

Frequently Asked Questions About TVA's Fuel Cost Adjustment



What is the TVA fuel cost adjustment?

The Tennessee Valley Authority (TVA) makes the electricity used by nearly 9 million consumers across the seven-state Tennessee Valley. TVA sells its power to local distributors that in turn sell the power to the homes and businesses of the Valley. The Fuel Cost Adjustment (FCA) is the mechanism TVA uses to help recover largely uncontrollable fuel and purchased power costs. A variety of factors affect these costs, including weather and global supply and demand issues.

Why does TVA need a fuel cost adjustment?

TVA began its Fuel Cost Adjustment (FCA) mechanism in October 2006 after experiencing the spike in fuel costs caused by Hurricanes Katrina and Rita the previous year. The FCA ensures TVA recovers costs as they occur, helping TVA better match its revenues to expenses. Many utilities use similar mechanisms to adjust their rates.

Why do consumers pay for fuel?

About 56% of TVA's power supply comes from fossil fuels used to make electricity – coal, oil and natural gas. When the prices of these fuels increase, TVA's costs increase. When higher prices force TVA to increase its FCA to recover costs, we must pass those costs along to our customers.

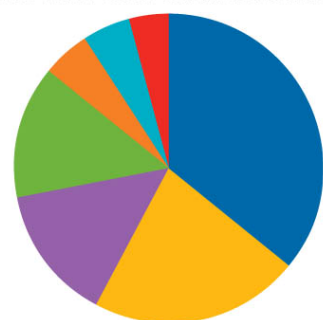
Why is the October FCA expected to be so much higher?

The October 1 FCA increase will be due to dramatic price increases for fuels commonly used to make electricity – coal and natural gas. Coal costs have more than doubled since December 2007; natural gas prices are up by more than 65%. In addition, the TVA region is in the third year of a historic drought that continues to reduce its cheapest power source – hydro-generation – forcing it to use more expensive power.

How is the FCA calculated?

The FCA is calculated every three months as generation fuel costs and the cost of power TVA purchases from other suppliers rise and fall. The FCA calculation works by capturing the difference between the amount that TVA forecasts to pay for fuel during a given quarter and the amount that is collected through rates. This formula has two main components: the first is a forecast of anticipated fuel and purchased power costs; the second is a reconciliation of any fuel costs TVA under or over collected. The FCA can be a charge or a credit depending on these differences. It appears on consumers' bills as a per kilowatt-hour charge or credit.

2007 TVA's Costs to Make Electricity



Fuel & Purchased Power	36%
Non-Fuel O&M	22%
Interest Expense	14%
Capital Projects	14%
Reduction in Total Financing Obligations	5%
Tax-Equivalent Payments	5%
Other Costs	4%

What can I do to lower my electric bill?

Take these simple steps to help save electricity, and offset rising energy costs:

- Set thermostats two degrees warmer on summer days.
- Turn off lights, appliances and other home electronics not in use with a power bar.
- Use the “sleep” mode on computers.
- Use the microwave instead of a stove burner or oven for cooking.
- Operate dishwashers and clothes washers only with full loads and after 8 p.m., when TVA's costs to make electricity are lowest; air dry dishes in the dishwasher.
- Replace incandescent bulbs with compact fluorescents (CFL) – they use 75 percent less energy and last many times longer.



Visit TVA.com to learn more energy saving steps and take a Home Energy Audit to receive a Free Conservation Kit to help you get started. Consumers can also request a mail-in version from their local power distributor or by calling toll-free at 1-800-663-1835. The kits can help save \$2 to \$4 on monthly power bills and up to 20 percent on annual utility costs if all the audit recommendations are implemented.