November 2008

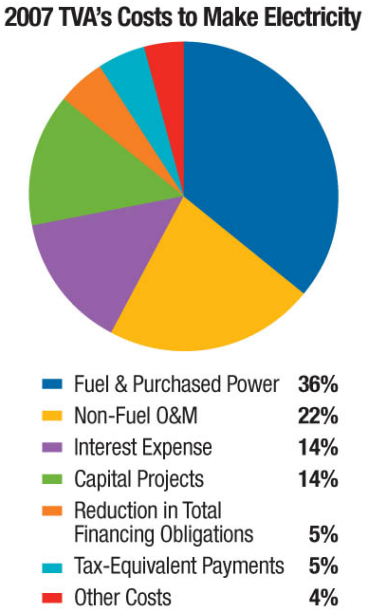
Frequently Asked Questions About TVA's Fuel Cost Adjustment

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 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 60% of TVA's power supply comes from fossil fuels used to make electricity – coal, oil and natural gas – the majority of which is coal. When costs for these fuels change, TVA's costs to make electricity also change. The FCA is the mechanism TVA uses to pass along quarterly increases and decreases in fuel costs to our customers.

Why is the FCA for the billing period beginning January 1, 2009, decreasing?

Recent price reductions for power TVA purchases from other energy suppliers and for natural gas have helped reduce TVA's Fuel Cost Adjustment for billing periods to begin on January 1, 2009. In addition, economic conditions led to a decrease in the amount of power TVA sold July through September, which lowered the FCA by reducing TVA's reliance on its most expensive power sources. Unfortunately, coal prices remain high, and historic drought conditions continue to reduce TVA's cheapest power source – hydro-generation – by more than 50 percent, preventing TVA's fuel costs from dropping further.

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 is part of consumer power bills as a per kilowatt-hour adjustment and can go up or down depending on quarterly increases or decreases in fuel costs.

What can I do to lower my electric bill?

Take these simple steps to help save electricity, and power costs:

- When it's cool outside, turn down your home's heating system to 68°. Don't pay to keep your furniture warm — lower it even more when no one is home.
- Turn off lights, appliances and other home electronics with a power bar when not in use.
- 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.