

**APPENDIX A – LETTER WITH ATTACHMENTS MAILED TO  
DISTRIBUTORS ON FEBRUARY 20, 2003**

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February 20, 2003

To All Distributors of TVA Power:

Dear \_\_\_\_\_:

As you know, TVA has been in the process of developing proposed changes in the Schedule of Rates and Charges that are proposed to be effective on October 1, 2003. Preliminary information about the proposed changes being considered was made available and discussed with the Rates and Contracts Committee of the Tennessee Valley Public Power Association (TVPPA) at their meeting in Nashville on January 22. Copies of the presentations from that meeting were made available to all distributors through their committee representatives or through the TVA Customer Service Centers.

The enclosure entitled “TVA Rate Change Proposals” describes the proposed changes being requested. In accordance with the provisions of the section entitled “Adjustment and Change of Wholesale and Resale Rates” of the Schedule of Terms and Conditions of the power contract, TVA will endeavor to reach agreement with you or your representative with respect to these requested changes.

We understand that the Rates and Contracts Committee will be serving as the representative for most distributors. If that is not the case for your system, please let us know.

The proposed rate changes described in the enclosure do not reflect the potential upward rate adjustment that the TVA staff has recently been discussing with you. The proposed rate changes will raise no additional revenue for TVA. However, individual systems and their customers may see some effects on their bills, and we will assist you in analyzing, understanding, and planning for these changes in the coming months.

Rate Structure Proposal

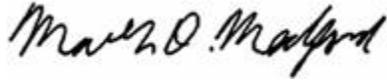
(Recipient)

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February 20, 2003

We look forward to discussing these proposals with you. If you have any questions or need any additional information, please call your Customer Service Manager.

Sincerely,

A handwritten signature in black ink that reads "Mark O. Medford". The signature is written in a cursive style with a large, stylized 'M' and 'O'.

(original signed by Mark O. Medford)

Mark O. Medford  
Customer Service and Marketing

Enclosure

cc (Enclosure):

## **TVA RATE CHANGE PROPOSALS**

### **OVERVIEW**

TVA is proposing several changes to the current "end-use" wholesale rate structure and the corresponding resale rate structure.

First, it is proposed that costs be reallocated through revised end-use wholesale base demand and energy charges and corresponding revisions to the resale charges. TVA also proposes that the implementation of this reallocation be facilitated by the creation of "Manufacturing" end-use rate classifications which would be applicable, instead of the corresponding General Power classification, for sales to customers with contract demands greater than 50 kW engaged in significant manufacturing activity. The resale rate schedules proposed for these new classifications would have the same overall structure as the General Power schedules, but with different demand and energy charges and availability provisions.

In response to distributor requests, it is also proposed that the end-use wholesale charges for sales under the GSA and TGSA end-use classifications be revised to eliminate the use of measured demand for wholesale billing and to instead use metered demand as is the case for sales under the other General Power end-use classifications. Corresponding changes, including new reactive billing charges, are proposed for the GSA and TGSA resale schedules; however, distributors would retain their current flexibility with regard to how reactive charges are addressed in the resale schedules.

Finally, TVA is proposing to add a new adjustment relating to the Hydroallocation structure of the rates. This adjustment would allow TVA to realign the credit and debit amounts designed into the rate structure to help ensure that TVA does not either pay out more in credits than it receives in debits or receive more in debits than it pays out in credits.

### **END-USE WHOLESALE RATE SCHEDULE**

TVA proposes replacing the existing end-use wholesale rate schedule with a new end-use wholesale rate schedule. This new schedule would contain the proposed changes described below.

#### **A. Reallocation of costs and new Manufacturing end-use classifications.**

It is proposed that costs be reallocated through revised end-use wholesale base demand and energy charges. In addition, TVA proposes that implementation of the reallocation be facilitated by the creation of new Manufacturing end-use rate classifications. These classifications would apply for electric service to manufacturing facilities with contract demands of more than 50 kW, where the major use of electricity is for manufacturing (i.e., for activities classified under SIC codes 20-39). The proposed Manufacturing end-use classifications MSA, TMSA, MSB, TMSB, MSC, TMSC, MSD, and TMSD will have the same overall structure and include the same divisions according to the customer's load size as in the General Power end-use classifications,

except that the MSA and TMSA classifications will only be applicable to loads where the contract demand is greater than 50 kW. Appropriate certification of SIC code qualification would be required in order for a customer's load to qualify for billing under the new Manufacturing classifications.

The results of the proposed reallocation of cost among the various end-use classifications, including the new Manufacturing classifications, are reflected in the attached Appendix A. In developing these proposals, TVA has taken the following factors into account:

- (a) each end-use classification's revenue requirement as determined from a fully allocated average embedded cost-of-service study using projected data for fiscal year 2003,
- (b) analysis of market trends, and
- (c) analysis of rates charged by other power suppliers.

In the TVA region generally, retail rates applicable to manufacturing loads are above the average of neighboring utilities, the residential rates are significantly below the average of neighboring utilities, and the retail rates applicable to other General Power load are about the same as the average of neighboring utilities.

In today's economy, the Valley is losing manufacturing load – a trend that threatens TVA's long term ability to keep all rates as low as feasible for all consumers in the region. TVA has taken this into account in implementing the reallocation of cost indicated by the cost of service study. Accordingly, the proposed end-use wholesale charges applicable for sales to Residential and General Power classifications are higher than the current charges. The proposed end-use wholesale charges for the new Manufacturing classifications are lower than the current charges.

The current Expanded Manufacturing credit and Large Manufacturing credit programs will automatically terminate with the rate change. The credits provided by these programs have been factored into the proposed base rates set forth in Appendix A for the Manufacturing classifications.

Finally, the reallocation of costs shown in Appendix A also reflects a change in the value of the hydro generation benefits allocated by TVA to the residential consumers (the value has decreased to approximately \$210 million) and a realignment of the hydro allocation credits and debits to help ensure that TVA does not pay out more in credits than it receives in debits. The attached Appendix B compares the hydro allocation debits and credits that are reflected in the current end-use wholesale rate with the revised hydro allocation debits and credits reflected in the Appendix A cost reallocation.

#### B. GSA and TGSA demand billing.

At distributors' request, it is also proposed that end-use wholesale billing for demand charges applicable for sales to GSA and TGSA customers be changed from measured kW (higher of metered kW or 85% of kVA) to metered kW. Due to a lack of data, metered kW could not be used when the end-use wholesale rate was introduced

in 1992. That data has since been compiled and, under the proposal, end-use demand billing methodology for the GSA and TGSA end-use classifications will be aligned with the methodology used for the other General Power classifications.

C. Adjustment No. 4.

TVA proposes adding an additional adjustment (Adjustment No. 4) to the wholesale rate. For any given value of the hydro generation benefits as determined by the TVA Board, that value is passed through for the residential consumers by credit amounts designed into the end-use wholesale rate. TVA also designs into the end-use wholesale rate corresponding debit amounts projected to recover from all other consumers the identical amount paid out in credits. Experience has shown that over time, unequal load growth in the Residential and General Power sectors can cause these credits and debits to get out of alignment, which results in TVA either overcollecting or undercollecting the revenue needs reflected in the rate design.

The proposed Adjustment No. 4 will allow TVA from time to time to realign the credits and debits designed into the wholesale rate to help keep them in balance.

## **RESALE RATES**

Changes in distributors' resale rates would reflect each of the various wholesale rate changes proposed above.

A. Reallocation of costs.

A cost reallocation corresponding to that discussed above for the wholesale rate is proposed for distributors' resale rate schedules. In order to facilitate analysis and discussion, each distributor's current distribution adders will be used initially in translating them to the changed resale rates. As rate change discussions progress, TVA will work with distributors to take into account any revisions to their distribution adders that are appropriate.

B. New Manufacturing rate schedules.

New Manufacturing rates implementing the Manufacturing classifications and availability described above in the wholesale proposal will be structured similarly to the General Power rate schedules. The proposed schedules MSA, TMSA, MSB, TMSB, MSC, TMSC, MSD, and TMSD will include the same divisions according to the customer's load size as those General Power schedules except that the MSA and TMSA schedules will only be applicable to loads where the contract demand is greater than 50 kW. Appropriate certification of SIC code qualification would be required in order for a customer to qualify for service under a Manufacturing schedule.

The new Manufacturing rate schedules are designed to retain manufacturing load, which will, in the long run, help TVA and the distributors keep supplying low cost power to all consumers in the Valley.

C. GSA reactive billing.

It is proposed that the Determination of Demand provision in the GSA and TGSA rate schedules be replaced with a provision similar to the Determination of Demand provision in the other general power rates. This is in response to requests by distributors for resale reactive coverage on GSA and TGSA comparable to wholesale reactive requirements. Similar to other rate schedules, it is proposed that there be a demand charge applicable to metered kW (subject to ratcheted billing demand provisions) and a separate reactive demand charge (for customers with demands of 50 kW and above).

It is proposed that the reactive charge provision included in the GSA and TGSA rates be based on 95 percent power factor, as in the Wholesale rate and the other General Power rates. The charges will be the same and applied in a manner similar to the current reactive charges in the other General Power rates (with proposed modifications as described below).

Since very few existing resale meters for GSA customers can determine whether the power factor is leading or lagging and are not time differentiated, the kVAR to which the charge is applied will be calculated from the highest 30 minute kW and kVA demands and assumed to be lagging. It is also proposed that a leading charge be included in the GSA and TGSA schedules, but it would apply only in those situations where distributors deem it appropriate to employ metering suitable for determining leading power factors.

With these proposed changes, billing for reactive power will be more consistent throughout the wholesale and resale rate schedules and more appropriately billed on kVAR.

Consistent with the distributor flexibility regarding resale reactive changes implemented in conjunction with the 1992 Rate Change, TVA would agree to appropriate reactive provisions that differ from the resale proposal described above.

D. Adjustment No. 4.

Wholesale Adjustment No. 4 proposed above also will require TVA to make corresponding increases or decreases to the Hydroallocation debits and credits in the resale schedules.

### **POTENTIAL RATE ADJUSTMENT**

Recently, TVA staff has begun discussing with distributors a potential need for an upward rate adjustment this coming October. Any such staff recommendation would be presented in conjunction with the normal rate review process this summer. Any adjustment addendum effective on or after the effective date of the changed rates would operate to adjust those rates.

## APPENDIX A

### PROPOSED END USE WHOLESALE CHARGES

#### STANDARD SERVICE

##### Residential Service

###### Schedule RS

Energy Charge: 4.749¢ per kWh per month

Hydro Credit: \$1.52 per residential bill

##### General Power Service

###### Schedule GSA

Part 1 Energy Charge: 5.468¢ per kWh per month

Part 2 Demand Charge: First 50 kW of metered demand per month, no charge

Excess over 50 kW of metered demand per month, at \$7.57 per kW

Energy Charge: First 15,000 kWh per month, at 5.468¢ per kWh  
Additional kWh per month, at 3.125¢ per kWh

Part 3 Demand Charge: First 1,000 kW of metered demand per month, at \$7.99 per kW

Excess over 1,000 kW of metered demand per month, at \$9.42 per kW

Energy Charge: 3.125¢ per kWh per month

###### Schedule GSB

Demand Charge: \$9.71 per kW of metered demand per month

Energy Charge: 2.791¢ per kWh for up to 620 hours use of metered demand per month  
2.278¢ per kWh for additional kWh per month

###### Schedule GSC

Demand Charge: \$9.71 per kW of metered demand per month

Energy Charge: 2.791¢ per kWh for up to 620 hours use of metered demand per month  
2.278¢ per kWh for additional kWh per month

## Rate Structure Proposal

### Schedule GSD

Demand Charge:	\$12.40 per kW of metered demand per month
Energy Charge:	2.304¢ per kWh per month

## **Manufacturing Service**

### Schedule MSA

#### Part 1 (51-1,000 kW)

Demand Charge:	First 50 kW of metered demand per month, no charge  Excess over 50 kW of metered demand per month, at \$6.87 per kW
Energy Charge:	First 15,000 kWh per month, at 4.963¢ per kWh Additional kWh per month, at 2.836¢ per kWh

#### Part 2 (1,001-5,000 kW)

Demand Charge:	First 1,000 kW of metered demand per month, at \$6.81 per kW  Excess over 1,000 kW of metered demand per month, at \$8.04 per kW
Energy Charge:	2.663¢ per kWh per month

### Schedule MSB

Demand Charge:	\$7.96 per kW of metered demand per month
Energy Charge:	2.288¢ per kWh for up to 620 hours use of metered demand per month 1.868¢ per kWh for additional kWh per month

### Schedule MSC

Demand Charge:	\$7.96 per kW of metered demand per month
Energy Charge:	2.288¢ per kWh for up to 620 hours use of metered demand per month 1.868¢ per kWh for additional kWh per month

### Schedule MSD

Demand Charge:	\$10.17 per kW of metered demand per month
Energy Charge:	1.890¢ per kWh per month

## **Outdoor Lighting Service**

### Schedule LS

Energy Charge:	3.123¢ per kWh per month
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TIME-OF-DAY SERVICE

**Residential Service**

Schedule TRS

Energy Charge: 8.082¢ per kWh for all onpeak kWh per month  
 2.627¢ per kWh for all offpeak kWh per month

Hydro Credit: \$1.52 per residential bill

**General Power Service**

Schedule TGSA

Part 1 Energy Charge: 9.716¢ per kWh for all onpeak kWh per month  
 2.564¢ per kWh for all offpeak kWh per month

Part 2 Demand Charge: \$7.52 for each kW of metered onpeak demand per month

\$0.91 per month for each kW, if any, by which metered offpeak demand exceeds metered onpeak demand

Energy Charge: 4.097¢ per kWh for all onpeak kWh per month  
 2.501¢ per kWh for all offpeak kWh per month

Part 3 Demand Charge: \$8.79 for each kW of metered onpeak demand per month

\$0.91 per month for each kW, if any, by which metered offpeak demand exceeds metered onpeak demand

Energy Charge: 4.097¢ per kWh for all onpeak kWh per month  
 2.501¢ per kWh for all offpeak kWh per month

Schedule TGSB

Demand Charge: \$9.71 for each kW of metered onpeak demand per month

\$0.87 per month for each kW, if any, by which metered offpeak demand exceeds metered onpeak demand

Energy Charge: 3.760¢ per kWh for all onpeak kWh per month  
 2.219¢ per kWh for all offpeak kWh per month

Rate Structure Proposal

Schedule TGSC

Demand Charge: \$9.71 for each kW of metered onpeak demand per month  
\$0.87 per month for each kW, if any, by which metered offpeak demand exceeds metered onpeak demand

Energy Charge: 3.760¢ per kWh for all onpeak kWh per month  
2.219¢ per kWh for all offpeak kWh per month

Schedule TGSD

Demand Charge: \$12.50 for each kW of metered onpeak demand per month  
\$1.49 per month for each kW, if any, by which metered offpeak demand exceeds metered onpeak demand

Energy Charge: 2.408¢ per kWh for all onpeak kWh per month  
2.248¢ per kWh for all offpeak kWh per month

**Manufacturing Service**

Schedule TMSA

Part 1 (51-1,000 kW)

Demand Charge: \$6.82 for each kW of metered onpeak demand per month  
\$0.83 per month for each kW, if any, by which metered offpeak demand exceeds metered onpeak demand

Energy Charge: 3.718¢ per kWh for all onpeak kWh per month  
2.270¢ per kWh for all offpeak kWh per month

Part 2 (1,001-5,000 kW)

Demand Charge: \$7.49 for each kW of metered onpeak demand per month  
\$0.76 per month for each kW, if any, by which metered offpeak demand exceeds metered onpeak demand

Energy Charge: 3.492¢ per kWh for all onpeak kWh per month  
2.131¢ per kWh for all offpeak kWh per month

Schedule TMSB

Demand Charge: \$7.96 for each kW of metered onpeak demand per month  
\$0.71 per month for each kW, if any, by which metered offpeak demand exceeds metered onpeak demand

Energy Charge: 3.082¢ per kWh for all onpeak kWh per month  
1.820¢ per kWh for all offpeak kWh per month

Schedule TMSC

Demand Charge: \$7.96 for each kW of metered onpeak demand per month  
\$0.71 per month for each kW, if any, by which metered offpeak demand exceeds metered onpeak demand

Energy Charge: 3.082¢ per kWh for all onpeak kWh per month  
1.820¢ per kWh for all offpeak kWh per month

Schedule TMSD

Demand Charge: \$10.25 for each kW of metered onpeak demand per month  
\$1.23 per month for each kW, if any, by which metered offpeak demand exceeds metered onpeak demand

Energy Charge: 1.976¢ per kWh for all onpeak kWh per month  
1.845¢ per kWh for all offpeak kWh per month

**APPENDIX B**  
**Current and Proposed Hydro Adjustment Components**

**STANDARD SERVICE**

		<u>Current Hydro Adjustment</u>	<u>Proposed Hydro Adjustment</u>
Residential	All kWh	-\$0.00432	-\$0.00264
	Bills	-\$2.48	-\$1.52
GSA Part 1	All kWh	\$0.00504	\$0.00322
GSA Part 2	1st 15,000 kWh	\$0.00504	\$0.00322
	Additional kWh	\$0.00504	\$0.00322
GSA Part 3	All kWh	\$0.00504	\$0.00322
GSB	1st 620 Hours Use of Demand	\$0.00176	\$0.00112
	Additional Hours Use of Demand	\$0.00176	\$0.00112
	All kW	\$0.83	\$0.53
GSC	1st 620 Hours Use of Demand	\$0.00176	\$0.00112
	Additional Hours Use of Demand	\$0.00176	\$0.00112
	All kW	\$0.83	\$0.53
GSD	All kWh	\$0.00174	\$0.00111
	All kW	\$0.83	\$0.53
MSA Part 1 (51-1,000 kW)	1st 15,000 kWh	-	\$0.00322
	Additional kWh	-	\$0.00322
MSA Part 2 (1,001-5,000 kW)	All kWh	-	\$0.00322
MSB	1st 620 Hours Use of Demand	-	\$0.00112
	Additional Hours Use of Demand	-	\$0.00112
	All kW	-	\$0.53
MSC	1st 620 Hours Use of Demand	-	\$0.00112
	Additional Hours Use of Demand	-	\$0.00112
	All kW	-	\$0.53
MSD	All kWh	-	\$0.00111
	All kW	-	\$0.53
Outdoor Lighting	All kWh	\$0.00504	\$0.00322

**APPENDIX B (continued)**  
**Current and Proposed Hydro Adjustment Components**

**TIME-OF-DAY SERVICE**

		Current Hydro <u>Adjustment</u>	Proposed Hydro <u>Adjustment</u>
TRS	Onpeak kWh	-\$0.00432	-\$0.00264
	Offpeak kWh	-\$0.00432	-\$0.00264
	Bills	-\$2.48	-\$1.52
TGSA Part 1	Onpeak kWh	\$0.00504	\$0.00322
	Offpeak kWh	\$0.00504	\$0.00322
TGSA Part 2	Onpeak kWh	\$0.00504	\$0.00322
	Offpeak kWh	\$0.00504	\$0.00322
TGSA Part 3	Onpeak kWh	\$0.00504	\$0.00322
	Offpeak kWh	\$0.00504	\$0.00322
TGSB	Onpeak kWh	\$0.00176	\$0.00112
	Offpeak kWh	\$0.00176	\$0.00112
	Onpeak kW	\$0.83	\$0.53
	Offpeak Excess kW	\$0.83	\$0.53
TGSC	Onpeak kWh	\$0.00176	\$0.00112
	Offpeak kWh	\$0.00176	\$0.00112
	Onpeak kW	\$0.83	\$0.53
	Offpeak Excess kW	\$0.83	\$0.53
TGSD	Onpeak kWh	\$0.00174	\$0.00111
	Offpeak kWh	\$0.00174	\$0.00111
	Onpeak kW	\$0.83	\$0.53
	Offpeak Excess kW	\$0.83	\$0.53
TMSA Part 1 (51-1,000 kW)	Onpeak kWh	-	\$0.00322
	Offpeak kWh	-	\$0.00322
TMSA Part 2 (1,001-5,000 kW)	Onpeak kWh	-	\$0.00322
	Offpeak kWh	-	\$0.00322
TMSB	Onpeak kWh	-	\$0.00112
	Offpeak kWh	-	\$0.00112
	Onpeak kW	-	\$0.53
	Offpeak Excess kW	-	\$0.53
TMSC	Onpeak kWh	-	\$0.00112
	Offpeak kWh	-	\$0.00112
	Onpeak kW	-	\$0.53
	Offpeak Excess kW	-	\$0.53
TMSD	Onpeak kWh	-	\$0.00111
	Offpeak kWh	-	\$0.00111
	Onpeak kW	-	\$0.53
	Offpeak Excess kW	-	\$0.53

February 20, 2003

Mr. Larry A. Fleming, President and Chief Executive Officer  
445 S. Gay Street  
Knoxville, Tennessee 37902

Dear Mr. Fleming:

As you know, TVA has been in the process of developing proposed changes in the Schedule of Rates and Charges that are proposed to be effective on October 1, 2003. Preliminary information about the proposed changes being considered was made available and discussed with the Rates and Contracts Committee of the Tennessee Valley Public Power Association (TVPPA) at their meeting in Nashville on January 22. Copies of the presentations from that meeting were made available to all distributors through their committee representatives or through the TVA Customer Service Centers.

The enclosure entitled "TVA Rate Change Proposals" describes the proposed wholesale rate changes being requested. In accordance with the provisions of the section entitled "Adjustment and Change of Wholesale Rate" of the Schedule of Terms and Conditions of the power contract, TVA will endeavor to reach agreement with you or your representative with respect to these requested changes.

In accordance with the provisions of the agreement numbered TV-75110A, Supp. No. 48, and dated May 13, 2002, the enclosure to this letter does not propose any corresponding changes to the resale rates charged by KUB. We would be happy to share information regarding any of the corresponding resale changes that TVA is proposing for other distributors that KUB might want to consider.

We understand that the Rates and Contracts Committee will be serving as the representative for most distributors. If that is not the case for your system, please let us know.

Mr. Larry A. Fleming  
Page 2  
February 20, 2003

The proposed end-use wholesale rate changes described in the enclosure do not reflect the potential upward rate adjustment that the TVA staff has recently been discussing with you. The proposed rate changes will raise no additional revenue for TVA. However, individual systems and their customers may see some effects on their bills, and we will assist you in analyzing, understanding, and planning for these changes in the coming months.

We look forward to discussing these proposals with you. If you have any questions or need any additional information, please call your Customer Service Manager.

Sincerely,

(original signed by Mark Medford)

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Customer Service and Marketing

Enclosure

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In response to distributor requests, it is also proposed that the end-use wholesale charges for sales under the GSA and TGSA end-use classifications be revised to eliminate the use of measured demand for wholesale billing and to instead use metered demand as is the case for sales under the other General Power end-use classifications.

Finally, TVA is proposing to add a new adjustment relating to the Hydroallocation structure of the rates. This adjustment would allow TVA to realign the credit and debit amounts designed into the rate structure to help ensure that TVA does not either pay out more in credits than it receives in debits or receive more in debits than it pays out in credits.

### **END-USE WHOLESALE RATE SCHEDULE**

TVA proposes replacing the existing end-use wholesale rate schedule with a new end-use wholesale rate schedule. This new schedule would contain the proposed changes described below.

#### **A. Reallocation of costs and new Manufacturing end-use classifications.**

It is proposed that costs be reallocated through revised end-use wholesale base demand and energy charges. In addition, TVA proposes that implementation of the reallocation be facilitated by the creation of new Manufacturing end-use rate classifications. These classifications would apply for electric service to manufacturing facilities with contract demands of more than 50 kW, where the major use of electricity is for manufacturing (i.e., for activities classified under SIC codes 20-39). The proposed Manufacturing end-use classifications MSA, TMSA, MSB, TMSB, MSC, TMSC, MSD, and TMSD will have the same overall structure and include the same divisions according to the customer’s load size as in the General Power end-use classifications, except that the MSA and TMSA classifications will only be applicable to loads where the contract demand is greater than 50 kW. Appropriate certification of SIC code qualification would be required in order for a customer’s load to qualify for billing under the new Manufacturing classifications.

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