

Tennessee Valley Authority  
Form 10-Q  
August 11, 2011

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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 June 30, 2011

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  
(IRS 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.  
Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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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 company

(Do not check if a smaller 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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## GLOSSARY OF COMMON ACRONYMS

Following are definitions of terms or acronyms frequently used in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (the “Quarterly Report”):

Term or Acronym	Definition
AFUDC	Allowance for funds used during construction
ARO	Asset retirement obligation
ARP	Acid Rain Program
ART	Asset Retirement Trust
ASLB	Atomic Safety and Licensing Board
BEST	Bellefonte Efficiency and Sustainability Team
BREDL	Blue Ridge Environmental Defense League
CAA	Clean Air Act
CCP	Coal combustion products
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CME	Chicago Mercantile Exchange
CO <sub>2</sub>	Carbon dioxide
COLA	Cost of living adjustment
CVA	Credit valuation adjustment
CY	Calendar year
EIS	Environmental Impact Statement
EPA	The Environmental Protection Agency
FASB	Financial Accounting Standards Board
FCA	Fuel cost adjustment
FERC	Federal Energy Regulatory Commission
FTP	Financial trading program
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse gas
GWh	Gigawatt hour(s)
IRP	Integrated Resource Plan
KDAQ	Kentucky Division for Air Quality
kWh	Kilowatt hour(s)
MD&A	Management’s Discussion and Analysis of Financial Condition and Results of Operations
mmBtu	Million British thermal unit(s)
MtM	Mark-to-market
MW	Megawatt
MWh	Megawatt hour(s)
NAAQS	National Ambient Air Quality Standards
NDT	Nuclear Decommissioning Trust
NEPA	National Environmental Policy Act
NERC	North American Electric Reliability Corporation
NOV	Notice of Violation

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NO <sub>x</sub>	Nitrogen oxides
NPDES	National Pollutant Discharge Elimination System
NRC	The Nuclear Regulatory Commission
NRP	Natural Resource Plan
NSR	New Source Review
PSD	Prevention of Significant Deterioration
QSPE	Qualifying Special-Purpose Entity
REIT	Real estate investment trust
SACE	Southern Alliance for Clean Energy
SCRs	Selective catalytic reduction systems
SEC	Securities and Exchange Commission

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SERP	Supplemental Executive Retirement Plan
Seven States	Seven States Power Corporation
SO2	Sulfur dioxide
SSSL	Seven States Southaven, LLC
TDEC	Tennessee Department of Environment & Conservation
TVARS	Tennessee Valley Authority Retirement System
VIE	Variable Interest Entity

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FORWARD-LOOKING INFORMATION

This 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,” “probably,” “likely,” “potential,” and other similar expressions.

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 or changed laws, regulations, and administrative orders, including those related to environmental matters, and the costs of complying with these new or changed laws, regulations, and administrative orders, as well as complying with existing laws, regulations, and administrative orders;
- The requirement or decision to make additional contributions to TVA’s pension or other post-retirement benefit plans or to TVA’s Nuclear Decommissioning Trust (“NDT”);
- Events at a TVA nuclear facility, which, among other things, could result in loss of life, damage to the environment, damage to or loss of the facility, and damage to the property of others;
- Events at a nuclear facility, whether or not operated by or licensed to TVA, which, among other things, could lead to increased regulation or restriction on the construction, operation, and decommissioning of nuclear facilities and on the storage of spent fuel, obligate TVA to pay retrospective insurance premiums, reduce the availability and affordability of insurance, negatively affect the cost and schedule for completing Watts Bar Nuclear Plant (“Watts Bar”) Unit 2, increase the costs of operating TVA’s existing nuclear units, and cause TVA to forego any future construction at Bellefonte Nuclear Plant (“Bellefonte”) or other facilities;
- Significant delays, cost increases, or cost overruns associated with the construction of generation or transmission assets;
  - Fines, penalties, natural resource damages, and settlements associated with the Kingston ash spill;
  - Significant changes in demand for electricity;
  - Addition or loss of customers;
- The continued operation, performance, or failure of TVA’s generation, transmission, and related assets, including coal combustion product (“CCP”) facilities;
- The economics of modernizing aging coal-fired generating units and installing emission control equipment to meet anticipated emission reduction requirements, which could make continued operation of certain coal-fired units uneconomical and lead to their removal from service, perhaps permanently;
- Disruption of fuel supplies, which may result from, among other things, weather conditions, production or transportation difficulties, labor challenges, or environmental laws or regulations affecting TVA’s fuel suppliers or transporters;
  - Purchased power price volatility and disruption of purchased power supplies;
- Events involving transmission lines, dams, and other facilities not operated by TVA, including those that affect the reliability of the interstate transmission grid of which TVA’s transmission system is a part, as well as the supply of water to TVA’s generation facilities;
  - Inability to obtain regulatory approval for the construction or operation of assets;
  - Weather conditions;
- Catastrophic events such as fires, earthquakes, solar events, floods, hurricanes, tornadoes, pandemics, wars, national emergencies, terrorist activities, and other similar events, especially if these events occur in or near TVA’s service area;
  - Reliability and creditworthiness of counterparties;



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Changes in the market price of commodities such as coal, uranium, natural gas, fuel oil, crude oil, construction materials, reagents, electricity, and emission allowances;

- Changes in the market price of equity securities, debt securities, and other investments;
  - Changes in interest rates, currency exchange rates, and inflation rates;
  - Rising pension and health care costs;

• Increases in TVA's financial liability for decommissioning its nuclear facilities and retiring other assets;  
• Limitations on TVA's ability to borrow money which may result from, among other things, TVA's approaching or reaching its debt ceiling and changes in TVA's borrowing authority;

• An increase in TVA's cost of capital which may result from, among other things, changes in the market for TVA's debt securities, changes in the credit rating of TVA or the U.S. government, and an increased reliance by TVA on alternative financing arrangements as TVA approaches its debt ceiling;

- Changes in the economy and volatility in financial markets;
- Inability to eliminate identified deficiencies in TVA's systems, standards, controls, and corporate culture;

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- Ineffectiveness of TVA’s disclosure controls and procedures and its internal control over financial reporting;
  - Problems attracting and retaining a qualified workforce;
  - Changes in technology;
- Failure of TVA’s information technology assets to operate as planned and the failure of TVA’s cyber security program to protect TVA’s information technology assets from successful cyber attacks;
  - Differences between estimates of revenues and expenses and actual revenues and expenses incurred; and
  - Unforeseeable events.

See also Item 1A, Risk Factors, and Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations in TVA’s Annual Report on Form 10-K for the fiscal year ended September 30, 2010 (the “Annual Report”) and Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Part II, Item 1A, Risk Factors, in this Quarterly Report. 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

References to years (2011, 2010, etc.) in this Quarterly Report are to TVA’s fiscal years ending September 30. Years that are preceded by “CY” are references to calendar years.

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 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 Securities and Exchange Commission (“SEC”). TVA’s web site is [www.tva.gov](http://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. TVA’s SEC reports are also available to the public without charge from the web site maintained by the SEC at [www.sec.gov](http://www.sec.gov). In addition, the public may read and copy any reports or other information that TVA files with or furnishes to the SEC at the SEC’s Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

TENNESSEE VALLEY AUTHORITY  
STATEMENTS OF OPERATIONS (Unaudited)  
(in millions)

	Three Months Ended June 30		Nine Months Ended June 30	
	2011	2010	2011	2010
Operating revenues				
Sales of electricity				
Municipalities and cooperatives	\$ 2,287	\$ 2,204	\$ 7,190	\$ 6,367
Industries directly served	310	324	1,077	1,019
Federal agencies and other	31	31	95	83
Other revenue	29	28	91	89
Total operating revenues	2,657	2,587	8,453	7,558
Operating expenses				
Fuel	584	509	2,071	1,343
Purchased power	387	277	1,026	656
Operating and maintenance	994	757	2,677	2,267
Depreciation and amortization	436	416	1,296	1,240
Tax equivalents	174	114	464	320
Total operating expenses	2,575	2,073	7,534	5,826
Operating income	82	514	919	1,732
Other income (expense), net	4	6	25	20
Interest expense				
Interest expense	358	343	1,072	1,026
Allowance for funds used during construction and nuclear fuel expenditures	(32 )	(22 )	(93 )	(53 )
Net interest expense	326	321	979	973
Net income (loss)	\$ (240 )	\$ 199	\$ (35 )	\$ 779

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



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TENNESSEE VALLEY AUTHORITY  
BALANCE SHEETS  
(in millions)

ASSETS

	June 30, 2011 (Unaudited)	September 30, 2010
<b>Current assets</b>		
Cash and cash equivalents	\$ 542	\$ 328
Accounts receivable, net	1,548	1,639
Inventories, net	1,060	1,012
Regulatory assets	757	791
Other current assets	219	78
<b>Total current assets</b>	<b>4,126</b>	<b>3,848</b>
<b>Property, plant, and equipment</b>		
Completed plant	43,522	42,997
Less accumulated depreciation	(20,277 )	(19,326 )
Net completed plant	23,245	23,671
Construction in progress	4,048	3,008
Nuclear fuel	1,126	1,102
Capital leases	28	49
<b>Total property, plant, and equipment, net</b>	<b>28,447</b>	<b>27,830</b>
Investment funds	1,257	1,128
<b>Regulatory and other long-term assets</b>		
Regulatory assets	9,416	9,756
Other long-term assets	374	191
<b>Total regulatory and other long-term assets</b>	<b>9,790</b>	<b>9,947</b>
<b>Total assets</b>	<b>\$ 43,620</b>	<b>\$ 42,753</b>

LIABILITIES AND PROPRIETARY CAPITAL

<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,659	\$ 1,698
Environmental cleanup costs - Kingston ash spill	151	220
Accrued interest	333	407
Current portion of leaseback obligations	80	74
Current portion of energy prepayment obligations	105	105
Regulatory liabilities	215	63

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Short-term debt, net	—	27
Current maturities of long-term debt	1,523	1,008
Total current liabilities	4,066	3,602
<b>Other liabilities</b>		
Post-retirement and post-employment benefit obligations	4,831	4,729
Asset retirement obligations	3,108	2,963
Other long-term liabilities	1,698	1,526
Leaseback obligations	1,208	1,279
Energy prepayment obligations	638	717
Environmental cleanup costs - Kingston ash spill	260	305
Regulatory liabilities	261	106
Total other liabilities	12,004	11,625
Long-term debt, net	22,438	22,389
Total liabilities	38,508	37,616
<b>Proprietary capital</b>		
Power program appropriation investment	313	328
Power program retained earnings	4,230	4,264
Total power program proprietary capital	4,543	4,592
Nonpower programs appropriation investment, net	634	640
Accumulated other comprehensive loss	(65 )	(95 )
Total proprietary capital	5,112	5,137
Total liabilities and proprietary capital	\$ 43,620	\$ 42,753

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 nine months ended June 30  
 (in millions)

	2011	2010
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (35 )	\$ 779
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	1,311	1,255
Nuclear refueling outage amortization cost	38	82
Amortization of nuclear fuel cost	158	177
Non-cash retirement benefit expense	349	268
Prepayment credits applied to revenue	(79 )	(79 )
Fuel cost adjustment deferral	7	(808 )
Environmental cleanup costs – Kingston ash spill – non cash	57	47
Changes in current assets and liabilities		
Accounts receivable, net	100	(89 )
Inventories and other, net	(116 )	(137 )
Accounts payable and accrued liabilities	94	80
Accrued interest	(73 )	(78 )
Environmental cleanup costs – Kingston ash spill, net	(74 )	(292 )
Preconstruction costs	(96 )	—
Other, net	62	5
<b>Net cash provided by operating activities</b>	<b>1,703</b>	<b>1,210</b>
<b>Cash flows from investing activities</b>		
Construction expenditures	(1,678 )	(1,491 )
Nuclear fuel expenditures	(184 )	(282 )
Purchases of investments, net	—	5
Loans and other receivables		
Advances	(26 )	(23 )
Repayments	9	14
Other, net	(1 )	4
<b>Net cash used in investing activities</b>	<b>(1,880 )</b>	<b>(1,773 )</b>
<b>Cash flows from financing activities</b>		

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Long-term debt		
Issues	1,582	679
Redemptions and repurchases	(1,020 )	(35 )
Short-term debt issues (redemptions), net	(27 )	(10 )
Proceeds from sale/leaseback financing	5	9
Payments on leases and leaseback financing	(109 )	(79 )
Bond premium received	—	28
Financing costs, net	(19 )	(4 )
Payments to U.S. Treasury	(20 )	(25 )
Other	(1 )	(3 )
Net cash provided by financing activities	391	560
Net change in cash and cash equivalents	214	(3 )
Cash and cash equivalents at beginning of period	&#	