

TVA RATE MAKING

Cumberland Sustainable

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TVA Rate Setting Authority, Policies and Procedures

The TVA Act delegates to the TVA Board of Directors sole responsibility for establishing the rates charged to power distributors and other customers for electric power supplied by TVA as well as broad authority over distributor resale rates and conditions of service.

Section 11 of the TVA Act: Power projects are to “be considered primarily as for the benefit of the people” of the region as a whole, particularly the domestic and rural consumers to whom the power can economically be made available.

Section 15 of the TVA Act: As part of the bond financing amendment to the TVA Act in 1959, Congress directed in Section 15d that TVA charge rates that produce gross revenues sufficient:

- to provide funds for operation, maintenance, and administration;
- to provide payments to states and counties in lieu of taxes;
- to provide debt service on bonds;
- to provide payments to the United States Treasury in repayment of past government appropriations invested in the TVA power system plus payments as a return on such outstanding investment; and
- to provide additional margin for investment in power system assets and for other purposes connected with TVA’s power business.

Rate Changes and Adjustments: Under TVA’s contract with its distributors, there are different processes for making “rate adjustments” and making “rate changes.” A “rate change” is a process by which TVA places into effect changes in the structure of the rates. Rate changes are generally designed to be intended to result in the same revenue collected. A “rate adjustment” is the process by which TVA increases or decreases rates to match revenue needs.

Demand and Energy Charges: The TVA Board of Directors can adjust the demand and energy charges in the wholesale and resale rate schedules as necessary to assure adequate revenues and to provide adequate compensating revenues to the distributors. A “demand charge” is the fee (charge) based on the peak amount of electricity used during a billing cycle. An “energy charge” is the fee for electric service that is based on electricity consumed by kilowatt hour (kWh). Residential customers are typically only levied energy charges.

Fuel Cost Adjustment: In 2006, the TVA Board implemented a fuel cost adjustment (“FCA”) to be applied quarterly as a mechanism to adjust TVA’s rates to reflect changing fuel and purchased power costs beginning in fiscal year 2007.

Production Costs: Fuel, technology, and labor costs account for the biggest share of prices, usually between 60-80 percent. TVA’s power sources are about 61% coal, 12% hydro, and 27% nuclear. This is significantly greater than the nuclear or hydro average reliance by the rest of the US, and these two sources generally have the lowest marginal production costs. Nuclear power accounted for 77% of TVA’s investment in generating assets in 1998, while n-power plants provided 28% of its gross generation in 1998. In contrast, coal and hydro, which account for 23% of TVA’s generation assets, provided 72% of its generation.

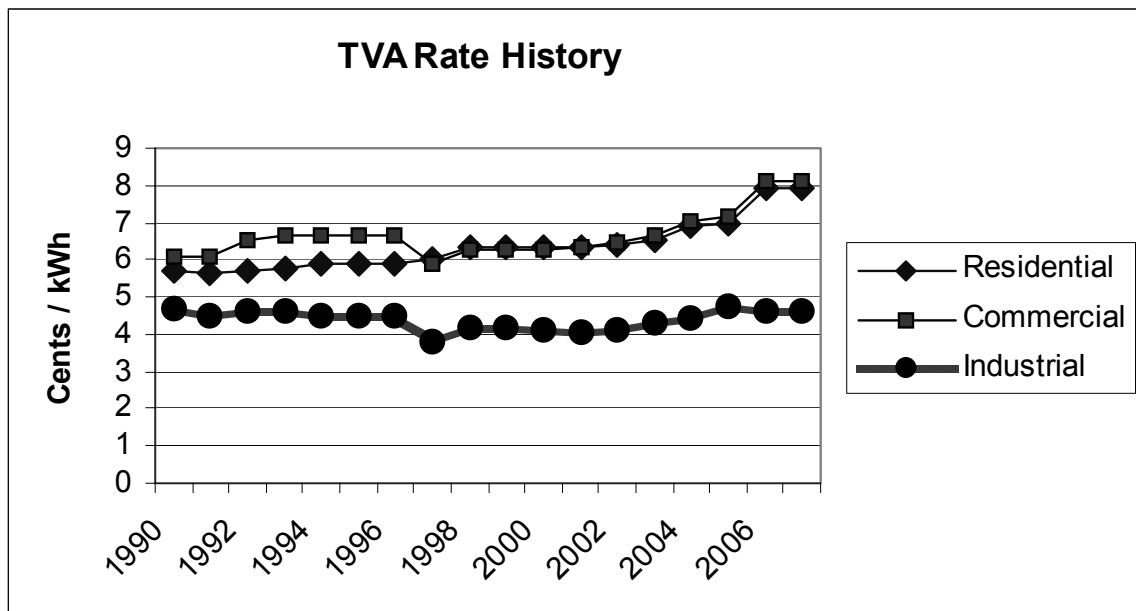
TVA’s Borrowing Costs: TVA has a much higher concentration of nonperforming assets and debt than do the investor owned utilities on average. In 1999, TVA’s ration of debt to capital is 68% and its interest payments take up 29% of its revenue. For IOUs as a whole, the debt/assets and interest payment / revenue ratios in 1998 were 30% and 6% respectively.

Financial Flexibility: The cost of debt is passed from utilities to customers, causing TVA customers to have higher rates than neighboring utilities. TVA also passes on to customers the costs of fuel increases. TVA's ratio of operating revenue to financial expenditures (costs of debt and equity) in 1998 was 3.34 compared to an average of four major regional utilities of 7.92. Even though the TVA has not brought deferred assets and terminated nuclear assets of \$8.3 billion (1998 dollars) into its rate base, interest payments on the underlying borrowings are passed on to ratepayers and thus serve to elevate TVA's electricity prices.

Concentration of Consumer Classes: Under TVA's current system, higher concentrations of industrial and commercial customers in a distributor's service area allow that distributor to pay less per unit of electricity.

Transmission and Distribution Costs: Variations in costs of sending power to populations of varying density drive regional electricity price differences. Areas with flat terrain and concentrated populations are less expensive to serve. The number and capacity of grid interconnections also affect the ease of transmission from region to region.

State Taxes: State taxes paid in TN by electric utilities are 2.3% of total state revenues in 1998. Local property taxes and tax-equivalent payments by electric utilities in 1998 constituted an estimated 1.8% of total local operating revenues.



Comparison of Rates: TVA's prices exceed at least two its neighbors. In 2006, TVA's average price was 6.97 cents per kWh, compared to a national average of 8.3 cents, the 13th lowest price nationally.

Louise Gorenflo prepared this fact sheet to encourage civic involvement in community problem-solving. Contributions made to The Learning Community are tax deductible. You may send your contributions to or request information from The Learning Community at 184 Hood Drive, Crossville TN 38555 (484-2633.)