



Tennessee Valley Authority, Post Office Box 2000, Spring City, TN 37381-2000

May 13, 2010

U.S. Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, D.C. 20555-0001

Watts Bar Nuclear Plant, Unit 2
NRC Docket No. 50-391

Subject: **Watts Bar Nuclear Plant (WBN) Unit 2 - Updated Regulatory Guide 9.3 Antitrust Review**

- References:
1. TVA letter to NRC dated December 5, 1989, "Watts Bar Nuclear Plant Unit 1 – Updated Regulatory Guide 9.3 Information Pursuant to the Commission's Operating License Antitrust Review" (ML073380426)
 2. NRC letter to TVA dated September 20, 1991, "Watts Bar Nuclear Plant, Unit 1 – Antitrust Operating License Review – No Significant Change Finding" (ML073380454)

The purpose of this letter is to provide updated antitrust information pursuant to Regulatory Guide 9.3, "Information Needed by the AEC Regulatory Staff in Connection with its Antitrust Review of Operating License Applications for Nuclear Power Plants," with respect to WBN Unit 2. This information was requested by the NRC Staff and addresses changes in antitrust information from December 1989 (Reference 1) to the present. The enclosure to this letter provides the requested information.

There are no regulatory commitments associated with this submittal. If you have any questions, please contact William Crouch at (423) 365-2004.

Sincerely,


Masoud Bajestani
Watts Bar Unit 2 Vice President

DO30
NRC

U.S. Nuclear Regulatory Commission
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Enclosure:

1. Antitrust Information

Attachments to Enclosure:

1. Description of Rate Changes
2. Rate Schedules and Sample Rate Schedule Agreements (on enclosed Optical Storage Media)
3. 1997 Settlement Agreement

cc (Enclosure):

U. S. Nuclear Regulatory Commission
Region II
Marquis One Tower
245 Peachtree Center Ave., NE Suite 1200
Atlanta, GA 30303-1257

NRC Resident Inspector Unit 2
Watts Bar Nuclear Plant
1260 Nuclear Plant Road
Spring City, Tennessee 37381

Enclosure

Antitrust Information

Antitrust Information

B. INFORMATION NEEDED BY THE AEC REGULATORY STAFF IN CONNECTION WITH ITS ANTITRUST REVIEW OF OPERATING LICENSE APPLICATIONS FOR NUCLEAR POWER PLANTS

1. *To assist the regulatory staff in its review, an applicant for a license to operate a commercial nuclear power plant should consider the following items and any related changes that have occurred or are planned to occur since submission of the construction permit application:*
 - a. *Anticipated excess or shortage in generating capacity resources not expected at the construction permit stage. Reasons for the excess or shortage along with data on how the excess will be allocated, distributed, or otherwise utilized or how the shortage will be obtained.*

TVA conducts an annual capacity planning study to identify resource needs. Based on the study performed during FY2009 using expected values for forecasted demand and resource availability, and assuming that Watts Bar Nuclear Plant (WBN) Unit 2 is online by summer 2013, the table below contains the projected capacity position at the time of the summer peak:

Summer Peak	Surplus/(Deficit) in MW
2010	374
2011	(505)
2012	(1,371)
2013	(2,309)
2014	(3,953)
2015	(4,654)
2016	(5,300)
2017	(5,570)

Capacity position includes only Board approved projects as of July 2009 and reflects current assumptions regarding fleet retirements or mothballed capacity.

TVA intends to meet this capacity shortfall using market power purchases (both long and short term) supplemented with the addition of combustion turbine units in the 2014-2017 period as part of its most recent 20-year resource plan. The annual planning process continues to evaluate possible changes in the underlying assumptions and likely resource options over the study horizon and may recommend changes to the plan.

- b. *New power pools or coordinating groups or changes in structure, activities, policies, practices, or membership of power pools or coordinating groups in which the licensee was, is, or will be a participant.*

TVA is not a member of any formal power pool or coordinating group in the context used herein.

Antitrust Information

- c. *Changes in transmission with respect to (1) the nuclear plant, (2) interconnections, or (3) connections to wholesale customers.*

Since TVA's December 5, 1989 antitrust submittal, the only change to the 500-kV system in the WBN area has been a reconfiguration of the 500-kV switchyard at WBN. Previously, the switchyard was electrically split and operated as two separate 500-kV buses. The switchyard began operating with the two 500-kV buses tied together in 1997. The switchyard is presently being upgraded to a double-breaker configuration, with completion scheduled prior to September 30, 2012. There have not been any new interconnections or connections to wholesale customers on the 500-kV system in the WBN area.

There is no map to show the transmission changes because it was only a switchyard modification.

The following interconnections have been established since December 5, 1989:

- Marshall – McCracken 161-kV (Big Rivers Electric Cooperative)
- Marshall – Livingston 161-kV (Big Rivers Electric Cooperative)
- Tiptonville – New Madrid 161-kV (Associated Electric Cooperative, Inc.)
- Batesville – LS Power Batesville #1 161-kV (LS Power)
- Batesville – LS Power Batesville #2 161-kV (LS Power)
- Loopers Farm 230-kV (Southern Company)
- Southaven 230-kV (Entergy Company)
- Sebastopol – Homewood 161-kV (South Mississippi Electric Power Association)
- Fontana – Nantahala 161-kV (Duke Energy)

The following 500-kV wholesale customers have been added since December 5, 1989:

- Nucor Steel – Decatur, L.L.C.
- Nucor Steel Memphis, Inc.

- d. *Changes in the ownership or contractual allocation of the output of the nuclear facility. Reasons and basis for such changes should be included.*

There have been no changes in ownership or contractual allocation of the output of WBN.

- e. *Changes in design, provisions, or conditions of rate schedules and reasons for such changes. Rate increases or decreases are not necessary.*

Since TVA's 1989 submittal on this subject, TVA implemented changes in the Schedule of Rates and Charges in May 1992 and again in October 2003. Attachment 1 is a description of those changes and the basis for them. Copies of rate schedules reflecting the cumulative results of both these Rate Changes, as well as a more recent change to the availability provision of the manufacturing rates, are also attached (Attachment 2).

- f. *List of all (1) new wholesale customers, (2) transfers from one rate schedule to another, including copies of schedules not previously furnished, (3) changes in licensee's service area, and (4) licensee's acquisitions or mergers.*

Antitrust Information

- (1) There have been no new wholesale customers since the 1989 submittal of updated information. One wholesale customer left the service area, but returned as a wholesaler in January 2008.
- (2) All wholesale customers are under the October 2003 Schedule of Rates and Charges.
- (3) There have been no changes in licensee's service area since 1989.
- (4) There have been no licensee acquisitions or mergers since 1989.

g. List of those generating capacity additions committed for operation after the nuclear facility, including ownership rights or power output allocations.

At this time, TVA anticipates additional generation capacity will be brought on line at approximately the same time as WBN Unit 2. This additional capacity is in the form of a combined cycle gas turbine facility at the John Sevier site near Rogersville, Tennessee. Approximate maximum capacity of the plant is 933 megawatts electric.

h. Summary of requests or indications of interest by other electric power wholesale or retail distributors, and licensee's response, for any type of electric service or cooperative venture or study.

TVA does not maintain the same type of detailed information that was provided in our 1989 Antitrust Response to question B.1.h, because these types of requests to purchase TVA power basically stopped after TVA entered into the attached Settlement Agreement in 1997 (Attachment 3). The Settlement Agreement clearly defines the counterparties and arrangements under which TVA can make exchange power arrangements with other power generating companies consistent with the provisions of the TVA Act. Section 2.05 describes the method by which TVA will make publicly available information concerning Authorized Exchange Power Companies. Section 2.06 of the Settlement Agreement also includes information regarding a Board Policy Statement describing how the provisions of Section 15d(a) of the TVA Act are to be applied regarding the availability of TVA power.

2. *Licensees whose construction permits include conditions pertaining to antitrust aspects should list and discuss those actions or policies which have been implemented in accordance with such conditions.*

A review was conducted of the following antitrust reviews:

- December 11, 1972, Department of Justice Antitrust Review for the Watts Bar Unit 1 and 2 Construction Permits, "Tennessee Valley Authority Watts Bar Nuclear Plant, Units 1 and 2, AEC Docket No. 50-390A,50-391A Department of Justice File 60-415-43"
- July 3, 1979, "Watts Bar Units 1 & 2 Operating License Antitrust Review," and
- September 20, 1991, "Watts Bar Nuclear Plant, Unit 1: Antitrust Operating License Review—No Significant Change Finding."

None of these antitrust reviews were found to contain any conditions related to or imposed upon WBN.

Attachment 1

Description of Rate Changes

Description of Rate Changes

Since TVA's 1989 submittal on this subject, TVA implemented changes in the Schedule of Rates and Charges in May 1992 and again in October 2003. The changes and the basis for them are described in Exhibits A (notice of 1992 Rate Change approved by the TVA Board on March 23, 1992) and B (notice of 2003 Rate Change approved by the TVA Board on August 27, 2003) to this Attachment 1. In addition, in December 2008, TVA expanded the availability of the manufacturing rates implemented by the 2003 Rate Change to include high load factor data centers and similar loads expected to produce benefits to all power consumers at least equivalent to the benefits produced by manufacturing load. TVA's Direct Service Manufacturing rates have been revised to reflect this change in availability language and it is available for implementation by distributors of TVA power.

March __, 1992

[Name and address]

Dear _____:

On March 23, 1992, the TVA Board of Directors approved the changes in the rates and charges covered by the proposed agreement furnished to you for execution.

The changes in the wholesale rates and charges are effective for bills rendered from the first wholesale meter reading scheduled to be taken on or after May 2, 1992. The changes in the resale rates and charges are effective for bills rendered from resale meter readings taken for each distributor's May 1992 resale revenue month. Existing wholesale rates and charges shall remain in full force and effect for all bills rendered from wholesale meter readings scheduled to be taken before May 2, 1992. Existing resale rates and charges shall remain in full force and effect for all bills rendered from resale meter readings taken for distributor resale revenue months prior to May 1992.

In the event we do not receive from your system the executed agreement, this letter is notice to your system that the changes in rates and charges are being placed in effect by TVA in accord with the provisions of the section of the Power Contract's Schedule of Terms and Conditions entitled "Adjustment and Change of Wholesale Rate and Resale Rates." The enclosed copy of the proposed agreement previously furnished to your system sets out the various changes. The new Wholesale Rate Schedule and Resale Rate Schedules that will be applicable for your system are also enclosed.

These changes are designed to improve the match between the distributors' wholesale power cost and their resale revenues; to allow the resale rates and charges to better reflect the specific cost conditions on each distributor's system; and to provide adequate revenues to distributors to cover their costs. As you know, the changes that have been approved were developed over a long period of time during which there were many meetings with distributors and their representatives. Detailed information describing the respective changes has been furnished previously to each distributor. The enclosure with this letter again sets forth the basis for the changes.

If you have not yet returned the executed agreement amending the Power Contract, we would encourage you to do so soon. If we can provide any assistance with respect to the implementation of the rate changes, please get in touch with the manager of your Customer Service Center.

Very truly yours,

Mary Sharpe Hayes

JMc:KM

Enclosures

cc (Enclosures): ..

Basis for Changes in Rates and Charges
May 1992

Following thorough, careful review and consideration, the TVA Board pursuant to the provisions of the Power Contracts has determined that, effective in May 1992, certain changes will be made in the rates and charges applicable under the Contracts. These rates are designed to improve the match between the distributors' wholesale power cost and resale revenues; to allow resale rates to better reflect the individual cost conditions on each distributor's system; and to provide adequate revenues to distributors to cover their costs. The changes are not intended to provide increases in revenues for TVA. The following identifies the basis for individual changes.

Wholesale Rates and Charges

In order to help avoid unpredictable fluctuations in net resale revenue for distributors that can stem from such factors as extreme temperatures and changes in the coincidence of industrial loads, the wholesale rate schedule employs an end-use rate, which collects demand and energy costs by applying separate charges to the distributor's sales to its various end-use customer groups. The wholesale charges applicable for power and energy resold to residential customers, the various groups of general power customers, and outdoor lighting customers reflect TVA's costs of supplying power and energy for each end-use group.

Demand-related costs currently collected through the per kW component of the wholesale demand charge have been allocated on the basis of each end-use customer group's contribution to system peaks. In order to most smoothly adapt the previous wholesale schedule to the end-use approach, revenues now recovered through the wholesale energy and hours-use-of-demand charges have been allocated on the basis of each end-use group's contribution to total energy requirements of customers served by distributors. In order to assure uniform application of the wholesale rate to all distributors, the time periods for determining demands are specified as the clock hour in the wholesale schedule and the clock half-hour in the general power resale schedule for loads over 5,000 kW. Because adequate data based on metered demands is not available for general power loads under 5,000 kW, the end-use charges applicable for such loads are based on measured demands (which can reflect the effects of a low power factor).

In order to allow TVA to appropriately recover the cost of losses between the wholesale delivery points and the ultimate consumers, the wholesale schedule includes a monthly charge for losses. This charge applies the

distributor's average cost of losses to the difference between the energy delivered to the distributor and the energy resold by it. Losses are billed each month based on the rolling 12-month average losses of the distributor, with a true-up after June 30 of each year.

The Hydro Allocation Adjustment (formerly Adjustment 4 and now Adjustment 2) has been revised to adapt it to the end-use approach. The per kWh component of the credits and the per kWh and per kW components of the debits have been incorporated directly into the appropriate end use charges. In order to equitably balance the interests of large and small users and to help encourage efficient energy use, \$4 of the hydro benefits continue to be allocated to offset the residential customer charge, but the remaining benefits are spread over all kWh in the residential end use energy charge. This customer charge component is expressly recognized as an offset to the customer charge in the residential resale schedules. In addition, the adjustment provides for increases and decreases from time to time to reflect changes in the value of the hydro allocation. In order to assure that distributors appropriately recover their costs, there is provision for TVA to make corresponding increases or decreases in the distributors' Resale Schedules.

Adjustment 2 and the 3-day billing demand window are no longer needed and have been eliminated. Adjustment 3 has been revised to be consistent with the end-use approach, and in the interest of simplifying the Wholesale Rate Schedule, the language providing for those situations where the customer is not paying minimum bills covered by the adjustment has been moved to the Rate Change Agreement. Adjustment 5, which was intended to facilitate the transition to simultaneous peak billing, has been eliminated. The wholesale minimum bill has been adapted to the end-use approach. In order to make billing practicable, facilities rental and reactive demand charges will be billed a month in arrears.

Resale Rates

In order to help achieve a better match between resale rates and cost conditions on individual distributor systems, the 20 standard rate levels have been replaced with individualized Resale Rate Schedules. Each distributor, consistent with TVA's guidelines, has flexibility to propose the resale rates appropriate for its system by adding its system distribution costs onto the end-use wholesale rate. In order to maximize flexibility, distributors are free to propose a wide range of system-specific changes to the resale rate schedules.

In order to allow the rates to more accurately track the costs of serving general power customers of varying size, the standard general power customers are divided into four groups, each served under a separate schedule: GSA for customers with requirements of 5,000 kW or less; GSB for customers with requirements from 5,000 through 15,000 kW; GSC for customers with requirements from 15,000 through 25,000 kW; and GSD for

customers with requirements over 25,000 kW . The time-of-day resale general power rate schedules divide at the same demand levels.

Following the end-use wholesale rate, Schedule GSA is divided into three parts, Part 1 for loads of 50 kW and under; Part 2 for loads from 51 to 1,000 kW; and Part 3 for loads of 1,000 through 5,000 kW. In order to smooth the transition as customers served under Schedule GSA increase in size, customers with demand requirements of not more than 50 kW but energy takings greater than 15,000 kWh are billed under Part 2. In order to avoid unwarranted bill increases for high-load factor customers, Schedules GSB and GSC have a two-step energy charge with lower charges for usage over 620 kWh per kW.

2856C

August 28, 2003

To All Distributors of TVA Power:

Dear _____:

On August 27, 2003, the TVA Board of Directors approved the changes in the rates and charges covered by the proposed agreement previously furnished to you.

The changes in the wholesale rates and charges are effective for bills rendered from the first wholesale meter reading scheduled to be taken on or after October 2, 2003. The changes in the resale rates and charges are effective for bills rendered from resale meter readings taken for each distributor's October 2003 resale revenue month. Existing wholesale rates and charges shall remain in full force and effect for all bills rendered from wholesale meter readings scheduled to be taken before October 2, 2003. Existing resale rates and charges shall remain in full force and effect for all bills rendered from resale meter readings taken for distributor resale revenue months prior to October 2003.

In the event we do not receive from your system the executed agreement, this letter is notice to your system that the changes in rates and charges are being placed in effect by TVA in accord with the provisions of the section of the Power Contract's Schedule of Terms and Conditions entitled "Adjustment and Change of Wholesale Rate and Resale Rates." The enclosed copy of the proposed agreement previously furnished to your system sets out the various changes. The new Wholesale Rate Schedule and Resale Rate Schedules that will be applicable for your system are also enclosed.

The changes include revised end-use wholesale base demand and energy charges and corresponding revisions to the resale charges designed to implement a cost reallocation. This reallocation includes:

- new "Manufacturing" end-use rate classifications applicable for sales to customers with contract demands greater than 5,000 kW engaged in significant manufacturing activity;
- a change in the value of the hydro generation benefits allocated by TVA to the residential consumers; and
- a realignment of the hydro allocation credits and debits to help ensure that TVA does not pay out more in credits than it receives in debits.

Other changes are designed:

- to implement a cost reallocation with respect to small manufacturing load

comparable to that achieved by the creation of the Manufacturing classifications through the offering of a credit program for sales to customers served under part 3 of the GSA and TGSA end-use classifications engaged in significant manufacturing activity;

- to replace the use of measured demand with metered demand for wholesale billing under the GSA and TGSA end-use classifications;
- to provide for a new adjustment allowing TVA to realign the debits and credits designed into the hydro allocation structure to help ensure that TVA does not either pay out more in credits than it receives in debits or receive more in debits than it pays out in credits will be added; and
- to allow your system to better recover costs imposed by lagging and leading reactive demands through increased resale rate schedule charges..

As you know, the changes that have been approved were developed over a long period of time during which there were many meetings with distributors and their representatives. Detailed information describing the respective changes has been furnished previously to each distributor. The enclosure to this letter, entitled "Basis for Changes in Rates and Charges, October 2003," again sets forth the basis for the changes.

If you have not yet returned the executed agreement amending the Power Contract, we would encourage you to do so soon. If you decide not to execute the amendment, the revised small manufacturing credit and revisions to the enhanced growth credit program may be implemented through a separate agreement. Please contact your TVA Customer Service Manager about this or if we can provide any further assistance with respect to the implementation of the rate changes.

Sincerely,

Mark O. Medford
Customer Service and Marketing

Enclosure
cc (Enclosure):

Basis for Changes in Rates and Charges
October 2003

Following thorough, careful review and consideration, the TVA Board pursuant to the provisions of the Power Contracts has determined that, effective in October 2003, certain changes will be made in the rates and charges applicable under the Contracts. The changes include revised end-use wholesale base demand and energy charges and corresponding revisions to the resale charges designed to implement a cost reallocation. This reallocation includes:

- new "Manufacturing" end-use rate classifications applicable for sales to customers with contract demands greater than 5,000 kW engaged in significant manufacturing activity;
- a change in the value of the hydro generation benefits allocated by TVA to the residential consumers; and
- a realignment of the hydro allocation credits and debits to help ensure that TVA does not pay out more in credits than it receives in debits.

Other changes are designed:

- to implement a cost reallocation with respect to small manufacturing load comparable to that achieved by the creation of the Manufacturing classifications through the offering of an optional credit program for sales to customers served under part 3 of the GSA and TGSA end-use classifications engaged in significant manufacturing activity;
- to replace the use of measured demand with metered demand for wholesale billing under the GSA and TGSA end-use classifications;
- to provide for a new adjustment allowing TVA to realign the debits and credits designed into the hydro allocation structure to help ensure that TVA does not either pay out more in credits than it receives in debits or receive more in debits than it pays out in credits; and
- to allow your system to better recover costs imposed by lagging and leading reactive demands through increased resale rate schedule charges.

Wholesale Rates and Charges

The current end-use rate structure that was adopted in 1992 continued the basic cost allocation that was derived from a fully allocated average embedded cost-of-service study implemented in the 1986 rate change. The value of the hydro generation benefits allocated to residential customers was last updated in 1993. Since then many conditions have changed on the TVA system. For example, there has been substantial load growth, and with that growth, TVA's customer mix has also changed as the proportion of residential, commercial and manufacturing customers has changed. As a result, the TVA Board has determined that it is now appropriate to reallocate wholesale costs among the various classifications of end-use consumers to reflect these changed

conditions. The reallocation takes into account (i) each end-use classification's revenue requirement as determined from a fully allocated average embedded cost-of-service study using projected data for fiscal year 2003, and (ii) a competitive market analysis of rates charged by other power suppliers.

A careful review of the factors taken into account as a part of the reallocation indicates that TVA's rates for manufacturing customers should be reduced. TVA has examined a variety of accepted methodologies for performing a fully allocated average embedded cost-of-service study and evaluated its system data according to a range of these methodologies. Each such study indicates that manufacturing rates are too high and residential rates are too low. A review of regional competitors also generally indicates that retail rates applicable to manufacturing loads in the TVA region are above the average of neighboring utilities, the residential rates are significantly below the average of neighboring utilities, and the retail rates applicable to other General Power loads are about the same as the average of neighboring utilities.

In order to help facilitate the cost reallocation, TVA has created Manufacturing end-use rate classifications that more appropriately reflect cost-of-service. These classifications apply for electric service to manufacturing facilities with contract demands of more than 5,000 kW, where the major use of electricity is for manufacturing (i.e., for activities classified under SIC codes 20-39). The proposed Manufacturing end-use classifications MSB, TMSB, MSC, TMSC, MSD, and TMSD have the same overall structure and include the same divisions according to the customer's load size as in the General Power end-use classifications, but include charges lower than the current charges for the corresponding General Power classifications.

End-use charges for classifications MSB and TMSB are divided into two parts, Part 1 being applicable for a month in which metered demand is not more than 5,000 kW and Part 2 being applicable for a month in which such demand is more than 5,000 kW. Parts 1 and 2 operate in conjunction to allow appropriate billing with respect to customers with loads that might only occasionally qualify for the lower charges provided for in Part 2.

To address administrative burdens raised by distributors regarding the difficulty of applying new rate classifications, particularly to the considerably larger number of small manufacturing customers, comparable bill reductions will be achieved for manufacturing loads from 1001 kW up to 5,000 kW through a small manufacturer credit program offered to distributors by TVA in lieu of the Manufacturing end-use classifications MSA and TMSA originally proposed by TVA to cover loads from 51 kW up to 5,000 kW.

Implementation of these classifications and credits is expected to facilitate long-term sales, both to manufacturers and the "spin-off load" associated with manufacturing load, which might not otherwise occur. The resulting retention of sales and revenue should help preserve TVA's fixed-cost coverage and unit production costs, thus helping to keep rates as low as feasible for all consumers on the TVA system.

The cost reallocation also reflects a change in the value of the hydro generation benefits allocated by TVA to the residential consumers. TVA examined several different cost-of-service methodologies for determining the current dollar figure to be attached to the hydro allocation value. TVA was persuaded to adopt a hydro allocation value of \$250 million, which was consistent with the 12 coincident peak model advocated by many distributors.

The hydro generation benefits are passed along to residential consumers in the form of credits designed into the rate structure, which includes corresponding offsetting debits on sales to other consumers. As a result of the revaluation of the benefit, the hydro allocation credits and debits have also been realigned to help ensure that TVA collects \$250 million in debits to offset the \$250 million in credits that it will pay out.

As a result of unequal load growth in the residential and general power sectors, however, it is very likely that the debits and credits could again become misaligned, resulting in a situation where TVA either receives more in debits than it pays out in credits or pays out more in credits than it receives in debits. In order to facilitate the correction of such an imbalance, the wholesale rate schedule includes a new Adjustment 4 that allows TVA to realign the credits and debits from time to time.

Schedule WS also reflects revised wholesale demand billing for sales under the GSA and TGSA end-use classifications. At the time of the 1992 Rate Change, distributor representatives expressed a strong interest in basing wholesale billing for end-use sales under classifications GSA and TGSA upon metered--rather than measured—demand (which includes reactive power). However, in 1992 TVA lacked the data to implement this request. The necessary data has since been compiled, and schedule WS eliminates the use of measured demand (higher of metered kW or 85% of kVA) and replaces it with metered demand as is the case for sales under the other General Power end-use classifications and the new Manufacturing end-use classifications. The corresponding retail reactive charges included in the resale end-use classifications, however, retain demand billing based upon measured demand, but, consistently with the 1992 Rate Change, an individual distributor retains flexibility to propose system-specific changes to the reactive charges.

Resale Rates

The changes to the resale schedules are all designed to ensure that distributors can continue to operate on a financially sound basis. Accordingly, they include a cost reallocation corresponding to the wholesale power cost reallocation and new Manufacturing classifications described above, as well as a provision to reflect the new Adjustment 4 in wholesale Schedule WS. Further:

- Each distributor's current distribution cost adders were used in translating distributors to these changed resale schedules by calculating the distribution cost coverage provided by each component of current retail rates and including this level of cost coverage in the corresponding revised retail charges.
- For the new Manufacturing schedules, the distribution cost coverage included is equal to the coverage in the corresponding General Power schedule.
- For those distributors that requested increased adders, the resale schedules also reflect TVA's approval of appropriate increased adder amounts.

In order to further ensure that distributors can continue to operate on a financially sound basis and except where requested otherwise by a distributor:

- the resale demand charges for lagging reactive power have been increased from 78¢ to \$1.46 per KVAR, and

- the resale demand charges for leading reactive power have been increased from 33¢ to \$1.14 per KVAR.

The increases reflect the corresponding increase in wholesale reactive charges. This change, which was formally requested by TVPPA, should enable individual distributor systems to better recover costs imposed by lagging and leading reactive demands. However, as discussed above, individual distributors retain flexibility to propose system-specific changes to the reactive charges, and may, for example, request to waive the resale reactive charges for some period of time deemed appropriate by TVA and the distributor.

Attachment 2

Rate Schedules

and

Sample Rate Schedule Agreements

(on enclosed Optical Storage Media)

\Rate Schedules	\Sample Rate Schedule Agreements
001 DRS.pdf	001 Sample GSA.pdf
002 DSA.pdf	002 Sample GSB.pdf
003 DSB.pdf	003 Sample GSC.pdf
004 DSC.pdf	004 Sample GSD.pdf
005 DSD.pdf	005 Sample LS.pdf
006 DSMB.pdf	006 Sample MSB.pdf
007 DSMC.pdf	007 Sample MSC.pdf
008 DSMD.pdf	008 Sample MSD.pdf
009 WS Oct03.pdf	009 Sample RS.pdf
010 WSA 2003_Final.pdf	010 Sample TGSB.pdf
	011 Sample TGSC.pdf
	012 Sample TGSD.pdf
	013 Sample TMSB.pdf
	014 Sample TMSC.pdf
	015 Sample TMSD.pdf
	016 Sample TGSA.pdf

Attachment 3

1997 Settlement Agreement

Settlement Agreement
In Connection with
Alabama Power Company, et al. v. Tennessee Valley Authority
CV-97-C-0885-S
pending in the United States District Court
for the Northern District of Alabama
Southern Division

This settlement agreement is effective as stated herein by and between the Tennessee Valley Authority ("TVA" or "defendant") and Alabama Power Company, Duke Power Company, Entergy Mississippi, Inc., Georgia Power Company and Mississippi Power Company (collectively "plaintiffs").

RECITALS

WHEREAS, TVA and the plaintiffs strive at all times to remain in compliance with federal statutes governing the supply of electricity by power producers and, likewise, seek and intend to operate in compliance with all applicable requirements of the Tennessee Valley Authority Act of 1933 (16 U.S.C. § 831 *et seq.*) (the "TVA Act"); and

WHEREAS, the operation of interconnected electric utilities is a business affected by the public interest that requires voluntary and good faith efforts to comply with complex statutory and regulatory provisions; and

WHEREAS, both the defendant and the plaintiffs recognize that Congress mandated in Section 15d(a) of the TVA Act that, unless specifically authorized by Act of Congress, TVA may make no contract for the sale or delivery of power that would have the effect of making TVA or its distributors, directly or indirectly, a source of power supply outside the area for which TVA or its distributors were the primary source of power supply on July 1, 1957; and

WHEREAS, TVA is permitted under the provisions of Sections 12 and 15d(a) of the TVA Act, when economically feasible, to make exchange power arrangements with other power generating organizations with which TVA had such arrangements on July 1, 1957; and

WHEREAS, TVA and such power generating organizations have exchanged power pursuant to the provisions of the TVA Act; and

WHEREAS, in 1979, the TVA Board submitted to Congress a TVA policy statement concerning the application of provisions of Section 15d(a) of the TVA Act governing the use and availability of TVA power; and

WHEREAS, developments within the electric utility industry and certain actions of TVA have led to a number of disputes between TVA and private utilities with whom TVA is permitted to exchange power pursuant to Section 15d(a); and

WHEREAS, the parties desire to pursue increased cooperation in their power operations and believe that it is not advantageous to continue with the pending litigation between the parties; and

WHEREAS, the parties are mindful of the Memorandum Opinion and Final Judgment entered by Senior United States District Judge Robert W. Propst in the case of Alabama Power Company, et al. v. TVA; LG&E Power Marketing Inc., 948 F. Supp. 1010 (N.D. Ala. 1996).

NOW THEREFORE, in consideration of the covenants and agreements set forth herein, the plaintiffs and TVA, themselves and through their undersigned counsel, agree to the settlement of the above-referenced action, subject to Court approval by entry of a Consent Judgment, under the following terms and conditions:

I. DEFINITIONS

1.01. "Agreement" means this Settlement Agreement.

1.02. "Authorized Exchange Power Arrangement," pursuant to the TVA Act, means an agreement between the TVA and one of the "Authorized Exchange Power Companies."

1.03. "Authorized Exchange Power Company," means, as of the effective date of this Agreement, any one of the following power generating organizations that all qualify as such under the definitional provisions of 16 U.S.C. §831n-4(a):

Alabama Power Company
Georgia Power Company
Gulf Power Company
Mississippi Power Company
Savannah Electric and Power Company

Entergy Mississippi, Inc.
Entergy Arkansas, Inc.
Entergy Louisiana, Inc.
Entergy New Orleans, Inc.
Entergy Gulf States, Inc.

Appalachian Power Company
Columbus Southern Power Company
Ohio Power Company

Indiana Michigan Power Company
Kentucky Power Company
Kingsport Power Company
Michigan Power Company

Carolina Power & Light Company

Nantahala Power and Light Company
Duke Power Company

Kentucky Utilities Company

Cincinnati Gas & Electric Company

Aluminum Company of America through Tapoco, Inc.

Louisville Gas and Electric Company

East Kentucky Power Cooperative, Inc.

Electric Energy, Inc.
Central Illinois Public Service Company
Illinois Power Company
Union Electric Company

1.04. "Court" means the United States District Court for the Northern District of Alabama (Southern Division).

1.05. "Defendant" means the Tennessee Valley Authority.

1.06. "Defendant's Counsel" means the General Counsel of TVA.

1.07. "Exchange Power from TVA" means electric power (capacity and/or energy) that is generated or acquired by TVA that is surplus to the needs of the area served by TVA and is physically delivered to an Authorized Exchange Power Company.

1.08. "Final Approval" means the date on which the Consent Judgment is entered by the Court approving the terms of this Agreement.

1.09. "Parties" means the Tennessee Valley Authority and Alabama Power Company, Duke Power Company, Entergy Mississippi, Inc., Georgia Power Company and Mississippi Power Company.

1.10. "Physical Delivery" of Exchange Power from TVA" means the simultaneous coordinated operation of the TVA power system and the power system of an Authorized Exchange Power Company so as to accomplish the physical transfer of Exchange Power from TVA to an Authorized Exchange Power Company, as documented on the transaction schedules of TVA and the Authorized Exchange Power Company.

1.11. "Plaintiffs" means Alabama Power Company, Duke Power Company, Entergy Mississippi, Inc., Georgia Power Company and Mississippi Power Company.

1.12. "Plaintiffs' Counsel" means the law firm of Balch & Bingham LLP.

II. GENERAL SETTLEMENT TERMS

2.01. Pursuant to the TVA Act, the Parties agree that TVA may only offer for sale, sell and/or deliver Exchange Power from TVA to an Authorized Exchange Power Company.

2.02. Pursuant to the TVA Act, the Parties agree that TVA may not offer for sale, sell and/or deliver any power (energy or capacity) to any power marketer, power broker, public utility or other entity that is not an Authorized Exchange Power Company for use outside the area for which TVA was the primary source of power supply on July 1, 1957, except as otherwise required or permitted by law.

2.03. TVA agrees that all Exchange Power from TVA made available to an Authorized Exchange Power Company must entail the Physical Delivery of Exchange Power from TVA to that particular Authorized Exchange Power Company.

2.04. Within thirty (30) days of entry of the Consent Judgment, TVA will convey in writing to all Authorized Exchange Power Companies a clarification of the circumstances, terms and conditions under which Authorized Exchange Power Companies may enter into exchange power arrangements with TVA that are consistent with the terms of the TVA Act and the Consent Judgment. Such letter will include the following statements:

TVA will not knowingly enter into any exchange power transaction if the purchaser of TVA Exchange Power is procuring that power for the purpose of reselling such power at wholesale to any third party not authorized to exchange power with TVA. TVA is supplying power under Exchange Power transactions with the understanding that such power is not being purchased for the purpose of reselling it to any such unauthorized third party. In the event TVA discovers that such power has been purchased for a purpose inconsistent with the previous two sentences, such transaction shall be terminated.

2.05. TVA will make publicly available information concerning those Authorized Exchange Power Companies that are receiving exchange power from TVA and the amount being delivered from TVA to each such company. TVA will do this through its OASIS system and NERC's July 1, 1997 "tagging" procedures and rules (or any substitute system that conforms with regulatory requirements placed upon Federal Energy Regulatory Commission jurisdictional electric utilities selling electric power at wholesale). This information shall be provided on the same basis that Authorized Exchange Power Companies provide such information on their OASIS systems and through the same tagging procedures and rules applicable to their interchange/exchange power sales.

2.06. TVA agrees that the TVA Board of Directors will consider, and re-adopt within thirty (30) days of entry of the Consent Judgment, the following Policy Statement, which is substantially in conformance with that adopted by the TVA Board of Directors in 1979:

Statement of Policy Concerning Application of Provisions of Section 15d(a) of the Tennessee Valley Authority Act of 1933, As Amended, Governing Availability of TVA Power

1. The region in which TVA power is to be made available has been prescribed by Congress, and is set out in Section 15d(a) of the TVA Act, which was included in an amendment enacted in 1959.
2. Since the adoption of those provisions in Section 15d(a), TVA has exercised great care in entering into power supply arrangements with municipal and cooperative distributors of TVA power and with directly served customers, federal agencies and public entities, as well as in participating in arrangements with neighboring electric power systems with which TVA is authorized to exchange power, to assure compliance with the restrictions contained in the Act.
3. TVA recognizes electric supply reliability and basic stability in the area supplied by it and its distributors is in the public interest and to conserve energy and capital, bring about efficient use of facilities and resources, and help effectuate the greatest reliability of the TVA system.
4. TVA has heretofore stated, and now deems it appropriate to reaffirm, that its policy and practice will be to confine its area of retail and wholesale

electric service to the boundary as fixed by Section 15d(a) of the TVA Act.

5. In conformity with this policy and practice, TVA will only engage in the construction of such generating capacity or the purchase of generating capacity as it needs to supply power demands in its own service area. TVA will not afford encouragement or assistance to persons or organizations which it and its distributors cannot legally serve under Section 15d(a) in seeking such service.
6. TVA will not knowingly enter into any exchange power transaction if the purchaser of TVA Exchange Power is procuring that power for the purpose of reselling such power at wholesale to any third party not authorized to exchange power with TVA. TVA will supply power under exchange power transactions with the understanding that such power is not being purchased for the purpose of reselling it to any such unauthorized third party. In the event TVA discovers that such power has been purchased for a purpose inconsistent with this policy, such transaction shall be terminated.

III. MISCELLANEOUS PROVISIONS

3.01. Defendant's Counsel and Plaintiffs' Counsel shall use their best efforts to support entry of a Consent Judgment reflecting and giving effect to this Agreement.

3.02. This Agreement is intended to and shall be governed by the laws of the State of Alabama and the laws of the United States. All disputes arising hereunder or relating hereto shall be subject to the exclusive jurisdiction of the Court.

3.03. The terms and conditions set forth in this Agreement constitute the complete and exclusive agreement between the Parties hereto, and may not be contradicted by evidence of any prior or contemporaneous agreement. The Parties agree that the terms and conditions of this Agreement are clear and unambiguous, and that extrinsic evidence may not be introduced in any judicial proceeding, if any, involving this Agreement. Any modification of the Agreement must be in writing and signed by both Plaintiffs' Counsel and Defendant's Counsel.

3.04. This Agreement has been entered into by mutual agreement after negotiation, with participation of all Parties hereto and/or their respective Counsel.

3.05. This Agreement shall be binding on and inure to the benefit of the respective successors of the Parties.

3.06. The waiver by one Party of any provision of this Agreement shall not be deemed a waiver of any other provision. If any provision of this Agreement is ruled judicially to be invalid, such ruling shall not operate to invalidate the entire Agreement, as the terms and provisions will be deemed severable under such a circumstance.

3.07. The breach by one Party of any one provision of this Agreement shall be deemed a breach of the entire Agreement.

3.08. TVA will terminate all existing commitments under its exchange power arrangements that are inconsistent with this Agreement that are capable of being terminated as of the effective date of this Agreement. Additionally, within 30 days of the effective date of this Agreement, TVA will use best efforts to amend all other existing commitments that are inconsistent with this Agreement to conform with this Agreement and, in particular, with the provisions of 2.04 and 2.06. At the end of said 30 day period TVA will discontinue the delivery of Exchange Power from TVA under any existing commitments that TVA has been unable to amend and remain inconsistent with this Agreement.

3.09. This Agreement shall become effective and binding upon entry of the Consent Judgment. The signatories represent and warrant that they are authorized to execute the same on behalf of the Parties without any additional approvals (including but not limited to Boards of Directors). This Agreement may be executed in counterparts, and execution of counterparts shall have the same force and effect as if all Parties had signed the same instrument.

3.10. The Court shall retain jurisdiction over the interpretation, effectuation and implementation of this Agreement.

3.11. This agreement is entered into based upon the TVA Act as presently in effect and could be affected by changes in the law to the extent that the provisions of the TVA Act or other statutes pertaining to such matters are modified or amended.

3.12. Nothing herein shall prevent the parties from expressing their views or engaging in good faith legitimate debate or discussion about proposed legislation, including the TVA Act, or other issues involving the electric utility industry.

IN WITNESS WHEREOF, the undersigned, being duly authorized, have caused this Agreement to be executed on the dates shown below and agree that it shall take effect on the date it is executed by all of the undersigned.

TENNESSEE VALLEY AUTHORITY

Carol B. Rheinhardt

Witness

By [Signature]

Edward S. Christenbury
Its General Counsel

Dated: July 24, 1997

Sworn to and subscribed before me
this 24th day of July, 1997.

Joyce A. Hall

Notary Public

My Commission expires: 11-29-97

BALCH & BINGHAM LLP

Amanda Barber

Witness

Karl B. Moor

Karl R. Moor

Dated: July 21, 1997

Alan T. Rogers

Alan T. Rogers

Dated: July 21, 1997, 1997

Sworn to and subscribed before me
this 21 day of July, 1997.

Sharon Hudgins

Notary Public

My Commission expires: 6-9-01