



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

Craven Crowell
Chairman, Board of Directors

June 2, 1997

The Honorable John D. Dingell
Ranking Member
Commerce Committee Democratic Office
U.S. House of Representatives
564 Ford House Office Building
Washington, DC 20515

Dear Congressman:

Thank you for the opportunity to share the views of the Tennessee Valley Authority on a number of issues related to consideration of electric utility industry legislation. Our answers to the specific questions you posed are enclosed, and I hope that you will find them useful. For your consideration, I also want to take this opportunity to provide you with my thoughts on some of the recent developments affecting deregulation of the electric utility industry.

As you know, the TVA power system is one of the largest electric power systems in the country. It serves about eight million persons and businesses located in portions of seven states. It is nonprofit. Its statutory purpose is to provide electric power at the lowest feasible rates to enhance the economy and the overall development of the region. Although the power system is entirely owned by the United States Government, it is entirely self-supporting financially. It relies only on the revenue it receives from the sale of electric power.

Several private power companies have hired Washington lobbyists who are providing misleading information to members of Congress. The TVA power system is not subsidized by Michigan taxpayers or taxpayers anywhere else. The power program receives no appropriated funds. The power system makes tax equivalent payments to state and local governments at higher rates than do the private power companies in this region of the country. And, the power system pays an annual dividend to its owner, the United States, as a return on the tax funds that were invested in the system in its earlier years.

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The electric utility industry is in a state of rapid change and new legislative proposals at the state and federal levels are surfacing every day. In this state of flux, it may be difficult at this time to give a definitive explanation of how TVA should be treated with regard to each particular proposal or suggestion. The impact of any single proposal is dependent largely on the other provisions which might be included in an overall legislative package. TVA believes that the prudent course to follow is to carefully study the various legislative proposals on the table and consult with our customers and legislative leaders, particularly the Tennessee Valley Delegation, before finalizing our position.

Let me assure you, however, that TVA's views will always be guided by the impact of the proposals on the consumers of electric power in our region and the fairness of an overall legislative package on them and the economy of this region.

Please let me know if you need further information, or we would be pleased to discuss these issues further with you or your staff.

Sincerely,

A handwritten signature in black ink that reads "Craven Crowell". The signature is written in a cursive style with a large initial "C".

Craven Crowell

Enclosure

**TVA Responses to Utility Deregulation Questions
In Representative Dingell's April 11, 1997, Letter**

How has increased competition in wholesale electricity markets affected your business? To what extent has the Tennessee Valley Authority benefited and to what extent have you been disadvantaged?

Increased competition in wholesale electricity markets has resulted in both benefits and disadvantages to TVA's customers. Competition has lowered the cost of off-system purchased power which, together with a greater internal effort to lower TVA's own generation costs, has enabled TVA to avoid rate increases for the past 10 years. In addition, competitive pressures on surrounding utility systems combined with higher TVA generation allowed TVA to increase sales of its surplus power to those utilities permitted by the TVA Act.

At the same time, increased competition has resulted in the loss of one full requirements wholesale customer, Bristol, Virginia, which TVA cannot easily replace because it is prohibited by law from generally supplying its power outside a statutory "Fence."

What plans does Tennessee Valley Authority have for responding to the challenges posed by increased competition in the electric industry, including the possibility of retail competition?

TVA helped bring competition to an uncompetitive marketplace in the 1930s, and the emergence of a more competitive marketplace today is an opportunity for TVA to continue to serve the public interest and an added incentive to keep its rates as low as feasible. As TVA charts its strategic course, it seeks a role that will continue to increase its value to its customers and to the Federal Government.

Success in a competitive marketplace means reducing costs, increasing efficiencies, and improving service. TVA has maintained stable rates for the past 10 years. It has ended its nuclear construction program. This year, it is capping its debt—for the first time in 35 years—and will be paying down the outstanding debt in future years. It is completing a major upgrade in the efficiencies of its hydroelectric plants and continuing to improve operations at its coal and nuclear plants. The capacity factor of its coal plants has improved by more than 20 percent in the past 10 years, and TVA has been ranked by *Electric Power & Light* magazine as the second lowest-cost producer among the Nation's top 50 utilities. TVA is ensuring a reliable transmission system by upgrading and adding facilities at those places that could soon be overtaxed by demand. Finally, TVA participated in the formation of the Public Power Alliance, an association of public and cooperative generation and transmission utilities (Lansing Board of Water & Light is a member) to foster cooperation in the public power sector and provide better and lower cost services to their customers.

TVA is committed to continuing to provide the Tennessee Valley region with an ample supply of electric power at the lowest feasible cost; directing the primary benefits of this power supply to those communities and businesses in the Tennessee Valley region which rely on it as their primary source of power supply; and low cost TVA power will not be sold to others without a commensurate benefit to those communities and businesses.

Have any States in your region adopted or are they considering retail competition plans?

None of the States in the TVA region have adopted plans for retail competition. Kentucky and North Carolina are involved in collecting information about the impact of retail competition. Virginia completed a study in 1995 with a recommendation to delay retail open access until experience is gained by other States. Georgia is sponsoring a series of workshops on restructuring, and Mississippi is holding hearings on retail choice. Alabama and Tennessee have not yet seriously considered retail competition.

What do you see as the future role of Public Power?

Public power should be recognized as a valuable yardstick and allowed to compete in the new environment. The right of citizens to band together to supply their own needs has been part of the Nation's history since the first colonial settlements. Public power came into being largely as the result of the absence of true competition among private power companies, and the increased competition public power provided was instrumental in reducing power costs for all. Public power today serves about 25 percent of the Nation's electric power market. Public power will achieve the following public benefits in the new competitive environment: (1) It will continue as a yardstick and an active market competitor; and (2) It will retain the benefits of low-cost power in traditionally low-cost communities instead of selling that power to other parts of the country where it will produce the greatest profit for stockholders. Efforts to eliminate public power, to discriminate against public power, or to prevent public power from selling electric power competitively at actual cost should be opposed as the anticompetitive measures they are.

Do you believe Congress needs to modify the federal authorities applying to TVA?

Generally, TVA is well placed both legally and economically to compete in a new deregulated environment. However, one major barrier still exists, and it should be eliminated at the appropriate time. The TVA "Fence" is the 1959 provision of law that generally prevents TVA or any of its distributors from being a source of power supply outside the area TVA was serving in 1957. The Fence should come down on the date

retail competition begins in any State in which TVA presently provides electric power so that TVA and its distributors might then compete in a reciprocal fashion with those who may compete for TVA customers. It should also come down if wholesale access to TVA's customers is permitted. Without such reciprocity, consumers of TVA power might have to bear an ever increasing portion of the fixed costs of the TVA power system as TVA or its distributors are unable to make up for lost sales by selling to new markets. Without such reciprocity, there will be a significant negative impact on the State and local economies of Tennessee; northern Alabama, Georgia, and Mississippi; and western Kentucky.

What is your sense of whether legislation authorizing the States to resolve stranded costs issues would be beneficial from your point of view?

Mechanisms for recovering stranded investments in full should be established at State or Federal levels, whichever is appropriate. Electric utilities which were under an obligation to estimate future customer demands years in advance and make massive long-term investments necessary to meet those demands should be able to recover that portion of those investments now made uneconomical in a competitive marketplace. The persons and businesses for whose benefit these investments were made should bear those stranded costs, regardless of who they may choose in the future as their electric power supplier. Because TVA is a Federal entity, Federal legislation would be required in its case.

To what extent is your transmission system required to operate under the same rules as privately owned utilities systems? Although you are not required under current law to comply with Order 888 and other similar FERC directives, have you taken any voluntary steps to comply? If so, please explain why

Congress formally ushered in the era of wholesale competition with the enactment of the Energy Policy Act of 1992 and its express authorization of the Federal Energy Regulatory Commission to order wholesale wheeling under a revised section 211 of the Federal Power Act. Appropriately, TVA and other public power entities were made subject to this new authority even though they were not subject to FERC jurisdiction generally. FERC chose, however, to institute a broader wholesale wheeling arrangement—Orders 888 and 889—based on other provisions of law not applicable to public power. Nevertheless, TVA has voluntarily adopted Transmission Service Guidelines, consistent with the FERC's Orders and other applicable law, which provide non-discriminatory access to third parties to wheel electric power and energy across TVA's transmission system. An important wholesale wheeling exception with respect to TVA is the "Anti-Cherry Picking" provision, which was a congressional recognition that it was unfair for other utilities to pick off TVA's wholesale customers if TVA could not compete outside of the "Fence" for their customers. Once the Fence comes down with retail competition, however, the need for this protection is eliminated.

In addition, TVA has implemented jointly with several jurisdictional utilities an Internet-based Open Access Same-Time Information System (OASIS) meeting Order 889 provisions. This OASIS provides nondiscriminatory access to information regarding the availability of TVA's transmission system through which wheeling transactions are arranged.

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