

March 12, 2020

Dear KUB Board of Directors,

I want to supplement my comments on today's vote on the TVA long-term power supply contract and the Green Invest contract with this letter. Please feel free to reach out to me with questions on anything contained here or in my comments at today's meeting.

I am encouraged that KUB has heard the demands of customers and Knoxville voters and is pursuing some solar to reduce both costs and emissions. However, I still have concerns about KUB switching from a 5-year power supply contract to a 20-year one that self-renews every day. By signing the long-term contract KUB loses what leverage it has with TVA with little benefit. KUB is prioritizing small, short-term benefits but adding larger, long-term risks.

I am also concerned that the process to sign the long-term contract has been rushed and not transparent. Several interested parties heard from KUB that they would wait until the situation in Memphis was resolved before considering whether to sign the long-term contract, which would likely be this summer, and yet the Board is voting after the public has had just 4 days to review the contracts and no chance to provide input.

If KUB does sign the long-term contract, KUB staff should be transparent and open to public input on how they plan to spend the remaining rate credits from TVA. This is an opportunity for KUB to invest more meaningfully in ways to lower customer bills through home-grown energy efficiency, particularly for our most vulnerable residents.

There are also several misleading points in Gabe Bolas's letter included in the agenda for today's meeting that I would like to clear up.

1. The flexibility carve-out in the long-term contract does not allow KUB to meet 5% of power from local sources. In fact, it would likely only serve 1% of KUB's power needs.
 - a. I have included a slide from TVA's February 13, 2020 Board meeting at which the TVA Board approved the principles that will be used when implementing these flexibility programs. It states the programs will be capped at 5% of average hourly capacity.
 - b. SACE's estimates show that KUB's average hourly capacity from 2014 – 2018 was 644 MW; 5% of that is 32 MW. Generation from 32 MW of distributed solar would likely reduce KUB's demand for power from TVA by approximately 1% (assuming flat load growth in KUB's service territory).

Flexibility Principles (1/2)

1. Energy resource sites must be documented, metered, operated, and connected in a manner consistent with applicable TVA standards
2. Valley Partner energy resources will either displace demand and energy usage that TVA would have otherwise charged to the Valley Partner under the prevailing wholesale power rate structure; or, Valley Partner energy resources will be treated in accordance with an economically equivalent wholesale crediting mechanism
3. Each Valley Partner may deploy energy resources in an aggregated capacity amount not to exceed the greater of (1) 5% of that Valley Partner's energy, where energy is the average hourly capacity usage, initially over TVA fiscal years 2015 through 2019, or (2) one megawatt of aggregated capacity

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2. The limitations on TVA rate increases does not apply to fuel charges, which TVA passes through to all LPCs, or to the Grid Access Charge, which serves a similar function to the fixed fee on KUB's bill to TVA. Depending on what happens across TVA's service territory, TVA will be able to increase the Grid Access Charge that KUB and other LPCs have to pay, and KUB will have no recourse.
3. This new power supply contract leaves KUB vulnerable to paying for stranded assets if it should decide to leave TVA, a clause that was deliberately removed from most LPC power supply contracts decades ago.
4. Gabe's letter downplays the very-real possibility that one or more larger LPCs could leave TVA imminently, and the degree to which that would impact the rest of the TVA system including KUB. Memphis and two other larger LPCs, that we know of, are seriously considering leaving TVA.

Thank you for taking these comments into consideration, and again let me know if you would like to discuss this further.

Sincerely,

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