focused solely on electricity issues including cogeneration. Within that framework ELCON works on the issues which its members decide are priorities.

ELCON is different from the manufacturing trade associations in that (1) ELCON represents a widespectrum of industries which legislators and regulators recognize and appreciate, and (2) due to its specialized focus, ELCON staff can develop a degree of expertise far above that found in ordinary trade associations.

Specific differences between ELCON and manufacturing trade associations follow:

Staff:

ELCON has three full-time professional staff with considerable expertise in public utility economics, market design, ratemaking, regulatory issues and legislative affairs. ELCON staff, as a resource, is available only to member companies, and, in fact, the last survey of member companies listed access to staff as one of the most valuable benefits of ELCON membership. Staffs of manufacturing trade associations have limited electricity expertise and at present no association has a staff person dedicated to electricity issues.

Regulatory Issues:

Over the last several years, ELCON has been active on approximately 20 FERC dockets at any one time. These are on issues of market design, cogeneration and PURPA, reliability, transmission, etc. All of these have the potential to impact the cost and availability of power at manufacturing facilities. ELCON's multi-industry perspective assists in the development of its filings, since it can focus on the major issues without worry as to whether a particular issue or sub-issue benefits one company versus its competitors in that same industry. FERC looks to ELCON as the national voice of the manufacturing community.

ELCON members meet with FERC Commissioners and senior staff on a regular basis, often at their request. FERC has on several occasions sought out ELCON's opinion in

the policy development process, for example in the design of the organized markets and on PURPA/cogeneration issues.

In addition, ELCON publishes a (near) monthly Legal Developments Report on the FERC cases of interest to its members. That report is available only to ELCON members.

One ELCON member has stated that there is at least one FERC docket in which his company has a major interest each year. And he believes that the total cost of ELCON membership is less than it would cost his company to intervene individually in that case.

Legislative Issues:

ELCON's ability to anticipate legislative changes, affect pending legislation, and participate in formal and informal discussions with Members of Congress and staff benefits ELCON members. During the multitude of hearings that preceded the enactment of the Energy Policy Act of 2005, ELCON witnesses testified well over a dozen times. ELCON members also meet with Members of Congress and staff (often at their request) to discuss issues when legislation is pending.

ELCON's legislative lobbyist has been recognized by trade press as a leading participant on electricity issues, while most industry trade associations do not have a lobbyist devoted solely to energy issues, no less electricity issues.

Networking at Meeting and Workshops:

Some ELCON members have stated that a primary benefit of membership is the level of discussion at the near monthly Technical Committee meetings (now mostly held via teleconference) where issues are debated, priorities set, and subsequent actions determined. Similarly, members value the "Members Only Workshops," held three times a year, where ELCON members, in a relatively small setting, have the opportunity to discuss issues with prominent and provocative leaders.

Energy managers often find that networking with their peers can be a productive exercise in learning more about market operation and how buyers are reacting to changing electricity markets conditions. Always mindful of anti-trust limitations, ELCON offers the opportunity to network with major electricity purchasers from different industries. Trade association are, of course, comprised of participants from only one industry – in reality comprised of competitors – which limits such networking both legally and practically.

Representation in Various Forums:

There are a host of arenas where participation by industrial electricity users is both helpful and, sometimes, necessary. Prime among these at the moment (and for the past several years) is the development of a national electric reliability organization including the applicability of reliability standards. ELCON was active in the working group that developed the legislative language for the reliability organization, and ELCON staff and members have been active within the North American Electric Reliability Council, or NERC (which was recently named as the national electric reliability organization), where they serve on several NERC committees and working groups. This process will now determine if and how the new mandatory reliability standards apply to manufacturing facilities.

Similarly there are other forums (NARUC, the Chamber of Commerce, NAM, etc.) where industrial representation and participation on electricity issues is essential. ELCON has been active in all of these areas.

As a result, ELCON is (not surprisingly) seen by these groups as the representative organization for manufacturers on electricity issues. Membership in ELCON both provides input into the message delivered and reduces the need for a company to participate on its own.

Research and Analysis:

Because of its narrow focus, ELCON is able, at the direction of its members, to undertake specific research and analysis projects that support the policy objectives set by the members. For example, the first footnote in the task force report on the 2003 blackout cited an ELCON study on the losses to manufacturers. In 2005, the Chairman of FERC saw ELCON's Special Report, "Problems in the Organized Markets," on the day that it was issued. ELCON's Profiles (issued on an ad hoc basis as need arises) are cited by trade press and scholars on a regular basis. No such efforts are undertaken by industry-specific trade associations.

In addition, ELCON distributes numerous "Information Memos" only to its members to ensure that they are kept current on issues of interest. While other associations may distribute similar communications, ELCON memos are more complete and informative because of ELCON's narrow focus and greater staff expertise.

Leadership:

As issues develop it is sometimes unclear as to how a particular proposal will affect different components in the manufacturing community. ELCON has taken a leadership role in a host of coalitions/working groups on competitive markets, transmission funding, cogeneration, and energy use in the manufacturing sector. At present, ELCON chairs the Manufacturers Energy Group (which it helped create), an informal organization comprised of energy staff from the various manufacturing associations. In addition,

ELCON staff are frequently called on to brief energy committees from other associations (paper, steel, chemical, cement, etc.). ELCON members take pride knowing that their organization plays this role.

Public Advocacy:

All three of ELCON's professional staff speak on a regular basis to national conferences, state and regional meetings of industrial users, and other public events where the voice of the industrial electricity consumer should be heard. Common themes are the inefficiencies of today's Organized Markets, the benefits of cogeneration, and the need for an effective, cost-efficient, transmission grid, to name a few. These events help "spread the word" about how manufacturers view electricity markets and what manufacturers are seeking as markets move forward.

Much of this advocacy in the past few years has centered on the development – and shortcomings – of the Organized Markets in general and PJM in particular (since it is often held up by utilities and generators as the "success story" for competition). ELCON was asked by PJM to serve on the Planning Committee as PJM undertook a series of conferences designed to increase customer focus.

Bottom Line:

In truth, ELCON and the major industry associations really serve two separate and distinct purposes. Most major companies belong to their primary industry trade association to help develop industry policy and, realistically, to ensure that their competitors (the top two or three companies) don't use the association as a means of pursuing their own company objectives. A major association should and will play a major role on industry-specific issues (for example, the forest products association would be active on water policy and land use, while the steel association would focus on trade policy regarding imported steel). But other associations are limited as to what they can pursue and/or achieve on electricity issues simply because they lack expertise and, moreover, they are not perceived as having a special interest.

ELCON, throughout its thirty years of existence, has shown itself to have a distinct interest and to be a major voice in one narrow issue area – electricity. Its role is different from the manufacturing associations – ELCON's role is to represent a range of industries on one rather niche issue.

Companies join ELCON for a number of reasons – they want to be educated on the issues in the electricity debate, they want to play a role in policy development, they support ELCON's policy objectives, or they appreciate the knowledge available by networking with energy managers from other top companies and ELCON staff. Industry-specific trade associations do not play this role on electricity issues, nor are they expected to.

ELCON members vary tremendously in their level of activity and what they seek from the association. One company has been a steady member for over ten years, but no one has ever attended a meeting. They continue their membership to receive the information memos and to support the advocacy efforts. Some companies contact ELCON staff on a regular basis; others rarely call. Some attendees at ELCON meetings are engineers with a technical understanding of how their facilities use electricity; other attendees are less technical with purchasing or issue management backgrounds. Yet they all find value in ELCON membership.

ELCON staff is frequently asked to quantify the benefits of ELCON membership. While such a task is clearly impossible, one ELCON member has stated that if he can save one-tenth of one percent of his company's electricity bill – either through the knowledge he has learned or because of the success of ELCON policies – that one-tenth of one percent is greater than his total contribution to ELCON (dues, off-budget legal fees, and meeting attendance).



ELCON MEMBERSHIP – NOW MORE NECESSARY THAN EVER

ELCON members are united by the common bond that electricity use is an important part of their manufacturing process – and that reducing electricity costs (or controlling increases) presents a real opportunity to increase operating efficiency and improve the company's bottom line.

During downturns in the economy, many companies see eliminating association memberships (and dues) as a first step toward reducing operating costs. In fact, such a reaction may be shortsighted and counterproductive, resulting in less efficiency and, eventually, increased expenses. At present, manufacturers are facing an economy that many fear will result in decreased sales and depressed profits. And they see a new Administration and activist Congress poised to enact laws, rules and regulations that could increase operating costs in a number of areas, including the purchase of electricity.

Two of the most important benefits of membership in ELCON are: (1) the opportunity to learn more about electricity issues and marketplaces, which translates into better energy management for your company, and (2) an opportunity to join with other manufacturers in joint advocacy efforts on regulatory and legislative issues so that policies developed in Washington don't adversely affect industrial operations across the country. The Obama Administration and Democrats in Congress have made clear that energy is a central part of their overall policy. Among other things, they have emphasized a commitment to increased use of renewable fuels; they have proposed subsidies for the development of a "Smart Grid"; and they advocated federal support for a variety of new technologies promoting energy efficiency and environmental regulation that will affect the processes of manufacturing industries as well as the electrical power that they need.

In addition FERC is expected to undertake an active agenda on a host of transmission and market structure issues. EPA recently announced that they will begin compiling an inventory of greenhouse gas emissions and could begin to regulate carbon. And the North American Electric Reliability Corporation – charged with developing and enforcing reliability standards for the bulk power system – will continue to play an important role. Several ELCON members have found themselves listed on NERC's Compliance Registry and therefore subject to NERC's reliability standards – and to severe penalties if they are in violation of those standards. For those companies whose facilities are correctly listed, ELCON staff, which serve on a variety of NERC committees, can help in understanding the compliance process. And, for those companies listed in error – and there have been several – ELCON staff can assist in rectifying the situation and helping the company be de-listed.

All of these will present challenges to manufacturers – challenges that membership in ELCON can make easier and less costly. Among the issues that manufacturers will face in 2009 are:

Caps on Greenhouse Gas Emissions: Some have called the prospect of a national cap-and-trade framework the potentially largest tax hike in American history. Regardless,

imposing limits on greenhouse gases (1) will change the way every manufacturer does business and (2) could result in enormous increases in electricity bills. Some congressional leaders are predicting legislative action before Memorial Day, but others are cautioning against speedy action that imperils manufacturers. ELCON is working to minimize the cost impact of GHG caps.

Renewable Energy: Almost everyone favors increasing renewable energy, but several studies have shown that increasing renewable energy use also means substantial and costly increases in electricity rates because renewable energy is more expensive than conventional generation sources and, since renewable energy is often further from population centers, there are additional costs for the construction of new transmission lines. And questions about the impact of renewable energy on the grid's reliability are increasing. A soon-to-be-released NERC study will focus on these issues. ELCON continues to analyze all proposed renewable energy mandates and supports a fuel neutral generation policy.

Transmission: Senate Majority Leader Harry Reid (D-NV) has proposed legislation designed to build new transmission, part of which is dedicated to transporting only renewable energy. He claims that this will also solve the federal/state jurisdictional problems. Energy Committee Chairman Jeff Bingaman (D-NM) has a slightly different approach, but transmission language seems sure to be part of the congressional debate. ELCON supports a policy that reduces transmission siting obstacles at the state level, but opposes set-asides for renewable generation.

Smart Grid and Energy Efficiency: Although Smart Grid and Energy Efficiency are often discussed, they are far from precise terms. They could increase reliability, provide more tools for electricity management, and reduce the need for new generation. Or, alternatively, they could increase electricity rates and provide utilities and vendors with opportunities to gold plate the grid. ELCON supports a cost-effective Smart Grid where measured and verifiable benefits outweigh the costs, but ELCON is wary of excessive Smart Grid investments that are then passed on to ratepayers through higher rates. ELCON also supports energy efficiency, but believes that energy efficiency in the industrial sector is an ongoing practice that does not require federal mandates. ELCON opposes Revenue Decoupling – where a utility's earning level is “decoupled” from its volumetric sales – as a flawed concept that applies a one-size-fits-all approach that removes an individual consumer's (industrial or residential) incentive to reduce energy consumption.

Demand Response: The most efficient kilowatt-hour is the one that's never used – that is one reason that energy experts and industrial users have been proponents of Demand Response, i.e., reducing consumption during periods of peak demand. The ability to utilize Demand Response will be greatly increased as Smart Grid components are implemented. But utilities and electricity suppliers seem likely to continue their opposition. ELCON continues to advocate greater utilization of appropriately compensated Demand Response.

Organized Wholesale Electricity Markets: To date, the FERC-approved RTOs and ISOs (commonly called the Organized Markets) have been most successful at demonstrating the totally different perspectives of generators, who support the markets, and end users who generally oppose them. Large electricity users find that the Organized Markets provide little ability to save money. Instead they are actually re-regulated markets with expensive, yet ineffective, capacity markets and other costly features. ELCON is active in a number of efforts to fix the Organized Markets and is exploring all alternatives to today's dysfunctional markets.

ELCON will be active in 2009 on these issues and more – working to make electricity markets more responsive to industrial users. By pooling their resources and working together, industrial electricity users can maximize their ability to affect public policy to benefit their company. Staying on the sidelines virtually guarantees additional burdens and additional energy costs.

You can be part of this effort – but only by joining ELCON.