

FINDING OF NO SIGNIFICANT IMPACT
TENNESSEE VALLEY AUTHORITY
REFINING THE WHOLESALE PRICING STRUCTURE,
PRODUCTS, INCENTIVES AND ADJUSTMENTS FOR
PROVIDING ELECTRICITY TO TVA CUSTOMERS

TVA is proposing a rate change refining the structure of its wholesale electric power rates, programs, pricing products, credits and billing adjustments in order to:

- 1) Incentivize cost saving behaviors to keep rates as low as feasible;
- 2) Maintain alignment with the cost of service (COS) to distributors and directly-served customers;
- 3) Improve competitiveness of industrial rates;
- 4) Align with least cost planning; and
- 5) Simplify and create greater consistency in the suite of response and other power products offered by TVA.

The competitive and technological nature of the electric utility industry continues to evolve and impact the traditional electric utility business model through distributed generation, energy efficiency, technological advances, shifts in customer behavior and regulatory requirements. This complex interplay of factors creates a need for self-funded electric utilities such as TVA to make adjustments in their pricing structures, as well as generation and transmission assets. Identifying and appropriately apportioning costs of providing service is an important factor in flexibly addressing this ongoing need. Contingent upon approval by the TVA Board of Directors, TVA plans to implement the proposed rate change October 1, 2015.

The proposed rate change is the subject of an environmental assessment (EA) prepared by TVA. This EA is incorporated by reference. It tiers from TVA's 2011 Integrated Resource Plan Environmental Impact Statement, in which TVA identified and selected a long-range strategy to enable TVA to meet the additional needs of its customers for electricity for the subsequent 20 years, as well as TVA's 2015 Integrated Resource Plan Supplemental Final Environmental Impact Statement. The No Action Alternative of the EA also incorporates by reference pertinent information from the 2010 TVA EA titled *Elimination of End-use Wholesale Rate Structure and Introduction of Time-Of-Use Pricing of Electricity at the Wholesale Level*.

Alternatives

TVA evaluated two alternatives in the EA: the No Action Alternative to maintain the current pricing structure, products, incentives and adjustments for providing electricity to TVA customers; and the Proposed Action Alternative which incorporates the rate changes proposed in order to address the stated objectives.

Actions implemented under the Proposed Action Alternative are described in Section 2.2 of the EA. The Proposed Action generally encompasses changes to two areas: 1) general Pricing Structures and Rates for electricity; and 2) specific Products, Credits and Adjustments. Revised Pricing Structures and Rates are proposed for two broad groups: 1) wholesale Standard Service (consisting of residential, commercial and small retail

industrial customers served by distributors); and 2) those for large (generally over 5000 kW demand), Manufacturing and Commercial customers, which includes individually-metered customers served by distributors under Non-standard Service provisions, or directly served by TVA. Consistent with the proposed rate structures, the proposed changes to TVA's Products, Credits and Adjustments provide a further way to differentiate customers' needs that are not addressed under the general rate structures.

Noteworthy changes that would be implemented include:

- Movement (by selection or default) of wholesale Standard Service customers to a Time of Use pricing structure including stronger pricing signals, narrowing of on-peak hours from 8 to 6 hours, introduction of on-peak periods during spring and fall transition months and creation of on-peak and maximum demand changes.
- Introduction of new optional Time of Use and Seasonal Demand and Energy rate structures for Non Standard Service customers (large commercial and manufacturing).
- Cost of Service reallocation and improvement of industrial rate competitiveness resulting in a small increase in cost to Standard Service customers and a small decrease in cost to Nonstandard Service customers.
- Transitioning out of the 5 Minute Response, 60 Minute Response and Reserve Preservation products and their replacement with a new product termed Interruptible Power.
- Revisions to guidelines for Start Up and Testing power and pricing updates for the Standby Power and Interruptible Standby Power products
- Combination of Valley Commitment Program and Small Manufacturing Credit renaming it as the "General Manufacturing Credit" with additional funding.
- Reallocation of the fuel cost adjustment in proportion to average hourly load of customers, weighted by TVA's top 100 megawatt dispatch costs in each hour.
- Redesign of Environmental Adjustment adders to align with the changes to the rate design (e.g., Maximum demand, On-peak demand, on-peak energy and off-peak energy).

TVA's preferred alternative is the Proposed Action Alternative.

Impacts Assessment

Based on the analyses in the EA, TVA concludes that implementation of either the No Action or Proposed Action Alternative would result in only minor, insignificant impacts to socioeconomics, energy production and use, air resources, water resources, land use or generation of solid and hazardous waste. The potential for any derivative impacts to other areas such as cultural resources, floodplains, biological resources, endangered species, or wetlands would consequently be highly unlikely. Implementation of either alternative would not cause low-income or minority populations to be disproportionately affected by adverse socioeconomic or environmental impacts.

Collaborative Development of the Proposed Action

By letters to all distributors dated January 30, 2015, TVA initiated the rate change process. Throughout the development of the Proposed Action Alternative, TVA has worked through a collaborative stepwise process with customers consisting of examining cost of service, rate structure, products & programs, incentives, adjustments and competitive balance. TVA met with distributors and directly-served customers numerous times to discuss proposed changes. These meetings, including presentations, discussions, and listening sessions, have aided in the scoping of

issues and alternatives considered for this EA and provided important public input to the process.

Mitigation

Due to the minor and insignificant impacts identified for the Alternatives, there are no TVA commitments or proposed mitigation measures identified for implementation.

Conclusion and Findings

Based on the findings in the EA, TVA concludes that implementing the Action Alternative to refine wholesale pricing structure, products, incentives and adjustments for providing electricity to TVA customers, would not be a major federal action significantly affecting the environment. Accordingly, an environmental impact statement is not required.

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Date Signed