



TENNESSEE VALLEY AUTHORITY'S PAYMENTS IN LIEU OF TAXES

*Annual Report to the Tennessee General
Assembly*

Legislative Mandate

- Monitor changes in the wholesale distribution of electric power by the Tennessee Valley Authority (TVA) and its distributors for possible effects on the Authority's payments in lieu of taxes (PILOTs) to the states in the Valley region.
- Electric Generation and Transmission Cooperative Act of 2009 (Section 4 of Public Chapter 475, Acts of 2009)

**Table 1. Tennessee Valley Authority Revenue Sharing
Distribution Estimates* by Federal Fiscal Year (in millions)**

	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11
TVA Payment to States	\$524.2	\$531.2	\$522.4	\$536.5	\$567.4	\$520.0
Tennessee's Percent	x 65.77%	65.30%	62.84%	61.69%	61.21%	60.64%
Tennessee's Amount	\$344.8	\$346.9	\$328.3	\$330.9	\$347.3	\$315.3
Direct Payment to Counties	- 3.4	3.4	3.4	3.4	3.4	2.2
Tennessee's Share	\$341.4	\$343.5	\$324.9	\$327.6	\$343.9	\$313.1

* TVA estimates payments in lieu of taxes each year based on unaudited prior-year gross receipts, distributes these estimated payments monthly from October through August, then makes a final payment for the year in September based on audited revenue figures for the previous fiscal year. It is not unusual for the final payment to be adjusted upward from the original estimated amount. Tennessee's share minus payments to counties may not sum to the net to state because of rounding.

Source: Tennessee Valley Authority.

Payments on Tennessee's Fiscal Year Basis

- 2015-16 payments will increase Tennessee's PILOT by \$1.2 million increase in the distribution to counties
- \$644 thousand increase for cities
- a \$1.7 million increase in the amount reserved by the state for its own agencies.
- These amounts differ from the estimated decrease for federal fiscal year 2015-16 because the state and federal fiscal years overlap by three months.

TVA Strategies

- To meet the region's power demand, TVA must plan for both short-term and long-term fluctuations in the use of electricity while staying within its statutory debt limit of \$30 billion

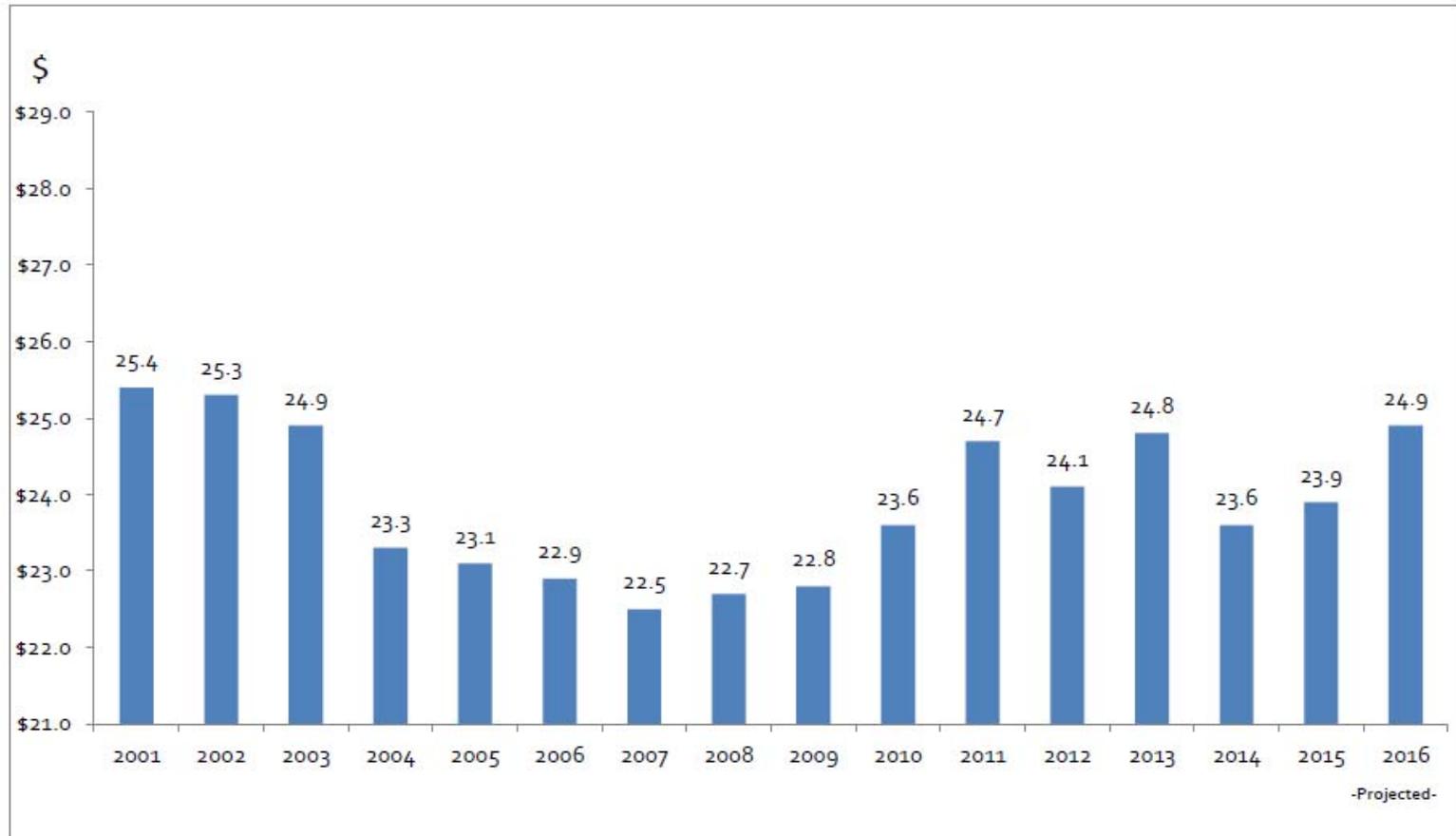
Short-Term Strategies

- TVA meets short-term-demand increases that result from extreme weather by:
- operating additional facilities that are used only in times of high demand,
- purchasing power from other utilities,
- and cutting off power to customers with interruptible contracts.

Long-Term Strategies

- In 1979, the Congress imposed a \$30 billion ceiling on its statutory debt.

Figure 1. Tennessee Valley Authority Statutory Debt at Year End
(in billions)



Source: Tennessee Valley Authority 2014c; Tennessee Valley Authority 2015d; and email from Stephen Schoolfield, Program Manager-Taxes, Tennessee Valley Authority, December 18, 2015.

Long-Term Strategies

- In order to meet its power demand, comply with environmental regulation, and stay within the debt ceiling, TVA employs sophisticated financial leasing arrangements.
 - Sale and lease back arrangements
 - Change in ownership of property
 - Could change distribution of PILOT
 - Lease and lease back arrangements
 - No change in ownership of property
 - Could impact PILOT

Rebalancing of Power Sources

- In 2011 court settlement TVA agreed to retire 18 of 59 coal-fired plants.

Table 2. Tennessee Valley Authority Coal-Fired Units to be Retired Under Environmental Agreements

Fossil Plant	Total Units	Existing Scrubbers and SCRs*	Requirements Under Environmental Agreements	Retirements implemented or Planned to be Implemented by TVA as a Result of Environmental Agreements
John Sevier	2	None	<ul style="list-style-type: none"> • Retire two units no later than December 31, 2012 	<ul style="list-style-type: none"> • Retired Units 1 and 2 on December 31, 2012
Johnsonville	10	None	<ul style="list-style-type: none"> • Retire six units no later than December 31, 2015 • Retire four units no later than December 31, 2017 	<ul style="list-style-type: none"> • Retire Units 5-10 by December 31, 2015 • Retire Units 1-4 by December 31, 2017 • Idled Units 7 and 8 effective March 1, 2012 • Idled Units 5 and 6 and Units 9 and 10 October 1, 2013
Widows Creek	6	Scrubbers and SCRs on Units 7 and 8	<ul style="list-style-type: none"> • Retire two of Units 1-6 no later than July 31, 2013 • Retire two of Units 1-6 no later than July 31, 2014 • Retire two of Units 1-6 no later than July 31, 2015 	<ul style="list-style-type: none"> • Retired Units 3 and 5 on July 31, 2013 • Retired Units 1, 2, 4, and 6 on July 31, 2014

* Selective catalytic reduction systems ("SCR")

Source: Tennessee Valley Authority 2014a; and Tennessee Valley Authority 2015a.

Fossil Plant Retirements for Business Reasons

- Because of competitive advantage of other methods of generating electricity, TVA retired other 2 coal-fired units at John Sevier Fossil Plant and 1 of 10 units at Shawnee Fossil Plant in Kentucky.
- Decided to add pollution control devices to 2 remaining coal-fired units at Shawnee.
- Retired last 2 units at Widows Creek in Alabama in 2015.
- Will retire all 3 units at Allen Fossil Plant in Memphis and replace them with gas-fired units on same site before 2019.
- Plan to close 2 of 3 coal-fired units at the Paradise Fossil Plant in Kentucky and replace them with gas-fired units on same site.
- Plan to retire 5 coal-fired units at its Colbert plant in Alabama before May 2016.
- See table 3.

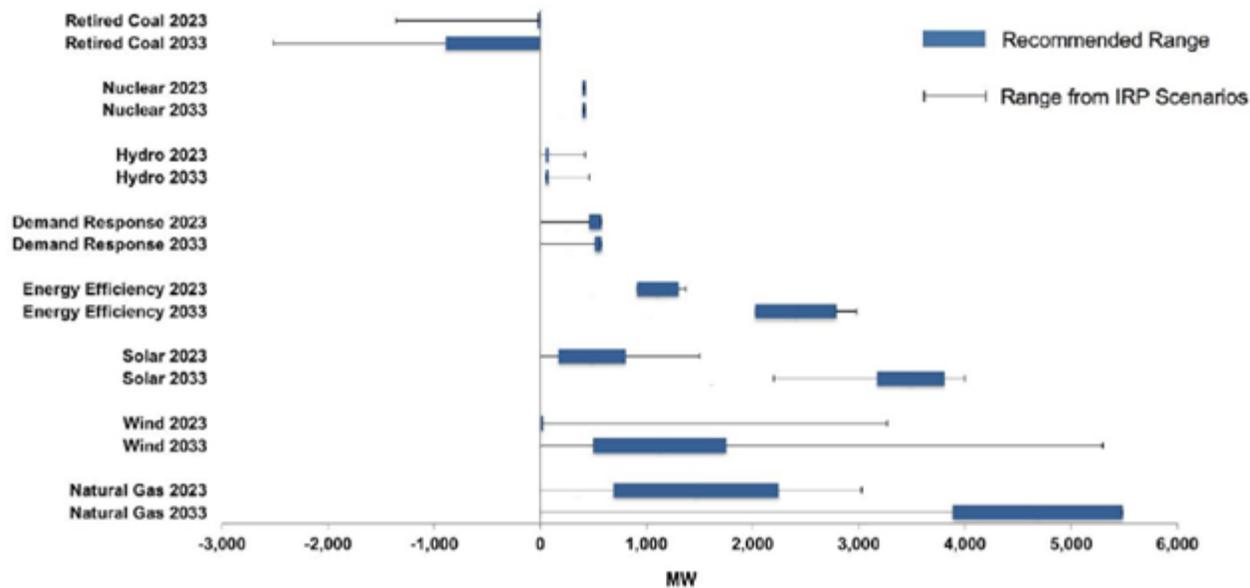
EPA's Clean Power Plan

- Finalized in August 2015, the US Environmental Protection Agency (EPA) set carbon-pollution reduction goals for each state
- Allows each state to select the measures it prefers and “to shape their own emissions reduction pathways over the 2022-29 period.”
- States must submit a final plan or an initial submittal with an extension request by September 6, 2016, and
- Complete state plans must be submitted no later than September 6, 2018.

2015 Integrated Resource Plan

- Sets targets for power sources through the years 2023 and 2033

Figure 2. TVA Capacity Changes in Megawatts by 2023 and 2033



Source: TVA Integrated Resource Plan, p. 116.

TVA Assessment of CPP

- : “we know that the EPA’s Clean Power Plan will be finalized at virtually the same time this report is released. We will look at that final rule more specifically to understand how the IRP can inform TVA’s compliance plans, but feel the study recommendations point us in a direction to meet whatever requirements are included in that rule.”

Conclusion

- We can expect TVA to continue to change its power supply system.
- All recipients of TVA Payments –in-lieu-of-taxes should be aware that these payments are subject to change and not be caught by surprise when it does happen.