

TOTAL MONTHLY FUEL COST (TMFC)

The TMFC affects energy (per kilowatt-hour) charges for all customers using the firm rate schedule. The adjustment fluctuates each month with TVA's fuel and purchased power costs.

HOW IT WORKS:

- Each month, TVA spends money on different fuels and purchased power to meet customer demand for electricity. The Total Monthly Fuel Cost is the adjustment mechanism which is used to forecast, track, and reconcile those fuel related costs that are passed on to customers.
- Only the direct cost of fuel used to generate electricity is included in the TMFC, also referred to as FCA (fuel cost adjustment).
- The TMFC has two main components; the first is a forecast of fuel and purchased power costs, the second is a reconciliation of any costs that TVA over or under collected from prior forecasts.
- Beginning with the October 2015 FCA, two different FCA amounts will exist for Standard Service and Non-Standard Service groups* by using a resource cost allocation (RCA) methodology.
- Rather than all customers being charged on an average cost basis, the new FCA will have improved cost allocation that will more accurately reflect the costs actually caused by the customer groups*.

CORE FCA FORECAST

- TVA provides a fuel cost forecast that represents current expectations and operational conditions for the coming month.
- Actual fuel cost amounts in that month vary from the forecast due to weather, global supply and demand, and other factors. The differences between the Core FCA and actual fuel costs are accounted for in the Deferred Account (see below).
- Beginning with the October 2015 FCA, the Core forecast will include seasonal adjustments from historical RCA data that will be used to create two different amounts for Standard Service and Non Standard Service groups*.

DEFERRED ACCOUNT (DAR)

- At the end of the month, the TMFC collection amount is reconciled with TVA's actual fuel costs.
- Any difference is carried forward through the deferred account component of the TMFC.
- RCA methodology will be utilized to assign a percentage of total actual fuel costs to Standard Service and Non-Standard Service customer groups* by using top 100 MW incremental cost and aggregate hourly load data of the customer groups*.
- The RCA methodology will effectively create two different deferred account rates, which will be administered for each customer group*.

COMMUNICATIONS:

- A total monthly fuel cost communication package is provided to customers monthly.
- The communication includes a brief summary of the current month's TMFC, forecast, and fuel cost variance.
- Additionally, the TMFC adjustment information appears on each Local Power Company's monthly Statement of Amounts (SOA).

* (a) The Standard Service customer group includes customers for which Distributors are billed under Standard Service charges and all other customers with contract demands less than or equal to 1,000 kW. (b) Non-Standard Service customers are Large Customers as defined in the wholesale rate schedule and customers served directly by TVA with contract demands greater than 1,000 kW.

All changes proposed or discussed as a part of the Strategic Pricing Plan effort should be considered preliminary and pre-decisional until formal consideration and approval by the TVA Board, or delegated authority.

