



May 10, 2023

The Honorable Sharon D. Gipson, Esq.
Mayor of Holly Springs, Mississippi
160 South Memphis Street
Holly Springs, Mississippi 38635

Mr. Dexter Shipp, Alderman At Large
City of Holly Springs
160 South Memphis Street
Holly Springs, Mississippi 38635

Ms. Bernita J. Fountain, Ward 1
City of Holly Springs
160 South Memphis Street
Holly Springs, Mississippi 38635

Mr. Andre Jones, Ward 2
City of Holly Springs
160 South Memphis Street
Holly Springs, Mississippi 38635

Mr. Colter Teel, Ward 3
City of Holly Springs
160 South Memphis Street
Holly Springs, Mississippi 38635

Ms. Patricia Merriweather, Ward 4
City of Holly Springs
160 South Memphis Street
Holly Springs, Mississippi 38635

UPDATE ON THE REQUEST FOR RESPONSE – HOLLY SPRINGS UTILITY DEPARTMENT – REVIEW OF STORM RECOVERY EVENTS

Attached is an update on the response from Holly Springs Utility Department on required and requested information.

Thank you,

Melanie Farrell
Vice President
External Strategy & Regulatory Oversight



TVA Update

HOLLY SPRINGS UTILITY DEPARTMENT

Review of Storm Recovery Events in 2022 and 2023

Update: May 10, 2023



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Update

On March 3, 2023, TVA provided the City of Holly Springs, Mississippi (“City”) with a report of our findings after completing an evaluation of the effectiveness of the Holly Springs Utility Department’s (HSUD) storm response and recovery efforts. Additionally, due to significant concerns associated with HSUD’s failure to timely submit required financial information, the City was informed that TVA has designated this as a Significant Regulatory Issue (SRI).

In follow up to the written report and notification of the SRI, Melanie Farrell, VP, External Strategy & Regulatory Oversight, spoke with the mayor and the board of alderman at the city council meeting on March 7, 2023. TVA reinforced that HSUD is required to meet all wholesale power contract requirements and the importance of addressing the findings in the report, especially those related to ensuring the safety of the electric system.

Since that meeting, the mayor has not responded to any email correspondence from TVA’s regulatory leadership. Additionally, HSUD continues to be challenged in providing financial updates and requested information.

Below is a summary of what HSUD is required to submit to TVA in accordance with the wholesale power contract and what has been received:

Information Required	Information Received	Comments
<i>Fiscal Year 2022 Annual Report</i>	<i>Fiscal Year 2022 Annual Report</i>	<i>Received on March 15, 2023; Due Date was August 15, 2022</i>
<i>Fiscal Year 2023 Monthly Reports</i>	<i>Monthly Reports for July 2022-February 2023</i>	<i>Received on March 31, 2023; Monthly reports are due 30 days after each month end; March 2023 report has not been received</i>
<i>External Audit Reports for Fiscal Year 2021 and 2022</i>	<i>Not received</i>	<i>2021 report was due on October 31, 2021 2022 report was due on October 31, 2022</i>

In the assessment provided to HSUD on March 3, 2023, TVA requested HSUD develop a plan within 45 days to address the 14 areas of improvement listed in the report. No response was received from HSUD by the requested due date. Based on recent discussions between the mayor and TVA employees outside the regulatory department, Mayor Gipson requested an additional 30 days to respond to TVA’s assessment.

Also, as part of our report, TVA provided a list of resources to support HSUD in identifying resources for improving the performance of HSUD.

1. TVA will provide best practices related to distribution system storm response and vegetation management.

- Holly Springs has not yet hired a General Manager for the utility department, so TVA has not been able to provide that information to a utility industry professional.
2. TVA will work with HSUD to identify any federal or state funding available for improving the electric distribution system.
 - TVA spoke with Alderman Andre Jones and informed him that identifying funds first requires HSUD to complete an assessment of the system to identify which funding is most needed and appropriate.
 3. TVA's Regulatory Assurance staff is available to meet with the Holly Springs Mayor and Board of Alderman to discuss regulatory requirements of the City and HSUD.
 - TVA's regulatory staff has not been asked by the mayor or the board of alderman to discuss regulatory requirements.
 4. Tennessee Valley Public Power Association (TVPPA), through Distributors Insurance, is offering to provide resources to HSUD to perform a full assessment of operations, engineering, maintenance, and safety.
 - TVPPA submitted proposals to the City to 1) assist with the executive search to fill the General Manager position and 2) conduct an assessment of HSUD's system. The Holly Springs City Council has not yet voted on either of these proposals.

With the issuance of the SRI, TVA began a compliance assessment at HSUD on March 14, 2023, to evaluate HSUD's compliance with regulatory requirements in the wholesale power contract. Areas being assessed are related to timeliness and accuracy of financial reporting, rate application, billing practices, disconnection policies, and use of revenues. Initially, HSUD had trouble providing the requested information, but TVA recently received some of the requested information. However, TVA continues to have difficulties acquiring certain information needed to assess HSUD's compliance with the wholesale power contract. The evaluation is ongoing, and a report will be issued to the mayor and board of aldermen at the completion of the compliance assessment.

TVA continues to receive complaints from HSUD customers. The number of complaints since the weather-related events have decreased, but the total volume of calls received year-to-date is significantly higher than previous years. For the period of March 1 to April 20, 2023, TVA received 186 complaints from HSUD customers and 92% of those were related to power outages or power quality. TVA continues to work with HSUD staff to improve the timeliness of their responses to data requests and customer information on behalf of complaints and referrals.

TVA remains concerned about HSUD's inability to meet financial reporting requirements and provide all their customers with safe and reliable power. We again strongly urge Holly Springs to develop a plan to address the areas for improvement in the report so that they can best serve their customers.



Appendix – SRI Letter



1101 Market Street, Chattanooga, Tennessee 37402

March 3, 2023

The Honorable Sharon D. Gipson, Esq.
Mayor of Holly Springs, Mississippi
160 South Memphis Street
Holly Springs, Mississippi 38635

Dear Mayor Gipson:

This letter serves as formal notice to the City of Holly Springs, Mississippi (City) and Holly Springs Utility Department (HSUD) of significant reporting deficiencies that are noncompliant with the wholesale power contract. Specifically, the City is delinquent in submitting its FY 2022 annual financial report to the Tennessee Valley Authority (TVA). Furthermore, the FY 2021 and FY 2022 annual external audit reports as well as the FY 2023 monthly financial reports (July 2022 - January 2023) are also delinquent. This letter documents the actions that must be taken to address the financial reporting concerns, and ultimately, what commitments will be needed from the City and HSUD to remedy the noncompliance findings.

The wholesale power contract between the City and TVA, numbered TV-43513A, as amended, and effective November 12, 1975 (Power Contract) requires monthly and annual financial reports be submitted to TVA in a timely manner. Per section 1 of the Schedule of Terms and Conditions of the Power Contract:

"(c) Municipality shall supply TVA not later than August 15 of each year with an annual financial report in such form as may be requested, of electric system transactions for the preceding year ending June 30 and of electric system assets and liabilities as of June 30. Municipality shall furnish promptly to TVA such monthly operating, statistical, and financial statements relating to electric system operations as may reasonably be requested by TVA. In the event of failure to furnish promptly such statements TVA, following written notification to Municipality of intention so to do, may with its own staff perform at Municipality's expense all work necessary to collect such data.

(d) Municipality shall have the electric system financial statements examined annually by independent certified public accountants in accordance with generally accepted auditing standards and shall publish the financial statements, along with the auditor's certificate, in a newspaper of general circulation in the area."

Per the provisions of the Power Contract, the City is obligated to operate and maintain the electric system on a financially sound basis, including selling power at low rates. The City has agreed to operate the electric system for the benefit of its electric system ratepayers and provide TVA with adequate financial and accounting reports in order to have assurances of the financial integrity of the electric system. The City and HSUD are currently out of compliance with the terms of the Power Contract by not submitting the required reports by the specified deadlines.

Mayor Gipson
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Within the last few days, the remaining FY 2022 monthly reports were submitted to TVA, and we are assisting HSUD with the completion of the FY 2022 annual report. Based on the delinquent financial reporting, TVA is very concerned about the accounting records and practices of HSUD. Detailed financial reconciliations and the independent financial reviews are needed to assess the current financial standing of HSUD and validate the information provided in HSUD's financial reporting. While the Central Services Association has also been assisting HSUD in the completion of its monthly financial reporting, the required financial information remains unsubmitted. The following reporting requirements are delinquent:

- The FY 2022 annual financial report was due on August 15, 2022, and it is currently more than six months past due.
- The FY 2021 and FY 2022 independent auditor's financial statements were due October 15 of each fiscal year, and the reports have not been submitted to TVA.
- HSUD has failed to submit any of the required monthly financial information for FY 2023.

TVA expects the City to remedy its noncompliance with the Power Contract's financial reporting requirements no later than March 31, 2023. HSUD should submit its FY 2022 annual financial report through the Financial Information & Regulatory System Tool (FIRST). The FY 2021 and FY 2022 external audit reports prepared by Watkins, Ward, and Stafford, Certified Public Accountants should also be submitted to the TVA Regulatory Analyst, Bill Wilburn. And, the FY 2023 monthly financial information should also be submitted to Bill Wilburn and/or FIRST.

Due to HSUD's failure to submit the required and timely financial information and TVA's concerns with HSUD's accounting practices, this matter is considered a Significant Regulatory Issue (SRI). TVA staff will commence a compliance assessment the week of March 13, 2023, to ensure the City is compliant with all requirements of the Power Contract. And, the TVA Board will be provided periodic updates on the SRI, including the compliance assessment and efforts to remedy noncompliance findings, if any.

TVA appreciates your prompt attention to this matter and expects to receive HSUD's delinquent annual financial report, the delinquent audited statements, and the delinquent monthly financial information by March 31, 2023.

If you have questions or wish to discuss this matter further, please email me at smwilliams12@tva.gov.

Sincerely,



Sharon Williams
Director
Regulatory Assurance