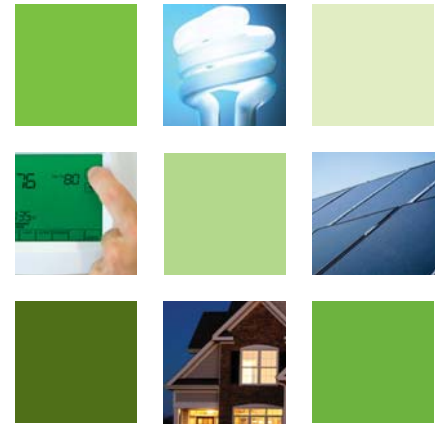


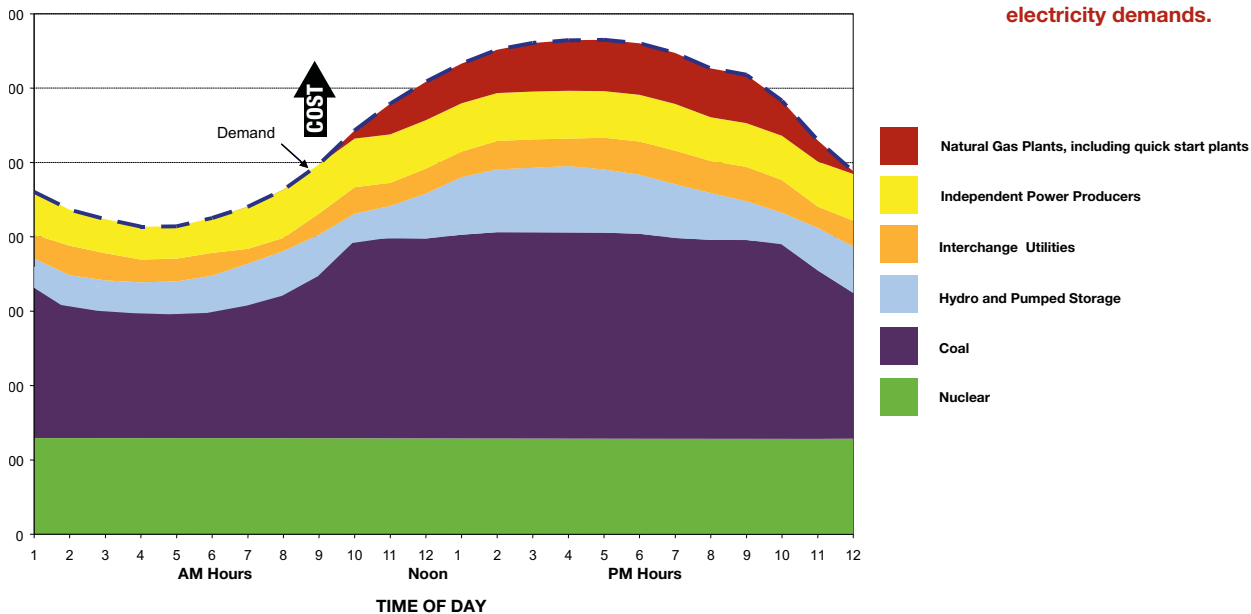
The Price of Power

Not every kilowatt-hour of electricity is created equally. Some kilowatt-hours cost more to make than others. There are reasons for that, including the kind of fuel that generates the electricity. But a big factor is when people use it.

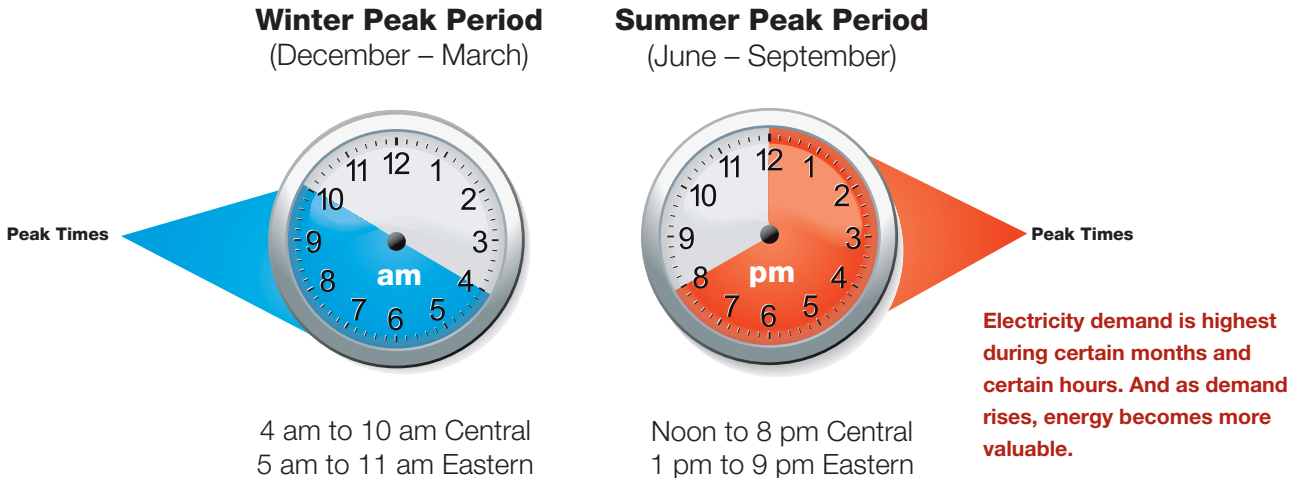
- Did you know it costs much more to make electricity in the middle of a heat wave than on a mild spring day? Most people don't because every kilowatt-hour costs consumers the same, no matter when it was made or used.
- That will begin to change in April 2011 when TVA and local power companies begin a transition to pricing that reflects the changing cost of electricity during different seasons and, eventually, during different times of day. Many utilities across the nation also have begun this process.
- This means the price of electricity rises during periods of greatest demand and declines during periods when demand is less to reflect the cost of producing it.
- As more electricity is used, the cost of producing it also rises. Also, sometimes more expensive power from other companies must be purchased to supplement supply. Providers also may have to buy more expensive power from other companies to supplement their supply.
- The chart below shows the mix of generation sources needed to supply power across the Tennessee Valley region on a hot summer day. The quick start natural gas plants, which are typically used during peak demand times, are by far the most expensive to operate.



Bigger Demand = Higher Cost



- Over time, peak demand has been growing faster than the growth of everyday power requirements. That means more generators designed to meet peak demand must be built.
- Peak demand occurs at predictable times of the day and year – like summer afternoons when many people return home from work and turn on the lights and air conditioning, or on winter mornings when the heat is turned up while people get ready for work or school.



- The peak demand hours on the TVA power system occur in the afternoons and evenings of summer (June-September) and early to mid-mornings of winter (December-March).
- Beginning in April 2011, the price local power companies pay for electricity will reflect these high demand periods. Most local power companies are starting with prices that change with the seasons, called seasonal demand and energy pricing. Others are choosing time-of-use pricing that changes with the hours as well as the seasons.
- The impact on consumers will vary with their local power companies. If consumers make no modifications to their usage, TVA estimates that consumers could see an average increase or decrease in monthly residential bills of less than \$5.
- The new pricing structures are not designed to create additional revenue to TVA or local power companies.
- Time-of-use pricing for consumers will become more common as the power companies install new meters that can track hourly changes in a consumer's electricity usage. This will allow consumers to make decisions about when they can use less-expensive power to lower their bills.
- Consumers on a time-of-use rate can expect to see savings if they begin changing their electricity usage – for example, by running dishwashers and laundry machines during off-peak hours.
- Controlling electricity use during peak hours also will help keep future prices down by reducing the need for expensive new power plants.