

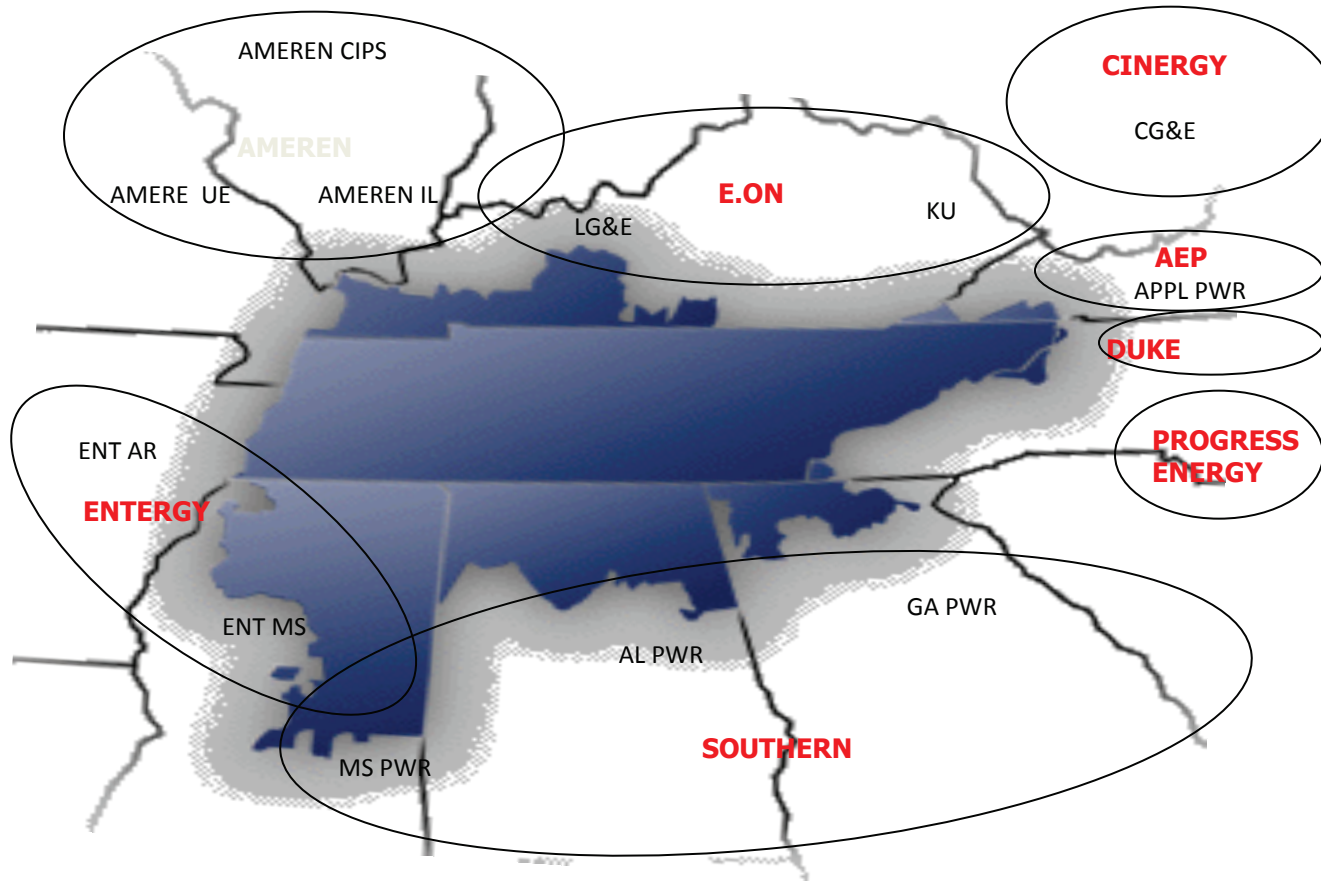


How TVA Recovers Fuel Costs

- **The Fuel Cost Adjustment (FCA)** is the mechanism TVA uses to recover the costs of the fuel it utilizes (for example, coal and natural gas) to generate electricity. Since the prices of these fuels are determined by market forces, TVA cannot control the prices it pays for these fuels, but it manages costs, where possible, through contracting and financial management.
- **Began October 2006** after experiencing spikes in fuel costs caused by Hurricanes Katrina and Rita the previous year
- **Ensures TVA recovers costs close to when they occur**, helping to better match TVA's revenues to its fuel expenses, which reduces its borrowing costs
- **Recovered through monthly consumer power bills**, depending on individual energy use as a per kilowatt-hour adjustment.
- **Many utilities across United States** use similar mechanisms, including most utilities bordering TVA's service territory.



Neighboring Utilities with Fuel Cost Adjustments



Red – Indicates utilities using fuel cost adjustments; Ameren is the only surrounding utility without a fuel cost adjustment, but it has filed a request with the Missouri PSC to implement a fuel and purchased power cost recovery clause. A decision is expected early in the new year.



TVA FCA Overview

- The FCA is reset every month.
- The FCA is a variable energy (¢/kWh) rate that fluctuates depending on the costs of fuels like coal and natural gas, as well as electricity purchased from other producers.
- Currently, the FCA works by capturing the difference between the amount that TVA forecasts to pay for fuel during a given month and the amount that it expects to collect through the fuel portion of the base rate, also known as the baseline.
- 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 includes only the direct cost of fuel used in TVA's generating plants and other fuel related costs directly dependent upon the level of electricity generation and the energy cost of purchased power.
- The difference between the forecast and actual fuel costs is included in future FCA adjustments, so the end result is that TVA customers pay only the actual fuel costs that TVA incurs.
- The same wholesale FCA rate applies to all customers.