



Tennessee Valley Authority, 1101 Market Street, Chattanooga, Tennessee 37402

August 9, 2017

Dear Local Power Company:

Since the fall of 2013, TVA, local power companies (LPCs), and their customers have worked collaboratively to develop and implement a Strategic Pricing Plan (SPP) which focuses on TVA's long-term pricing efforts. The SPP provides a long-term direction in three areas: improved pricing, fixed-cost recovery, and encouraging economic technology investments. The rate change implemented in 2015 focused primarily on improving pricing by better aligning rates with underlying cost drivers. The 2018 rate change will maintain this focus. Accordingly, TVA is proposing changes to the Schedule of Rates and Charges attached to and made a part of our Power Contract.

TVA and the Tennessee Valley Public Power Association's Rates and Contracts Committee (TVPPA) have discussed changes to wholesale and resale rates since the fall of 2016. The enclosure to this letter describes TVA's rate change proposal. In accordance with the provisions of the section entitled "Adjustment and Change of Wholesale Rate and Resale Rates" of the Schedule of Terms and Conditions of the Power Contract, and consistent with our collaboration with you, we believe revenue-neutral structural changes are warranted to the Schedule of Rates and Charges. TVA is requesting that you or your representative continue to meet with us and endeavor to reach agreement with respect to the proposed changes.

We understand that TVPPA will be serving as the representative for most LPCs. If that is not the case for your system, please contact your TVA Customer Service Manager.

The proposed changes described in the enclosure do not reflect any rate adjustments that may take place between today and the implementation date of the rate change. The proposed rate change is not intended to raise additional revenue for TVA. However, individual systems and their customers may see some effects on their bills, and we will assist you in analyzing, understanding, and planning for these changes in the coming months.

We look forward to discussing this proposal with you. If you have any questions or need any additional information, please contact your TVA Customer Service Manager.

Sincerely,

Handwritten signature of Cass Larson in black ink.

Cass Larson  
Vice President  
Pricing & Contracts

Handwritten signature of Daniel P. Pratt in black ink.

Daniel P. Pratt  
Vice President  
Customer Delivery

## TVA RATE CHANGE PROPOSAL

TVA has worked since the fall of 2016 with the Tennessee Valley Public Power Association's Rates and Contracts Committee (TVPPA) and is proposing the rate change and related matters set forth below:

### I. Wholesale Rates

The currently available wholesale rate schedule (Schedule WS) would be replaced by a changed wholesale rate schedule that would be more particularly developed in conjunction with Local Power Companies (LPCs) over the next 180 days. Generally, the proposed wholesale rate changes include, but are not limited to, the following:

1. Reducing seasonal wholesale standard service energy charges by \$1.2 billion per year (which is approximately 1 cent per kWh) and introducing a new wholesale fixed-cost recovery charge that would recover an equivalent amount of revenue. TVPPA has suggested modifying this proposal by reducing standard service energy charges by a lower amount, such as \$300 million per year (which is approximately 0.25 cent per kWh). Currently, the proposed design for a new wholesale fixed-cost recovery charge is a fixed-cost recovery charge that would be allocated to each LPC based on its percentage contribution to the total TVA standard service energy usage during a historical baseline period and reset on an agreed upon schedule (such as a 5-year baseline with a rolling reset)

Alternative allocation methodologies would also be considered. Examples of such alternatives have included allocations based on cost-of-service or a contract demand requirement. Under any alternative, all such new wholesale fixed-cost recovery charges would be subject to TVA rate adjustments.

2. Changing TOU Service rates applicable to Large Customers (as defined in the wholesale power rate schedule) and all corresponding retail rates to reflect new fixed-cost recovery charges designed (a) to recover a percentage of TVA total revenue from all Large Customers and (b) to convert volumetric energy rates into a contract demand charge. The wholesale power rate schedule and all corresponding retail rate schedules would be re-issued and their underlying rates would be modified to appropriately reflect the new fixed-cost recovery charges.

3. Moving specifically stated hydro allocation wholesale rate schedule adjustment 2 charges (debits and credits) from the wholesale rate schedule to the Adjustment Addendum. The changed adjustment 2 would instead provide that LPCs' power bills are subject to the hydro allocation adjustments in the current Adjustment Addendum published by TVA to reflect the value of the hydro generation benefits allocated by TVA to residential customers. The hydro allocation adjustments would continue to be subject to the same yearly re-computation and adjustment schedule, and LPCs would also continue to report required hydro allocation data to TVA on a monthly schedule.

4. Moving the embedded hydro allocation wholesale rate schedule adjustment 4 charges from the TOU Service demand and energy charges to the Adjustment Addendum. The currently effective wholesale schedule adjustment 4 recognizes that the TOU Service demand and energy charges contain embedded debit components which, together with the wholesale rate schedule adjustment 2, are designed to reflect the value of the hydro generation benefits allocated by TVA to residential customers. The changed adjustment 4 would provide that TOU Service demand and energy charges would be increased or decreased to appropriately reflect the value of the hydro generation benefits allocated by TVA to residential customers in accordance with the hydro allocation adjustments in the current Adjustment Addendum published by TVA. The adjustment 4 hydro allocation adjustments would continue to be subject to adjustment by TVA from time to time.
5. Changing the hydro allocation debit and credit methodology. TVA and TVPPA will analyze alternative hydro debit and credit structures and credit levels with special attention focused on residential customer impacts. Any changes would be revenue-neutral relative to the currently designated value of the hydro generation benefit and implemented via the Adjustment Addendum.
6. Decreasing wholesale TOU Service demand and energy rates under general power rate schedules GSB, GSC, and GSD. In order to maintain revenue neutrality, wholesale Standard Service rates and/or TOU Service manufacturing power rates would be increased. Changes proposed under this section would be guided by cost of service and commercial competitiveness study data.
7. Transitioning all non-fuel wholesale adjustment addendum amounts, including the environmental adjustment, that are applicable prior to the effective date of the Rate Change, into the wholesale base charges. This section would be applied only to the extent it is administratively practical.
8. Eliminating or phasing-out, by October 2018, the availability of wholesale mid-month billing arrangements. Such wholesale mid-month billing arrangements are currently implemented through a rider to the wholesale power rate schedule. Under this proposal, the availability of those riders would be eliminated or phased-out.
9. Changing the wholesale rate schedule adjustment 1 fuel cost adjustment resource cost allocation methodology to isolate the cost allocation weighting for Large Customers served under a manufacturing service rate from Large Customers not served under a manufacturing service rate. This change would be expected to have the effect of lowering these manufacturing customers' fuel cost adjustment amounts.

## II. Resale Rates

To enable LPCs to continue operating on a financially sound basis after the wholesale rate change, TVA would make the following changes to the resale rate schedules:

1. Change resale rates to reflect changes in wholesale power costs.

2. Improve the alignment of new wholesale charges with retail, provided, however, that any such change for Large Customers at retail would occur concurrently with wholesale changes made under section 1.2 above.
3. Transition hydro allocation adjustments from the rate schedule base charges to the Adjustment Addendum.
4. Transfer all non-fuel Adjustment Addendum amounts, including the environmental adjustment, that are applicable prior to the effective date of the Rate Change, into the rate schedule base charges. This section would be applied only to the extent it is administratively practical.
5. For service to customers for which the LPC is billed under Standard Service charges, increase the power cost recovery component of resale rates to account for anticipated bill impacts resulting from changed Standard Service wholesale rates.

### III. Other matters to be discussed in conjunction with the Rate Change

TVA proposes to explore with LPCs additional opportunities to simplify rate schedule language and improve processes for approving and publishing rates and rate-related documents. Proposed improvements include, but are not limited to, the following:

1. ESS Reporting. Revise the current ESS reporting requirements to remove outdated references and reflect the intent of reporting requirements in a more general manner.
2. Outdoor Lighting Rate Schedule. Revise Part B of the current Outdoor Lighting Schedule in order to replace current listing of available fixtures to a cost-based formula.
3. B, C, and D Rate Schedule Unification. Combine General Service B, C, and D rates into one rate schedule and combine Manufacturing B, C, and D rates into one rate schedule.
4. Hydro Allocation Re-balancing. The monetary amounts used in determining the Hydro Allocation Adjustment (debits and credits) would be recomputed to take account of changed sales and customer account data and applied to wholesale and retail rates accordingly.