



## **ELCON MEMBERSHIP – NOW MORE THAN EVER**

**E**LCON members are united by the common bond that (1) electricity use is an essential component of their manufacturing processes, (2) reducing electricity costs (or controlling their increases) while maintaining reliability presents real and substantive opportunities to improve their companies' bottom lines, and (3) expert advocacy of the members' electricity interests at the national level is imperative.

*A large industrial electricity consumer may use 3 billion kWh/year at a cost of \$150 million. Even minor changes to federal or state energy policies can result in savings of millions of dollars per year per company.*

### **ELCON Practice Areas**

**1. CONGRESS AND THE WHITE HOUSE** - The current Administration has made it clear that energy and environmental issues are a central theme of their overall policy objectives. Their agenda includes increased use of renewable fuels, greater energy efficiency, and a reduction in Greenhouse Gas (GHG) emissions. Members of Congress, particularly in the Senate, are seeking to impose a "clean energy standard" or enact other changes to reduce carbon emissions. For manufacturers, these efforts will almost certainly impact both operating costs and electricity costs.

*ELCON regularly interfaces with Congress and the Executive Branch representing member interests.*

**2. FERC** - The Federal Energy Regulatory Commission has undertaken an active agenda on a host of transmission, market structure, and reliability issues. FERC policies and orders have the potential to impose significant new electricity costs as well as shift costs among user classes in ways that can greatly affect large consumers.

*ELCON is the association that FERC looks to as the authoritative voice of industrial electricity users. ELCON leads industrial participation in multiple FERC proceedings of critical import each year. ELCON is regularly consulted to represent industrials in FERC meetings, Technical Conferences and other forums.*

**3. NERC** - The North American Electric Reliability Corporation - charged with developing and enforcing reliability standards for the bulk power system - is playing an ever increasing 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 members whose facilities are legitimately listed, ELCON staff, which serve on a variety of NERC committees and task forces, can help them understand and deal with the burdensome compliance process. And for those companies listed in error - and there have been several - ELCON staff can assist in rectifying the situation and getting them member de-listed.

### **Benefits of ELCON Membership:**

**T**hree of the most important benefits of ELCON membership are:

## ISSUES FACING LARGE INDUSTRIAL ELECTRICITY CONSUMERS, 2013

### **A**t the North American Electric Reliability Corporation (NERC)

- Expert advocacy of member interests by highly effective and recognized professionals (ELCON staff has 100+ years of combined experience) in Washington and at FERC, NERC, and any other national venue that the membership deems appropriate.
- Pooling of resources so that expenses such as FERC filings and monitoring of NERC standards and activities are shared – ELCON members have found that each company's expense for filing in 10-20 important FERC dockets each year via ELCON membership are less than if they filed individually in just one case;
- Opportunities to learn about electricity issues, marketplaces, and strategies in depth, and to network with industry leaders, peers and experts at ELCON's "Members Only" workshops, all of which translate into better energy management skills and additional value creation for member companies.

***ELCON represents industrial electricity consumers on a variety of NERC committees – it is the only manufacturing association active in the NERC process.***

***ELCON is the ONLY national association interfacing with Congress, FERC and NERC on a regular basis. By pooling always scarce resources, electricity users can maximize their ability to affect public policy and benefit their companies. Staying on the sidelines virtually guarantees additional burdens and higher energy costs.***

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- **Reliability:** NERC will continue to issue "reliability" standards, many of which will apply to industrial users with "behind-the-meter" generation, transmission lines, or other facilities that could have a material impact on grid reliability. Complying with NERC standards imposes significant burdens on industrial operations, often requiring an expenditure of considerable funds and staff time (several ELCON members have been forced to hire consultants). Compliance entails not just adhering to the reliability standards, but filing all appropriate forms when due, being subject to audits, and ensuring that staff training is consistent with NERC requirements. Penalties for non-compliance can reach up to \$1 million per day per violation. ELCON staff serve on several NERC Committees and they are seeking to ensure that NERC standards are applied only to operations with a material impact on grid reliability and that NERC focus on serious violations that could affect safety and reliability and not technical violations that have little or no impact.



***A current member said that ELCON's activities in keeping only one of its major facilities out of the NERC Registry more than justifies an entire year of dues.***

- **Behind-the-Meter Generation:** NERC is in the process of re-defining the Bulk Electric System (BES). A point of contention is whether behind-the-meter generation (primarily CHP) should be considered part of the BES and therefore subject to many NERC reliability standards. ELCON staff serves on NERC's standards drafting team and is seeking to exclude as much behind-the-meter generation as possible.

## **A** t the Federal Energy Regulatory Commission (FERC)

- **Transmission Costs:** Allocating costs for new transmission is always difficult. And awarding incentives to those building new transmission has become quite a contentious issue in recent years, as FERC has provided such incentives in virtually every case, even when the degree of risk was very low. ELCON achieved a major victory when the FERC this past year issued a Statement of Policy directing that incentives are to be allowed only when it is demonstrated that such incentives are necessary to build the project. But, at the same time, ELCON is worried that new transmission – ultimately paid for by consumers – will be approved to bring distant renewable energy to load centers, and that those costs will be socialized rather than be borne by those who will benefit.



- **Demand Response:** FERC's Order 745 – similar to what ELCON has been advocating for years – recognizes that the most efficient kilowatt-hour is the one that's never used. Importantly, FERC recommended that Demand Response be compensated at a level commensurate with the price paid to generators during all hours. ELCON will be active in support of Order 745 but continued litigation by utilities and generators is likely.
- **Organized Markets:** Large and small electricity consumers have found that the FERC-approved RTOs and ISOs are not first steps toward competition – as some utilities and generators allege – but simply re-regulated markets with expensive, yet ineffective, features like capacity markets which simply force customers to pay higher prices. ELCON is active in a number of legislative and regulatory efforts to fix today's dysfunctional Organized Markets.
- **Oversight of NERC:** Section 215 of the Federal Power Act authorizes FERC to approve reliability standards developed by NERC, but FERC may not draft its own standards not specifically direct NERC to include specific language. NERC's inclusive standard-setting process, while not perfect and often lengthy, relies on expertise from all segments of the electricity industry. FERC has attempted to play a more proactive role in standard setting, which ELCON believes is counter-productive.

**ELCON's interventions protect industrial electricity consumers in areas such as (but far from limited to): transmission "incentives" and cost allocation, demand response, electricity market power, compliance burdens of reliability standards, etc.**

The intervention cost to each member is much less than the cost of filing alone.

In fact, the cost to each ELCON member is usually only a few hundred dollars for each intervention. A single filing easily could cost thousands of dollars if conducted by a company individually.

**One ELCON Member said that he justified his entire year's dues by not having to make a FERC filing on his own.**

#### **Examples of How ELCON Activities Benefit Manufacturers**

**Prevent large manufacturers from subsidizing transmission costs** associated with wind farms for which they receive no benefit. Nation-wide these costs have been estimated to be \$289 billion – of which about one-third gets allocated to Industrial Ratepayers.

**Promote both cost accountability and appropriate allocations at traditional electric utilities.**

**Minimize regulatory compliance burdens of large manufacturers subject to NERC's Reliability Standards.**

**Promote demand response as a viable revenue source for large manufacturers,** and a utility tool for reducing rates. Payments to manufacturers that provide demand response are in the hundreds of million dollars. At the same time power rates to all customers have been reduced.

**Prevent large manufacturers from paying excessive rates related to utilities' recovery of the costs of new transmission facilities.**

**Reduce NERC's administrative costs** that are allocated to large manufacturers.

## **I**n Congress and the Administration

- **Greenhouse Gas (GHG) Emissions:** Enactment of legislation reducing greenhouse gas emissions, either directly though some sort of cap or indirectly through a carbon tax, is unlikely. But proposals will be offered, and most observers that such efforts may be successful at some point in the future, either legislatively or by regulation (which is already underway). ELCON is concerned about the direct cost to manufacturers as well as the potential indirect costs when utilities pass on their GHG-related expenditures to consumers in higher prices.
- **“Renewable” or “Clean” Energy:** ELCON has a “fuel neutral” policy and is concerned that federal and state mandates for more “renewable” and/or “clean” energy could increase electricity rates because such energy (1) is generally quite a distance from population centers, mandating costly new transmission and increasing line loss, (2) is intermittent, meaning that back-up generation sources or storage must be available, and (3) could raise reliability questions. ELCON believes that electricity should be generated in the most cost and energy efficient manner possible, and that research should continue to make low or no-carbon fuels more cost effective.
- **Energy Efficiency:** Energy Efficiency (EE) is often seen as low lying fruit that can reduce electricity consumption and thereby reduce costs for large and small consumers. Missing in that assumption is that in order to maintain their cost competitiveness, most manufacturers have already “maxed out” utilizing energy efficient technologies that are appropriate to their facilities. However, removing regulatory and market barriers to increased combined heat and power and waste heat recovery would be helpful to many industries. On the other hand, “Decoupling,” which guarantees utilities

continued earnings levels even if sales are reduced due to EE, is a flawed concept that in reality does little to increase a utility's incentive to engage in more energy efficiency but does remove an individual residential or industrial consumer's incentive to become more efficient since there would be no corresponding reduction in cost.

- **Cybersecurity:** There have been numerous foreign and domestic attempts to “hack” into the electricity grid and appropriate steps should be taken to minimize the risk of the grid being compromised or even shut down by a cyber attack. But many proposals have been overly prescriptive, setting up a regulatory structure that would be quite extensive and expensive without providing any additional protection. Rules and regulations to protect the grid should be limited to those facilities and operations that could have a material impact on grid operations. ELCON believes that efforts to intrude into distribution services and on-site generation should be viewed with extreme caution.

*One current member describes ELCON as the “dog in the fenced-in yard” of federal rules and regulations, a dog that “keeps a lot of bad things from happening.”*

### **Below, Participants at an ELCON Workshop**



## **I**nterface with Other Organizations

ELCON regularly interfaces and coordinates with other organizations such as (but not limited to):

- State Regulators (e.g., NARUC)
- ISOs and RTOs
- Energy trade groups such as: EEI, APPA, NRECA, EPSA, NGSA, AGA, INGAA and other industrial trade groups
- NERC Regional Entities (where Registered Entities have more direct dealings)
- Consumer groups such as NASUCA and Public Citizen

Such organizations are aware of ELCON's leadership role for the large industrial sector. ELCON has name recognition and credibility.

## **E**LCON Members-Only Workshops

ELCON members consistently say that a major benefit of membership involves the networking and knowledge gained through the “members-only” Workshops – held several times each year.

ELCON attracts some of the very highest quality speakers to attend these rather small Workshops. The relatively small size of the Workshops allows the membership to get close to the speakers and encourages quality dialogue. The accompanying box presents a few examples of the quality of speakers that have participated in previous Workshops. It seems obvious to ELCON members that ELCON membership has considerable value that simply cannot be duplicated elsewhere.

## **Speakers and Presenters at Recent ELCON Events Include:**

**The Honorable Jon Wellinghoff, Chairman, Federal Energy Regulatory Commission (FERC)**

**The Honorable Cheryl LaFleur, Commissioner, Federal Energy Regulatory Commission (FERC)**

**The Honorable Tony Clark, Commissioner, Federal Energy Regulatory Commission (FERC)**

**The Honorable Philip D. Moeller, Commissioner, Federal Energy Regulatory Commission (FERC)**

**The Honorable John R. Norris, Commissioner, Federal Energy Regulatory Commission (FERC)**

**The Honorable David A. Wright, Vice Chairman, South Carolina Public Service Commission, and  
President, National Association of Regulatory Utility Commissioners (NARUC)**

**The Honorable Christopher Smith, Deputy Assistant Secretary for Oil & Natural Gas, Office of Fossil  
Energy, U.S. Department of Energy**

**Lauren Azar, Senior Advisor to DOE Secretary Steven Chu, U.S. Department of Energy**

**John E. Shelk, President & CEO, Electric Power Supply Association (EPSA)**

**Donald F. Santa, Jr., President & CEO, Interstate Natural Gas Association of America (INGAA)**

**Thomas W. Berry, Trustee, North American Electric Reliability Corporation (NERC), Retired  
Partner, Goldman Sachs & Company**

**Gerry W. Cauley, President & Chief Executive Officer, North American Electric Reliability  
Corporation (NERC)**

**Richard L. Schmalensee, Howard W. Johnson Professor of Economics and Management, Director –  
MIT Center for Energy Environmental Policy Research, Massachusetts Institute of Technology (MIT)**

**Frank A. Wolak, Professor & Director, Program on Energy and Sustainable Development,  
Department of Economics, Stanford University**

**Marc Chupka, Principal, The Brattle Group**

**Chris M. Hobson, Chief Environmental Officer, Senior Vice President, Research and Environmental  
Affairs, Southern Company**

## **In Summary:**

- **ELCON is the authoritative and nationally regarded advocate of the large industrial end user of electricity to the public, government, regulators, and the industry.**
- **ELCON works at the national level to minimize members' electricity costs while maintaining reliability.**
- **ELCON promotes best practices in the power procurement strategies of its members and the business models of their suppliers.**
- **Membership enables professional development and networking with experienced industry peers and energy experts at ELCON events and off-line.**
- **ELCON is the nationally recognized voice of the large industrial user of electricity that regulators, policymakers and the media trust.**

**YOU CAN BE PART OF THESE EFFORTS –  
BUT ONLY BY JOINING ELCON**

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For more information on ELCON and ELCON's activities, visit its website – [www.elcon.org](http://www.elcon.org) – or contact ELCON's President, John Anderson, directly at [janderson@elcon.org](mailto:janderson@elcon.org) or 202-682-1390.