



# 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.