

Fuel Cost Adjustment Explanation

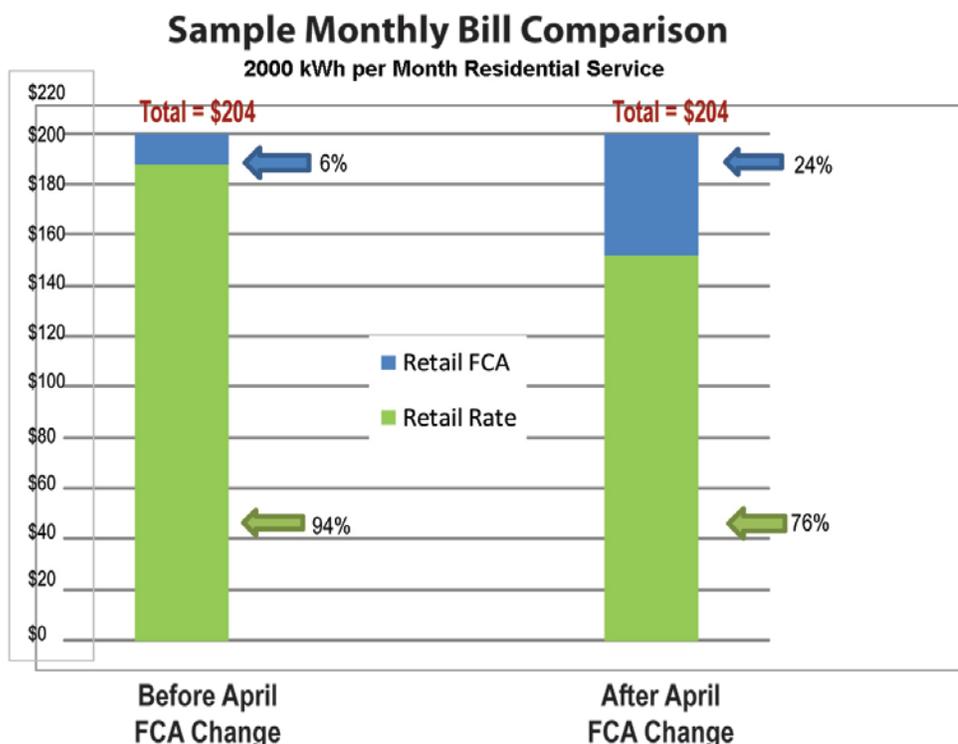


The Tennessee Valley Authority (TVA) makes the electricity used across the seven-state Tennessee Valley region. Northcentral Electric Power Association buys power from TVA and provides it to our customers here.

In the past, a portion of TVA's fuel costs were included in the base rate part of your electric bill – the part that primarily covers TVA's cost of building and operating power plants and transmission lines. The rest of TVA's fuel costs were recovered through the monthly fuel cost adjustment on your bill. This fuel cost increases or decreases monthly, depending on how much TVA pays for fuel and purchased power.

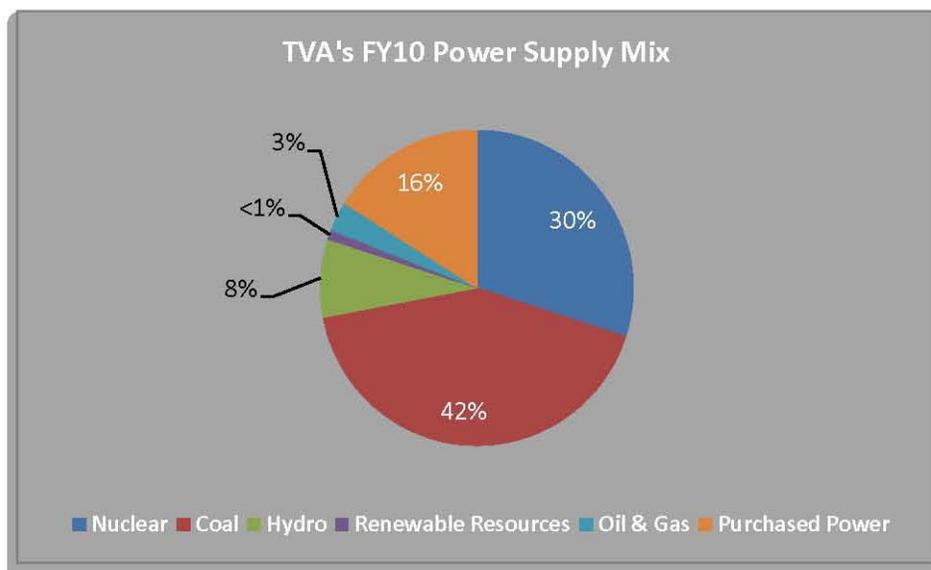
Effective with April 2011 billing, all of TVA's fuel costs are recovered through the total monthly fuel cost. That means the new total monthly fuel cost amount on your bill will be larger than the fuel amount in the past -because it contains the fuel costs that had been in the base rate. The base rate portion of your bill is lower by the same amount. **This change does not cost you any more money – it is simply moving charges from one portion of your bill to another. This change also does not bring any more revenue to Northcentral EPA or TVA.**

TVA and Northcentral EPA - Your Local Electric Power Association



Why is TVA changing the fuel cost adjustment?

Putting all of the fuel in one category is an easier and more transparent way to reflect fuel costs. This change is part of an overall change in the pricing structure of electricity agreed to by TVA and the distributors of power. Fuel costs are a significant component of TVA's overall costs, and the fuel cost part of your bill needed to be changed to be consistent with the overall pricing structure changes.



Why do consumers pay for fuel?

About 75% of TVA's power supply comes from fuels used to make electricity – nuclear, coal, oil and natural gas. When the prices of these fuels change – because of weather, the economy and the global supply and demand for fuels -TVA's costs change. The total monthly fuel cost ensures that consumers will only pay for the fuel costs that are incurred by TVA. Many utilities use similar mechanisms to adjust their rates to reflect changes in their fuel costs.

What can I do to lower my electric bill?

Northcentral EPA and TVA are partnering to provide **the In-Home Energy Evaluation** program to help consumers save money on their electric bills and reduce how much power TVA must generate. Consumers can call **1-866-441-1430** to arrange a visit from a TVA-certified auditor.

You can also take an **Online Home Energy Audit** at www.energyright.com to receive a Free Conservation Kit. The kits can help save up to 20 percent on annual utility costs if all the audit recommendations are implemented. Find other energy-saving ideas at www.energyright.com.

Northcentral Electric Power Association also has the **HomeEnergyCalculator™** feature as part of its **HomeEnergySuite™** section on our website, www.northcentralepa.com. In this section, you are able to analyze the energy efficiency of your home or business, explore energy information and tips, and see your usage and savings with special purpose calculators for appliances, lighting, televisions and other household appliances.



Fuel Cost Adjustment



The Fuel Cost Adjustment, or FCA, is a variable energy rate that can fluctuate each quarter with TVA's fuel and purchased power costs. The FCA affects energy (per kilowatt-hour) charges for all customers using the firm rate schedule.

Why an FCA?

In order to provide affordable, reliable power, TVA supplies generation from multiple sources, including nuclear power plants, fossil power plants, combustion turbines, and electricity provided by other power suppliers. This means that TVA is continually purchasing large amounts of generator fuels like uranium, coal, and natural gas. TVA also purchases electricity from other power suppliers during periods of high electric demand.

The increasingly volatile costs of generation fuel and purchased power present significant budgeting challenges for TVA. By recovering changes in these costs as they occur, the FCA helps TVA meet its cash-flow requirements, avoid large, permanent rate adjustments, and plan for the long-term electricity needs of the Tennessee Valley. Additionally, if the cost of these commodities decreases, then customers may experience an immediate benefit through an FCA credit on their bills.

How the FCA works

The FCA works by capturing the per kilowatt-hour difference between the amount that TVA actually pays for fuel and purchased power in a given quarter and the amount that TVA expected to pay when the baseline was set. The baseline represents the amount of fuel and purchased power costs that TVA expects to recover through base rates.

Before the start of each quarter, TVA compares the forecast of fuel and purchased power costs for the upcoming quarter to the baseline. The difference between the forecast and the baseline is applied as part of the FCA for the upcoming quarter, allowing TVA to recover any difference in fuel and purchased power costs as they are incurred.

Following the close of the quarter, the amount that the FCA collected throughout the quarter is reconciled with the amount that should have been collected based on actual costs. Any resulting difference is carried forward in future FCA amounts.

FCA Facts

- ∞ Fuel and purchased power costs account for about one third of TVA's overall costs.
- ∞ The price of wholesale power in the southeast region can move up and down by as much as 100 percent in a single month.
- ∞ Nearly all other surrounding utilities have an FCA, and TVA had a similar mechanism in the 1970's.

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