

PROPOSED BOARD RESOLUTION  
(Power Supply Flexibility)

WHEREAS on August 22, 2019, the TVA Board of Directors (Board), (i) approved the implementation of a standard long-term agreement (LTA) consistent with the Standard Elements set forth in a July 31, 2019, memorandum from the Chief Financial Officer, a copy of which is filed with the records of the Board as Exhibit 8-22-19J, and (ii) delegated authorities to the Chief Executive Officer (CEO) to implement and change, with oversight, the Standard Elements for such agreements as described in the July 31, 2019, memorandum; and

WHEREAS management has implemented the LTA, and, at this time, 134 local power companies (LPCs) have signed it, extending their termination notice period to 20 years and accepting the other benefits, remedies, and defaults provided for under the LTA; and

WHEREAS TVA committed to provide, by no later than October 1, 2021, to LPCs that signed the LTA enhanced power supply flexibility, which would allow such LPCs the option to self-supply a portion of their customers' power requirements, with mutually agreed-upon pricing structures, for 3-5% of the LPC's energy; and

WHEREAS in accordance with the LTA, TVA has been working with LPCs that signed the LTA to develop a power supply flexibility option to offer those LPCs to fulfill TVA's commitment under the LTA; and

WHEREAS TVA has developed certain guiding principles that will govern the development and implementation of the flexibility proposal (Flexibility Principles); and

WHEREAS a memorandum from the Executive Vice President and Chief Financial Officer, dated January 27, 2020 (Memorandum), a copy of which is filed with the records of the Board as Exhibit \_\_\_\_\_, recommends approval of the proposed power supply flexibility option described in the Memorandum;

BE IT RESOLVED, that, contingent upon satisfactory completion of any required environmental reviews, the Board hereby (i) approves TVA's implementation of a power supply flexibility option (Flexibility Option), to be implemented on the later of June 1, 2020, or the date on which all required environmental reviews are satisfactorily completed, consistent with the Flexibility Principles set forth in the Memorandum; (ii) authorizes the CEO, or his designee, to further develop and revise standard terms to be included in an amendment to each LPC's wholesale power contract, which will implement the Flexibility Option, in a manner consistent with the Flexibility Principles listed herein, or as adjusted after review by the Finance, Rates, and Portfolio Committee; (iii) authorizes the CEO, or his designee, to execute amendments to each LPC's wholesale power contract to implement the Flexibility Option; and (iv) authorizes the CEO, or his designee, to revise existing contracts, products, and programs as necessary to address interactions with the Flexibility Option.



Board of Directors

## **SUBJECT**

It is recommended that the TVA Board approve implementation of a power supply flexibility option (Flexibility Option) in a manner consistent with the principles (Flexibility Principles) set forth below and delegate authority to the Chief Executive Officer (CEO), or his designee, to revise, further develop, and implement a Flexibility Option.

## **BACKGROUND**

On August 22, 2019, the TVA Board of Directors approved the offering of a long-term agreement (LTA) to local power companies (LPCs) to help secure the long-term success of the Tennessee Valley region's public power model by lengthening and strengthening the contractual relationship between interested LPCs and TVA. Implementation of the LTA across the TVA system has materially benefitted the financial profile for the TVA system, the benefits of which are shared with participating LPCs in the form of a wholesale bill credit. As of January 1, 2020, 134 LPCs have executed the LTA (these LPCs are "Valley Partners" for purposes of this Memorandum).

Under section 2(e) of the LTA, TVA is committed to develop and provide enhanced power supply flexibility, with agreed-upon pricing structures, for 3-5% of the Valley Partner's energy, by no later than October 1, 2021. A Valley Partner may terminate the LTA within 90 days of the TVA Board-approved implementation date of TVA's proposed Flexibility Option if it is not satisfied with that option; upon such termination, the Valley Partner must repay half of the wholesale bill credits received under the LTA and the power contract termination notice period will revert to the previously existing notice period.

Since implementation of the LTA, management and staff have developed a set of principles which, if included as part of a Flexibility Option, would fulfill TVA's LTA section 2(e) commitments.

## **FLEXIBILITY PRINCIPLES**

The following Flexibility Principles are intended to assist Valley Partners in being their customer's comprehensive energy-supplier, while providing the structure necessary to meet the Valley Partner's all requirements needs, consistent with existing wholesale power contractual obligations. Therefore, the Flexibility Option, which will be available only to Valley Partners, must be consistent with the following principles:

- (1) Energy resource sites must be documented, metered, operated, and connected in a manner consistent with applicable TVA standards.
- (2) All Valley Partner energy resource facilities must be distribution scale and located within the service territory of the Valley Partner. Exceptions to the location requirement, due to circumstances such as restrictive siting, may be approved by the CEO after notice to the Finance, Rates, and Portfolio Committee.
- (3) Valley Partner energy resource output must be provided or distributed only to the Valley Partner's end-use customers.



(4) Each Valley Partner may deploy energy resources in an aggregated capacity amount not to exceed the greater of (1) 5% of that Valley Partner's energy, where energy is the average hourly capacity usage, initially over TVA fiscal years 2015 through 2019, or (2) one megawatt of aggregated capacity.

(5) Valley Partner energy resources will either displace demand and energy usage that TVA would have otherwise charged to the Valley Partner under the prevailing wholesale power rate structure; or, Valley Partner energy resources will be treated in accordance with an economically equivalent wholesale crediting mechanism.

(6) A Valley Partner's energy resource implementation must be consistent with TVA's Integrated Resource Plan to help ensure that TVA's system carbon position is improved.

### **CONTRACT IMPLEMENTATION**

To implement the Flexibility Option, TVA management and staff will need to further develop detailed elements that ultimately will be memorialized in a contractual amendment to each Valley Partner's wholesale power contract. Terms that likely will be included in a final contract amendment may include, but would not be limited to: (a) energy resource site metering, data, and documentation requirements and guidelines, (b) provisions facilitating compliance with the Public Utility Regulatory Policies Act (PURPA), (c) specific guidance on what types and sizes of energy resources will be allowed, provisions for adjusting the capacity rating for intermittent resources, such as solar, used for calculating the aggregated capacity amount deployed, (d) provisions for updating the historical five year period for those Valley Partners with increasing load, and (e) rate, product, or program interactions. All contract terms will be drafted and implemented in a manner that is consistent with the Flexibility Principles listed above, or as adjusted after review by the Finance, Rates, and Portfolio Committee of the TVA Board.

### **ENVIRONMENTAL REVIEWS**

The implementation of a Flexibility Option would be contingent upon satisfactory completion of any required environmental reviews.

### **IMPLEMENTATION DATE**

The Flexibility Option will be implemented upon the later of June 1, 2020, or the date on which all required environmental reviews are satisfactorily completed.

### **TVA BOARD OVERSIGHT**

As TVA management and staff work with Valley Partners to implement the Flexibility Option, TVA's CEO, or the CEO's designee, will regularly update the TVA Board through the Finance, Rates, and Portfolio Committee of the TVA Board. As discussions with Valley Partners proceed, revisions to the Flexibility Principles may not be made without prior review by the Finance, Rates, and Portfolio Committee.

### **ALTERNATIVES CONSIDERED**

In developing its recommendation regarding the Flexibility Proposal and the Flexibility Principles, management considered factors including economies of scale, wholesale revenue

erosion, Valley Partner satisfaction, and timely satisfaction of TVA's LTA Flexibility Option obligations.

**RECOMMENDED ACTION**

It is recommended that the TVA Board (1) approve the implementation of a Flexibility Option, to be implemented on the later of June 1, 2020, or the date on which all required environmental reviews are satisfactorily completed, in a manner consistent with the Flexibility Principles, (2) authorize the CEO, or his designee, to further develop and revise standard terms to be included in an amendment to the wholesale power contract that will implement the Flexibility Option in a manner consistent with the Flexibility Principles listed above, or as adjusted after review by the Finance, Rates, and Portfolio Committee, (3) authorize the CEO, or his designee, to execute amendments to the wholesale power contract that will implement the Flexibility Option, and (4) authorize the CEO, or his designee, to revise existing contracts, products, and programs as necessary to address interactions with the Flexibility Option.



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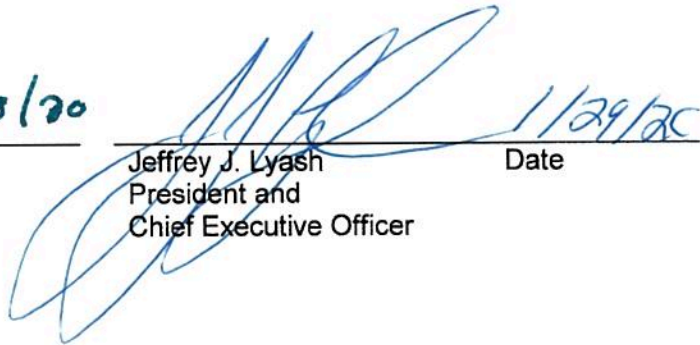
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**REVIEWED AND APPROVED**



Sherry A. Quirk  
Executive Vice President  
and General Counsel

Date



Jeffrey J. Lyash  
President and  
Chief Executive Officer

Date