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SEPA Rate Determination

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Topics to be covered

- Corps Capital Costs
- Corps O&M Expense
- Joint Costs
- Spilling of Water
- Drought/Wet Years
- Completion delays
- M&I Water Use

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Flood Control Act

- ". . . lowest possible rates to consumers consistent with sound business principles, . . ."

- ". . . recovery . . . of the cost of producing and transmitting such electric energy, including the amortization of the capital investment allocated to power over a reasonable period of years."

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Repayment of the Federal Investment:

- Pay annual costs first:
  - Operations and Maintenance Expense
  - Transmission Expense
  - Purchase Power Expense
  - SEPA Marketing Expense
  - Interest on the Federal Investment
- Pay investment costs over a reasonable number of years:
  - 50 years on original project
  - Service life up to 50 years on replacements
- Highest interest-bearing investment is paid first to the extent possible.

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Capitalized vs. Expensed

- Capital costs recovered over “reasonable” period of years. (lesser of 50 years or service life.)
- Repay highest interest bearing first.
- Power customers repay expensed items in the year reported.
- Power customers repay 100 percent of specific power costs (purpose code 11).
- An allocated portion of Joint costs (purpose code 99).

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Joint Cost Allocation

Project	O&M Allocation	Capital Allocation	Total O&M Allocation	Notes
BARKLEY	5.530%	7.520%		
CENTER HILL	53.390%	42.545%	72.819%	Joint O&M by letter dated 9/3/2003.
CHEATHAM	0.000%	0.000%		
CORDELL HULL	30.810%	25.390%		
DALE HOLLOW	57.418%	46.297%	77.978%	Joint O&M by letter dated 9/3/2003.
J. PERCY PRIEST	6.620%	5.430%		
LAUREL	24.120%	19.840%		
OLD HICKORY	63.110%	45.300%		
WOLF CREEK	44.000%	55.113%	73.098%	Joint O&M by letter dated 9/3/2003.

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Rate Design

- Repayment study establishes revenue requirement ($59.6 million in current rate schedules).
- Rate design establishes how this revenue requirement is recovered.
- A portion of the required annual revenue is expected to be recovered from energy and a portion from capacity.
- SEPA assumes average energy. Anything that changes average energy leads to future rate adjustments.

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Average energy

- Spill
- Drought/Wet years
- Unit outages due to work delays
- M&I Water

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Current Cumberland Power Contracts:

- Fifteen contracts earliest cancellation is June 30, 2016 and remaining ten contracts earliest cancellation is June 30, 2017
- SEPA Marketing Policy established in the early 1980's
  - Customers internal to the TVA boundary valued energy
  - Customers external to the TVA boundary valued capacity
- "Outside" customers are first to schedule and reserve majority of on-peak generation
- "Inside"155 TVPPA members receive primarily off-peak generation and remainder of on-peak output ~ 73% of total system energy
- TVPPA members are billed by TVA
- SEPA bills TVA for TVPPA member power
- SEPA net bills with TVA for transmission service

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Current Cumberland Power Contracts:

- TVA receives 180,000 MWh credit annually for Barkley-Kentucky Canal flow diversion
- Big Rivers, Southern Illinois, Henderson, MEAM, MDEA and SMEPA receive 1500 hours per kW annually at TVA boundary
- French Broad, Haywood and Waynesville receive 1500 h/kW annually at TVA boundary and accept Duke Energy Progress transmission losses
- Kentucky Municipals receive 1800 h/kW annually
- East Kentucky receives 186,900 MWh plus Laurel output
- Outside customers are billed monthly for power and associated TVA transmission.

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Revised Interim Operating Plan

- Outside customers energy is reduced to about 1250 hours/kW.
- Total Cumberland capacity is reduced from 950 MW to 831 MW.

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Current Cumberland Power Rates:

- Under Revised Interim Operating Plan (RIOP)
  - Capacity: $1.697 /kW/Month
  - Energy: 11.012 mills/kWh
  - Customers pay pass-through for transmission.
  - Effective weighted-average rate of 21.19 mills/kWh.

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Questions