

Florence Energy News



FREQUENTLY ASKED QUESTIONS ABOUT TVA'S FUEL COST ADJUSTMENT

WHAT IS THE TVA FUEL COST ADJUSTMENT?

The Tennessee Valley Authority (TVA) makes the electricity used by nearly 9 million consumers across the seven-state Tennessee Valley. Florence Utilities buys power from TVA and provides it to all of our customers. The Fuel Cost Adjustment (FCA) is the mechanism TVA uses to help recover largely uncontrollable fuel and purchased power costs. A variety of factors affect these costs, including weather and global supply and demand issues.

WHY DOES TVA NEED A FUEL COST ADJUSTMENT?

TVA began its Fuel Costs Adjustment (FCA) mechanism in October 2006 after experiencing the spike in fuel costs caused by Hurricanes Katrina and Rita the previous year. The FCA ensures TVA recovers costs as they occur, helping TVA better match its revenues to expenses. Many utilities use similar mechanisms to adjust their rates.



2007 TVA's Costs to Make Electricity

■ Fuel & Purchased Power	36%
■ Non-Fuel O&M	22%
■ Interest Expense	14%
■ Capital Projects	14%
■ Reduction in Total Financing Obligations	5%
■ Tax-Equivalent Payments	5%
■ Other Costs	4%

WHY DO CONSUMERS PAY FOR FUEL?

About 56% of TVA's power supply comes from fossil fuels used to make electricity - coal, oil, and natural gas. When the process of these fuels increase, TVA's costs increase. As a distributor of TVA power, when higher prices force TVA to increase its FCA to recover costs, we must pass those costs along to our customers.

WHAT ABOUT THE OCTOBER FCA?

The October 1 FCA increase is anticipated due to dramatic price increases for fuels commonly used to make electricity - coal and natural gas. Coal costs have more than doubled since December 2007; natural gas prices are up by more than 65%. In addition, the TVA region is in the third year of a historic drought that continues to reduce its cheapest power source - hydro-generation - forcing it to use more expensive power.

HOW IS THE FCA CALCULATED?

The FCA is calculated every three months as generation fuel costs and the costs of power TVA purchases from other suppliers rise and fall. The FCA calculation works by capturing the difference between the amount that TVA forecasts to pay for fuel during a given quarter and the amount that is collected through rates. This formula has two main components: the first is a forecast of anticipated fuel and purchased power costs; the second is a

reconciliation of any fuel costs TVA under or over collected. The FCA can be a charge or a credit depending on these differences. It appears on consumer's bills as a per kilowatt-hour charge or credit.

WHAT CAN I DO TO LOWER MY ELECTRIC BILL?

Take these simple steps to help save electricity, and offset rising energy costs:

- Set thermostats two degrees warmer on summer days.
- Turn off lights, appliances, and other home electronics not in use with a power bar.
- Use the "sleep" mode on computers.
- Use the microwave instead of a stove burner or oven for cooking.
- Operate dishwashers and clothes washers only with full loads and after 8 p.m., when TVA's costs to make electricity are lowest; air dry dishes in the dishwasher.
- Replace incandescent bulbs with compact fluorescents (CFL) - they use 75 percent less energy and last many times longer.

Visit TVA.com to learn more energy saving steps and take a Home Energy Audit to receive a Free Conservation Kit to help you get started. Consumers can also request a mail-in version by calling toll-free at 1-800-663-1835.



NATURAL GAS PRICES

BE PREPARED!

DON'T BE CAUGHT IN THE COLD

A WEAKENING U.S. DOLLAR...HIGH CRUDE PRICES...GLOBAL DEMAND FOR ENERGY...AN INCREASING DEMAND FOR NATURAL GAS FOR ELECTRIC POWER GENERATION. ALL OF THESE ARE FACTORS THAT AFFECT INCREASING NATURAL GAS PRICES.

Gasoline prices are increasing daily, but it is not the only energy source that is on the increase. Our suppliers are warning us that natural gas market prices are 35% to 40% higher than last year for this summer, and the NYMEX prices for next winter are higher than last winter as well. Like gasoline, no one knows how high natural gas prices may go.

The Florence Gas Department will continue to utilize means to keep our rates as low as possible, by continuing the use of our Risk Management Purchasing Plan, by purchasing gas through a natural gas cooperative, and by maintaining our expenses as low as possible. This strategy provided you, our customer, with some of the lowest rates in North Alabama this past winter.

WHAT CAN YOU DO?

- Call the Budget Billing Administrator at 718-3210 and inquire about our Budget Billing program.
- Clean and/or replace your furnace filter regularly.

- If you have a fireplace, keep the damper doors closed when not in use.
- Consider replacement windows - double pane and/or storm windows reduce your energy usage by 25% to 50%.
- Use a programmable thermostat. Each degree your thermostat is reduced during the winter can potentially save you 3% on your heating bill.
- Consider insulating your attic. This could reduce your heat and cooling usage by 30%.
- Change the rotation of your ceiling fan to clockwise. This will push warm air at the ceiling down into the living area.
- Perform annual maintenance on heating equipment for proper operation.
- Replace older equipment with more efficient natural gas equipment.

Hopefully this information will help you prepare for the rising energy costs we are facing to heat our homes and businesses. If you have any questions, please call our office at 760-6490.

ATTENTION

TVA recovers fuel and purchased power costs through its quarterly Fuel Costs Adjustment (FCA). Your utility bill is expected to reflect a significant FCA increase for meters read beginning in October due to the increased costs of TVA fuel and purchased power.

Florence ENERGY

NEWS YOU CAN USE FROM FLORENCE UTILITIES

Gasoline prices are increasing daily, as well as natural gas. Our suppliers are warning us that natural gas market prices are 35% to 40% higher than last year for this summer. The manager of the Florence Utilities Gas Department has prepared an important natural gas rate announcement, which is included in this issue for your review.

When Florence Utilities redesigned our utility bill, we added a separate line item that reflects the TVA Fuel Cost Adjustment (FCA) charge. This item was previously included in the electricity portion of your old utility bill, however, it was not shown separately.

The FCA is the mechanism TVA uses to help recover largely uncontrollable fuel and purchased power costs. A variety of factors affect these costs, including weather and global supply and demand issues. Frequently asked questions about TVA's FCA are listed in this issue for your review.

www.florenceutilities.com