

Tennessee Valley Authority
Form 10-Q
February 12, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13, 15(d), OR 37 OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the transition period from ____ to ____

Commission file number 000-52313

TENNESSEE VALLEY AUTHORITY
(Exact name of registrant as specified in its charter)

A corporate agency of the United States
created by an act of Congress
(State or other jurisdiction of incorporation
or organization)

62-0474417
(I.R.S. Employer Identification No.)

400 W. Summit Hill Drive
Knoxville, Tennessee
(Address of principal executive offices)

37902
(Zip Code)

(865) 632-2101
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13, 15(d), or 37 of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting

(Do not check if a smaller company
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q (“Quarterly Report”) contains forward-looking statements relating to future events and future performance. All statements other than those that are purely historical may be forward-looking statements.

In certain cases, forward-looking statements can be identified by the use of words such as “may,” “will,” “should,” “expect,” “anticipate,” “believe,” “intend,” “project,” “plan,” “predict,” “assume,” “forecast,” “estimate,” “objective,” “possible,” “probable,” “potential,” or other similar expressions.

Examples of forward-looking statements include, but are not limited to:

- Statements regarding strategic objectives;
- Projections regarding potential rate actions;
- Estimates of costs of certain asset retirement obligations;
 - Estimates regarding power and energy forecasts;
- Expectations about the adequacy of TVA’s funding of its pension plans, nuclear decommissioning trust, and asset retirement trust;
- Estimates regarding the reduction of bonds, notes, and other evidences of indebtedness, lease/leaseback commitments, and power prepayment obligations;
 - Estimates of amounts to be reclassified from other comprehensive income to earnings over the next year;
 - TVA’s plans to continue using short-term debt to meet current obligations; and
 - The anticipated cost and timetable for placing Watts Bar Unit 2 in service.

Although the Tennessee Valley Authority (“TVA”) believes that the assumptions underlying the forward-looking statements are reasonable, TVA does not guarantee the accuracy of these statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things:

- New laws, regulations, and administrative orders, especially those related to:
 - TVA’s protected service area,
 - The sole authority of the TVA Board to set power rates,
- Various environmental and nuclear matters including laws, regulations, and administrative orders restricting carbon emissions and preferring certain fuels over others,
 - TVA’s management of the Tennessee River system,
 - TVA’s credit rating, and
 - TVA’s debt ceiling;
 - Loss of customers;
 - Performance of TVA’s generation and transmission assets;
 - Availability of fuel supplies;
 - Purchased power price volatility;
- Events at facilities not owned by TVA that affect the supply of water to TVA’s generation facilities;
 - Compliance with existing environmental laws and regulations;
- Significant delays or cost overruns in construction of generation and transmission assets;
 - Significant changes in demand for electricity;
 - Legal and administrative proceedings;
 - Weather conditions, including drought;
 - Failure of transmission facilities;
 - Events at any nuclear facility, even one that is not owned by or licensed to TVA;
- Catastrophic events such as fires, earthquakes, floods, tornadoes, pandemics, wars, terrorist activities, and other similar events, especially if these events occur in or near TVA’s service area;
 - Reliability of purchased power providers, fuel suppliers, and other counterparties;

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- Changes in the market price of commodities such as coal, uranium, natural gas, fuel oil, electricity, and emission allowances;
 - Changes in the prices of equity securities, debt securities, and other investments;
 - Changes in interest rates;
 - Creditworthiness of TVA, its counterparties, or its customers;
 - Rising pension costs and health care expenses;
- Increases in TVA's financial liability for decommissioning its nuclear facilities and retiring other assets;
 - Limitations on TVA's ability to borrow money;
 - Changes in the economy;
- Ineffectiveness of TVA's disclosure controls and procedures and its internal control over financial reporting;

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- Changes in accounting standards;
- The loss of TVA's ability to use regulatory accounting;
 - Problems attracting and retaining skilled workers;
 - Changes in technology;
 - Changes in the market for TVA securities; and
 - Unforeseeable events.

Additionally, other risks that may cause actual results to differ from the predicted results are set forth in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report, in Item 1A, Risk Factors and Item 7, Management's Discussion and Analysis of Financial Conditions and Results of Operations in TVA's Annual Report on Form 10-K, as amended, for the fiscal year ended September 30, 2007 (the "Annual Report"), and in other filings TVA makes from time-to-time with the Securities and Exchange Commission ("SEC"). New factors emerge from time to time, and it is not possible for management to predict all such factors or to assess the extent to which any factor or combination of factors may impact TVA's business or cause results to differ materially from those contained in any forward-looking statement.

TVA undertakes no obligation to update any forward-looking statement to reflect developments that occur after the statement is made.

GENERAL INFORMATION

Fiscal Year

Unless otherwise indicated, years (2008, 2007, etc.) in this Quarterly Report refer to TVA's fiscal years ended September 30.

Notes

References to "Notes" are to the Notes to Financial Statements contained in Part I, Item 1, Financial Statements in this Quarterly Report.

Available Information

TVA's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports are made available on TVA's web site, free of charge, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. TVA's web site is www.tva.gov. Information contained on TVA's web site shall not be deemed to be incorporated into, or to be a part of, this Quarterly Report. In addition, the public may read and copy any reports or other information that TVA files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. TVA's SEC reports are also available to the public without charge from the web site maintained by the SEC at www.sec.gov.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TENNESSEE VALLEY AUTHORITY
STATEMENTS OF INCOME (UNAUDITED)
For the three months ended December 31
(in millions)

	2007	2006
Operating revenues		
Sales of electricity		
Municipalities and cooperatives	\$ 1,905	\$ 1,742
Industries directly served	392	302
Federal agencies and other	25	25
Other revenue	28	35
Total operating revenues	2,350	2,104
Operating expenses		
Fuel and purchased power	935	739
Operating and maintenance	592	563
Depreciation, amortization, and accretion	390	356
Tax equivalents	121	108
Loss on asset impairment (Note 6)	-	22
Total operating expenses	2,038	1,788
Operating income	312	316
Other income	2	12
Unrealized gain on derivative contracts, net (Note 1)	-	15
Interest expense		
Interest on debt	329	336
Amortization of debt discount, issue, and reacquisition costs, net (Note 1)	5	5
Allowance for funds used during construction and nuclear fuel expenditures	(3)	(49)
Net interest expense	331	292
Net (loss) income	\$ (17)	\$ 51

The accompanying Notes are an integral part of these financial statements.

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TENNESSEE VALLEY AUTHORITY
BALANCE SHEETS
(in millions)

ASSETS

	December 31 2007	September 30 2007
	(Unaudited)	
Current assets		
Cash and cash equivalents	\$ 158	\$ 165
Restricted cash and investments (Note 1)	127	150
Accounts receivable, net (Note 1)	1,345	1,453
Inventories and other	768	663
Total current assets	2,398	2,431
Property, plant, and equipment		
Completed plant	38,918	38,811
Less accumulated depreciation	(16,204)	(15,937)
Net completed plant	22,714	22,874
Construction in progress	1,487	1,282
Nuclear fuel and capital leases	708	672
Total property, plant, and equipment, net	24,909	24,828
Investment funds	1,132	1,169
Regulatory and other long-term assets (Note 1)		
Deferred nuclear generating units	3,032	3,130
Other regulatory assets	1,912	1,969
Subtotal	4,944	5,099
Other long-term assets	404	375
Total regulatory and other long-term assets	5,348	5,474
Total assets	\$ 33,787	\$ 33,902

LIABILITIES AND PROPRIETARY CAPITAL

Current liabilities		
Accounts payable	\$ 784	\$ 1,000
Accrued liabilities	157	199
Collateral funds held	144	157
Accrued interest	305	406
Current portion of lease/leaseback obligations	43	43
Current portion of energy prepayment obligations	106	106
Short-term debt, net	1,565	1,422
Current maturities of long-term debt (Note 3)	2,090	90
Total current liabilities	5,194	3,423
Other liabilities		
Other liabilities	2,141	2,067

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Regulatory liabilities (Note 1)	145	83
Asset retirement obligations	2,219	2,189
Lease/leaseback obligations	1,028	1,029
Energy prepayment obligations (Note 1)	1,006	1,032
Total other liabilities	6,539	6,400
Long-term debt, net (Note 3)	19,105	21,099
Total liabilities	30,838	30,922
Commitments and contingencies		
Proprietary capital		
Appropriation investment	4,738	4,743
Retained earnings	1,919	1,939
Accumulated other comprehensive (loss)	(23)	(19)
Accumulated net expense of nonpower programs	(3,685)	(3,683)
Total proprietary capital	2,949	2,980
Total liabilities and proprietary capital	\$ 33,787	\$ 33,902

The accompanying Notes are an integral part of these financial statements.

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TENNESSEE VALLEY AUTHORITY
 STATEMENTS OF CASH FLOWS (UNAUDITED)
 For the three months ended December 31
 (in millions)

	2007	2006
Cash flows from operating activities		
Net (loss) income	\$ (17)	\$ 51
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization, and accretion	395	360
Nuclear refueling outage amortization	25	21
Loss on asset impairment	–	22
Amortization of nuclear fuel	44	27
Non-cash retirement benefit expense	35	50
Net unrealized gain on derivative contracts	–	(15)
Prepayment credits applied to revenue	(26)	(26)
Fuel cost adjustment deferral	47	–
Other, net	1	(15)
Changes in current assets and liabilities		
Accounts receivable, net	256	214
Inventories and other	(103)	(78)
Accounts payable and accrued liabilities	(284)	(120)
Accrued interest	(100)	(107)
Pension contributions	(19)	(19)
Refueling outage costs	(36)	(41)
Net cash provided by operating activities	218	324
Cash flows from investing activities		
Construction expenditures	(335)	(344)
Combustion turbine asset acquisitions	–	(98)
Nuclear fuel expenditures	(83)	(22)
Change in restricted cash and investments	23	(8)
Purchases of investments, net	(2)	(1)
Loans and other receivables		
Advances	(4)	(1)
Repayments	3	4
Proceeds from sale of receivables/loans	–	2
Other, net	–	(1)
Net cash used in investing activities	(398)	(469)
Cash flows from financing activities		
Long-term debt		
Issues	41	9
Redemptions and repurchases	–	(77)
Short-term issues, net	143	190
Payments on lease/leaseback financing	(1)	(1)
Payments to U.S. Treasury	(10)	(10)
Net cash provided by financing activities	173	111

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Net change in cash and cash equivalents	(7)	(34)
Cash and cash equivalents at beginning of period	165	536
Cash and cash equivalents at end of period	\$ 158	\$ 502

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TENNESSEE VALLEY AUTHORITY
 STATEMENTS OF CHANGES IN PROPRIETARY CAPITAL
 For the three months ended December 31
 (in millions)

	Appropriation Investment	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Accumulated Net Expense of Stewardship Programs	Total	Comprehensive Income (Loss)
Balance at September 30, 2006	\$ 4,763	\$ 1,565	\$ 43	\$ (3,672)	\$ 2,699	
Net income (loss)	–	53	–	(2)	51	\$ 51
Return on Power Facility Appropriation Investment	–	(5)	–	–	(5)	–
Accumulated other comprehensive loss (Note 2)	–	–	(15)	–	(15)	(15)
Return of Power Facility Appropriation Investment	(5)	–	–	–	(5)	–
Balance at December 31, 2006 (Unaudited)	\$ 4,758	\$ 1,613	\$ 28	\$ (3,674)	\$ 2,725	\$ 36
Balance at September 30, 2007	\$ 4,743	\$ 1,939	\$ (19)	\$ (3,683)	\$ 2,980	
Net (loss)	–	(15)	–	(2)	(17)	\$ (17)
Return on Power Facility Appropriation Investment	–	(5)	–	–	(5)	–
Accumulated other comprehensive loss (Note 2)						