



Athens Utilities Board

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October 17, 2017

Mr. Richard Howorth
160 Courthouse Square
Oxford, MS 38655

Subject: Athens Utilities Board (AUB) – Protest Resolution – TVA Continuing Rate Increases

Dear Chairman Howorth,

Attached please find the subject document in protest of TVA's continuing rate actions. We have been in discussion with TVA top management for many years now regarding the fact that these rate increases are indefensible and continue to harm our ratepayers and economic development within the Valley.

For the first time in over 17 years of managing a municipal utility, I feel as though circumstances dictate that I take my message directly to you. I have reached this conclusion because my requests and complaints as a customer of TVA, regarding the current path forward, have been ignored by TVA management in terms of any tangible actions. We basically are told by TVA's top management that we "have a plan and we are sticking to it" with no recognition of the basic harm these actions are having on the ratepayers and no defense of these indefensible rate actions.

I am sure that you prefer salient points stated as briefly as possible, so I offer you the following nine items for your consideration in this matter along with the statements in the attached resolution:

TVA sells wholesale power to 154 distributors and some direct serve customers. TVA is a wholesale supplier of power and NOT a retail provider of power. This is an extremely important point because TVA's entire defense of these rates is predicated on RETAIL rates, not TVA's annual increasing wholesale base rates.

TVA compares a retail "effective rate" that includes base rates, plus fuel cost, a number of adders, and the local distributor's margin. It is disingenuous at best, and deceptive at worst, for TVA to use retail rates for comparative purposes. TVA is a wholesale provider of power and should be measured by wholesale power rates. TVA's wholesale power cost represents roughly 80 to 82 cents of every dollar of revenue earned by a local power company.

TVA uses the effective rate because it makes them look better. By taking advantage of the LPC's efficiency of running on the slim 18 to 20 percent margin, along with the historic run-up and collapse of natural gas prices, conditions have allowed TVA the ability to say "effective rates are the same as five years ago." This lulls you and the public into a mindset that "everything is fine" while the agency takes billions of dollars out of the ratepayers' pockets unnecessarily. The fact remains, rates could be MUCH lower.

To demonstrate the dynamic of collapsing fuel costs with TVA increasing wholesale rates I offer the following historical data points. NYMEX contract gas prices in August of 2008 topped out at \$13.11 per MMBTU and by August of 2014 they were \$3.81 MMBTU, a reduction in fuel cost to TVA of 70%. Yet even with this historic collapse in fuel prices, AUB retail rates to the end-use residential consumer were higher in 2014 than in 2008. WHY? The answer is simple. Because TVA continued to increase base wholesale rates even as fuel costs fell precipitously.

TVA rates could feasibly be much lower than they are today if TVA were still committed to the principles of public power as set forth in the letter of the law commonly referred to as the "TVA Act." But instead of public power principles, our customers, "some of the poorest in the nation" according to TVA's CEO, continue to read these headlines every year: "TVA reports increase in net revenue despite lower demand," quickly followed by "TVA board approves 1.5% retail rate increase," and finally "TVA to pay out \$127 million in employee bonuses."

TVA continues to raise the wholesale rate by 2.3 - 2.5 percent every year. Based upon our data, with the latest action this October, TVA has raised wholesale base rates by more than 40 percent in the last 10 years. A rate that is 2.3 times higher than the rate of inflation as measured by the CPI.

TVA's wholesale base rates are too high and uncompetitive. So much so that their latest initiative is to try to reduce their energy rates overall by lowering certain classes of commercial energy wholesale rates and then charge it back to the distributors (your customers) in a "revenue neutral" fixed cost (TVA CTC Structure). To my knowledge, this is unprecedented with respect to a generation and transmission wholesale provider of power. All generation and transmission rate models that I am aware of utilize the "demand" charge for fixed cost recovery.

If TVA's new CTC wholesale rate structure had been in place this year, AUB customers would have paid an additional \$208,000 for wholesale power since October 2016 compared to the current rate structure.

Mr. Richard Howorth

October 17, 2017

Page 3

Please note that a rate-design consultant who once led rate design for TVA and who now works with the majority of your customers, including Athens Utilities Board, provided TVA's management team a well-structured, detailed and truly rate-neutral model that would lower wholesale energy rates. The information was summarily dismissed, immediately eliminated for consideration by TVA management. The CTC proposal certainly isn't revenue neutral to our ratepayers based on this year's sales, yet TVA continues to push (or more accurately, to force) this rate change on local power distributors, your 154 customers.

As a small town, rural local power company, we have been unable to sway TVA management to thoughtfully consider its congressionally mandated charge to keep rates in the Valley "as low as feasible." TVA management seems determined to ignore the mandates of the TVA Act, ignore reasonable alternatives and unwelcomed facts about its proposals, and to stay the course on additional future rate actions.

I implore you on behalf of all the customers of AUB, but in particular those who struggle to pay their bills monthly, to stop this madness of continual annual rate increases and rate change proposals such as TVA's CTC. These actions put an undue financial burden on the citizens of the Valley, increase TVA's base wholesale rates to the point of being non-competitive, throttle economic growth, and are unjustified given any reasonable evaluation of TVA's current financial condition boasting record profits on record low sales while servicing all debt and still paying out over \$100,000,000 in bonuses every year to an already well paid workforce.

In closing I simply ask you, does this sound as though the TVA management team is keeping rates as low as feasible as mandated by the TVA Act? Does this sound like the actions of public power entity? Or does it sound more like an investor-owned utility that just happens to be a federal monopoly? I urge you as Board members to correct the course of TVA and return to the public power principles you were founded on.

Sincerely,

Eric Newberry,
General Manager
Athens Utilities Board

Attachments: Resolution 2018-5 Protesting Continuing Increases to the TVA Wholesale Rate Structure

c.c. Stan Harrison, AUB Board Chairman
TVA Board Members
TVA Board Nominees
Tennessee Valley Congressional Delegation
Wayne Scarbrough, AUB Assistant General Manager

ATTACHMENT 1

Resolution Protesting Continuing Increases in TVA Wholesale
Power Rate Structure

Resolution 2018-5

RESOLUTION PROTESTING CONTINUING INCREASES TO THE TVA WHOLESALE POWER RATE STRUCTURE, known as the Wholesale Power Rate – Schedule WS.

WHEREAS, the Tennessee Valley Authority (TVA) is the sole supplier of electric energy to the Athens Utilities Board (AUB); and

WHEREAS, TVA was formed and has authorities and primary directives assigned to it through Congressional Act (the TVA act),

WHEREAS, TVA currently has record revenues in excess of expenses annually despite record low sales,

WHEREAS, TVA currently has more than adequate revenues to service all debt schedules,

WHEREAS, TVA continues to fund an employee bonus program at an expense exceeding \$100,000,000 on an annual basis,

WHEREAS, TVA has increased wholesale rates over 37% since 2008, more than twice the rate of inflation during the same time period,

WHEREAS, TVA continues to incrementally increase rates on a yearly basis causing undue hardship upon the citizens of the valley,

WHEREAS, TVA management insists that these continuing rate increases are “necessary” to accelerate debt payments,

WHEREAS, TVA is charged by the TVA act in Section 15d (f) to set rates consistent with the primary objectives of the act,

WHEREAS, one of these primary objectives is that “Power shall be sold at rates as low as are feasible”

WHEREAS, this directive is expressly applicable to the retirement of bonds before maturity under Section 15d (f) of the TVA act,

WHEREAS, TVA is no longer setting rates consistent with its congressional directive,

WHEREAS, it is deemed that these rate increases have harmed residents financially, taking billions out of the pockets of rural and domestic customers in the valley,

WHEREAS, the continuing unnecessary escalation in wholesale rates has made TVA less competitive than its peers and has harmed economic development efforts in the valley,

NOW THEREFORE, be it resolved by the Athens Utilities Board that these wholesale rate increases should cease immediately and TVA return to its congressionally mandated directive to foster economic development in the valley by selling power at rates as low as feasible to all rate classes and, per the TVA act, “particularly the rural and domestic consumer”.



CHAIRMAN



GENERAL MANAGER