

**TVA Board of Directors
Listening Session on Energy Efficiency and Demand Response**

**Comments of Jack W. Simmons
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Good afternoon.

I am Jack Simmons, president & CEO of the Tennessee Valley Public Power Association. TVPPA represents the 159 power distributors who purchase wholesale electric power from TVA and distribute it to nearly 9 million customers in seven southeastern states.

The power distributor community represented by TVPPA is a diverse group from several perspectives. There are, obviously, size differentials. Our largest member, for example, has more than 430,000 customers and our smallest has fewer than 900 customers. In addition, there are wide disparities in the economic and operational characteristics of distributors and their customers across the 80,000 square miles of the TVA service area.

This is significant in the context of today's hearing. On the surface, energy efficiency and demand response may appear to be a relatively simple issue. There may be those who think there exists a magic wand that when waved will somehow solve the Valley's growing energy challenges.

The reality is it's more complicated than that. The diversity of the power distributor community is a complicating factor to solving the energy efficiency and demand response challenge, and obviously, must receive serious attention in the planning and implementation of effective programs.

Energy efficiency includes conservation (using less energy), efficiency (using energy smarter) and peak shaving – (avoiding energy use when the demand is high and when power is the most expensive to produce). In addressing energy efficiency, all three of these components need to be addressed, and that will require a complicated,

coordinated and concise effort among TVA, power distributors and the end-use customers of electricity.

We commend you for hosting today's listening session. TVA's commitment to energy efficiency – as expressed in its 2007 Strategic Plan – calls for aggressive steps in a time-compressed fashion. We understand the preliminary goal is to reduce TVA's peak demand by 1,200 megawatts by 2013, with more to come as new rates, technologies and consumer awareness programs are developed. This is a laudable yet challenging goal. By gathering input from the various stakeholders in the Valley early on, you are helping ensure that plans for meeting such difficult mandates have a better chance of succeeding.

We also commend you for recognizing that peak load growth in the Valley – which is expected to be about 1.9 percent annually for the next several years – cannot entirely be met by putting more steel on the ground. The price of construction of new generation has increased significantly, and we face uncertain political, regulatory and environmental issues. So in order to preserve low rates and reliability, we have to evaluate alternatives to simply building more generating plants.

The power distributor community understands this. Early on we answered TVA's call for assistance and have responded in a collaborative way. Last November an energy efficiency subcommittee was appointed to serve as the primary, initial interface with TVA. Each representative on this committee brings diverse experiences to the group, which is under the direction of TVPPA's Energy Services & Marketing Committee, a standing committee commissioned by the TVPPA Board of Directors.

This subcommittee has held numerous meetings with TVA in recent months, and we now have a better understanding of the magnitude of the challenge that energy efficiency and demand response presents.

In an effort to reach out to all power distributors, TVPPA's Energy Services & Marketing Committee is hosting a meeting later this week at which TVA will receive input from all interested power distributors.

This meeting promises to be a significant milestone. While most power distributors are aware that energy efficiency and demand response discussions are underway, there are varying levels of understanding about how the proposed goals will be met, and how individual utility operations can play a part in achieving those goals.

In other words, at this point there are more questions than answers. So, during the remainder of my time today I want to briefly review with you a few basic concepts which power distributors feel are important and which we hope will receive due consideration.

First, we believe that fundamentally, we have an ongoing responsibility to promote the prudent and wise use of electricity regardless of whether a “formal” program is adopted and implemented. We support energy efficiency as part of an overall focus on the wise use of resources for the benefit of end-users. Needless to say, adopted programs should be real, attainable and measurable.

By that we mean that energy efficiency programs should make sense and also withstand an economic test. The distance between what looks good on paper and what actually works can sometimes be great. Even though we are facing time constraints in developing and implementing energy efficiency programs, we urge TVA to practice appropriate due diligence. We need to “get it right.”

Second, as I’ve already mentioned, we will succeed only if there is a coordinated effort between TVA, power distributors and the end-use customers. We must recognize that the end-use customer will play a critical role in the success of any plan or programs that are developed. It must be clear to them that it is in their individual best interest, and just as important in our collective best interests, to modify behaviors related to energy consumption. Clearly communicating that message will require a lot of work by TVA, power distributors, and other stakeholder groups who are represented here today. Just how we accomplish this difficult task is yet to be determined, but obviously, it will require a well-developed and well-managed outreach program to consumers.

This may be the most difficult task that we face. Educating consumers about the efficient use of electricity – which they usually take for granted until there’s an outage and for which they pay for after it is consumed – is daunting. And to date, there’s been little incentive for consumers to alter their usage patterns. A consistent message and coordinated communications and education program is essential.

Third, although power distributors across the Tennessee Valley have many common traits – like a wholesale power contract with TVA – there are also notable differences.

A “one size fits all” approach may not necessarily work. The needs are different from area to area. Our members serve metro areas, urban areas, suburban areas and rural areas. The demographics and socio-economic diversity of end-use customers can vary widely across these areas. The mix of residential, commercial, and industrial customers served by an individual power distributor can also have a significant impact on each distributor’s load factor. As you know, load factor is the ratio of a distributor’s average load to its peak load, and can be an indicator of the ability of a distributor or its customers to respond to specific load management programs to a greater or lesser extent than others. For example, a distributor with a high load factor who may have a large concentration of industrial load may be able to contribute to improvements in energy efficiency, but may have a difficult time in shifting energy to off-peak periods because of the around the clock nature of a large segment of its customer load. Conversely, a distributor with a high percentage of residential and commercial loads will have a “peakier” load shape and a lower load factor. This distributor may be able to convince its customers to use energy more wisely during periods of peak demand, but may have a difficult time in reducing overall energy consumption. As we collaboratively plan and implement energy efficiency and demand response programs, attention needs to be placed not only on our common threads – but also on the things that make distributors unique in the various regions of the TVA service area. It makes sense to build upon these regional diversities.

And finally, we must ensure that wholesale power rates continue to support the low-cost reliable electricity model we have had for 75 years in the Tennessee Valley. TVA distributors spend roughly 75 – 85% of revenues collected from end-use customers to purchase wholesale power from TVA. That leaves a very small margin to operate and maintain their distribution systems, and to constantly upgrade their systems to meet the continuing reliability requirements of their customers. There is a fine line between the benefits of energy efficiency and demand response, and the resultant reduction in revenues that power distributors may experience when such programs are embraced by customers. Enactment of any program must not detract from a distributor’s bottom line, but instead, should complement it. To that end, the challenge for TVA and TVPPA will be to collectively design wholesale rate structures to encourage the appropriate use of

energy and capacity resources, while ensuring that reliability and cost-effective rates are maintained.

A new wholesale rate structure may not only send appropriate price signals that can change the way electricity is used, but it may also encourage distributors to implement and integrate more sophisticated metering and data acquisition devices into their current SCADA systems. TVPPA is in the initial steps of gathering information from our members on levels of interest in Automated Meter Infrastructure technologies, and how best to respond to each members' desires to research, acquire, install and use this technology. Initial responses from our members show wide diversity in the interest level of such systems, ranging from little or no plans to install such systems, all the way to installing individual fiber optics-based communications links to every customer. As we jointly develop energy efficiency and demand response programs and the rate structures to support them, we must accept, once again, that a "one size fits all" approach to technology implementation will likely be difficult to achieve across the Valley.

Power distributors today are involved in issues that were certainly unforeseen just a few years ago. Their willingness to step up to the challenges of energy efficiency and demand response and develop innovative, sound, principled solutions, speaks highly of their understanding, commitment and vision.

We look forward to collaboratively working with TVA to develop meaningful and effective energy efficiency and demand programs that will serve as a model for public power nationwide.

Thank you.