REQUEST FOR PROPOSAL

FOR

PEAKING CAPACITY

TENNESSEE VALLEY AUTHORITY

535 Marriott Drive, HRT1
Nashville, Tennessee, 37214.

AUGUST 29, 2000

Table of Contents

I. Introduction

A. Purpose

1. TVA DISTRIBUTOR PROPOSAL A

Tennessee Valley Authority (TVA) through this Request for Proposal (RFP) is soliciting offers from distributors whereby TVA would purchase up to 600 MW of peaking capacity beginning June 1, 2003 under Option Purchase Agreements (OPAs). It is TVA's intent to structure the OPA contracts such that TVA would not own the physical assets (plant) but pay a fee to the owners for exclusive rights to energy produced by the plant. All proposals must meet the following requirements during the term of the OPA to be responsive to this solicitation:

- June 1, 2003, delivery start date,
- TVA prefers a location in the western portion of the TVA service territory, but will consider any location in the TVA service territory,
- Connection to the TVA transmission system (500 kV or 161 kV),
- TVA prefers to be fuel manager, but will consider other arrangements,
- TVA will have exclusive dispatch rights for the plant to help meet TVA system needs,
- Guaranteed heat rate and other plant operating characteristics, and
- Fees in the form of monthly capacity, variable O&M payments including fuel, if applicable, and
- TVA prefers proposals contain an option for TVA to purchase the plant at the end of the contract term at a predetermined fixed price.

2. TVA DISTRIBUTOR PROPOSAL B1

Tennessee Valley Authority (TVA) through this Request for Proposal (RFP) is also soliciting offers from distributors for a distributor or group of 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 contracting under an Option Purchase Agreement (OPA) with the successful proposer(s) for the output of the generating units to help meet TVA system needs beginning June 1, 2002. It is TVA's intent to structure the OPA contract such that TVA would not own the physical assets (plant) but would pay a fee to the owners for exclusive rights to energy produced by the plant. All proposals must meet the following requirements during the term of the OPA to be responsive to this solicitation:

- June 1, 2002, delivery start date for the plant,
- Location near DeKalb, Mississippi within the TVA service territory,
- Connection to the TVA transmission system (161 kV),
- TVA prefers to be fuel manager, but will consider other arrangements,
- TVA will have exclusive dispatch rights for the plant to help meet TVA system needs,
- Guaranteed heat rate and other plant operating characteristics, and
- Fees in the form of monthly capacity, variable O&M payments including fuel, if applicable, and
- TVA prefers proposals contain an option for TVA to purchase the plant at the end of the contract term at a predetermined fixed price.

3. TVA DISTRIBUTOR PROPOSAL B2

Tennessee Valley Authority (TVA) through this Request for Proposal (RFP) is also soliciting offers from distributors for a distributor or group of distributors to purchase the four-unit combustion turbine facility to be located at a site later designated by TVA within the TVA service territory. This purchase would be contingent on TVA contracting under an Option Purchase Agreement (OPA) with the successful proposer(s) for the output of the generating units to help meet TVA system needs beginning June 1, 2002. It is TVA's intent to structure the OPA contract such that TVA would not own the physical assets (plant) but would pay a fee to the owners for exclusive rights to energy produced by the plant. All proposals must meet the following requirements during the term of the OPA to be responsive to this solicitation:

- June 1, 2002, delivery start date for the plant,
- Location to be designated later by TVA within the TVA Service Territory,
- Connection to the TVA transmission system (500 kV or 161 kV),
- TVA prefers to be fuel manager, but will consider other arrangements,
- TVA will have exclusive dispatch rights for the plant to help meet TVA system needs,
- Guaranteed heat rate and other plant operating characteristics, and
- Fees in the form of monthly capacity, variable O&M payments including fuel, if applicable, and
- TVA prefers proposals contain an option for TVA to purchase the plant at the end of the contract term at a predetermined fixed price.

It is the intent of TVA to receive Proposals that specifically meet these requirements and ultimately to negotiate contracts for peaking capacity to satisfy the expected capacity and energy desired.

B. Reservation of Rights

TVA reserves the right, without qualification and at its sole discretion, to reject any or all Proposals or waive any formality or technicality in Proposals received. In addition, TVA reserves the right to consider other alternatives outside of this solicitation at its sole discretion in order to satisfy its desired capacity and energy needs. Those who submit Proposals do so without recourse against TVA for either rejection by TVA or failure to execute an OPA for any reason, except that nothing herein shall be construed as a waiver of any rights a Qualifying Facility may have under the Public Utility Regulatory Policies Act of 1978 (PURPA).

C. Confidentiality

TVA recognizes that certain information contained in Proposals submitted may be confidential and may represent a competitive or business strategy.

Therefore, other than as required by applicable law, TVA will treat each Proposal in its entirety as confidential and Proposals will only be made available on an as-needed basis to the persons charged with evaluation, selection, and negotiation of an OPA.

II. Summary of Key Activities

A. Release of RFP

This RFP is available to interested distributors as of August 29, 2000. Copies can be obtained by contacting TVA's Customer Services and Marketing organization, either by phone or in writing, as described in Section II.B. below.

B. Submittals, Inquiries, and Other Communications

Proposals **MUST** be submitted no later than November 8, 2000. All proposals must be submitted to:

Mark O. Medford
Executive Vice President
Customer Services and Marketing
Tennessee Valley Authority
535 Marriott Drive, HRT1
Nashville, Tennessee, 37214.

All other submittals, inquiries, and other communications relating in any manner to this RFP should be directed through your TVA Customer Service Manager who will refer you to the appropriate TVA technical person.

C. Proposal Submittal

In order to ensure consideration, all Proposals **MUST** be submitted to the address described in Section II.B. above no later than 4 p.m. CDT on November 8, 2000, and conform with the requirements as stated in Section III below. Proposers **MUST** submit an original (to be so marked) and three (3) copies of their Proposals.

All costs of development of Proposals submitted are to be borne by the proposer. TVA will not reimburse any proposer for costs incurred in responding to this RFP or for costs incurred during any subsequent negotiations.

D. Evaluation

Proposals will be evaluated as described in Section VI. The evaluation process will commence immediately after the Proposal submittal deadline. TVA will assess Proposals to determine which, in its sole opinion, best serve TVA's overall business requirements. The evaluation process will consider among other things:

- Conformance of the Proposal format to the requirements stated herein,
- Responsiveness of the Proposal to TVA's stated capacity needs, strategy, and other requirements,
- Proposal cost relative to other Proposals and options available to TVA,
- Evidence of proposer's ability to successfully execute its obligations under the Proposal, and
- Flexibility for future changes.

E. Negotiation of Option Purchase Agreement

1. Short List

Upon the conclusion of the evaluation process, TVA will develop a Short List and initiate individual negotiations with proposers in this group. TVA expects to notify all proposers regarding their individual status with respect to the Short List by no later than December 15, 2000; however, no list of all proposers or of proposers on the Short List will be made public.

TVA expects to negotiate with members of the Short List to develop OPAs that in the aggregate provide an amount of capacity deemed by TVA to be sufficient to satisfy its requirements. In the event that TVA is unable to arrive at acceptable OPAs for sufficient capacity through good faith negotiations with initial members of the Short List, TVA reserves the right to select additional Proposals for consideration or pursue other alternatives.

2. Option Purchase Agreement Terms

Upon initiation of negotiations with a member(s) of the Short List, TVA will provide a proposed draft OPA that will serve as the basis for negotiations.

The commencement of negotiations does not create nor imply any commitment on the part of TVA to enter into any agreement. TVA shall not be bound in any respect unless and until a definitive OPA containing mutually satisfactory terms is executed by both parties. Should a proposer be selected for the Short List, it should be prepared to maintain its Proposal in effect until May 31, 2001, and to negotiate in good faith to reach an agreement consistent with the terms contained in the Proposal. It is required that the negotiation of a definitive OPA be completed within 12 to 20 weeks from commencement of such negotiations.

F. Schedule

The schedule as outlined below, detailed throughout Section II, and referred to throughout this document is based on TVA's expectations as of the release date of this RFP.

- **TVA DISTRIBUTOR
  PROPOSAL A**

Release of RFP	August 29, 2000
Proposal Submittal	November 8, 2000
Notification of Short List	December 15, 2000
Completion of Negotiation	April 30, 2001

- **TVA DISTRIBUTOR PROPOSAL B1** and **B2**

Release of RFP	August 29, 2000
Proposal Submittal	November 15, 2000
Notification of Short List	December 15, 2000
Completion of Negotiation	February 28, 2001

TVA reserves the right to extend or otherwise modify any portion of the schedule or terminate the RFP process at its sole discretion.

III. Proposal Requirements and Format

A. General

Proposals shall be prepared in accordance with the instructions of this section. TVA reserves the right to disregard Proposals that do not comply with these instructions.

B. Proposal Format

A Proposal shall be assembled by sections and exhibits as described below. The following order shall be used to assemble a Proposal:

Section 1 - Executive Summary of Proposal
Section 2 - Description and Qualifications of Proposer
Section 3 - Financial Proposal
Section 4 - Pricing Proposal
Section 5 - Technical Proposal
Section 6 - Special Information
Section 7 - Exhibit I and Exhibit II

TVA prefers that none of the above sections be more than four pages in length.

Sections 2 through 5 should be used to provide narrative responses to the detailed information requirements specified in section V. below. Section 6 of the Proposal can be used at the discretion of the proposer to detail information not anticipated by this RFP.

The original **MUST** be provided in loose leaf unbound form. The three copies **MUST** be bound in an acceptable manner.

IV. Required Characteristics of an OPA Proposal

A. Nature of Capacity Required

1. Capacity and Terms and Conditions

It is TVA's intent to structure the OPA contract such that TVA would not own the physical assets (plant) but would pay a fee to the owner for exclusive rights to energy produced by the plant. All proposals must meet the following requirements during the term of the OPA to be considered for an OPA contract:

- The plants under **TVA DISTRIBUTOR PROPOSAL A** must be physically capable of delivering energy to the TVA transmission system by no later than June 1, 2003, and under **TVA DISTRIBUTOR PROPOSAL B1** and **B2** must be physically capable of delivering energy to the TVA transmission system by no later than June 1, 2002,
- TVA prefers a location in the western portion of the TVA service territory for **TVA DISTRIBUTOR PROPOSAL A**, but will consider any location in the TVA service territory,
- Connection will be to the TVA transmission system, either 500 kV or 161 kV, with all costs up to and including the generator step-up transformer being incorporated in the proposal,
- TVA prefers to be fuel manager to include all natural gas or diesel fuel transportation and commodity contracts and arrangements for backup fuel, but will consider other arrangements,
- TVA will have exclusive right to dispatch of the plant within the design limits of the plant and in accordance with such other parameters as may be specified in the contract or developed by an operating committee,
- The plant owner will guarantee the heat rate of the plant and levels of availability and starting reliability acceptable to ensure meeting system operational needs for peaking power,

- The plant owner will be responsible for supplying replacement energy to TVA in situations where guaranteed levels of availability are not met, and
- TVA will not own the plant but will pay to the owner a fee for exclusive use of the plant. The monthly fee will be in the form of a monthly capacity payment and variable O&M payment. Other payments such as fuel and startup charges may also apply.

2. Nature of the Contract

TVA's preferred contract structure under the agreement is for a five (5) year forward contract followed by successive five-year call options. Under such a contract, TVA would be committed to five years of a "take or pay" type contract (five-year forward) regarding the monthly fee, variable O&M, and other mutually agreed-to charges. One year prior to the end of the five-year forward contract, TVA would have the right to renew the contract for five additional years (a five-year call option with the strike date one year in advance of the delivery date). One year prior to the end of each five-year call option, TVA would have the right to renew the contract for an additional five years by exercising the call option.

If at any time TVA did not exercise its call option and renew the contract, the contract would terminate at the end of the current term and neither the plant owner nor TVA would have any further obligations to each other under the OPA contract.

Alternative

TVA will consider an OPA contract structure with a longer initial term (forward contract) than five years (with TVA having the same rights to renew the OPA contract as described in the preferred contract structure above), provided that TVA has a continuing option to terminate the OPA contract upon giving at least two years advance notice on or after the date on which all TVA distributors first have the option (either under the terms of enacted Federal legislation or as otherwise negotiated with TVA separately from this OPA contract) to give notice (Partial Requirements Date) that they will take some amount of their power supply from other sources as of the end of that notice period.

TVA will consider proposals under which distributor(s) would, beginning on a Partial Requirements Date, have rights to terminate the OPA contract either in its entirety or with respect to one or more units. Such termination rights, however, would require giving at least three years advance notice to TVA on or after that Partial Requirements Date.

Example: Suppose TVA and distributor(s) enter into an OPA contract for 340 MW of peaking capacity beginning June 1, 2002, and the initial forward contract period is for ten years. Suppose the Partial Requirements Date is January 1, 2003, the date on which enacted Federal legislation first gives all distributors the option to give notice to TVA that they will obtain power from other sources. The forward contract period is from June 1, 2002, until May 31, 2012. However, as of January 1, 2003, TVA has a continuing right to terminate the OPA contract upon advance notice.

Assume that TVA is required under the OPA contract to give at least two years advance notice to exercise this termination right and that it exercises that right on April 1, 2003 (three months after the Partial Requirements Date used in this example). On April 1, 2005, the OPA contract would terminate and the distributor(s) would gain control of the entirety of the plant and its capacity.

If TVA has not exercised its termination right, assume that the distributor(s) has the OPA contract right, beginning on a Partial Requirement Date, to terminate the OPA contract with regard to all or part of the capacity (in the form of individual generating units) upon providing TVA with at least three years advance notice on or after that Partial Requirements Date. Suppose the plant consists of four 85-MW units. Beginning on a Partial Requirements Date, the distributor(s) would have the option, upon providing TVA with at least three years advance notice, to terminate the OPA contract, or terminate the OPA contract with respect to one or more of those 85-MW units, and gain control of the capacity of the affected units, and TVA would only have the right to the capacity from any remaining units during the remainder of the initial term of the forward contract and any subsequent renewal periods.

Assume that on February 1, 2003 (one month after the Partial Requirements Date established in this example), the distributor(s) provides TVA with three years advance notice that it is terminating the OPA contract. In that case, on February 1, 2006, the distributor(s) gains control of the entire plant, and TVA is no longer entitled to its capacity—the OPA contract terminates.

In lieu of exercising its right to terminate the entire OPA contract, assume that on February 1, 2003, the distributor(s) provided TVA with three years advance notice that it is terminating the OPA contract with respect to two of the 85 MW generating units. In that case, on February 1, 2006, the distributor(s) gains control of the capacity of those two units, while TVA remains entitled to the capacity of the remaining two units under the OPA contract.

3. Pricing

All prices **MUST** be submitted in current or nominal dollars without any discounting and without removing the effects of inflation. Separate prices should be stated for capacity and fixed O&M ($ per kw month), variable O&M ($ per MWh), and any other charges in accordance with Exhibit II**.** Under TVA's preferred approach as fuel manager, the energy produced will be provided to TVA on a "pass through" basis at the guaranteed heat rate with TVA managing and owning the fuel input and owning the electricity output delivered to the TVA transmission system. If the distributor proposes to be fuel manager, then the variable O&M charge will be the means for compensating the distributor for the fuel component. Consequently, no charge to TVA, other than the variable O&M charge, shall be on a MWh basis.

4. Request for Additional Information

TVA reserves the right to request additional information from any proposer regarding the details of any aspect of their particular Proposal.

B. Transmission Interconnection

Proposals **MUST** be priced to include appropriate connections to the TVA bulk transmission system. Evaluation of Proposals will include consideration of the impact on system performance factors, such as losses, reactive requirements, and other factors including current and planned uses of the transmission system.

At the expense of the successful proposers, TVA will construct, own and operate all transmission facilities required to connect the proposed generation facility into the TVA network. TVA will also provide any modifications or upgrades to existing transmission lines as may be required to accommodate the proposed generation at the proposer's expense. All new transmission facilities, and modifications and upgrades to existing facilities will meet or exceed TVA's *Reliability Criteria for Planning the TVA Bulk Electric Power System* and the Southeastern Electric Reliability Council's *Principles and Guides for Reliability in System Planning*.

C. Environmental and Regulatory Requirements

Proposers shall be responsible for all federal, state, and local approvals, licenses, permits, or variances, and the specific requirements or potential requirements necessary for the proposer to construct and/or operate any generation facility. This should include any rezoning, land-use permits, and other discretionary approvals that may be required by the local government. Proposer shall also be responsible for assuring the availability and adequacy of all fuel handling and transportation facilities, including all necessary infrastructure to support such transportation. Any environmental review necessary under the National Environmental Policy Act (NEPA) shall be the exclusive responsibility of TVA, since TVA is an agency of the federal government. The owner/seller will be responsible for reimbursing TVA for all reasonable costs of performing the necessary environmental review.

Proposers will be responsible for any and all applicable approvals and other regulatory actions required under the Federal Power Act, PURPA, and other applicable law.

Since TVA does not plan to offer emissions offsets associated with any capacity and energy that may be contracted for by TVA as a result of this RFP, the proposer is responsible for providing all emission allowances necessary for the operation of any facility for the entire duration of the OPA.

The proposer is entirely responsible for meeting all requirements of any future laws or regulations as applicable, regarding any part of its operations, including future environmental laws and regulations.

D. Credit Assurance

TVA requires secure and reliable physical delivery of the capacity and associated energy corresponding to all OPAs. Security and reliability of physical delivery covering both the option and the physical delivery of capacity and energy will be guaranteed by either: (1) a Letter of Credit issued by a financial institution that has a Long-term debt rating by Standard & Poor’s of A- or better by Moody’s Investors Service of A3 or better; (2) Guarantee issued by an entity that has a Long-term debt rating by Standard & Poor’s of BBB- or better by Moody’s Investors Service of Baa3 or better; (3) a Performance Bond issued by a insurance company or surety that has a Long-term debt rating by Standard & Poor’s of A- or better by Moody’s Investors Service of A3 or better; or (4) various combinations of the foregoing, as determined by TVA. The cost of such credit assurance must be included in the Proposal.

V. Information Requirements

A. Executive Summary of Proposal

The Executive Summary section should provide an overall description of the Proposal and its key benefits and advantages to TVA. It should include a general description of the technology, location, and business arrangement for the Proposal.

B. Description and Qualification of Proposer

This section should include, but not be limited to, the following information:

- Corporate structure and primary and secondary business.
- Projects and power supply ventures participated in over the last three to five years.
- Contacts for projects and power supply ventures for reference purposes.

The above information may be waived by TVA at TVA's discretion.

C. Financial Proposal

Each Proposal should describe the financial evidence specified below:

1. Financial Structure of Proposer

Provide a brief description of the proposing organization, parent corporation, affiliates, financial references as appropriate, and other pertinent financial information.

2. Financing Plan

The Proposal should include a description of any debt service or other financing plan arrangements required to support the proposed OPA to include the following:

- Anticipated terms and conditions of debt service or financing plan.

- Specify the form of Credit Assurance to be used as described in Section IV.D., Credit Assurance, on page 15 of this RFP.
- Provide a listing of prior project financing including major terms for each.

D. Pricing Proposal

Pricing of capacity and energy shall be in accordance with Section IV.A.3. of this RFP. Additional written explanation may be provided at the proposer's choosing.

E. Technical Proposal

This section should include, but not be limited to, the expected type of generation equipment, emissions control technology, electrical transmission connection, gas connection and transportation and backup fuel, and other pertinent information.

F. Special Information

1. Environmental

The proposer is exclusively and entirely responsible for meeting and satisfying all federal, state, and local permits, licenses, approvals and/or variances that are required to ensure physical delivery of capacity and associated energy in accordance with any OPA.

2. Siting

Under **DISTRIBUTOR PROPOSAL A**, the proposer shall provide a general description of the approximate site where the facility and associated transmission is intended to be located. Such description should include the state and county where the site is to be located. If an approximate site has not been selected, then it will be sufficient to base the proposal on a "typical" site. Under **DISTRIBUTOR PROPOSAL B1**, TVA and the successful proposer will work jointly to site the plant at a location near DeKalb, Mississippi. Under **DISTRIBUTOR PROPOSAL B2**, TVA and the successful proposer will work jointly to site the plant at a location to be designated later by TVA within the TVA Service territory.

3. Other Information

Include any other information which will have a direct and significant impact on the performance of the plant under an OPA contract.

VI. Evaluation and Negotiations

A. General Points Regarding Evaluation

TVA will assess the Proposals to determine which, in its sole opinion, best serve TVA's overall business needs. These needs are driven by the movement toward a restructured, competitive electric power industry characterized by high levels of uncertainty and risk. TVA therefore places a high value on projects with short lead times and a high degree of flexibility.

TVA must have the right to disclose the contents of a Proposal to its staff, agents, and contractors for purposes of the evaluation and any subsequent negotiation. TVA must also have the right to disclose the contents of a Proposal to others as required by law.

B. Ranking and Short List

The ranking will be primarily economic in nature and will take into account both price and business factors to include a comparison with other alternatives, such as market purchases, and the possibility of TVA constructing and owning the plant.

Those proposals which rank the highest will be placed on the Short List as candidates for negotiation toward an OPA contract. TVA reserves the right to replace any proposal on the short list to accommodate changes in TVA's business situation and changing market conditions.

C. Negotiation Process

TVA expects to negotiate with members of the Short List to develop an OPA that will provide an amount of capacity deemed by TVA to be sufficient to satisfy its requirements.

Initial negotiations will focus on the major issues in order to assess the probability of reaching an acceptable OPA within reasonable time. If progress is unsatisfactory after a reasonable period of time, TVA will suspend negotiations with a given Proposal. At any time TVA may be conducting negotiations with more than one member of the Short List.

EXHIBIT I (To be completed for TVA DISTRIBUTOR PROPOSAL A and/or TVA DISTRIBUTOR PROPOSAL B1 and/or B2)

PROPOSED CAPACITY TERMS AND CONDITIONS

	Distributor Proposal A	**Distributor Proposal B1**	**Distributor Proposal B2**
Amount of capacity (MW at ISO)			
Summer……………………………………	_________	_________	________
Winter……………………....………..…	_________	_________	________
Term of forward contract (5,6,7, etc years)……	_________	_________	________
Term of call option periods (1,2,3,4,5 years)…….	_________	_________	________
Call option premium (cost to TVA of call options)			
Total cost (if desired) ……………………..	_________	_________	________
Per option cost upon strike (if desired) …..	_________	_________	________
Capacity charge ($ per MW month)			
First year…………………………………..	_________	_________	________
Escalation rate (if desired)……………….…..	_________	_________	________
Variable O&M charge ($ per MWH)			
First year ……………………………..……	_________	_________	________
Escalation rate (if desired)…………………	_________	_________	________
Start charge			
Number of free starts…………………..…..	_________	_________	________
Charge per additional start………………....	_________	_________	________
Guaranteed Heat rate (MMBtu/MWH at 59 deg. F)			
First period			
Number of years………………………....	_________	_________	________
Heat rate…………………………………	_________	_________	________
Subsequent years (if applicable) …………..	_________	_________	________

EXHIBIT II (To be completed for TVA DISTRIBUTOR PROPOSAL A and/or TVA DISTRIBUTOR PROPOSAL B1 and/or B2)

TVA DISTRIBUTOR PROPOSAL A

YEAR	CAPACITY CHARGE $/kw month	FIXED O&M $/kw month	TOTAL FIXED $/kw month	VARIABLE O&M $/MWH

EXHIBIT II (To be completed FOR TVA DISTRIBUTOR PROPOSAL A and/or TVA DISTRIBUTOR PROPOSAL B1 and/or B2)

TVA DISTRIBUTOR PROPOSAL B1

YEAR	CAPACITY CHARGE $/kw month	FIXED O&M $/kw month	TOTAL FIXED $/kw month	VARIABLE O&M $/MWH

EXHIBIT II (To be completed FOR TVA DISTRIBUTOR PROPOSAL A and/or TVA DISTRIBUTOR PROPOSAL B1 and/or B2)

TVA DISTRIBUTOR PROPOSAL B2

YEAR	CAPACITY CHARGE $/kw month	FIXED O&M $/kw month	TOTAL FIXED $/kw month	VARIABLE O&M $/MWH