



# Strategic Pricing Plan

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- Associated Valley Industries
- February 10, 2017

# Agenda

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- TVA Update
- Strategic Pricing Plan Update
- Total Monthly Fuel Cost Update



# TVA Update

# Fiscal Year 2017 Priorities

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## RATES

- Maintain low rates and align O&M spending with revenues
- Effectively manage debt to ensure long-term financial health

## PEOPLE

- Work safely and effectively
- Embrace continuous improvement
- Develop employees and leadership for sustained optimal performance
- Engaged workforce
- Focus on values, competencies, and behaviors

## ASSET PORTFOLIO

- Pursue operational excellence
- Successfully implement strategic asset projects
- Balance the portfolio to provide cleaner, efficient, and affordable energy

## STEWARDSHIP

- Stimulate economic development and investment in the Valley
- Strengthen customer loyalty and stakeholder relationships
- Maximize potential of the Tennessee River System
- Protect and improve the natural resources and the use and enjoyment of public lands

# Making Progress on Key Projects

*Paradise Combined-Cycle Facility*



*Allen Combined-Cycle Facility*



*Clean Air Projects*

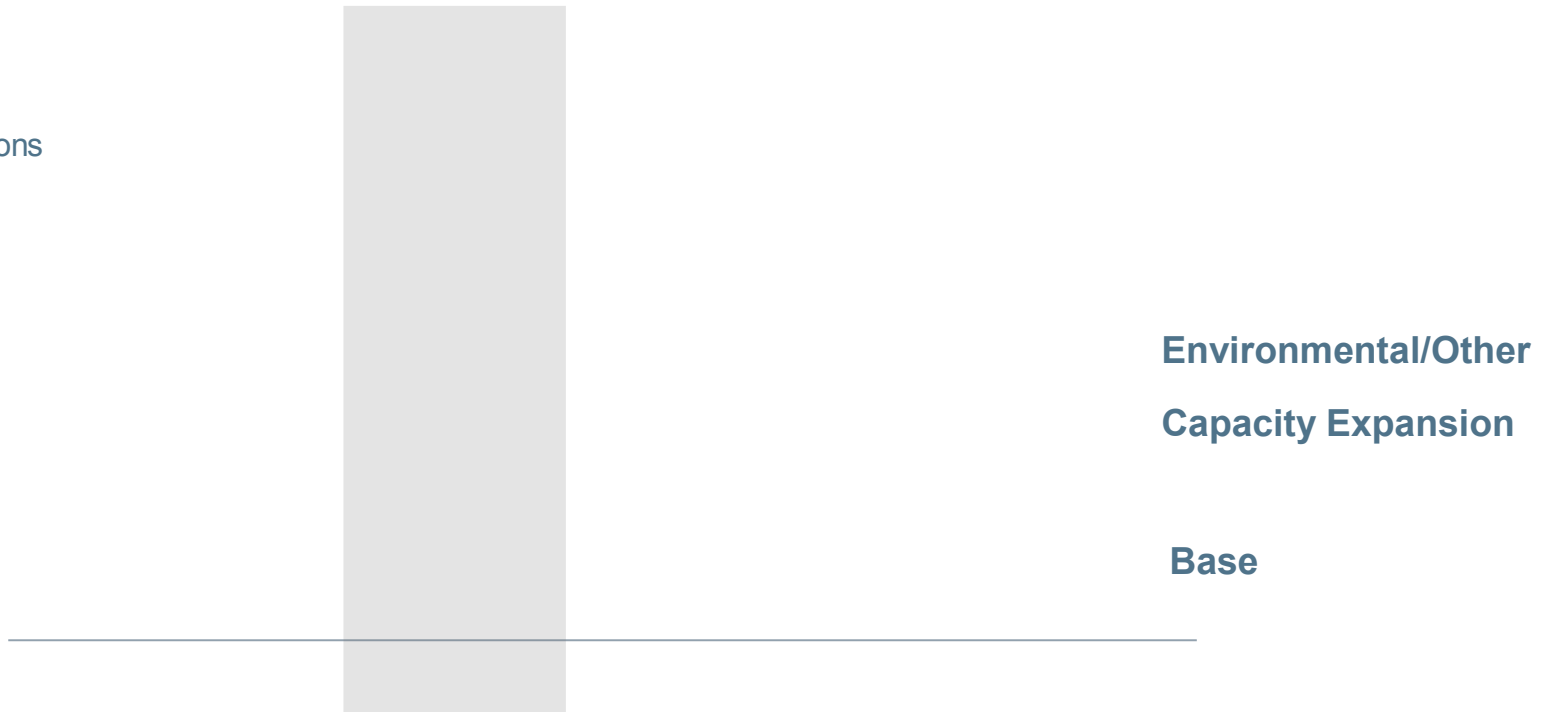


*Investing in the Transmission System*



# Capital Investments Support Priorities

\$ in billions



\*Capital Expenditures include Allowance for Funds Used During Construction, Ash Asset Retirement Obligations, Kingston Ash Cleanup, and Bellefonte Regulatory Asset Spending

# FY17 First Quarter Financial Results

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## **Net Income: \$102 million**

- \$139 million above the same period last year

## **Operating Revenues: \$266 million, or 12%, higher**

- Higher sales volume and fuel rate

## **Operating & Maintenance Expenses: Flat to prior year**

## **Interest Expense: Flat to prior year**



# Meeting Financial Objectives

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## **Maintain low rates and continue to improve O&M efficiency**

- Delivering stable rates through a balanced, reliable asset portfolio

## **Effectively manage debt to ensure long-term financial health**

- Maintaining fiscal discipline in line with capital plan

## **Invest in key capital projects**

- Making investments in key projects

## **Support stewardship commitments**

*Working safely and effectively while achieving our financial objectives*

- Ongoing investment in TVA stewardship activities



# SPP Update

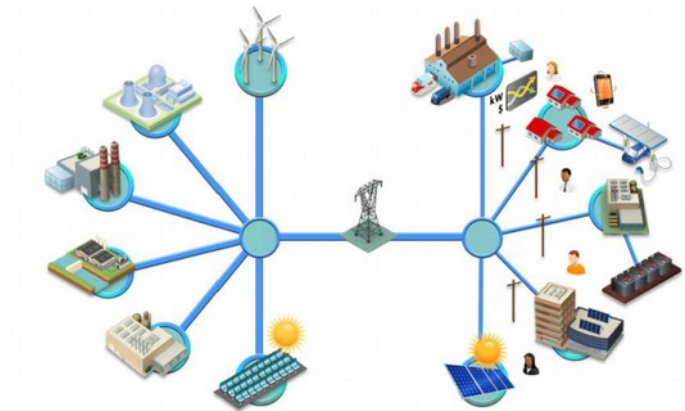
# Strategic Pricing Plan

## Evolving Marketplace

*Traditional pricing is not sufficient to ensure “...rates as low as feasible”.*

## Long-Term Direction

- Improve Pricing — *to better reflect system value and allow informed usage and investment decisions*
- Improve Fixed Cost Recovery — *to better reflect cost structure and enable improved pricing*
- Encourage Technology Investment — *for improved pricing and efficient use*



*Continued improvement needed to avoid cost shifting;  
continue collaborative process and respect for local control*

# Strategic Pricing Plan

2011-12 Rate Change	2015 Rate Change	2018 Rate Change	Ongoing
<ul style="list-style-type: none"><li>· Worked with customers to move away from 20-yr static pricing structure</li><li>· Returned to more traditional demand and energy structure</li></ul>	<ul style="list-style-type: none"><li>· Established clarity of direction and process for evolving pricing</li><li>· Improved pricing<ul style="list-style-type: none"><li>- Demand structure</li><li>- BCD energy structure</li><li>- Fuel Cost Adjustment</li><li>- Ind. competitiveness</li></ul></li><li>· Improved BCD structure</li><li>· Prepare TVA and LPCs for evolving marketplace</li></ul>	<ul style="list-style-type: none"><li>· Evaluate pricing structure for standard service</li><li>· Ensure alignment of pricing and DER strategies</li></ul>	<ul style="list-style-type: none"><li>· Continue movement of energy and demand pricing towards cost basis (wholesale &amp; retail)</li><li>· Evaluate and align incremental changes with evolving landscape</li></ul>

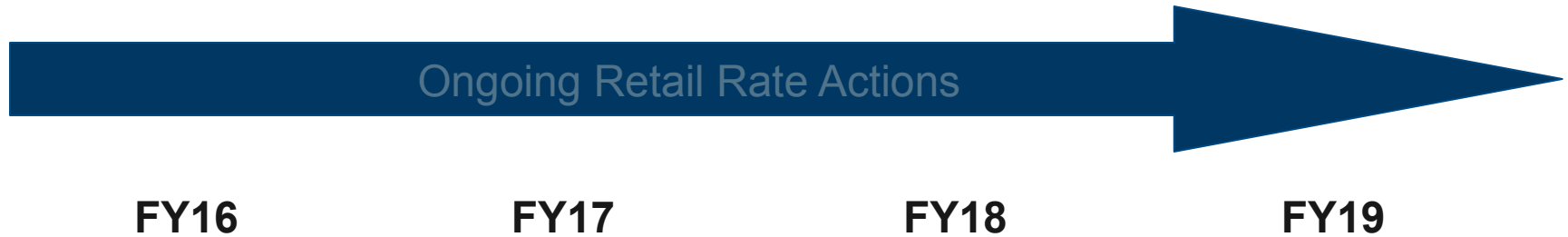
*Significant progress achieved since 2011,  
biggest impact and challenge ahead...*

# Scope – Process

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# Timeline



*The timeline reflects lessons learned from the 2015 rate to increase time between TVA Board approval and implementation*

# TMFC Update

# Topics for Discussion

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- TMFC Performance Evaluation Update
- Historical Analysis of TMFC
- Forecast of TMFC
- March 2017 TMFC Update

# TMFC Performance Evaluation

- Going into the FY15 wholesale rate change, TVA predicted **Standard Service** fuel costs would increase ~1% and the **BCD** fuel cost would decrease ~3%

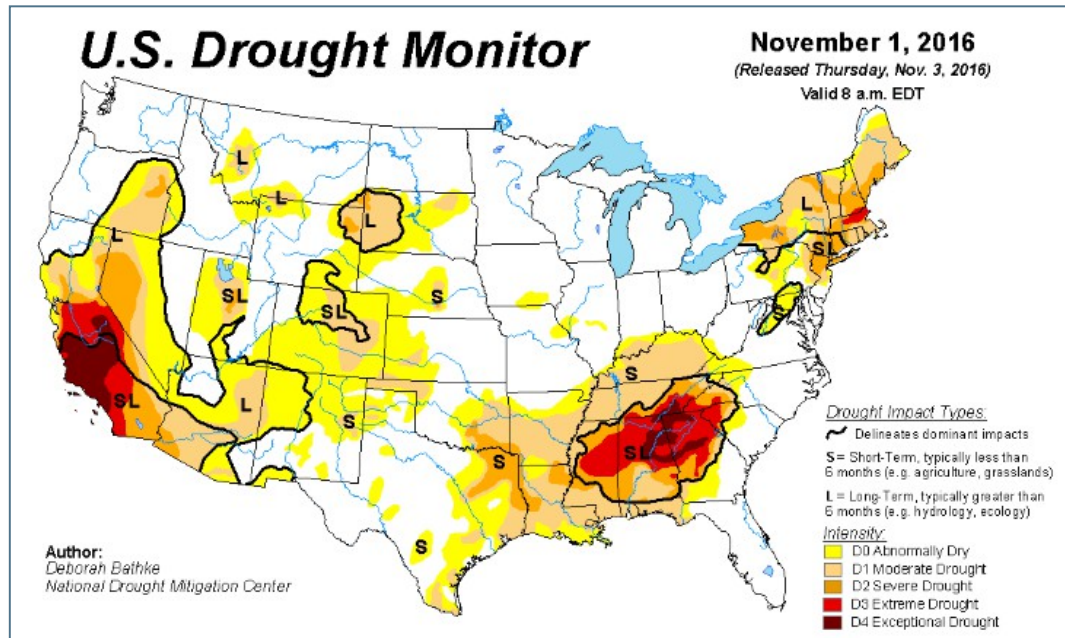
December 2016		Cumulative Through Dec. 2016		FY17 To Date	
<i>Actual Fuel Expenses Dec-2016</i>		<i>Load Weighted Cumulative Fuel Expenses</i>		<i>Actual Fuel Expenses FY17TD</i>	
SS	21.20	SS	20.06	SS	20.26
System Level	21.00	System Level	19.81	System Level	20.04
BCD	20.35	BCD	19.08	BCD	19.45
<i>Dec-2016 Total Monthly Fuel Cost</i>		<i>Load Weighted Cumulative TMFC</i>		<i>Actual TMFC FY17TD</i>	
SS	22.57	SS	19.82	SS	21.96
System Level	22.58	System Level	19.63	System Level	21.68
BCD	21.96	BCD	18.94	BCD	20.85
<i>TMFC % of Avg (Dec-2016)</i>		<i>TMFC % of Avg Cumulative Cost</i>		<i>Actual TMFC FY17TD</i>	
SS	0.0%	SS	1.0%	SS	1.3%
System Level		System Level		System Level	
BCD	-2.7%	BCD	-3.5%	BCD	-3.8%

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Cumulative fuel cost since change is less than \$0.02/kWh



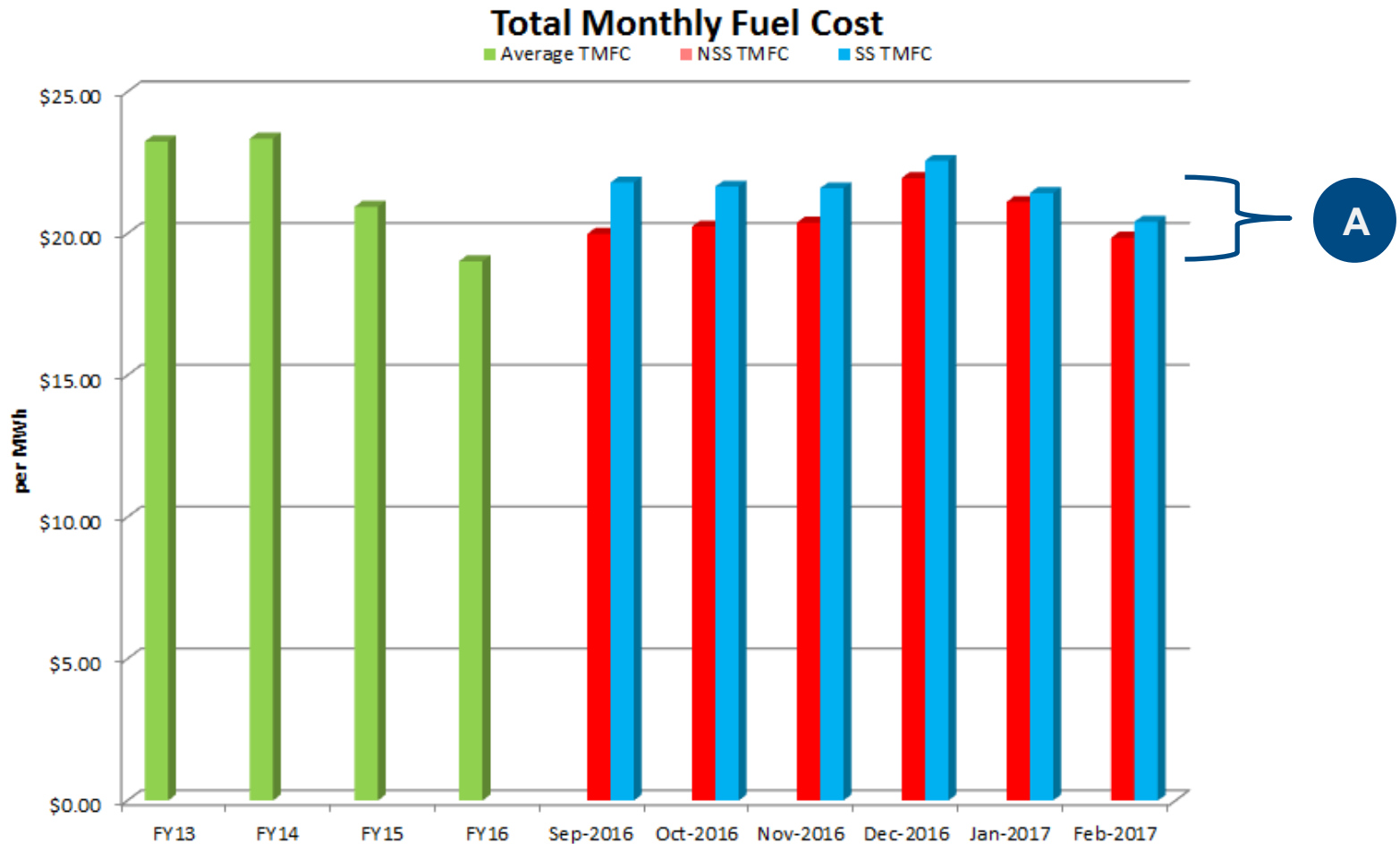
# United States Drought Map – Nov 3, 2016



*\*Provided at the November 2016 AVI meeting*

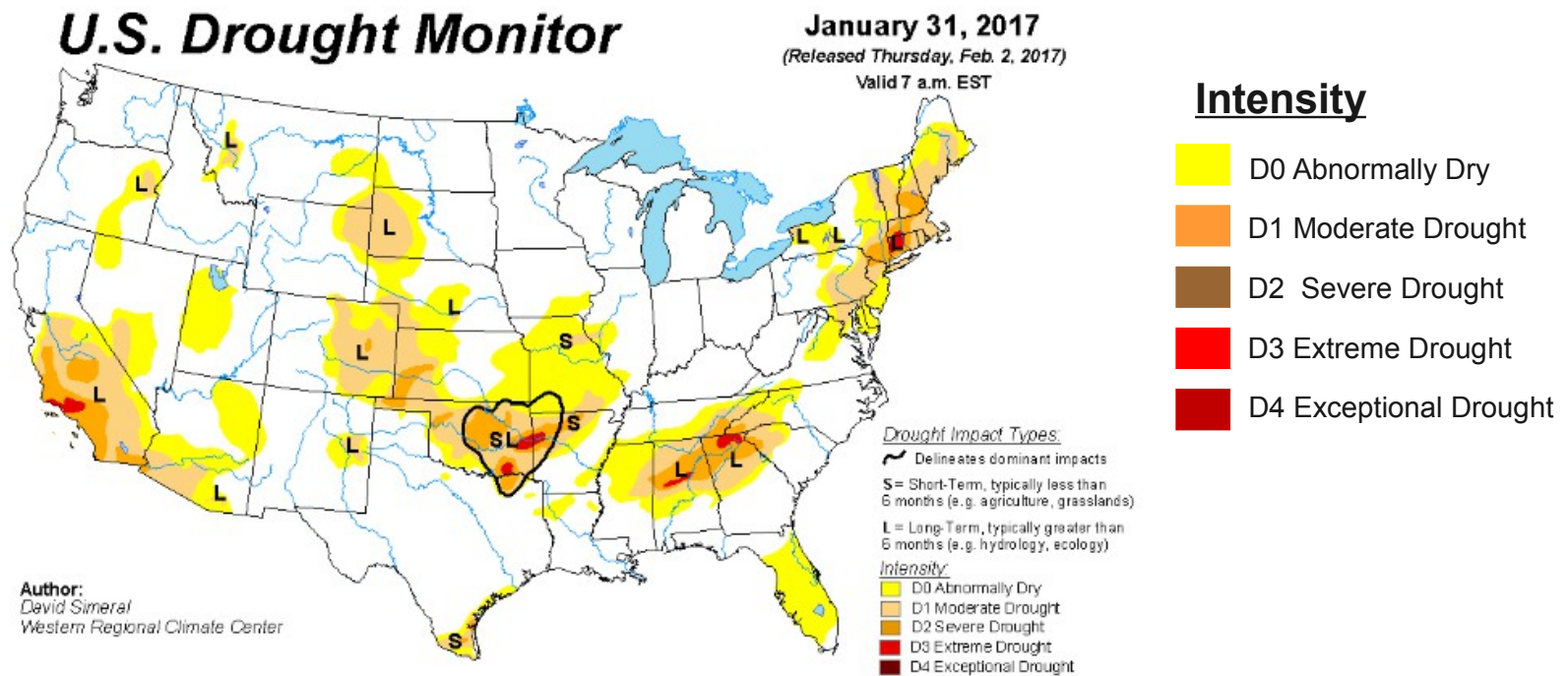
- Drought conditions have played a significant role in recent higher fuel costs
- The map above shows continued deterioration of drought conditions in south and southeast
- Dry conditions and above average temperatures have prevailed further impacting soil moisture and agriculture

# TMFC Through February 2017



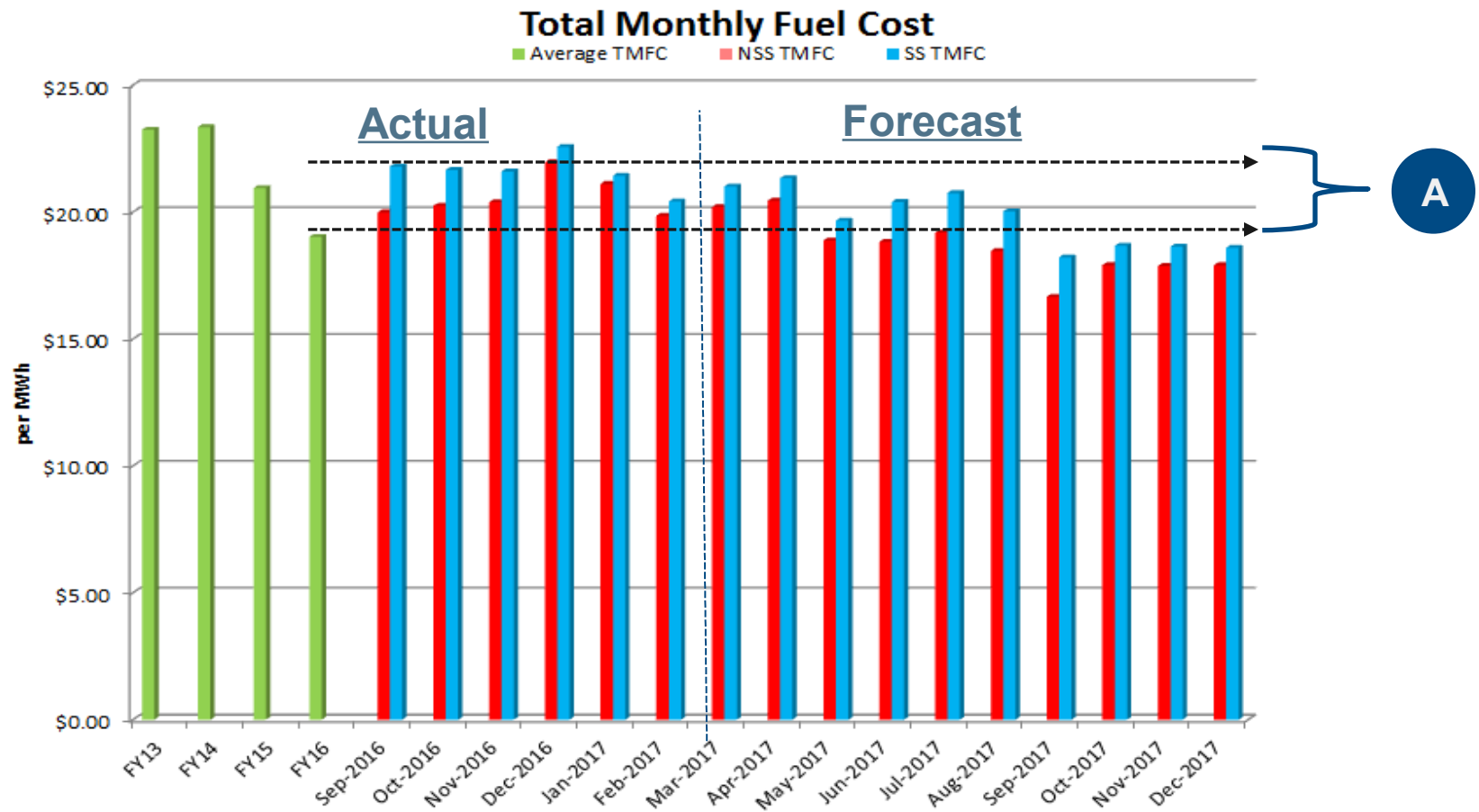
**A** *Drought conditions have placed upward pressure on recent fuel costs*

# United States Drought Map – Feb 2, 2017



- “On this week’s map, no changes were made in the region. Overall, the region was dry and average temperatures were above normal with the exception of Florida where temperatures were slightly below normal.”
- Although drought conditions in the Southeast have improved significantly, abnormally dry to severe drought conditions continue to place upward pressure on fuel costs

# TMFC – Historic and Forecast



*\*Forecast based on February 2017 release*

**A** *Return to more normal hydro has TMFC returning to favorable levels*



# TMFC March 2017

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- Total Monthly Fuel Cost for March 2017 will be:
  - Standard Service
  - B,C,D Service

*\* Communicate latest if available*
- March TMFC information anticipated to be released on Monday, February 13, 2017