



Knoxville Utilities Board

**Board Meeting Agenda
Thursday, December 17, 2020
Noon**

Call to Order

Roll Call

Approval of Minutes

Official Action

Resolution 1427 – A Resolution Requesting the City Council of the City of Knoxville to Adopt a Resolution Setting the Tax Equivalent Payments for the Electric and Gas Systems for the Fiscal Year Beginning July 1, 2020 and Providing for the Allocation and Distribution of Such Payments to the Affected Taxing Jurisdictions

Resolution 1428 – A Resolution Amending Section 3 of Resolution No. 1060 by Replacing the Existing Rate Schedule E “Sales for Resale” of the Water Division

Resolution 1429 – A Resolution Extending the Period of Authorization to December 31, 2021, for the Execution of a Natural Gas Supply Contract with Tennergy Corporation, an Energy Acquisition Corporation, for a Term of up to Thirty-One (31) Years

President’s Report

Public Comments

Adjournment



December 11, 2020

Knoxville Utilities Board
445 S. Gay Street
Knoxville, Tennessee 37902-1109

Commissioners:

The December 17 Board meeting agenda includes three official action items, including fiscal year 2021 tax equivalents for the electric and natural gas systems, an adjustment to the wholesale water rate of the Water Division, and the extension of an authorization date for a long-term natural gas supply contract with Tennergy Corporation.

An overview of each resolution is provided below.

Resolution 1427

State law requires City Council, as the municipality's governing body, to pass a resolution setting the in lieu of tax payments (tax equivalents) for KUB's electric and gas systems each fiscal year and providing for their distribution to the appropriate taxing jurisdictions.

Tax equivalents for the electric system for fiscal year 2021 are \$16,891,189. Tax equivalents for the gas system for fiscal year 2021 are \$7,166,619. Both electric and gas tax equivalent payments are the maximum amounts provided for under state law. Electric and gas tax equivalent payments will be made to the respective taxing jurisdictions on the last business day of June. A summary of all tax equivalent payments for fiscal year 2021 is enclosed for your information.

Resolution 1427 requests the City Council of Knoxville to set the in lieu of tax payments for KUB's electric and gas systems and to establish the allocation of payments to the various taxing jurisdictions for the fiscal year ending June 30, 2021.

Resolution 1428 (First Reading)

The rate schedules of the Water Division include a rate for "Sales for Resale," under which KUB may sell excess water supply on an interruptible basis to other local water utilities bordering the KUB water distribution system.

KUB currently supplies water for resale on a recurring basis to the Town of Dandridge and Shady Grove Utility District, both located in Jefferson County. The annual revenue received by the Water Division for these sales is about \$1.3 million.

Both Dandridge and Shady Grove purchase a portion of their water supply from another water provider. KUB's rate for sales for resale is about 15% higher than the rate charged by the alternative supplier. As a result, Dandridge recently notified KUB they intended to reduce the level of water purchased from KUB to their minimum requirements because of the rate differential. This would result in a reduction of about \$450,000 in annual water revenue for KUB.

Although Shady Grove has not yet indicated its intention to reduce its level of water purchased from KUB, Shady Grove also purchases a large amount of water on a recurring basis from the alternative supplier. In the event Shady Grove followed the same course as Dandridge, this would result in an additional \$700,000 reduction in annual water revenue for KUB for a total decrease of about \$1,150,000 in annual water revenue, which is the equivalent of a 2% water rate increase for KUB's water customers.

As a result, it is staff's recommendation for KUB to reduce its rate for sales for resale to a level approximately equivalent to the rate currently charged by the alternative supplier to Dandridge and Shady Grove. We have discussed this potential course of action with the respective managers of Dandridge and Shady Grove and both indicated they would execute a written commitment to maintain water purchases from KUB at historic levels or higher. The revised rate would be available for any customer eligible to purchase water under the rate schedule.

While the proposed rate change will lower annual water revenue about \$170,000, that is much less than the revenue reduction from Dandridge and potentially Shady Grove reducing their purchases to minimum levels. The proposed change was discussed with the Board's Audit and Finance Committee at the Committee's October meeting.

Resolution 1428 adjusts the "Sales for Resale" rate schedule of the Water Division lowering the rate charged from its current level of \$1.70 per CCF to \$1.48 per CCF. Since this is a rate change, two readings are required. If approved on first reading at the December meeting, we anticipate second reading will occur in January 2021.

Resolution 1429

At its November 2019 meeting, the Board adopted Resolution 1405 authorizing the execution of a long-term natural gas supply contract with Tennergy Corporation for a term of up to 31 years. As you may recall, the purpose of entering into this long-term contract was to secure a significant discount to the market price of natural gas. Under the terms of the resolution, the contract with Tennergy had to be executed by June 30, 2020.

Due to volatility in the financial markets resulting from the Pandemic, the underlying financial transactions involving Tennergy and other parties did not occur. As a result, the supply contract between Tennergy and KUB was not executed by the June 30 expiration date.

At its June 2020 meeting, the Board adopted Resolution 1416 extending the authorization period to execute the contract with Tennergy to December 31, 2020.

Unfortunately, due to the same reasons noted above, the supply contract with Tennergy will not be executed by December 31.

Resolution 1429 extends the authorization period to execute the contract with Tennergy to December 31, 2021.

Drafts of Resolutions 1427, 1428, and 1429 are enclosed for your review. I recommend the adoption of Resolution 1428 on the first of two readings, and Resolutions 1427 and 1429 on first and final reading.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gabriel Bolas". The signature is written in a cursive, flowing style.

Gabriel J. Bolas II
President and CEO

Summary of FY 2021 Tax Equivalent Payments

KUB is required under state law and the City Charter to make in lieu of tax payments (tax equivalents) to the taxing jurisdictions in which its utility systems are located. State law sets forth the basis for electric and gas system tax equivalents, while the City Charter addresses tax equivalents for the water and wastewater systems.

Under state law, the City Council of Knoxville is required to pass a resolution setting the annual tax equivalent amounts for the electric and gas systems, and the allocation of such payments to the respective taxing jurisdictions (i.e. City of Knoxville, Knox County, etc.). The basis for the allocation of payments is also set forth in state law. Since state law is silent on water and wastewater tax equivalents, the KUB Board sets these amounts in a manner prescribed by the City Charter. Water and wastewater payments are made to the City of Knoxville.

Total tax equivalents for FY 2021 are \$32,469,103, representing an increase of \$1,544,268 or 5 percent from last fiscal year, as set forth below.

	FY 2021	FY 2020	Change	% Increase
Electric Division	\$16,891,189	\$16,067,210	\$823,979	5.1%
Gas Division	\$7,166,619	\$6,828,101	\$338,518	5.0%
Water Division	\$3,528,135	\$3,378,895	\$149,240	4.4%
Wastewater Division	\$4,883,160	\$4,650,629	\$232,531	5.0%
	\$32,469,103	\$30,924,835	\$1,544,268	5.0%

The increased level in tax equivalent payments over the prior fiscal year is the result of a net increase in utility system assets, reflecting KUB's Century II infrastructure and advanced meter programs, and higher energy sales margins.

Total payments to the City of Knoxville for FY 2021 will be \$21,003,825. Total payments to Knox County will be \$10,467,779. Total payments to other taxing jurisdictions will be \$997,499.

Water and wastewater payments will be paid to the City on February 26, 2021. Electric and gas payments will be paid to the respective taxing jurisdictions on June 30, 2021.

RESOLUTION NO. 1427

A Resolution Requesting the City Council of the City of Knoxville to Adopt a Resolution Setting the Tax Equivalent Payments for the Electric and Gas Systems for the Fiscal Year Beginning July 1, 2020 and Providing for the Allocation and Distribution of Such Payments to the Affected Taxing Jurisdictions

Whereas, in accordance with Section 1101 of the Charter of the City of Knoxville, the purchase, sale, and distribution of electric and gas services by the City of Knoxville are under the jurisdiction, control, and management of the Knoxville Utilities Board (“KUB”); and

Whereas, the state of Tennessee adopted electric and gas tax equivalent statutes in 1987 (TCA Sections 7-52-301 et seq. and Sections 7-39-401 et seq.) in order to gain uniformity with respect to payments in lieu of taxes on the property and operations of all electric and gas systems owned and operated by incorporated cities or towns, by counties, and by metropolitan governments in the state of Tennessee; and

Whereas, the statutes provide that every municipality may cause an amount to be paid from its electric and/or gas system revenues for tax equivalents which, in the judgment of the municipality’s governing body (i.e. City Council of Knoxville), after consultation with the supervisory body (i.e. KUB), represents the fair share cost of government to be borne by the electric system and/or gas system; and

Whereas, the statutes include formulas which establish the maximum annual tax equivalent payment for electric and gas systems; and

Whereas, the statutes provide the basis for the allocation and distribution of tax equivalent payments to the various taxing jurisdictions, except to the extent any such payments were allocated and distributed under established arrangements in existence immediately prior to the adoption of the statutes; and

Whereas, KUB had an established arrangement for the allocation and distribution of electric and gas system tax equivalent payments, as defined by the statutes, in existence immediately prior to the adoption of said statutes; and

Whereas, KUB has prepared a proposed resolution for passage by the City Council of Knoxville, a copy of which resolution is attached hereto and made a part hereof (hereinafter referred to as the “Proposed Resolution”).

Now, Therefore, Be It Hereby Resolved by the Board of Commissioners of the Knoxville Utilities Board:

Section 1. That the KUB Board of Commissioners (the “Board”), after due consideration, finds that it is in the best interest of KUB and the City of Knoxville to make electric and gas tax equivalent payments for the fiscal year beginning July 1, 2020, totaling \$16,891,189 for the electric system and \$7,166,619 for the gas system (hereinafter referred to as “Tax Equivalents”), with the aforesaid Tax Equivalents being the maximum amounts permitted by law.

Section 2. That this Board, after due consideration, finds that the following allocation and distribution of the aforesaid Tax Equivalents to the following taxing jurisdictions is required under the applicable statutes:

	<u>Electric Tax Equivalents</u>	<u>Gas Tax Equivalents</u>	<u>Total Tax Equivalents</u>
City of Knoxville	\$ 8,594,084	\$3,998,446	\$12,592,530
Knox County	7,304,219	3,163,560	10,467,779
Union County	381,883		381,883
Sevier County	318,398		318,398
Grainger County	174,002		174,002
Jefferson County	95,058		95,058
Blount County	15,107		15,107
Anderson County	8,438	3,077	11,515
Loudon County	<u> </u>	<u>1,536</u>	<u>1,536</u>
Total	\$16,891,189	\$7,166,619	\$24,057,808

Section 3. That this Board hereby formally requests City Council to pass the Proposed Resolution, and this Board does hereby adopt, ratify, approve, consent and agree to each and every recital and provision contained in the Proposed Resolution.

Section 4. That this Board finds that the statutory obligation for consultation with the supervisory body (KUB) will be fulfilled by the delivery of this resolution to City Council.

Section 5. That upon City Council’s passage of the Proposed Resolution, the President and Chief Executive Officer, or the Chief Financial Officer, is hereby authorized and directed to distribute the Tax Equivalents to the respective taxing jurisdictions in accordance with the Proposed Resolution; provided, however, that the amount of such Tax Equivalents to be paid to any taxing jurisdiction specified in the Proposed Resolution shall be appropriately reduced by the aggregate amount of any qualified state, county, city and other local taxes or charges imposed for such fiscal year by or for the benefit of such taxing jurisdiction, said reduction being required by the statutes.

Section 6. That the President and Chief Executive Officer is authorized to deliver copies of this Resolution to the Mayor and City Council as formal evidence of this Board’s action in connection therewith.

Section 7. BE IT FURTHER RESOLVED that this Resolution shall take effect from and after its passage.

Kathy Hamilton, Chair

Mark Walker, Board Secretary

APPROVED ON 1st
& FINAL READING: _____
EFFECTIVE DATE: _____
MINUTE BOOK ___ PAGE _____

RESOLUTION

A Resolution of the Council of the City of Knoxville Setting the In Lieu of Tax Payments for the Electric and Gas Systems of the Knoxville Utilities Board for the Fiscal Year Beginning July 1, 2020 and Providing for the Allocation and Distribution of Such Payments to the Affected Taxing Jurisdictions

Whereas, under the state of Tennessee electric and gas tax equivalent statutes (TCA Section 7-52-301 et seq. and Section 7-39-401 et seq.), the Council of the City of Knoxville, after consultation with the Knoxville Utilities Board (hereinafter referred to as "KUB"), may cause to be paid from KUB's Electric and Gas Divisions an amount for payments in lieu of taxes (hereinafter referred to as "Tax Equivalents") on KUB's electric and gas systems and operations which, in the judgment of City Council, shall represent the fair cost of government properly to be borne thereby; and

Whereas, the amount of Tax Equivalents that may be set by City Council is to be in lieu of all state, county, city and other local taxes or charges imposed on KUB's Electric and Gas Divisions for the fiscal year by the various taxing jurisdictions in which the properties of the electric and gas systems are situated, said amount being subject to a maximum limitation that may be paid for a fiscal year; and

Whereas, the Tax Equivalents are to be distributed to the respective taxing jurisdictions in accordance with a mandatory distribution formula or under established arrangements with taxing jurisdictions in effect immediately prior to the adoption of the statutes, both as provided for in the statutes; and

Whereas, KUB had established arrangements in place with taxing jurisdictions for the allocation and distribution of in lieu of tax payments on KUB's electric and gas systems immediately prior to the adoption of the statutes; and

Whereas, KUB, by its passage of Resolution No. 1427 on December 17, 2020, and the delivery of same to City Council, has requested City Council pass a resolution setting the Tax Equivalents for the fiscal year beginning July 1, 2020, and providing for the allocation and distribution of the Tax Equivalents to the affected taxing jurisdictions (hereinafter referred to as "Proposed Resolution"); and

Whereas, City Council, having consulted with KUB regarding the setting of the Tax Equivalents and the allocation and distribution thereof to the affected taxing jurisdictions, hereby finds that KUB's Proposed Resolution is in the best interests of the City of Knoxville and KUB.

NOW THEREFORE BE IT HEREBY RESOLVED BY THE CITY COUNCIL OF THE CITY OF KNOXVILLE:

Section 1. That pursuant to T.C.A. Sections 7-52-301 et seq. and Sections 7-39-401 et seq., the Council of the City of Knoxville hereby sets the Tax Equivalents for KUB's electric and gas systems for the fiscal year beginning July 1, 2020, at a total of \$24,057,808, representing \$16,891,189 in electric Tax Equivalents and \$7,166,619 in gas Tax Equivalents, said amounts being the maximum amount of Tax Equivalents that may be paid from KUB's Electric and Gas Divisions under law.

Section 2. That the aforesaid Tax Equivalents be distributed in accordance with law to the following taxing jurisdictions in the amounts specified below:

	<u>Electric Tax Equivalents</u>	<u>Gas Tax Equivalents</u>	<u>Total Tax Equivalents</u>
City of Knoxville	\$ 8,594,084	\$3,998,446	\$12,592,530
Knox County	7,304,219	3,163,560	10,467,779
Union County	381,883		381,883
Sevier County	318,398		318,398
Grainger County	174,002		174,002
Jefferson County	95,058		95,058
Blount County	15,107		15,107
Anderson County	8,438	3,077	11,515
Loudon County	<u> </u>	<u>1,536</u>	<u>1,536</u>
Total	\$16,891,189	\$7,166,619	\$24,057,808

Section 3. That the statutory obligation for City Council to consult with the supervisory body (KUB) was satisfied by the delivery of KUB Resolution No. 1427 to City Council.

Section 4. That KUB be and hereby is authorized and directed to aforesaid amounts of Tax Equivalents to the respective taxing jurisdictions specified above; provided, however, that the amount of such Tax Equivalents to be paid to any taxing jurisdiction shall be appropriately reduced by the aggregate amount of any qualified state, county, city and other local taxes or charges imposed for such fiscal year by or for the benefit of such taxing jurisdiction, said reduction being required by law.

Section 5. That this resolution shall take effect immediately upon its passage, the public welfare requiring it, and a certified copy hereof shall be delivered to the President and Chief Executive Officer of KUB as formal evidence of this Council's action in connection therewith.

Mayor

City Recorder

RESOLUTION NO. 1428**A Resolution Amending Section 3 of Resolution No. 1060 by Replacing the Existing Rate Schedule E “Sales for Resale” of the Water Division**

Whereas, by the provisions of the Charter of the City of Knoxville, Tennessee (the "City"), the management and operation of the City's water distribution and treatment system has been placed under the jurisdiction of the Board of Commissioners (the "Board") of the Knoxville Utilities Board ("KUB"); and

Whereas, in accordance with Section 1107(F) of the Charter of the City, the Board is required to set rates for water service sufficient to pay all obligations of the Water Division; and

Whereas, the Board previously adopted Resolution No. 1060, as heretofore amended, which included rate schedules of the Water Division; and

Whereas, the rate schedules of the Water Division include, among other rates for water service, a schedule for “Sales for Resale”; and

Whereas, KUB supplies water on a recurring basis to the Town of Dandridge and Shady Grove Utility District under the rate schedule “Sales for Resale”; and

Whereas, sales of available excess water supply provide additional revenue to the Water Division to the benefit of all other KUB water customers; and

Whereas, the existing “Sales for Resale” rate is not competitive with other supply options for the Town of Dandridge and Shady Grove Utility District and volumes sold are expected to decrease; and

Whereas, management of the Town of Dandridge and Shady Grove Utility District will each execute a written commitment to maintain water purchases from KUB at historic levels or higher; and

Whereas, it is staff's recommendation the “Sales for Resale” rate be lowered to be more competitive with other supply options for Dandridge, Shady Grove, and other eligible customers; and

Whereas, staff previously discussed this recommendation with the Board's Audit and Finance Committee at the Committee's October 2020 meeting; and

Whereas, the Board has determined that it is in the best interest of all KUB water customers to amend the Water Division's “Sales for Resale” rate to be more competitive; and

Whereas, in accordance with Section 1107(L) of the Charter of the City, KUB has provided the required public notice of not less than five (5) days prior to a meeting of the Board when a rate change is to be considered.

Now, Therefore, Be It Hereby Resolved By The Board Of Commissioners Of The Knoxville Utilities Board:

Section 1. That the existing rate schedule "Schedule E – Sales for Resale" of the Water Division as set forth in Section 3 of Resolution No. 1060, as heretofore amended, is hereby deleted and replaced with the rate schedule set forth in Exhibit A.

Section 2. This Resolution shall take effect at the beginning of the month immediately following adoption of the Resolution on second and final reading.

Kathy Hamilton, Chair

Mark Walker, Board Secretary

APPROVED ON 1st
READING: _____
APPROVED ON 2nd
READING: _____
EFFECTIVE DATE: _____
MINUTE BOOK _____ PAGE _____

**Knoxville Utilities Board
Water Division**

SCHEDULE E – SALES FOR RESALE

Availability

For water purchased on an interruptible basis for resale by a customer that does not use KUB as its sole supplier of water. This service shall be available only on an interruptible basis and only to the extent, in KUB's sole opinion, that such service can be supplied through existing facilities without adversely affecting water service to any other customer of KUB. Nothing contained herein shall prevent KUB from providing water for resale under the Water General Service – Nonresidential Rate Schedule.

Commodity Charge

\$1.48 per 100 Cubic Feet

Any unauthorized usage under this tariff shall be billed at the Outside City rates set forth in the Water General Service – Nonresidential Rate Schedule.

Rules and Regulations

Service is subject to Rules and Regulations of KUB.

RESOLUTION NO. 1429**A Resolution Extending the Period of Authorization to December 31, 2021, for the Execution of a Natural Gas Supply Contract with Tennergy Corporation, an Energy Acquisition Corporation, for a Term of up to Thirty-One (31) Years**

Whereas, the Knoxville Utilities Board of Commissioners previously adopted Resolution No. 1405 on November 21, 2019 (the “Original Resolution”), authorizing the participation of the Knoxville Utilities Board (“Purchaser” or “KUB”) in a prepaid natural gas project, more particularly described in the Gas Supply Contract with Tennergy Corporation, an Energy Acquisition Corporation (“Tennergy”); and

Whereas, under the Gas Supply Contract, Tennergy will issue bonds to finance the prepayment of long-term gas, and will sell a portion of the gas purchased in a Gas Supply Contract, a form of which was approved in the Original Resolution; and

Whereas, the Original Resolution provided that if the Gas Supply Contract was not fully executed by both parties by June 30, 2020, the authority granted by the Board for KUB to enter into the Gas Supply Contract would expire; and

Whereas, the Knoxville Utilities Board subsequently adopted Resolution 1416 on June 18, 2020, which extended the period of authorization set forth in the Original Resolution to December 31, 2020; and

Whereas, KUB now desires to extend the period of authorization set forth in the Original Resolution, as amended by Resolution 1416, to December 31, 2021; and

Whereas, the extension of the period of authorization is in the best interest of KUB and its customers.

Now, Therefore, Be It Hereby Resolved By The Board Of Commissioners Of The Knoxville Utilities Board:

Section 1. The Original Resolution, as amended by Resolution 1416, is hereby amended to delete the words “December 31, 2020”, as set forth in Section 3 of the Original Resolution, as amended, and insert the words “December 31, 2021” in their place and stead.

Section 2. Except as amended by this Resolution, the Original Resolution shall remain in full force and effect.

Section 3. All acts and doings of the officers, employees or designated representatives of KUB, which are in conformity with the purposes and intent of the Original Resolution and this Resolution and in furtherance of the execution, delivery and performance of the Gas Supply Contract shall be and the same hereby are in all respects approved and confirmed.

Section 4. This Resolution shall take effect immediately upon its passage.

Kathy Hamilton, Chair

Mark Walker, Board Secretary

APPROVED ON 1st
& FINAL READING: _____
EFFECTIVE DATE: _____
MINUTE BOOK ____ PAGE _____

**Knoxville Utilities Board
Board Meeting
Minutes
Thursday, November 19, 2020 Noon**

Call to Order

The Knoxville Utilities Board met in regular session in the Mintha Roach Corporate Services Building at 4505 Middlebrook Pike, on Thursday, November 19, 2020, pursuant to the public notice published in the January 4, 2020, edition of the *News Sentinel*. Chair Kathy Hamilton called the meeting to order at 12:00 p.m.

Roll Call

Commissioners Present: Jerry Askew, Kathy Hamilton, Celeste Herbert, Tyvi Small, and John Worden.

Commissioners Absent: Sara Pinnell and Adrienne Simpson-Brown

Approval of Minutes

The Minutes of the October 22, 2020 Board Meeting were approved as distributed upon a motion by Commissioner Askew and seconded by Commissioner Herbert.

Old Business

None

New Business

Resolution 1426, A Resolution Authorizing the Execution of an Amendment to the Knoxville Utilities Board's ("KUB") Green Invest Agreement with the Tennessee Valley Authority ("TVA") and the Execution of Tranche Amendments for the Purchase of 290 MW of New Solar Energy under the Green Invest Program

President Gabriel Bolas recognized Mark Walker, Senior Vice President and Chief Financial Officer, to provide details of Resolution 1426 related to KUB's Green Invest Agreement with TVA. Mr. Walker presented staff's recommendation to the Board to execute amendments to KUB's Green Invest Agreement with TVA providing for the purchase of an additional 290 MW of solar to be spread across three new solar installations. Mr. Walker advised the Board that these purchases would bring KUB's total investment in solar through Green Invest to 502 MW, with all installations to be complete by late 2023. The cost of the solar investments in total is \$1.63 million and will be paid with a portion of KUB's annual partnership credit from TVA.

November 19, 2020

President Bolas recommended adoption of Resolution 1426 on first and final reading. His written recommendation is included in Attachment 1.

Upon a motion by Commissioner Herbert and a second by Commissioner Small, Resolution 1426 was adopted by a roll call vote on first and final reading. The following Commissioners voted "aye": Askew, Hamilton, Herbert, Small, and Worden. No Commissioner voted "nay".

President's Report

Bond Sale Results

President Bolas recognized Chris Hood, Controller, to provide an update on KUB's recent sale of water and wastewater bonds.

Broadband Update

President Bolas reminded Commissioners that KUB has been researching broadband as a potential new business line. He recognized Jamie Davis, Director of Grid Modernization, to share reasons other utilities have invested in fiber, not only for providing broadband, but the benefits to the operations of the utility as well.

Recognition of Environmental Initiatives

President Bolas advised Commissioners that KUB has earned two awards for environmental stewardship efforts. He recognized Chasity Hobby, an Analyst in Environmental Stewardship, who shared details of the various awards.

Other Business

None

Public Comment

None

Adjournment

There being nothing further to come before the Board, Chair Hamilton declared the Board meeting adjourned at 1:00 p.m.

Kathy Hamilton, Chair

Mark Walker, Board Secretary

Attachments

Attachment 1	Recommendation Letter and Resolution 1426 – A resolution Authorizing the Execution of an Amendment to the Knoxville Utilities Board’s (“KUB”) Green Invest Agreement with the Tennessee Valley Authority (“TVA”) and the Execution of Tranche Amendments for the Purchase of 290 MW of New Solar Energy under the Green Invest Program	<u>Page(s)</u> 10316 - 10328
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November 13, 2020

Knoxville Utilities Board
445 S. Gay Street
Knoxville, Tennessee 37902-1109

Commissioners:

The November 19 Board meeting agenda includes a single official action item, a resolution authorizing the execution of amendments to KUB's Green Invest Agreement with TVA. As you may recall, the Board previously approved KUB's participation in TVA's Green Invest Program, which is designed to help companies in the Valley achieve their sustainability goals by bringing new, renewable sources of electric power generation to the Valley.

The proposed amendments include three (3) Tranche Amendments, providing for the purchase of a total of 290 MW of new solar generation spread over three new solar installations to be developed in the Tennessee Valley region. The amendments also include a change in the pricing structure for renewable sources of generation, which is a change to our base Green Invest Agreement.

Upon execution of the Green Invest Agreement with TVA in March 2020, KUB entered into agreements with TVA to purchase 212 MW of solar generation at two new solar installations, including sites to be developed in Columbus, Mississippi, and Lake County, Tennessee. These solar agreements have 20-year terms at an annual cost of \$825,000, which will be covered by a portion of KUB's annual partnership credit from TVA. The 212 MW investment represents 8% of KUB's electric system load or enough to serve 35,000 homes.

The proposed new solar purchases total 290 MW, including 35 MW of the solar installation to be developed in Columbus, Mississippi, 55 MW from a site to be developed in Tullahoma, Tennessee, and 200 MW from a future solar site in West Point, Mississippi. These agreements also have 20-year terms at a total combined annual cost of \$806,000, which will also be covered by a portion of our annual partnership credit from TVA. This new 290 MW investment represents 12% of KUB's electric system load and is enough to serve 48,000 homes.

Once executed, KUB's total combined solar investment through Green Invest will be 502 MW, representing 20% or 1.1 billion kilowatt-hours (kWh) of KUB's electric system load, which is enough to serve 83,000 households in KUB's service territory.

The proposed amendment to the pricing structure of the Green Invest Agreement provides more favorable terms and small annual fees to cover TVA's administrative costs.

Resolution 1426 authorizes the execution of the new Tranche Amendments and the pricing structure change to the base Green Invest Agreement. I recommend the approval of Resolution 1426 on first and final reading.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gabriel Bolas". The signature is fluid and cursive, with the first name "Gabriel" and the last name "Bolas" clearly distinguishable.

Gabriel J. Bolas II
President and CEO

RESOLUTION NO. 1426

A Resolution Authorizing the Execution of an Amendment to the Knoxville Utilities Board's ("KUB") Green Invest Agreement with the Tennessee Valley Authority ("TVA") and the Execution of Tranche Amendments for the Purchase of 290 MW of New Solar Energy under the Green Invest Program

Whereas, TVA and KUB have a long-standing relationship as seller and buyer of electric power, under which KUB purchases its electric power requirements from TVA; and

Whereas, the KUB Board of Commissioners ("Board") previously adopted Resolution No. 1410, which among other things, authorized KUB's participation in TVA's Green Invest Program; and

Whereas, KUB entered into a first-of-its-kind TVA's Green Invest Agreement in March 2020 to purchase 212 MW of new solar in the Tennessee Valley; and

Whereas, KUB seeks to purchase 290 MW of additional new solar through TVA's Green Invest Program to be spread across three new solar installations in the TVA region; and

Whereas, a portion of KUB's annual partnership credit from TVA will fund this investment in 290 MW of new solar; and

Whereas, KUB's total combined Green Invest purchases of 502 MW will represent 20% or 1.1 billion kilowatt-hours (kWh) of KUB's electric system load or enough to serve approximately 83,000 homes; and

Whereas, KUB's purchase of additional solar will require the execution of Tranche Amendments to the Green Invest Agreement setting the terms and conditions of the purchase of solar from the three new solar installations; and

Whereas, TVA has revised its pricing structure for the Green Invest Program, which also requires an amendment to KUB's Green Invest Agreement with TVA; and

Whereas, KUB staff have thoroughly reviewed the amendment for the pricing structure changes and the Tranche Amendments and have determined that their execution is in the best interests of KUB and its customers.

Now, Therefore, Be it Hereby Resolved by the Board of Commissioners of the Knoxville Utilities Board:

Section 1. The President and Chief Executive Officer is hereby authorized to execute the Green Invest Agreement Amendment, setting forth the pricing structure changes, and execute the Tranche Amendments to the Green Invest Agreement providing for the purchase of the 290 MW of new solar, all in substantially the form attached hereto this Resolution as Exhibit A.

Section 2. The President and Chief Executive Officer is further authorized and empowered generally to take such action and to authorize such other persons to take such actions as may be necessary, proper or convenient to carry into effect this Resolution and to carry out the terms of the executed amendments.

Section 3. This Resolution shall take effect from and after its passage.

Kathy Hamilton/s
Kathy Hamilton, Chair

Mark Walker/s
Mark Walker, Board Secretary

APPROVED ON 1st
& FINAL READING: 11-20-20
EFFECTIVE DATE: 11-20-20
MINUTE BOOK 43 PAGE 10318-10328

GREEN INVEST AGREEMENT AMENDMENT

TV-75110A, Supp. No. ____

This Amendment is between KNOXVILLE UTILITIES BOARD (Acting for and on behalf of City of Knoxville, Tennessee) ("**Distributor**"), a Tennessee municipal corporation, and TENNESSEE VALLEY AUTHORITY ("**TVA**"), a corporate agency and instrumentality of the United States of America created and existing under and by virtue of the Tennessee Valley Authority Act of 1933, as amended.

Distributor purchases all of its power requirements from TVA for resale under a rolling term contract number TV-75110A, effective July 11, 1988, as amended ("**Power Contract**").

Distributor and TVA previously entered into a Green Invest Agreement, contract number TV-75110A, Supp. No. 115, effective March 12, 2020, including all Tranche Amendment(s) entered into thereunder and incorporated by reference (referred to collectively as the "**Green Invest Agreement**") to provide new renewable energy to Company under the Power Contract.

Distributor and TVA have since determined that they would each benefit from amending certain provisions of the Green Invest Agreement.

Therefore, the parties agree as follows:

SECTION 1 - TERM

This Amendment will continue in effect until the expiration or termination of the Green Invest Agreement.

SECTION 2 - DEFINITIONS

Unless otherwise defined herein, capitalized and underlined terms are defined in the Green Invest Agreement.

SECTION 3 - AMENDMENTS TO THE GREEN INVEST AGREEMENT

3.1 - Definitions Additions

The parties hereby amend section 1 of the Green Invest Agreement by removing the definition of "REC Fee," and any reference thereto throughout the Green Invest Agreement, and by adding the following definitions to the alphabetized list:

"**Product Price Minimum**" means the minimum price of the Product, meant to represent the value of the benefit received by Company. The Product Price Minimum as of January 1, 2020, is one dollar and twenty-five cents per megawatt-hour (\$1.25/MWh) for each unit of Product. The Product Price Minimum may be changed by TVA upon 30 days written notice to Company. Any change to the Product Price Minimum will not apply to or otherwise affect any effective Tranche Amendment(s).

"**TVA Administrative Fee**" is a \$1,000.00 per month charge to compensate TVA for the cost it incurs to administer this Agreement and the associated Tranche Amendment(s). The TVA Administrative Fee will increase 3% on January 1 of each year, beginning January 1, 2021. As of the effective date of this Amendment, the TVA Administrative Fee will be applied to Distributor's monthly invoice whenever a Tranche Amendment becomes effective and an applicable Renewable Energy Facility has begun to deliver renewable power. The TVA Administrative Fee will not be applied to any previously effective Tranche Amendment executed prior to the effective date of this Amendment.

3.2 - Pricing Changes

For any Tranche Amendment(s) signed after the effective date of this Amendment, the parties hereby agree to replace, in its entirety, section 3.4 of the Green Invest Agreement with the following, to reflect the new pricing structure:

Section 3.4 Pricing. The Product price TVA will provide to Company will be determined by subtracting TVA's avoided cost from the cost of the renewable energy obtained pursuant to the PPA, with such difference not less than the Product Price Minimum in effect at the time TVA receives the Notification. TVA's avoided cost will be based on TVA's then-current economic modeling approach utilized for planning TVA's existing and incremental generation resources, and will take into account the specific combination of features of the power to be generated by TVA or to be sold under the specific proposal for the PPA, which considerations will include, without limitation, capacity, real-time energy delivery amounts ("shaping"), dispatchability, intermittency, generation source diversity, maintenance scheduling, administrative and billing requirements, variations in line losses, curtailment rights, reliability, and other risk factors. The parties will agree to the Product price through execution of a Tranche Amendment. The Product price is not subject to change following execution of such Tranche Amendment, unless otherwise agreed to in the applicable Tranche Amendment.

3.3 - Invoicing Changes

The parties hereby agree to replace, in its entirety, section 5.1 of the Green Invest Agreement with the following, to include the TVA Administrative Fee:

Section 5.1 Invoicing. TVA will invoice Distributor monthly for Product generated under each Tranche Amendment, the TVA Administrative Fee, and third-party costs for certifying, registering, and transferring RECs ("**Third-Party Costs**"), if any. Distributor shall pay for such Product, TVA Administrative Fee, and Third-Party Costs on Distributor's monthly bill for firm power in accordance with the terms and conditions in the Power Contract and each applicable Tranche Amendment. Any such monthly amount shall be netted against any credit due to Distributor in accordance with Section 5.2 or added to all other amounts payable on Distributor's monthly bill for firm power.

SECTION 4 - RATIFICATION OF THE GREEN INVEST AGREEMENT

The parties hereby ratify and confirm that the Green Invest Agreement, as amended by this Amendment, is their continuing obligation.

The remainder of this page is intentionally blank.

This Amendment is effective on the date of TVA's signature.

KNOXVILLE UTILITIES BOARD
(Acting for and on behalf
of the City of Knoxville)

By _____

Title: _____

Date: _____

TENNESSEE VALLEY AUTHORITY

By _____
Chief Financial Officer

Date: _____

TRANCHE AMENDMENT # 3

TV-75110A, Supp. No. ____

This Green Invest Tranche Amendment (“**Amendment**”) is between Knoxville Utilities Board (Acting for and on behalf of City of Knoxville, Tennessee) (“**Distributor**”), and Tennessee Valley Authority (“**TVA**”), and is subject to the provisions of the Green Invest Agreement (“**Agreement**”) Contract No. TV-75110A, Supp. No. 115. This Amendment is effective as set out in Conditions Precedent below.

Applicable Renewable Energy Facility	<p>Distributor will purchase from TVA the Product derived from new renewable generation on an as-generated basis contingent on the availability of the new renewable generation resource at SR Tullahoma LLC, accounting for 27.5% of that facility’s total renewable generation, being obtained by TVA under a power purchase agreement (“PPA”) Contract Number 6555561.</p> <p>Contract Output (MWac): 200 MW (of which 27.5% equals 55 MW) Coordinate Location: 35°20’49.10”N, 86°16’15.88”W Expected Delivery Point: delivery point on the TVA Franklin-Warrance 161-kV transmission line #2 adjacent to the site Expected Initial Delivery Date: September 29, 2023 Delivery Period (years): 20</p>
Term	<p>The term of this Amendment runs through the expiration of the term of the PPA or the earlier termination thereof.</p>
Product Price	<p>The Product price for generation from the applicable Renewable Energy Facility is \$1.25 per REC.</p>
Renewable Energy Facility Underperformance	<p>TVA will pay Distributor 4.71% of its proportionate share of the total damages owed and received by TVA from the PPA, specifically in Section 3.3, “Failure to Meet the Expected Initial Delivery Date,” and Article 8, “Supply Guarantee; Disconnection or Curtailment;” provided that, pursuant to Section 5.4 of the Agreement, Distributor shall have the right to receive replacement RECs in the event they are received by TVA under the PPA.</p> <p>In the event of early termination pursuant to Article 9, “Early Termination; Remedies” under the PPA, the percentage and allocation of damages paid to Distributor will be as set out in Section 5.4 of the Agreement.</p>
Early Termination	<p>Section 7.3 of the Agreement will establish the early termination amount.</p>
Conditions Precedent	<p>This Amendment will become effective on the earlier of the PPA’s Notice to Proceed Deadline or the granting of the Notice to Proceed of the underlying Renewable Energy Facility of the PPA; in the event that the PPA is not executed within 30 days of the execution of this Amendment, this Amendment will not become effective.</p>
Transparency of Distributor Renewable Commitments	<p>By signing this Tranche Amendment, Distributor represents and warrants that the cost and benefits associated with this Amendment were discussed at a public meeting open to Distributor’s electric system ratepayers and that ratepayers were provided with a Distributor contact to address any inquiries regarding the effects of this arrangement.</p>

General Terms and Conditions:	<p><u>Ratification of the Agreement.</u> The Agreement as amended by this Amendment, is ratified and confirmed as the continuing obligation of the parties.</p> <p><u>Defined Terms.</u> Capitalized and underlined terms not otherwise defined in this Amendment have the same meaning as in the Agreement.</p> <p><u>Conflicts.</u> In the event of any conflict between this Amendment and the Agreement, this Amendment controls.</p> <p><u>Assignment.</u> This Amendment will be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Neither party may transfer or assign this Amendment, in whole or in part, without the other party's prior written consent.</p> <p><u>Amendment.</u> This Amendment may be amended only by a written agreement signed by both parties.</p> <p><u>Counterparts.</u> This Amendment may be executed in multiple counterparts, each of which will be considered an original and all of which together will be considered to be but one and the same instrument. Facsimile or PDF transmission of any signed original document, and retransmission of any facsimile or PDF transmission, will be the same as delivery of any original document.</p>
Performance Assurance	<p>Section 6 of the Agreement shall govern Distributor's Performance Assurance obligations with TVA throughout the term of this Amendment.</p>

By signing below, the parties agree to be bound by the terms and conditions contained in this Amendment and the Agreement.

Knoxville Utilities Board (Acting for and on behalf of the City of Knoxville)	Tennessee Valley Authority
<i>Signature:</i> _____ <i>Title:</i> _____	<i>Signature:</i> _____ <i>Title:</i> Chief Financial Officer
<i>Printed Name:</i> _____ <i>Date:</i> _____	<i>Printed Name:</i> John M. Thomas, III <i>Date:</i> _____

TRANCHE AMENDMENT # 4

TV-75110A, Supp. No. ____

This Green Invest Tranche Amendment (“**Amendment**”) is between Knoxville Utilities Board (Acting for and on behalf of City of Knoxville, Tennessee) (“**Distributor**”), and Tennessee Valley Authority (“**TVA**”), and is subject to the provisions of the Green Invest Agreement (“**Agreement**”) Contract No. TV-75110A, Supp. No. 115. This Amendment is effective as set out in Conditions Precedent below.

Applicable Renewable Energy Facility	<p>Distributor will purchase from TVA the Product derived from new renewable generation on an as-generated basis contingent on the availability of the new renewable generation resource at MS Solar 7, LLC, accounting for 100% of that facility’s total renewable generation, being obtained by TVA under a power purchase agreement (“PPA”) Contract Number 6556687.</p> <p>Contract Output (MWac): 200 MW Coordinate Location: 33.636, -88.653 Expected Delivery Point: TVA’s 161-kV Clay/West Point Substation Expected Initial Delivery Date: September 29, 2023 Delivery Period (years): 20</p>
Term	<p>The term of this Amendment runs through the expiration of the term of the PPA or the earlier termination thereof.</p>
Product Price	<p>The Product price for generation from the applicable Renewable Energy Facility is \$1.25 per REC.</p>
Renewable Energy Facility Underperformance	<p>TVA will pay Distributor 4.74% of its proportionate share of the total damages owed and received by TVA from the PPA, specifically in Section 3.3, “Failure to Meet the Expected Initial Delivery Date,” and Article 8, “Supply Guarantee; Disconnection or Curtailment;” provided that, pursuant to Section 5.4 of the Agreement, Distributor shall have the right to receive replacement RECs in the event they are received by TVA under the PPA.</p> <p>In the event of early termination pursuant to Article 9, “Early Termination; Remedies” under the PPA, the percentage and allocation of damages paid to Distributor will be as set out in Section 5.4 of the Agreement.</p>
Early Termination	<p>Section 7.3 of the Agreement will establish the early termination amount.</p>
Conditions Precedent	<p>This Amendment will become effective on the earlier of the PPA’s Notice to Proceed Deadline or the granting of the Notice to Proceed of the underlying Renewable Energy Facility of the PPA; in the event that the PPA is not executed within 30 days of the execution of this Amendment, this Amendment will not become effective.</p>
Transparency of Distributor Renewable Commitments	<p>By signing this Tranche Amendment, Distributor represents and warrants that the cost and benefits associated with this Amendment were discussed at a public meeting open to Distributor’s electric system ratepayers and that ratepayers were provided with a Distributor contact to address any inquiries regarding the effects of this arrangement.</p>

General Terms and Conditions:	<p><u>Ratification of the Agreement.</u> The Agreement as amended by this Amendment, is ratified and confirmed as the continuing obligation of the parties.</p> <p><u>Defined Terms.</u> Capitalized and underlined terms not otherwise defined in this Amendment have the same meaning as in the Agreement.</p> <p><u>Conflicts.</u> In the event of any conflict between this Amendment and the Agreement, this Amendment controls.</p> <p><u>Assignment.</u> This Amendment will be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Neither party may transfer or assign this Amendment, in whole or in part, without the other party's prior written consent.</p> <p><u>Amendment.</u> This Amendment may be amended only by a written agreement signed by both parties.</p> <p><u>Counterparts.</u> This Amendment may be executed in multiple counterparts, each of which will be considered an original and all of which together will be considered to be but one and the same instrument. Facsimile or PDF transmission of any signed original document, and retransmission of any facsimile or PDF transmission, will be the same as delivery of any original document.</p>
Performance Assurance	Section 6 of the Agreement shall govern Distributor's Performance Assurance obligations with TVA throughout the term of this Amendment.

By signing below, the parties agree to be bound by the terms and conditions contained in this Amendment and the Agreement.

Knoxville Utilities Board (Acting for and on behalf of the City of Knoxville)	Tennessee Valley Authority
<i>Signature:</i> _____ <i>Title:</i> _____	<i>Signature:</i> _____ <i>Title:</i> Chief Financial Officer
<i>Printed Name:</i> _____ <i>Date:</i> _____	<i>Printed Name:</i> John M. Thomas, III <i>Date:</i> _____

TRANCHE AMENDMENT # 5

TV-75110A, Supp. No. ____

This Green Invest Tranche Amendment (“**Amendment**”) is between Knoxville Utilities Board (Acting for and on behalf of City of Knoxville, Tennessee) (“**Distributor**”), and Tennessee Valley Authority (“**TVA**”), and is subject to the provisions of the Green Invest Agreement (“**Agreement**”) Contract No. TV-75110A, Supp. No. 115. This Amendment is effective as set out in Conditions Precedent below.

Applicable Renewable Energy Facility	<p>Distributor will purchase from TVA the Product derived from new renewable generation on an as-generated basis contingent on the availability of the new renewable generation resource at MS Solar 5 Solar Project, accounting for 17.5% of that facility’s total renewable generation, being obtained by TVA under a power purchase agreement (“PPA”) Contract Number 5921777.</p> <p>Contract Output (MWac): 200 MW (of which 17.5% equals 35 MW) Coordinate Location: 33.458704, -88.628949 Expected Delivery Point: TVA’s 161-kV Artesia Substation or alternative point as determined through the interconnection process Expected Initial Delivery Date: October 1, 2022 Delivery Period (years): 20</p>
Term	<p>The term of this Amendment runs through the expiration of the term of the PPA or the earlier termination thereof.</p>
Product Price	<p>The Product price for generation from the applicable Renewable Energy Facility is \$1.25 per REC.</p>
Renewable Energy Facility Underperformance	<p>TVA will pay Distributor 4.86% of its proportionate share of the total damages owed and received by TVA from the PPA, specifically in Section 3.3, “Failure to Meet the Expected Initial Delivery Date,” and Article 8, “Supply Guarantee; Disconnection or Curtailment;” provided that, pursuant to Section 5.4 of the Agreement, Distributor shall have the right to receive replacement RECs in the event they are received by TVA under the PPA.</p> <p>In the event of early termination pursuant to Article 9, “Early Termination; Remedies” under the PPA, the percentage and allocation of damages paid to Distributor will be as set out in Section 5.4 of the Agreement.</p>
Early Termination	<p>Section 7.3 of the Agreement will establish the early termination amount.</p>
Conditions Precedent	<p>This Amendment will become effective on the earlier of the PPA’s Notice to Proceed Deadline or the granting of the Notice to Proceed of the underlying Renewable Energy Facility of the PPA; in the event that the PPA is not executed within 30 days of the execution of this Amendment, this Amendment will not become effective.</p>
Transparency of Distributor Renewable Commitments	<p>By signing this Tranche Amendment, Distributor represents and warrants that the cost and benefits associated with this Amendment were discussed at a public meeting open to Distributor’s electric system ratepayers and that ratepayers were provided with a Distributor contact to address any inquiries regarding the effects of this arrangement.</p>

General Terms and Conditions:	<p><u>Ratification of the Agreement.</u> The Agreement as amended by this Amendment, is ratified and confirmed as the continuing obligation of the parties.</p> <p><u>Defined Terms.</u> Capitalized and underlined terms not otherwise defined in this Amendment have the same meaning as in the Agreement.</p> <p><u>Conflicts.</u> In the event of any conflict between this Amendment and the Agreement, this Amendment controls.</p> <p><u>Assignment.</u> This Amendment will be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Neither party may transfer or assign this Amendment, in whole or in part, without the other party's prior written consent.</p> <p><u>Amendment.</u> This Amendment may be amended only by a written agreement signed by both parties.</p> <p><u>Counterparts.</u> This Amendment may be executed in multiple counterparts, each of which will be considered an original and all of which together will be considered to be but one and the same instrument. Facsimile or PDF transmission of any signed original document, and retransmission of any facsimile or PDF transmission, will be the same as delivery of any original document.</p>
Performance Assurance	<p>Section 6 of the Agreement shall govern Distributor's Performance Assurance obligations with TVA throughout the term of this Amendment.</p>

By signing below, the parties agree to be bound by the terms and conditions contained in this Amendment and the Agreement.

Knoxville Utilities Board (Acting for and on behalf of the City of Knoxville)	Tennessee Valley Authority
<i>Signature:</i> _____ <i>Title:</i> _____	<i>Signature:</i> _____ <i>Title:</i> Chief Financial Officer
<i>Printed Name:</i> _____ <i>Date:</i> _____	<i>Printed Name:</i> John M. Thomas, III <i>Date:</i> _____