

To: NAESB Wholesale Gas Quadrant (WGQ), Executive Committee (EC)
From: Valerie Crockett, Tennessee Valley Authority (TVA)
Re: Comments on Status Quo Recommendation for Annual Plan 7c/4c, NAESB
Nomination Cycles
Date: July 2, 2008

Introduction: The Commission's directive to NAESB in paragraph 69 of Order No. 698 said "... within the confines of current Commission policy, NAESB should actively consider whether changes to existing intraday schedules would benefit all shippers, and better provide for coordination between gas and electricity scheduling."

A tremendous amount of effort from a wide range of participants took on this task, yet failed to reach a consensus under this directive, due to a number of reasons. Some of the reasons were potential monetary impacts to a particular segment while for others it was based on critical operational concerns of reliability (as documented in the attached affidavit). Yet, other participants believed that problems could be resolved through specific individual pipeline actions, such as new service offerings and additional cycles, rather than nomination standards.

Discussion: TVA, as a firm shipper, contracts for a variety of services designed to provide flexibility for operational needs, but are often unable to utilize these services during the time frame when they are most needed, despite the fact that TVA has "reserved" the capacity through payment of firm demand charges. The inability of TVA to nominate its firm capacity at any time not only devalues the firm capacity, but more importantly, gas-fired generation becomes the least reliable power source due to flow control meters at all TVA generation sites. Flow control meters operated by the pipelines create serious concerns for electric utility reliability, or at a minimum, forces TVA to generate on diesel fuel to meet reliability needs, thereby violating state air permit limitations during the summer months. It becomes a choice of being between a rock and a hard place.

The lack of a guarantee that an intraday nomination can be scheduled creates problems for both the electric and gas industries. The reality is that there is a continuing growing demand for electricity. Even with aggressive demand-side management planned by TVA, the 7,200 megawatts of gas-fired generation that uses 2.084 Bcf of natural gas over a 24 hour period, will remain the "go to" generation for quick response and reserves, yet industry rules tie our hands. TVA's gas-fired generation is integral to providing reliable service. Without reliable service, if the lights go out, it could be not only traditional electric consumers impacted, but all customers in the territory, including control rooms of gas utilities and electric powered pipeline compressor stations as well.

Recommendation: Maintaining the *status quo* is unacceptable. TVA encourages the WGQ EC to adopt the Proposed APS/TVA Timeline, or in its alternative, promptly submit for filing with the Commission the questions identified in the Joint Comments, so that the important policy issues can be addressed expeditiously in the appropriate forum.

Attachment: Affidavit of Jim Power

**NORTH AMERICAN ENERGY STANDARDS BOARD
WHOLESALE GAS QUADRANT
EXECUTIVE COMMITTEE**

AP 2007 ITEM 7C/AP 2008 ITEM 4C

FERC ORDER 698 DIRECTIVES

**Affidavit of
James H. Power, Jr.
Manager of Gas Acquisition
Tennessee Valley Authority**

James H. Power, Jr., being first duly sworn, deposes and says:

1. I, James H. Power, Jr., am Manager of Gas Acquisition in the Commercial Operations and Fuels organization of the Tennessee Valley Authority (TVA). I have been employed by TVA since August 1978, and have served over the past thirty-one years in various positions in distributor relations, auditing, fuel supply analysis and managing natural gas acquisition.
2. For the last ten years, I have worked on the gas desk, beginning as a fuel analyst and progressing to manager. In my role as Manager of Gas Acquisition for TVA, I manage the short-term (less than 30 day contracts) purchase of natural gas supplies.
3. I received my BS in accounting from Tennessee Technological University in 1975 and a MBA from Middle Tennessee State University in 1981.
4. The purpose of my affidavit is to describe TVA's inability to nominate natural gas for delivery at generating units due to existing nomination protocols when the operation of those units is required to meet applicable reliability criteria.
5. On June 3, 2008, at approximately 7:00 PM CDT, six of the eight combustion turbine (CT) units at TVA's Gallatin facility were started remotely by the TVA Balancing Authority. The CTs were started without prior notice in order to ensure

compliance with certain applicable reliability standards monitored and enforced by the North American Electric Reliability Corporation (NERC) under FERC's oversight.

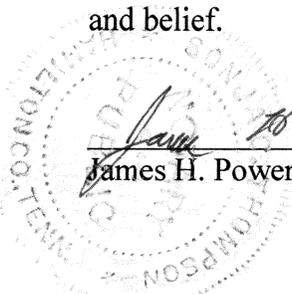
6. The timing of the commencement of CT operations for reliability purposes on the TVA system is difficult to forecast due to the convergence of multiple factors affecting the performance of the bulk power system including, but not limited to, changes in load, weather, generator performance, and transmission line constraints.
7. The Gallatin CT units were dispatched to operate using oil, as required by the TVA dispatch process in order to ascertain availability. The units would then normally be switched to operate on natural gas after personnel have arrived on site and notified the pipeline to ensure the flow control valve at the meter has been opened by the pipeline to allow delivery of gas to the units.
8. Due to the time of day (after Intra-day cycle 2 (ID2) which is submitted at 5:00 PM of the gas day and the last nomination cycle of the gas day), however, TVA was unable to schedule natural gas for delivery at Gallatin, and the units were forced to run on oil to ensure TVA's compliance with the applicable NERC reliability standards. This caused TVA to violate its State Air Permit at Gallatin, which does not allow certain units at Gallatin to operate on oil during the summer period (oil can only be used for start-up activities).
9. This is just the most recent example of many instances where CT units must be started late in the day in order to comply with NERC reliability standards and TVA is unable to nominate gas to those CT units because, the pipeline controls

the flow control valve and, under the existing protocols, the last nomination cycle has occurred.

10. In summary, TVA is sometimes placed between the proverbial rock and a hard place, in having to choose between violating NERC reliability standards with associated penalties and, violating TVA's state air permit with its associated penalties.

NOTARIZATION

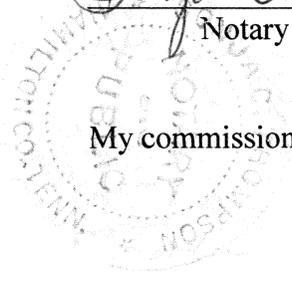
James H. Power, Jr., being duly sworn, deposes and states that the statements contained in the attached affidavit are true and correct to the best of his knowledge, information, and belief.



James H. Power, Jr.
James H. Power, Jr.

Sworn to and subscribed before me

this 10th day of June, 2008.



Saja C. Thompson
Notary Public

My commission expires: May 10, 2010