

Electric Rates To Increase April 1 TVA Raises Wholesale Power Costs

Members of Duck River Electric Membership Corporation (DREMC) will see an increase in the cost paid for electricity, effective April 1, as the Tennessee Valley Authority (TVA) raises the cost of wholesale power. The net effect will be no more than 7 percent, on average, for all classes of consumers. For average residential members, this could mean an increase in their monthly electric bill of \$7 to \$9, depending on the amount of energy used.

At their meeting on February 15 the TVA Board of Directors approved a 7 percent increase in the cost of wholesale energy sold to distributors and large directly served customers, indicating the increase is necessary to help fund new power generation and energy efficiency initiatives that are needed to meet the growing demand for power in the Tennessee valley. Peak power demand is increasing by about 2 percent per year.

TVA says the wholesale increase will generate an estimated \$300 million in additional revenue during fiscal year 2008. “We certainly recognize the financial challenges that consumers face as we make a recommendation to the Board on the need to increase power rates,” TVA President and CEO Tom Kilgore said at the time of the Board meeting. “TVA is taking steps to reduce its non-fuel operating and maintenance costs by more than \$400 million over the next three years. However, additional revenue is needed for long-term investments to keep the power system reliable and lessen our dependence on volatile energy markets. That will help us keep electricity reliable and affordable in the years to come.”

Addressing the increase, General Manager Jim Allison explained that almost 80 cents of each revenue dollar collected from consumers is paid to TVA for the wholesale cost of energy, leaving 20 cents to operate, maintain and expand the cooperative’s distribution system.

“Because our margin is so low, any time TVA increases our wholesale rates, we have no choice but to pass that increase along to our members. Since DREMC will be

instituting the TVA increase on April 1, DREMC is utilizing this time to evaluate whether it needs to increase its much smaller portion of the total retail rate in addition to just passing through the TVA wholesale rate increase. Our costs of fuel to operate our vehicles, insurance, labor, materials, wire, transformers, supplies and all operating expenses continue to increase as well. DREMC's last local increase was a small one almost three years ago in October, 2005. And prior to that, it was 1997. So it stands to reason that sooner or later DREMC must also consider an increase in its portion of the consumer's monthly electric bill to cover rising operating expenses in addition to the increases imposed by TVA," Allison noted.

"Duck River Electric continues to invest significant dollars in capital improvements each year to maintain and improve the reliability of the electric distribution system. This year alone we will bring two new substations on line at a cost of over \$4 million. These improvements, as well as others being made throughout our service area, are essential if we are to meet the growing demand for electricity and maintain the reliability that our members expect and deserve," the General Manager explained. The increase being considered by DREMC would be less than half of the "guideline increase amount" that has been preapproved for DREMC by TVA acting in its regulatory role and would amount to only a small portion of the total increase, with the pass through of the TVA wholesale increase constituting by far the majority of the total increase. Once again, on average, the total increase would not exceed 7 percent.

A thorough analysis of the Cooperative's rates has been conducted by an independent engineering firm for consideration by the DREMC Board of Directors at their March 25 meeting. If approved, rates will remain competitive with, and in many cases lower than, rates charged by the municipal electric systems and electric cooperatives within or surrounding the cooperative's service area.

Neither the TVA wholesale increase nor the local increase being considered by DREMC include the change in TVA's quarterly Fuel Cost Adjustment (FCA), which will also go into effect on April 1. The FCA reflects TVA's fluctuating cost of fuel used to generate power, including power purchased from outside resources. Because TVA has had to use higher cost gas-fired peaking turbines and purchase more outside power due to

continuing impacts of the drought, the FCA is expected to increase for the next quarter. TVA is expected to release the amount of the adjustment on February 20.

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Duck River Electric Membership Corporation is a member-owned, non-profit electric cooperative serving some 70,000 meters within a 2,500 square mile area of south central Tennessee and is governed by a 14-member Board of Directors. The Cooperative is headquartered in Shelbyville and has offices in Columbia, Lewisburg, Lynchburg, Manchester, Decherd and Sewanee.