

FINDING OF NO SIGNIFICANT IMPACT TENNESSEE VALLEY AUTHORITY

ELIMINATION OF END-USE WHOLESALE RATE STRUCTURE AND INTRODUCTION OF TIME-OF-USE PRICING FOR ELECTRICITY AT THE WHOLESALE LEVEL

Both the peak load demand and the average annual energy consumption in the Tennessee Valley Authority (TVA) power service area are expected to grow. Peak load growth is more difficult to address than base-load demand in the planning of cost-effective capital outlays, in system operations, and in the dispatch of power. A substantive result of this peak load energy consumption on power distribution is that the costs to produce power vary by both the time of day and by the season. However, TVA's current end-use wholesale rate structure does not reflect these disparities and cost variations in power production, nor does it encourage distributors to manage their peak demands for electricity more efficiently. TVA intends to improve the opportunities for its customers to save money on energy consumption. Customers can accomplish this by utilizing more power during off-peak periods and less power during on-peak periods (also known as "load shifting").

In addition, the current end-use wholesale structure requires TVA to bill its customers on the basis of varying processes that are difficult to independently verify; this billing process includes the compilation of millions of separate meter readings by power distributors. The Sarbanes-Oxley Act requires TVA to assess the effectiveness of its internal control over financial reporting and disclose the assessment in its annual report filed on Form 10-K. In the past, TVA had a material weakness in its internal control over financial reporting due to its end-use wholesale structure for pricing electricity. While TVA was able to remediate this material weakness, TVA's proposal to eliminate its end-use wholesale structure for pricing electricity would further enhance TVA's internal control over financial reporting. Accordingly, to address both the load shifting and the Sarbanes-Oxley Act accountability issues, TVA is deciding whether or not to implement the rate changes and related matters described in Chapter 2 of the attached environmental assessment (EA), which is incorporated by reference.

TVA considered two alternatives, the No Action Alternative and the proposed Action Alternative. Under the No Action Alternative, TVA would continue its practice of setting rates directly charged to end users and including an add-on amount to cover distributor costs and margin. These rates have been based predominantly on the general cost (without regard to seasonal or time-of-use variations in the cost of power production) to serve the various customer groups. There are primarily three customer groups: (1) residential, (2) commercial, and (3) industrial customers. TVA would not introduce time-of-use pricing on a general scale under the No Action Alternative.

Under the proposed Action Alternative, TVA would implement a time-of-use pricing structure at the distributor level and would move away from the current end-use wholesale rate structure. The development of a retail rate structure for customers would become the administrative responsibility of each distributor. However, as described in the attached EA, TVA still retains its congressionally mandated regulatory authority to approve or disapprove rate structures implemented by the distributors.

The proposed Action Alternative would be implemented in a two-step process, an interim period during which distributors can select between two options that would apply for a period of time,

followed by full implementation of the proposed wholesale schedule for all distributors after the interim period. TVA intends to implement the proposed Action Alternative.

Impacts Assessment

TVA evaluated the potential impacts of the No Action Alternative and the proposed Action Alternative on energy usage, as well as on regional socioeconomics, air resources, water resources, land use, the generation of solid and hazardous waste, and the potential for derivative impacts to biological resources (including federally listed species and their habitats), wetlands, and floodplains.

Because the magnitude of the direct and cumulative effects of the alternative rate structures is small, TVA expects that any induced indirect environmental impacts would be nonexistent or minute and essentially indiscernible for both the No Action Alternative and the proposed Action Alternative. The comprehensive environmental regulatory programs that exist throughout all Valley states would further ensure that any resulting minor environmental impacts are insignificant for either alternative.

Public and Intergovernmental Review

Scoping and the development of alternatives were conducted in discussion with the power distributors of the TVA power service area via the rate change process discussed in the attached EA. Additionally, these changes were considered in light of the Time-Based Metering and Communication standard adopted by the TVA Board in 2007 as part of its consideration of the PURPA Standards set forth in the Public Utility Regulatory Policies Act of 1978 as amended by the Energy Policy Act of 2005. The TVA Board considered these standards in accordance with PURPA and the objectives and requirements of the Tennessee Valley Authority Act of 1933 and after review of the official record developed from the public's input on the standards.

Mitigation

Because expected socioeconomic and environmental impacts are small and insignificant, TVA has not identified any required commitments or mitigation measures that may be needed to offset or reduce the level of impacts for implementing either alternative.

Conclusion and Findings

Based on the analyses in the attached TVA-prepared EA, TVA has concluded that the proposed Action Alternative would not be a major federal action significantly affecting the environment. Accordingly, an environmental impact statement is not required.

Original signed by Charles P. Nicholson for

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