

TVA Moves Forward With Plans for Major Rate Structure Change: Will Result in Cost Increase to DREMC Members

Despite concerns expressed by many of its power distributors, including Duck River Electric, the Tennessee Valley Authority (TVA) appears determined to move forward with plans this fall to implement a major rate structure change that will ultimately affect how wholesale and retail electric bills are calculated as well as potentially impact the total cost of energy. The change could come as early as October of this year.

While TVA asserts the rate change is “revenue neutral” to TVA as a whole, it will have varying impacts on different TVA power distributors. Unfortunately, the impact on DREMC and its members will be to increase the rates TVA charges to DREMC and ultimately to its members for power consumed. DREMC is still analyzing the degree of the impact and methods to mitigate it, but it is now clear that TVA’s charges to DREMC will be going up.

For approximately two decades TVA has billed its power distributors through a rate methodology known as “end-use wholesale rates,” which in lay terms means all municipal and cooperative customers of TVA power are billed each month for the amount of energy sold or used and metered by that individual power distributor to that specific class of customers. This particular method of billing does not take into account the peak demand for power during a given period of time by all consumers, nor does it matter what time of day, day of the week or season of year the energy is used.

TVA began discussions with power distributors through the Tennessee Valley Public Power Association’s (TVPPA) Rates and Contracts Committee more than a year ago to arrive at a new “demand and energy” rate methodology that will in the future account and bill for hourly use of power at differing rates as well as introduce rate incentives for peak load demand reduction through time-of-use rate calculations, direct load control devices, etc.

DREMC President and Chief Executive Officer Jim Allison serves on the Rates and Contracts Committee, along with representatives of 13 other power distributors across the Tennessee Valley.

“The new ‘seasonal demand and energy’ rate structure TVA is proposing represents a major change in the way DREMC and our members will be billed for the electricity they consume. Not only will rates to DREMC and its retail members vary by the season of the year (higher rates in winter and summer; lower rates in spring and fall), but it also stands to affect the cash flow of Duck River Electric, potentially to the point of creating a situation in some months where, based on the demand for energy set by DREMC’s members due to an extreme weather event, the cooperative’s wholesale power bill to TVA could be greater than the retail revenue received from DREMC’s members. This is obviously a situation that needs to be avoided and the Rates and Contracts Committee continues work with TVA to attempt to arrive at wholesale and retail rate structures that will have the least impact on power distributors, their retail customers and TVA,” Allison explained. In addition to being the generation and transmission provider for the 158 power distributors in the Tennessee Valley, TVA also serves as the rate regulatory authority and must approve all retail rates charged by its distributors.

“TVA is very concerned that its peak load demand is growing faster than its energy growth and the value of the power generated or bought varies significantly by the time of day and by the season of the year. The current rate structure does not take these variations into account nor does it give power distributors or retail customers any incentive or opportunity to manage peak demands or save money by directing energy use to off-peak times. TVA’s concerns are certainly legitimate and understandable, but their proposed changes would raise the rates charged to systems like DREMC and our retail members, who are mostly residential and small commercial consumers, and also substantially increase our financial risks,” Allison noted. He went on to explain, “My concern as CEO of Duck River Electric is that we arrive at some rate recovery method that prevents DREMC from setting an extremely high demand for energy during a short period of time, say on a very cold day or two in early February, then the temperatures

warm up for the remainder of the month and energy sales to our members drop off to the point that our retail sales do not generate enough revenue to pay our wholesale power bill, not to mention cover our other overhead expenses. Under the 'demand and energy' rate structure as it is currently being proposed, this scenario could very well happen and the end result would have to be even higher energy rates for DREMC's members."

Also being considered as a part of the new methodology will be the introduction of "time-of-use" rates, although it is not anticipated this structure will be implemented on a mandatory basis during the 2010 calendar year. Preliminary discussions indicate that, once implemented, residential, commercial and industrial members would be looking at retail rates that would vary based not only on the season of the year but also the time of the day, all based on the value of generated or purchasing power during those times. "One of the guiding principles of the Rates and Contracts Committee is to insure that any new wholesale rate structure will facilitate the most efficient use of electricity by consumers by establishing rates that more accurately reflect the value of electricity as it is consumed. When implemented, time-of-use rates will help meet that goal and our members will have an opportunity to take advantage of lower energy costs by shifting their energy use from high demand, on-peak times to off-peak, low demand times of the day. However, great care must be taken to assure that those members who are unable to shift the time of their use are not adversely impacted to the point that the energy they use becomes unaffordably expensive," Allison concluded.

Discussions are expected to continue with TVA as the anticipated October 1 implementation date approaches and future articles in *The Tennessee Magazine* will keep you apprised of what the final rate structure and its impacts on DREMC and its members will be.