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STAFF PHOTO BY ROBIN RUUU

VEC Board of Directors Chairman Laney Colvard, left, discusses the cooperative's relationship with government during a interview at the Decatur offices. Listening, at right, is VEC president and CEO Rody Blevins. Volunteer Energy Cooperative is considering obtaining its power from another source rather than the Tennessee Valley Authority.

Coops eye alternatives to TVA power

Studies show cheaper options from other utilities

BY DAVE FLESSNER
STAFF WRITER

DECATUR, Tenn. — In the past decade, the Tennessee Valley Authority has spent billions of dollars in the East Tennessee region served by Volunteer Electric Cooperative building TVA's newest nuclear reactor at Watts Bar and starting work on a new power control center near Georgetown.

Local officials have welcomed the TVA investments in the region, but they insist their biggest need from TVA is for more competitive power rates. Wholesale electric rates from TVA, once among the lowest in the country, are now above many neighboring utilities, according to rate comparison studies done by two of the biggest electric coops in the area.

"The Tennessee Valley Authority has done a lot of great things for this part of the country, but their prices kept escalating and their wholesale rates are just not competitive with others in the region at this point," Rody Blevins, a 38-year utility veteran who has headed Volunteer Energy for the past 15 years. "We've met with the TVA board and its leadership and spent a lot of time helping them see how their wholesale rates have increased more than other utilities. Since 2005 when the Federal Energy Regulatory Commission [FERC] adopted open transmission access to make the electric markets more competitive, [electricity] costs have gone down nationally, but costs have gone up in the TVA region."

Volunteer Electric Cooperative (VEC), one of the first local power companies to begin buying TVA power in 1935, began exploring its

Wholesale power rates

A 2018 study by the Atlanta-based energy consulting firm EnerVision said TVA wholesale rates averaged 28% more than average of 11 electric utilities in the Southeast.

- › **Union Electric Co.** — 4.6 cent per kwh
- › **Dominion Energy South Carolina** — 5.0 cents per kwh
- › **Duke Energy Carolinas** — 5.3 cents per kwh
- › **Santee Cooper** — 5.3 cents per kwh
- › **Alabama Power** — 5.6 cents per kwh
- › **M&A Electric Power Coop** — 5.6 cents per kwh
- › **Louisville Gas & Electric** — 5.8 cents per kwh
- › **East Kentucky Power Coops** — 6.2 cents per kwh
- › **Appalachian Power** — 6.7 cents per kwh
- › **Tennessee Valley Authority** — 7.3 cents per kwh

Source: EnerVision 2018 wholesale costs for contiguous utilities. Study conducted for Volunteer Electric Corp.

power options for future energy three years ago, Blevins said, and VEC requested proposals for alternative power suppliers earlier this year.

Volunteer Energy, which serves 118,000 customers, combined with North Georgia Electric Membership

Corp., which serves more than 101,000 customers, to solicit requests for proposals to meet the power needs of the two local power companies.

"TVA has been around for a long time and they have really been good for the Tennessee Valley, but things are changing quickly now," said Kathryn West, president and chief executive at North Georgia Electric Membership Corporation which serves parts of seven counties in Northwest Georgia.

A 2018 rate comparison study by the Atlanta-based energy consulting firm EnerVision for Volunteer Energy found that TVA wholesale rates at that time were 28% higher than the average of 10 other neighboring utilities.

"That study pretty much showed that TVA is the highest priced wholesale power supplier in the Southeast United States," Blevins said.

TVA TOUTS ITS ADVANTAGES

TVA President Jeff Lyash insists when all of the costs and benefits are considered for wholesale power suppliers "TVA is still the best overall value" for municipalities and power coops in the Tennessee Valley.

TVA's 33,727 megawatts of generating capacity and its 16,200 miles of transmission lines ensures there are adequate power reserves in the event of a plant outage so the local power company is not forced to go out into the spot market and buy more expensive power during peak demand periods.

TVA also makes tax-equivalent payments to local governments and provides economic development assistance beyond what the local power coops provide in the areas they serve.

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Power

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Most of the 154 local power companies that distribute TVA-generated electricity have looked at their options and signed long-term power purchase agreements with TVA in the past year, committing to buy most of their power from TVA for at least the next 20 years. In exchange, TVA has granted rebates and more flexible purchase arrangements to those local power companies and pledged not to raise base rates for the next decade.

But 14 TVA distributors have yet to sign such long-term agreements with TVA, even though TVA is offering a 3.1% discount to those local power companies that sign the long-term pacts.

TVA'S BIGGEST CUSTOMERS MAY SPLIT

Those yet to sign the agreements include TVA's biggest customer — Memphis Light Gas and Water, which is studying whether other power suppliers might deliver electricity cheaper than TVA.

A study done by the energy consulting firm Siemens estimated that MLGW could save \$120 million a year by leaving TVA and generating its own power and turning to other wholesale suppliers. But a TVA analysis of the Siemens study said Memphis would have to spend another \$261 million to replace TVA power because of extra building, transmission and operating expenses TVA contends that Siemens did not consider.

"I really believe that if they (VEC and North Georgia EMC) go through a due diligence process and really look at all that is involved they will find that TVA is the best choice, just as we would hope happens in Memphis," Lyash said.

Since TVA controls most of the high-voltage transmission lines in its seven-state region to deliver power to local utilities, any local power company splitting with TVA will have to work out other transmission line access to get power from other utilities. But that is less of a problem for VEC, which spans from the Kentucky line to the north and to the Georgia state boundary to the south. Other utilities in the south border or are close to VEC's transmission services.

UTILITIES COMPETE IN GEORGIA

The potential of buying cheaper power from other power suppliers is especially acute for the North Georgia Electric Membership Corp., because Georgia allows any customer of sufficient size (9 megawatts) to allow any willing power supplier to serve them. That has made it more difficult for North Georgia EMC to compete with neighboring electric utilities such as Georgia Power and Dalton Utilities.

"What has happened with TVA wholesale rates since 2006 and 2007 is that they have increased steadily and have become disproportionately high with other utility companies in the Southeast," West said. "We have no protection and we have

to compete for any load over nine megawatts in Georgia. When TVA's rates increased more than others, we would lose prospects and loads to other utilities that offered power cheaper than what we are able to offer."

North Georgia EMC launched a formal process earlier this year to get requests for proposals from other wholesale suppliers and has so far received nine proposals from power suppliers interested in replacing TVA as a supplier to North Georgia EMC.

West said because of the bid process includes a non-disclosure agreement against revealing names and prices, she can't identify who is offering to supply power and at what price.

"We are crunching the numbers now, but the numbers (submitted in the bids) are quite compelling," she said. "When our board feels comfortable with these numbers and where we are, then we'll make a decision."

WEIGHING THE OPTIONS

Without TVA as its exclusive power provider, North Georgia EMC or Volunteer Energy would have to negotiate and find other suppliers or build some of their own capacity to serve their customers.

"What's exciting is that we have so many options if we make a change rather than relying entirely upon TVA," West said. "Most other local power companies in America, and especially in Georgia, have a lot different alternatives by buying from different vendors, doing self generation or going into partnerships

with other coops."

In the current market, Blevins said some power utilities have a surplus of generating capacity as consumers become more energy efficient or replace utility purchases with their own solar, wind, co-generation or other distributed power.

"They have excess supply, the market is low and they are trying to drive sales," said Colvert, said he expects power suppliers to offer even lower rates than those quoted in the Enervision study of published FERC rates.

Laney Colvert, chairman of the Volunteer Energy board, said TVA and its supporters often tout the relatively low electricity rates in the Tennessee Valley which rank in the bottom 25% of all U.S. utilities for residential rates and in the bottom 10% for industrial rates.

"But those rates are set by local power companies like us, not by TVA," Colvert said. "TVA and the Tennessee legislative delegation don't talk about the wholesale rates TVA charges to its customers. Much of the reason our rates are below average is because of the local power companies. TVA's wholesale rates are just not that competitive anymore."

Colvert said he expects VEC directors to decide by this fall whether or not to give TVA the required 5-year notice to sever the power purchase agreement and replace TVA with other wholesale suppliers.

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