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Dear Members of the KUB Board of Directors:

The Southern Alliance for Clean Energy (SACE) opposes the Knoxville Utilities Board (KUB) signing the Tennessee Valley Authority's (TVA) long-term contract offer to local power companies (LPCs), a stance we share with many stakeholders across the Tennessee Valley. We have closely reviewed the contract. While there are slight benefits that KUB, and subsequently its customers, could receive under the contract, the risks associated with being locked into this rolling twenty-year contract outweigh the benefits. Therefore, we recommend KUB not sign the contract.

The self-renewing contract would severely limit KUB's future decision-making, particularly in three key ways.

- TVA would be less responsive to KUB.
- KUB would prematurely tie its hands and limit its ability to respond to customer demands for dramatic increases in KUB-owned and locally-sited generation.
- KUB's financial position would be virtually the same as it would be under KUB's current contract.

Less-responsive TVA

LPCs were under twenty-year contracts with TVA in the past. Most of these contracts were renegotiated by the mid-2000s to shorter contracts to give the LPCs some leverage with TVA. If KUB signs this, or any self-renewing contract with a twenty-year termination notice requirement, KUB would not only be limiting its power today, but would cripple the utility's future leaders' ability to make decisions in the best interest of KUB's customers.

Limiting future generation ownership options

Section 2(e) of the contract limits KUB's ability to flexibly meet its demand to 3-5% of load and requires KUB to get TVA's approval for any flexible project or proposal. This sounds like more than what is available under the current contract, which requires KUB to purchase all its power from TVA. However, the current contract allows KUB to negotiate with TVA to set up individual programs and projects. Under the new contract, KUB would still have to negotiate with TVA on what projects or programs it could implement. The only difference between the contracts on this issue is that the new contract limits those projects to 3-5% of KUB's load.

At this time KUB should not accept a contract that caps its flexibility and thus its ability to be responsive to its customer base. Flexible projects could be a profit mechanism for KUB going forward, and could even be used to control demand charges from TVA and reduce what KUB pays for power. If a large customer such as a university, city government, or business in KUB's territory wants to use solar, flexibility on KUB's part would allow that customer an option to work with KUB instead of automatically installing solar behind-the-meter. By signing this contract, TVA's first attempt of this kind, KUB would give away too much autonomy too early.

Additionally, any program KUB would develop for rooftop solar would also fall under that 3-5% load cap. Customers' desire for solar is not going away, and in fact will only grow in the coming years and decades. If KUB were to experience the growth in residential solar seen in other southern states in the last 4 years, residential solar could increase to over 3% of load in 2024 and rise above the 5% of load mark in 2025. We are already seeing growing cases of customers installing solar behind-the-meter and failing to notify the utility, which could become a safety hazard for KUB employees. TVA is on track to cancel its small customer solar program. If KUB has to limit its residential solar program because it has signed this contract, the potential for customers to supply energy to their homes on their own only increases.

Finally, the city of Knoxville, the city who's charter establishes KUB, recently passed climate goals that reach out to 2050. Local renewable resources like residential solar, commercial solar, and community solar will be a key part of achieving these goals. It is important that the KUB leadership and the Board of Directors recognize the *far-reaching negative impact* this contract would have on KUB's operations and customers, but also on the community as a whole. We urge KUB to continue under its current contract with TVA and not sign this new contract.

Financial benefits not as good as they appear
SACE acknowledges the 3.1% credit on non-fuel wholesale rates appears to be a benefit to KUB under this contract. However, the discount is only on non-fuel costs. In recent years, fuel costs have made up nearly one third of TVA's power revenues, and we have been in a period of extremely low fuel prices. That means the 3.1% credit only applies to *at most* two-thirds of KUB's wholesale bill to TVA, meaning it would only reduce KUB's bill to TVA by up to 2.2%. Savings would be much lower if gas prices increase.

Drawbacks outweigh benefits
SACE is in favor of the terms in Section 5(a) of the contract that appear to protect LPCs in the event of a sale of all or a significant number of TVA's assets by the federal government. However, these benefits of the contract are not outweighed by the significant constraints KUB would place on itself by signing the contract.

Thank you for your attention to this matter. Please feel free to reach out with any questions you might have.

Sincerely,

Stephen A. Smith, DVM
Executive Director