

August 29, 2000

To All Distributors of TVA Power

Recently TVA has been talking with distributors about ways that we could work together to provide the new generation needed to continue to fuel the Valley's growth. Today, we are inviting all distributors of TVA power to submit proposals for peaking power capacity to help meet system needs beginning in June 2002.

We know that many distributors would like to begin partial requirements negotiations with us in conjunction with the new generation proposals, and we have studied that possibility. Try as we might, we have not been able to find a way to structure a partial requirements scenario that avoided the need to reach agreement on stranded cost liabilities with respect to the entirety of the power supplied under the existing full-requirements contracts.

Reaching such an agreement on a distributor's stranded cost liability has proven to be a formidable challenge in previous discussions. Given the pressing need to ensure that this new peaking power capacity will be available in time to meet the power demands of our customers, we reluctantly decided to request only proposals that are consistent with the current full-requirements power supply contract between TVA and all distributors.

Given the uncertainty facing the electric power industry as a result of pending deregulation, TVA's preferred contract term is for five years, with an option to extend for another five years. However, in order to give distributors additional flexibility, TVA is willing to consider longer term contracts under certain conditions as described in the enclosed "Request for Proposal."

First, TVA is inviting distributors of TVA power to submit proposals (**TVA DISTRIBUTOR PROPOSAL A**) for peaking power capacity to help meet system needs beginning in 2003. Peaking power is needed in an amount up to 600 MW to be commercially operable by June 1, 2003.

In addition, TVA is seeking proposals (**TVA DISTRIBUTOR PROPOSAL B1**) from distributors to purchase the four-unit combustion turbine facility to be sited at a location near DeKalb, Mississippi. This purchase would be contingent on TVA's contracting with the successful proposer for the output of the generating units to help meet system needs beginning June 1, 2002.

Finally, TVA is seeking proposals (**TVA DISTRIBUTOR PROPOSAL B2**) from distributors to purchase the four-unit combustion turbine facility to be located at a site to be designated later by TVA within the TVA service territory. This purchase would be contingent on TVA's contracting with the successful proposer for the output of the generating units to help meet system needs beginning June 1, 2002.

The details to include in such proposals are found in the enclosed "Request for Proposal." For **TVA DISTRIBUTOR PROPOSAL A**, TVA is most interested in a proposal in which the proposer would develop and finance a simple-cycle combustion turbine facility and, during the term of a contract, own the facility and make it available for the generation of peaking power to be supplied to TVA under a monthly fee arrangement. For **TVA DISTRIBUTOR PROPOSAL B1** and **B2**, TVA is most interested in a proposal in which the proposer would purchase one or both of the four-unit combustion turbine facilities from TVA and finance the simple-cycle combustion turbine facility and, during the term of a contract, own the facility and make it available for the generation of peaking power to be supplied to TVA under a monthly fee arrangement. The applicable specifications for the existing combustion turbine units can be obtained by contacting your TVA Customer Service Manager and requesting the "Specifications of Combustion Turbine Units." Naturally, in order to secure the greatest benefits for all customers, TVA must select the proposal(s) most advantageous for the TVA power system.

Proposals should be submitted by no later than November 8, 2000. Any questions related to a proposal should be directed to your TVA Customer Service Manager, who will refer you to the appropriate technical person in TVA. Proposals should be submitted to Tennessee Valley Authority, Attention: Mark O. Medford, Executive Vice President, Customer Service and Marketing, 535 Marriott Drive, HRT1, Nashville, Tennessee, 37214.

Thank you for your interest; we look forward to working with you on this new opportunity.  
Sincerely,

Mark O. Medford  
Executive Vice President