



Media Contact:
Wayne Scarbrough
(423) 745-4501 ext. 212
wscarbrough@aub.org

News Release

For Immediate Release

February 14, 2006

TVA RAISES AUB'S RATE 9.95%; INCREASE AFFECTIVE APRIL 1

ATHENS, Tenn. – Managers at Athens Utilities Board (AUB) learned Monday afternoon that TVA will raise the local utility's cost for power by 9.95 percent beginning April 1.

The increase likely will be passed on to retail customers, said AUB spokesman Wayne Scarbrough, though full AUB Board action is required to make that official.

“We knew that TVA was considering a rate increase in the face of its own rising fuel and power costs. We just didn't know exactly how much it would be or exactly when it would take place,” Scarbrough said.

“There is no way we can absorb this cost. It will be an increase of \$2 million to \$3 million a year for AUB. It is much like the TVA rate increase last October in that we simply operate too close to the bone to simply pay the cost and not recoup it through retail sales,” Scarbrough said.

AUB General Manager Eric Newberry said that despite TVA raising rates for the second time in seven months, he will not recommend to the AUB board that the local utility add anything to the TVA rate increase.

“In the fall of 2003, when AUB last increased its retail rates, we said that we would do everything we could to make that last until at least 2007. I believe that despite the economic pressures, we will strive to stay on that course,” Newberry said.

Newberry added that the full AUB Board of Directors will need to execute two public readings of any resolution to pass along the TVA increase. With such a tight timeline on the notice, the Board will likely act quickly to avoid a financial crunch at the local level when the TVA rate increase hits AUB, he said.

“TVA is raising our rate—what we pay TVA—as of April first. If we don’t have that built into our retail rates at that point it would be a blow to our cash flow,” Newberry said. “We will need to have a first reading at the February board meeting and a second reading at the March meeting to make it effective April 1.”

Scarborough said that AUB does not yet have all of the rate data from TVA to know the exact fiscal impact on the utility or to perform a full assessment of how the increase will affect the monthly bill of various customer rate classes, such as residential and small commercial.

“As we get information from TVA we will build our rate models so that we can fully explain the impact to all of our customers,” Scarborough said.

The TVA Board on Monday also directed TVA staff to proceed with testing a Fuel Cost Adjustment mechanism that could adjust TVA’s rates up and down as fuel and purchased power costs rise and fall.

“The Fuel Cost Adjustment is a solution that would keep TVA’s rates more closely aligned to costs and help reduce the need for large rate adjustments in the future,” said TVA Chairman Bill Baxter. “Most utilities across the nation already have this type of mechanism in place to recover these costs.”

Newberry said that prior to implementation of a Fuel Cost Adjustment, power distributors want TVA to continue a dialogue with them in order to test and fine-tune the mechanism so that when implemented it will be effective.

“Obviously, this is a new concept for Tennessee Valley power distributors, and we want to give any proposal from TVA due diligence to ensure that any possible rate impact on our customers will be as little as possible,” Newberry said.