

ATVG Report, December 2008

Fuel Cost Adjustment to Reduce Rates in January

TVA announced a decrease in its fuel cost adjustment effective January 1, 2009. Because the fuel cost adjustment is a per kilowatt-hour charge, amounts that consumers will save depends on the amount of energy they use. While savings will vary across the Tennessee Valley, residential consumers can expect a decrease ranging from about \$4 to \$8 in their monthly power bills. Since retail billing periods for TVA power distributors vary across the Valley, some January bills will include December usage at the lower FCA amount.

“We are glad for the relief this decrease will bring to rate payers across the Valley,” said TVA Chief Financial Officer Kim Greene. “Recent reductions in purchased power and natural gas prices have helped reduce our actual costs and forecast for the second quarter of 2009. Unfortunately, coal prices remain significantly higher than they were a year ago, and sustained drought conditions across the Tennessee Valley have cut TVA’s hydro generation by more than 50 percent, preventing TVA’s fuel costs from dropping further.”

Greene said economic conditions led to a decrease in wholesale power sales July through September, which also helped lower the FCA by reducing TVA’s reliance on its most expensive power sources. About 60 percent of TVA’s power supply comes from fossil fuels – primarily coal, along with oil and natural gas. When fuel prices increase, TVA’s cost to produce electricity for the 9 million consumers across the seven-state Valley region increases as well. Overall, the decrease represents about a 6-percent reduction on total average wholesale rates, and is a 25-percent reduction from the current quarter’s FCA amount. The second quarter FCA will decrease from 1.8 cents per kilowatt-hour to just over 1.3 cents per kilowatt-hour or 1.329 cents.

TVA began using a fuel cost adjustment mechanism in October 2006 after experiencing a spike in fuel costs caused by Hurricanes Katrina and Rita. Utilities across the country use such mechanisms to help recover the costs they must pay for fuel and purchased power. The adjustment is part of consumer power bills and can go up or down, depending on quarterly increases or decreases in these costs. TVA is working with local power distributors to develop new energy efficiency products to help residents, businesses and large industries in the Valley save energy and money on power costs. In cooperation with participating power distributors, TVA will begin offering new initiatives early next year. The adjustment means homeowners will be paying a little less for their monthly heating and lighting bills. It will mean a savings of \$4 to \$8 for the average consumer. With the cost of natural gas coming down since then, TVA is spending less to generate and buy electricity. The savings is being passed on to the consumer.

As the nation’s largest public power provider, TVA provides power to both large industries and 159 power distributors that serve approximately nine million consumers in seven southeastern states. They also manage the Tennessee River and its tributaries to provide multiple benefits, including flood damage reduction, navigation, water quality and recreation.