

TO: TVA Board members and executive staff

FROM: Southern Alliance for Clean Energy

DATE: January 13, 2008

**RE: TVA's RFP for 2,000 MW of renewable energy development**

Dear TVA Board members and executive staff:

The Southern Alliance for Clean Energy (SACE) wants to express its written support of the Tennessee Valley Authority's (TVA) release of a Request for Proposal (RFP) for up to 2,000 MW of clean and renewable energy technologies. We have reviewed the RFP with numerous renewable energy businesses and professional organizations, and although it has generated a lot of interest, some significant shortcomings have been identified that restrict the RFP's ability to send strong signals to renewable energy markets and attract the best proposals possible.

The Southern Alliance for Clean Energy submits these comments to shed light on these shortcomings and provide suggestions on how the RFP process can be improved to maximize the renewable energy potential of the Tennessee Valley and keep customer rates as low as possible.

**1. The current RFP, with its prohibitively short timeframe is unlikely to produce the proposals necessary for TVA to achieve its stated goal of 2000 MW of clean, renewable energy by 2011.**

The development of clean and renewable energy resources requires significant study and evaluation before proper proposals can be developed. This is especially so with "as-available" resources where the price and performance of a project is directly correlated with the available resource. This necessary study and evaluation makes the RFP's six-week timeframe for proposals, which includes the holiday season, nearly impossible for the development of new projects.

Further exacerbating this time constraint is that the release of the RFP comes without any prior indication that TVA is interested in growing their clean and renewable energy portfolio. This previous lack of interest means that few resources have been devoted to studying the feasibility of renewable energy production in the Tennessee Valley. At the same time, well-defined markets have been created in neighboring regions that TVA now competes with for industry resources.<sup>1</sup> To compete with these defined markets and convince the sought after industries to devote resources to the Tennessee Valley, TVA must allow industries to complete the due diligence required to develop sound proposals. Again, the six-week timeframe of the current RFP simply does not allow this to happen and the number and quality of proposals submitted will suffer accordingly.

If TVA is, in fact, attempting to signal a long-term commitment towards developing a clean and renewable energy portfolio such as the one described in the RFP, the various industries sought for participation need confidence in TVA's commitment before they will invest significant resources into planning projects in the TVA region. TVA could accomplish this in several ways: by laying out a long-term plan that identifies an overall target with a timeline; by issuing a predictable multi-year RFP offering; or by creating a standard offering such as a feed-in tariff. Any of these approaches

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<sup>1</sup> For example, North Carolina's recently enacted RPS, Virginia's incentive-based RPS, and AFP's stated goal and timeframe for the development of renewable energy technologies have all created markets that TVA must now compete with.

would allow industry professionals to come up with innovative projects that help TVA reach its renewable energy goals.

SACE strongly urges TVA to develop a process for seeking proposals beyond the 6-week timeframe of the current RFP. If TVA develops a long-term plan for renewables; they will receive the necessary proposals to fill the 2,000 MW request. TVA must give developers enough lead time to study the resource, negotiate appropriate development contracts, and conduct due diligence on proposals.

**2. Given the potential complexity and cost, requiring the proposer to reimburse TVA for NEPA compliance severely limits a proposer's ability to make the cost and time projections necessary for submitting sound proposals.**

Requiring the proposer to essentially write a blank check to TVA for the environmental analysis required by the National Environmental Policy Act (NEPA) makes submission of sound proposals prohibitively difficult. The benefits of developing clean, renewable energy resources apply not only to the industries involved and the residents of the Tennessee Valley, but also to TVA through avoidance of generation and regulatory compliance costs. Accordingly, to show its commitment to developing clean, renewable energy resources, TVA should provide a ceiling for potential NEPA costs that allow proposers to adequately assess the risks involved with a potential project.

As the TVA is keenly aware, NEPA compliance can vary significantly in both cost and time depending on the project specifics. In addition, unforeseen circumstances can create time delays and additional costs that jeopardize the cost-effectiveness of a project. In this uncertain regulatory environment, a proposer must have the ability to foresee these costs with reasonable accuracy before submitting a sound proposal. By requiring the proposer to reimburse TVA for NEPA compliance costs, TVA is asking potential proposers to submit proposals without being adequately informed of the potential costs of the project. This will likely restrict not only the proposals submitted, but also the potential success of proposals chosen for implementation.

Because TVA will benefit from the development of a clean, renewable energy portfolio and will likely avoid significant environmental costs associated with increasing generation capacity through coal and nuclear development, SACE strongly urges TVA to include in future RFPs some assurances to potential proposers that NEPA compliance will not disable potential projects. This could be accomplished by limiting the proposer's liability for reimbursement and by assuring that adequate resources will be devoted to timely NEPA compliance.

**3. Adding guidance criteria to the RFP that would prioritize developing the resources of the Tennessee Valley and minimizing long-term costs to customers would greatly enhance TVA's development of a strong renewable energy portfolio.**

Although TVA's current RFP does not limit proposals to within the Tennessee Valley, TVA should give priority to those projects that take advantage of the suite of renewable energy resources located within the Tennessee Valley and eventually result in TVA ownership of the generation equipment. Doing so will maximize the potential benefits to the TVA and Tennessee Valley residents, resulting in lower transmission and distribution costs throughout the life of the project and inexpensive generation costs once the generation equipment is paid for.

In order to take full advantage of the Tennessee Valley's renewable energy resources, TVA must give priority to those projects located within the Valley and then carefully evaluate each proposal for its ability to maximize generation from the available resource. For example, in the case of wind

power, while the Tennessee Valley has significant wind resources, there are a limited number of sites available for wind development. Therefore, in order to maximize the potential of this resource, the highest MW proposal should take priority over the lowest cost proposal to assure the available wind resources are maximized. Therefore, while a 1.5 MW turbine on a 80 meter tower is a common commercial level, TVA should instead choose a developer that proposes a 3 MW turbine on a 100 meter tower, thereby maximizing the wind potential of that site.

Also, TVA should prioritize projects that result in TVA's ownership of the generation equipment. Once generation equipment has paid for itself through the sale of the electricity generated, continued generation is significantly less expensive than fuel dependent technologies. TVA ownership of renewable energy generation equipment then significantly increases the long-term benefits of the project to both TVA and its customers. TVA's experience with hydropower exemplifies this concept: while the initial investment was large, hydropower now constitutes TVA's cheapest generation resource. We believe it is in the best interest of TVA and its ratepayers for TVA to prioritize ownership of generation resources over long-term power purchase agreements and strongly encourage TVA to pursue such projects.<sup>2</sup>

In all, we applaud this initial step by TVA to diversify its resource mix to include significant renewable energy resources. However, we strongly encourage TVA to address the prohibitively short timeframe and the uncertainties of NEPA compliance to maximize both the number and quality of proposals submitted. In addition, prioritizing the development of resources within the Tennessee Valley and TVA ownership of generation equipment would significantly enhance the benefits to both TVA and the residents of the Tennessee Valley.

If SACE can be of any assistance in clarifying the issues discussed herein or in developing future RFPs to maximize development of the Tennessee Valley renewable energy resources, please don't hesitate to contact us.

Sincerely,

Sam Gomberg, Tennessee Valley Energy Policy Associate  
Southern Alliance For Clean Energy

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<sup>2</sup> It should be noted that many of the tax credits available for renewable energy development require private ownership of generation equipment. The solution to this issue that is becoming common among utilities is a "flip model" that transfers ownership from the private developer to the utility after 10 or 15 years.