



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.