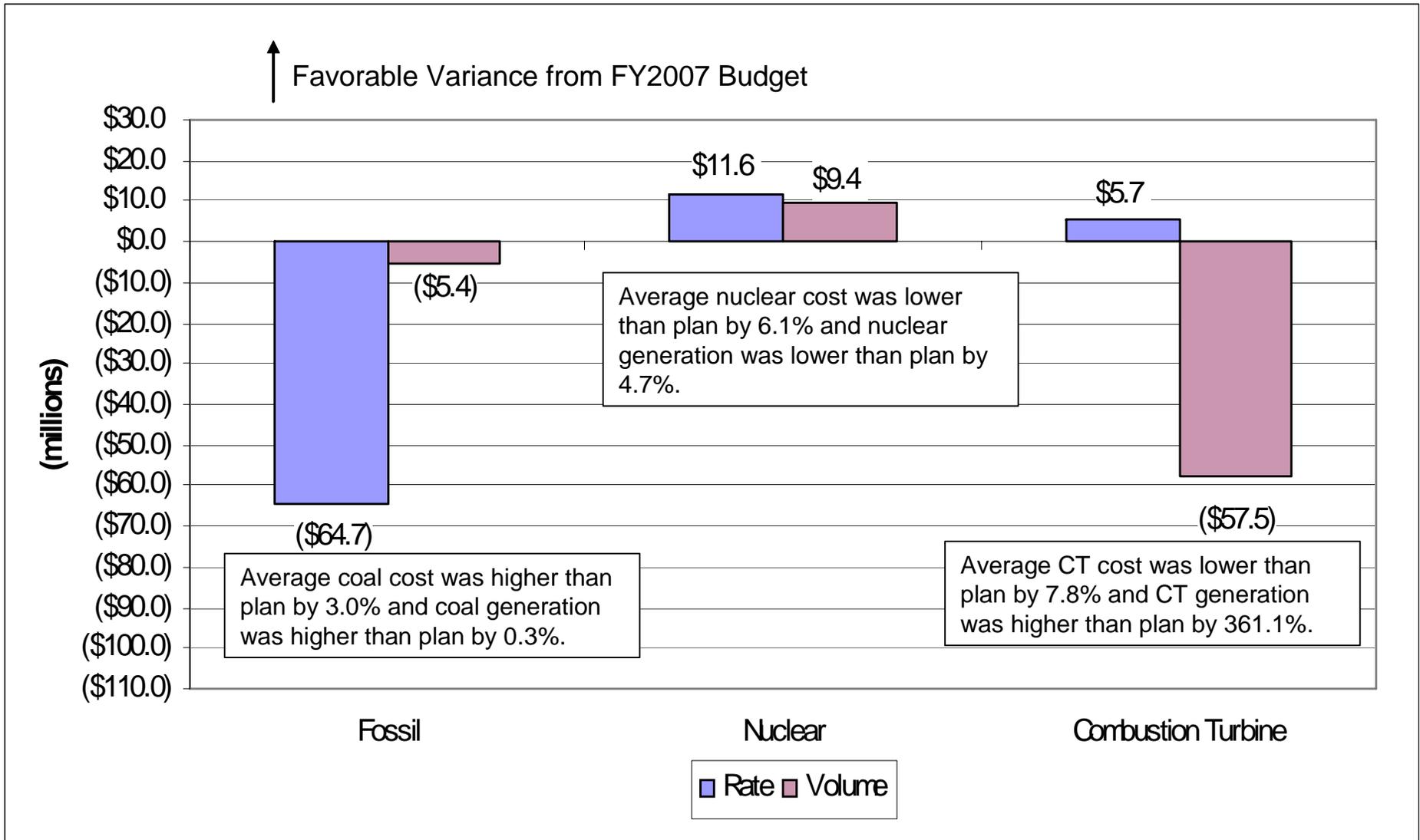


# **Issues Impacting Fiscal Year 2008 Rates**

- Fuel
- Purchased Power
- Hydro Generation
- Capacity

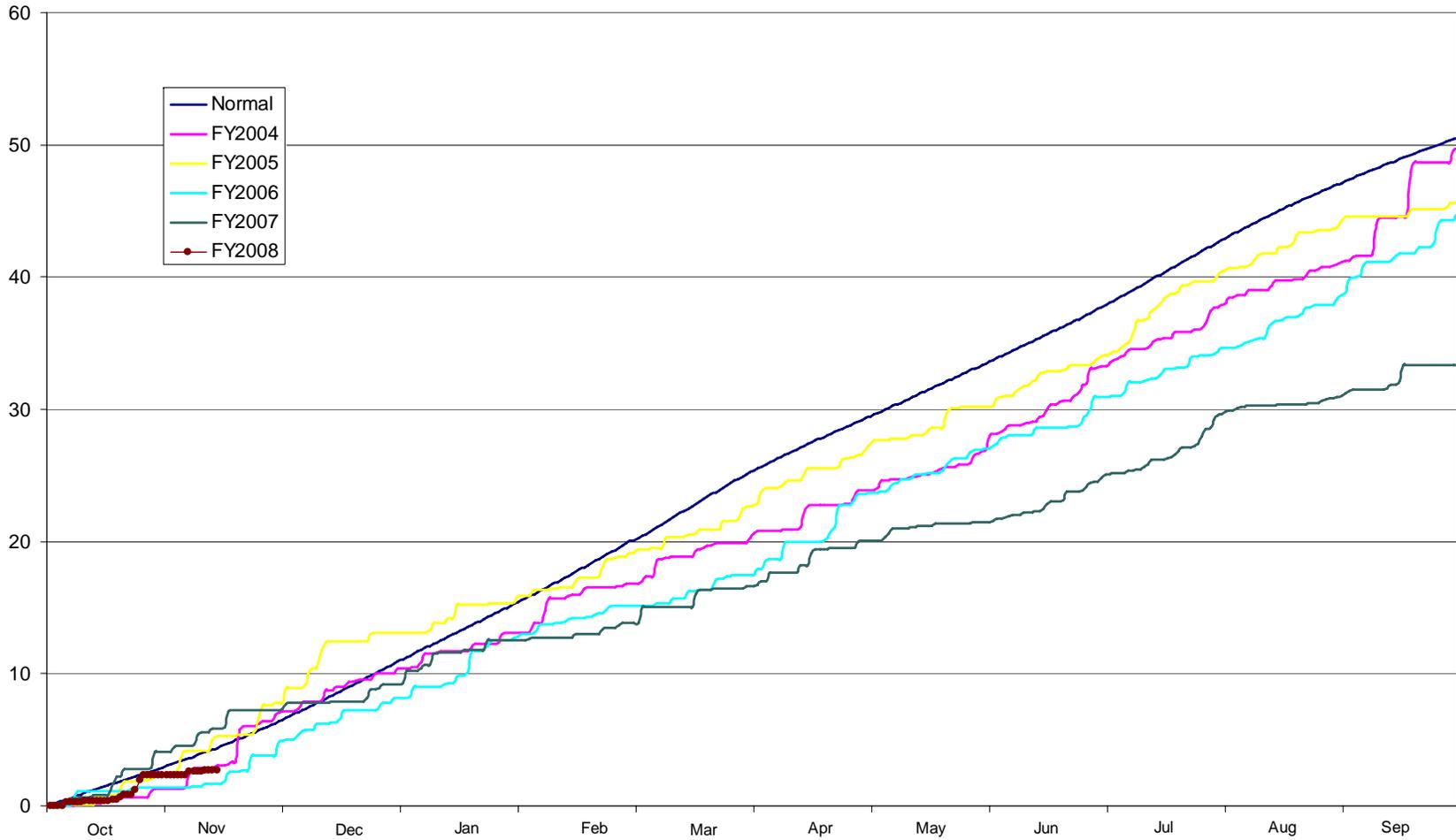


# FY2007 Fuel Rate/Volume Variances



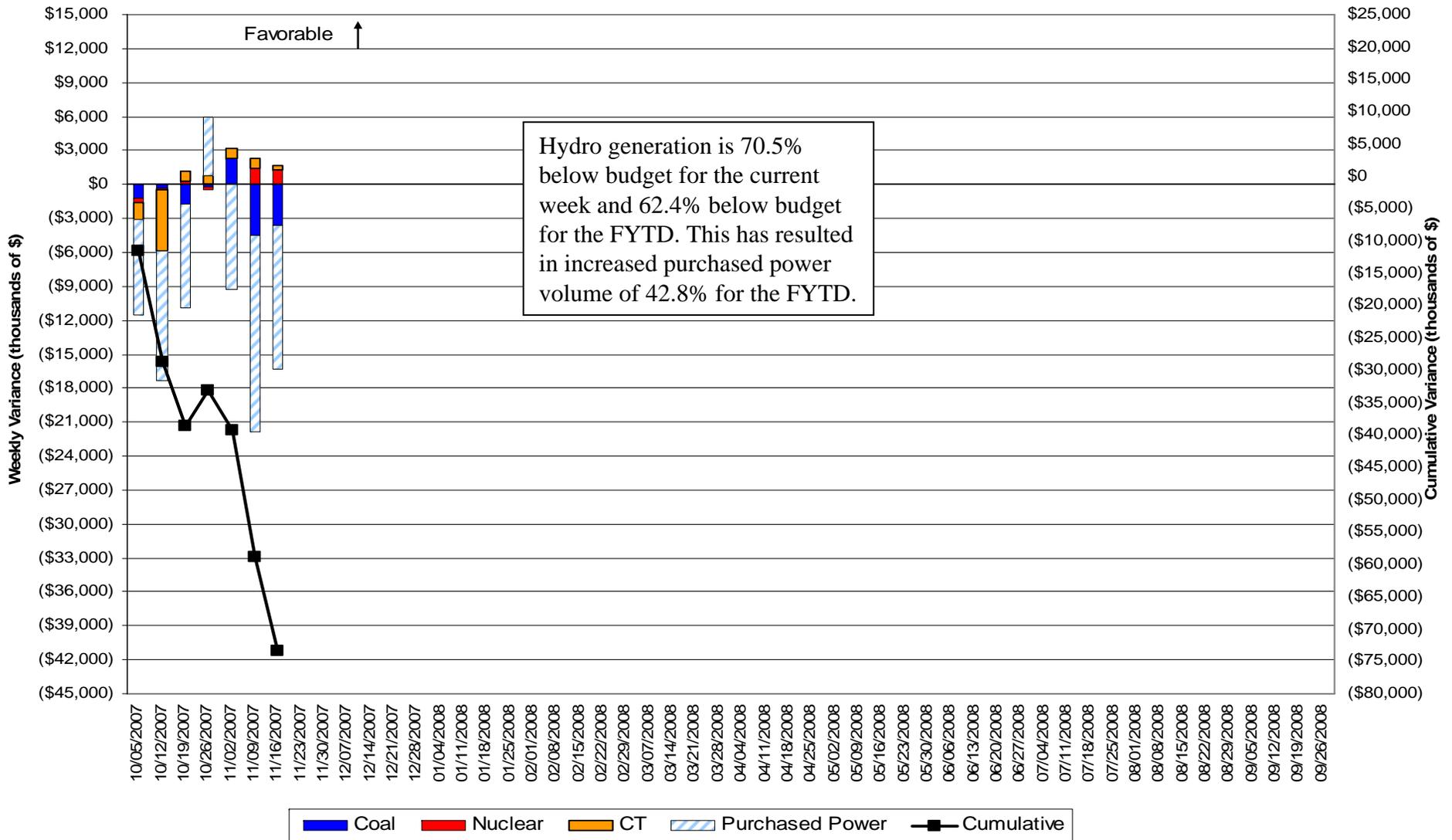


# Cumulative Rainfall (Inches)





# FY2008 Estimated Dollar Impact of Volume Variances by Fuel Type (Actual versus Budget)



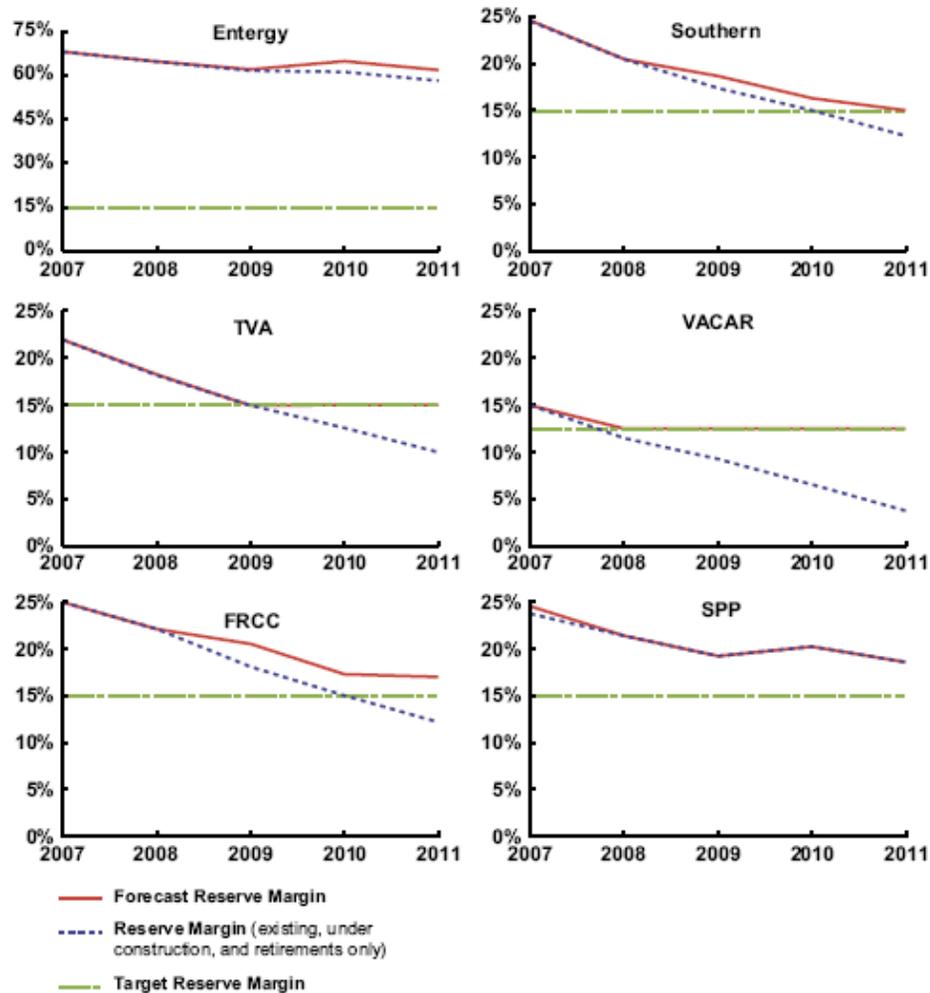


# Shrinking Reserve Margins

Deliverability issues prevent transmission from assets in Entergy to TVA.

TVA area reserve margin includes uncommitted IPPs.

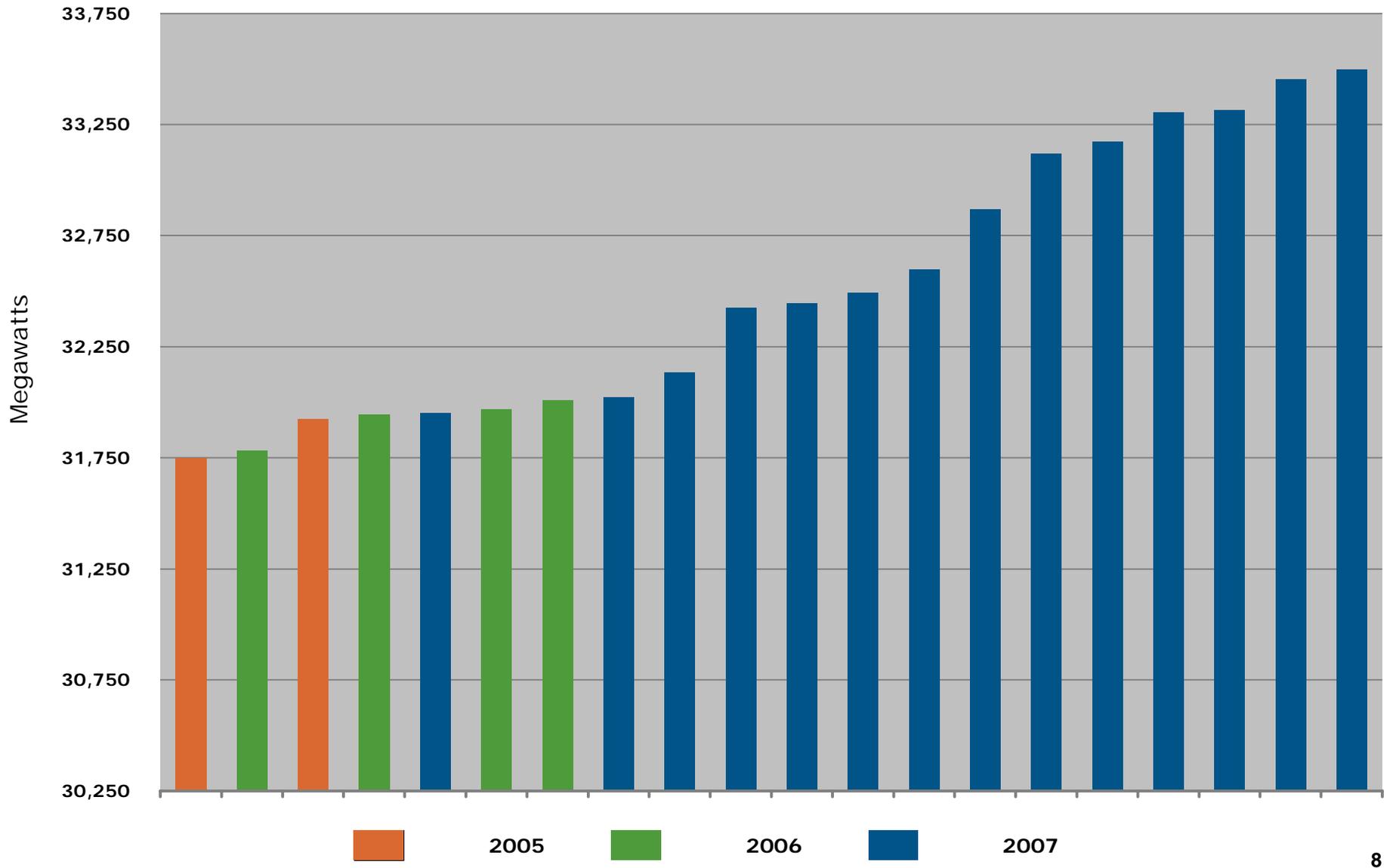
South Regional Reserve Margins



Sources: Cambridge Energy Research Associates, EV Power®, Global Energy Decisions, Inc.  
Note: Available capacity in each region is adjusted for firm imports, interruptible load, and hydro and wind degrade.  
61210-8\_3006

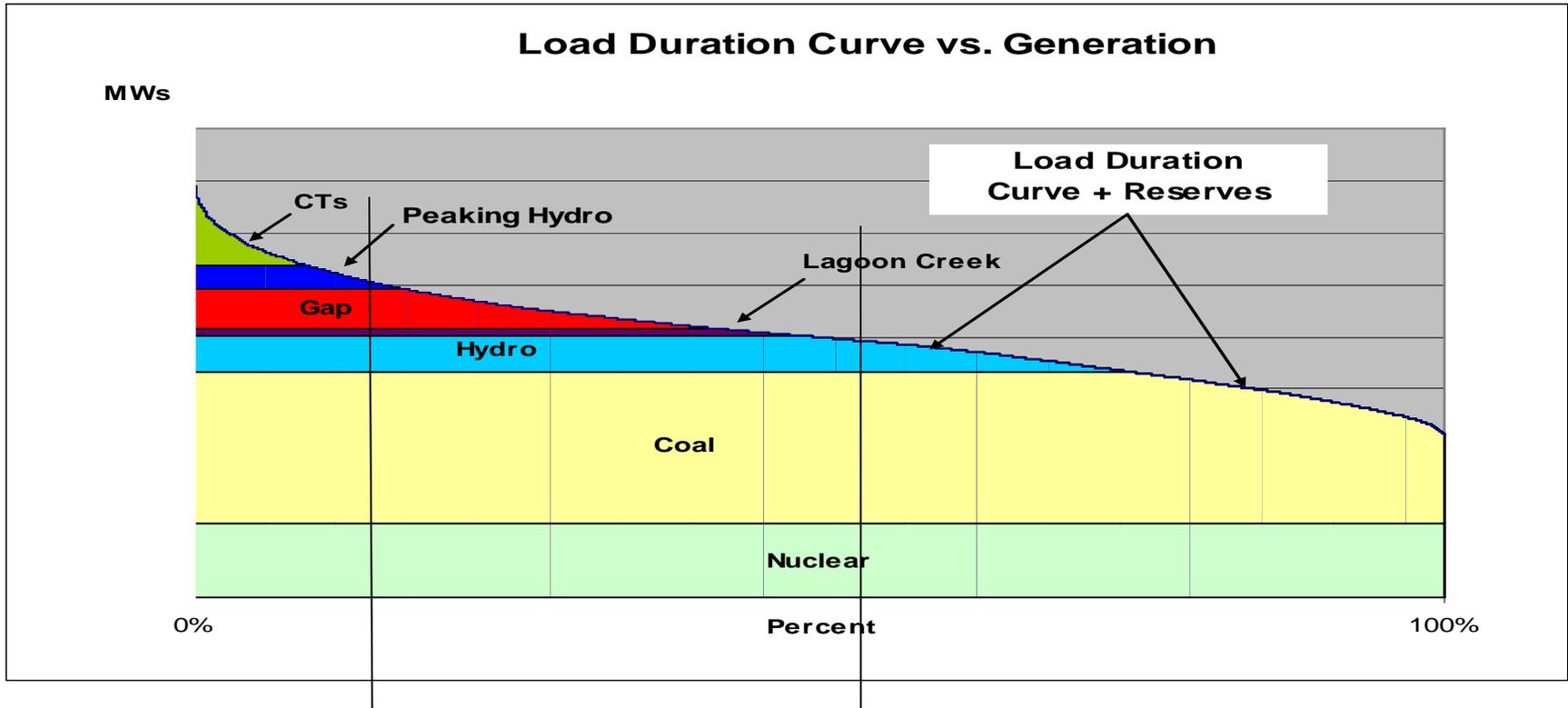


# Top 20 Peak System Loads





# Peaking and Intermediate Capacity



## Peaking capacity

- Low capacity factor <15%
- Low capital costs
- High variable energy costs

### Risk Mitigation:

- Reduced Market exposure
- Capacity Price Stabilization
- Reserve Requirements
- Control of Reliability and Deliverability

## Intermediate Capacity

- Capacity factor <15-60%
- Moderate capital costs
- Lower HR drives lower variable energy costs but dependent on gas price

### Risk Mitigation:

- Reduced Market exposure
- Capacity Price Stabilization
- Energy Price Stabilization
- Control of Reliability and Deliverability

## Base Load

- Capacity factor > 60%
- Higher capital costs
- Lower variable energy cost

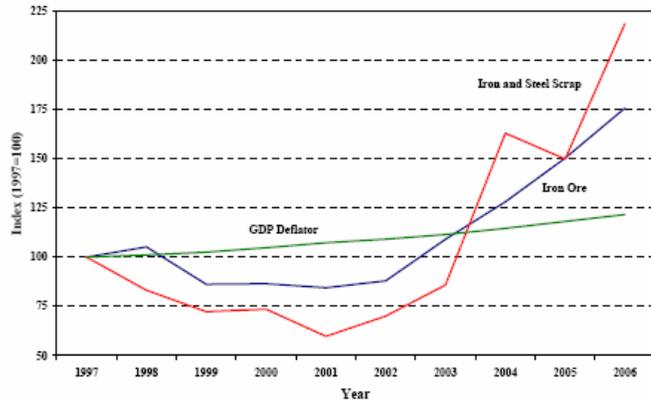
### Risk Mitigation:

- Reduced Market exposure
- Energy Price Stabilization
- Control of Reliability and Deliverability



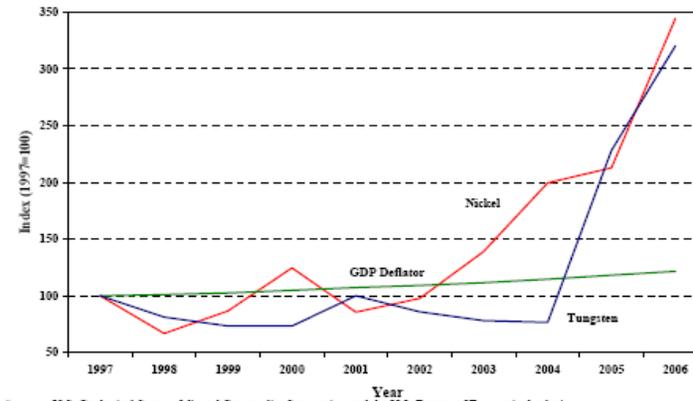
# Raw Material Cost Escalation Trends

### Inputs to Iron and Steel Production Cost Indices



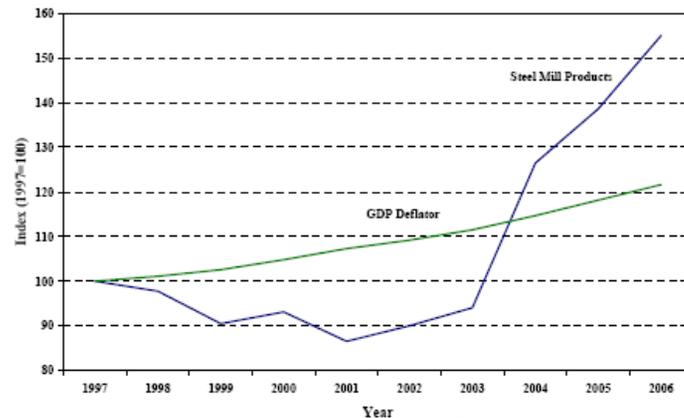
Sources: U.S. Geological Survey, Mineral Commodity Summaries, and the U.S. Bureau of Economic Analysis.

### Nickel and Tungsten Price Indices



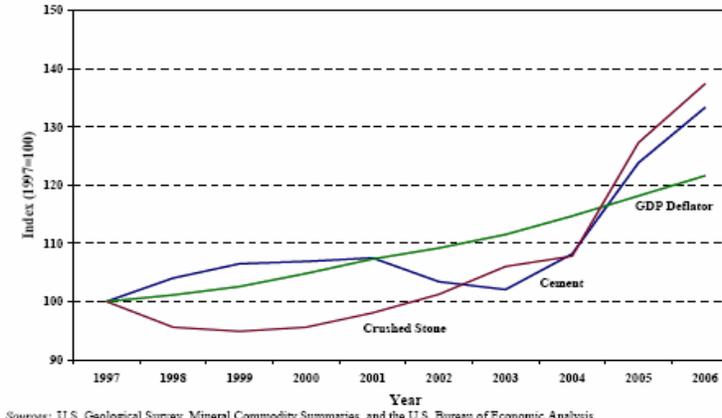
Sources: U.S. Geological Survey, Mineral Commodity Summaries, and the U.S. Bureau of Economic Analysis.

### Steel Mill Products Price Index



Sources: U.S. Geological Survey, Mineral Commodity Summaries, and the U.S. Bureau of Economic Analysis.

### Cement and Crushed Stone Price Indices



Sources: U.S. Geological Survey, Mineral Commodity Summaries, and the U.S. Bureau of Economic Analysis.

Raw material price escalation is impacting equipment and finished material supply costs.



# Summary