



TACIR INSIGHT

TENNESSEE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

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TENNESSEE VALLEY AUTHORITY'S PAYMENTS IN LIEU OF TAXES

Background

Public Chapter 1035, Acts of 2010, requires payments equivalent to the Tennessee Valley Authority's (TVA) payments in lieu of taxes (PILOT) from any other wholesaler providing electricity within the state; these payments are added to those received from TVA and distributed through the state's TVA PILOT distribution formula. The Act was designed to ensure that revenue from power sales in the TVA region would not depend on who produced or who sold power. Pursuant to the Act, the Commission has continued to monitor the power supply situation and reports to the General Assembly annually to bring attention to anything that could affect TVA's payments to the state and its local governments.

Findings

While the Commission sees no immediate need for legislative action, the 2026 report describes the possible effects of many factors on TVA's PILOT and calls attention to some key items:

- For the purposes of monitoring compliance with Public Chapter 1035, it would be beneficial for TVA to provide the Tennessee Department of Revenue with a list of the distributors that are purchasing power from other entities, which could be added to the information that TVA already provides the department annually about its payments to Tennessee.
- Sixteen distributors in TVA's service area in Tennessee are purchasing power from wholesalers other than TVA. Public Chapter 1035 allows those wholesalers to claim credits for other taxes paid, thereby reducing or even eliminating payments that would otherwise be owed under the Act. Thus far, the credits claimed have exceeded the payments that would otherwise be owed, and as a result, no payments have been required.
- TVA estimates the total PILOT for federal fiscal year 2025-26 will be \$667 million, an increase of \$67 million driven by higher effective base rates, increased sales volume, and higher effective fuel rates. Tennessee's estimated share increased by \$49 million to a total of \$454 million, and the state's share of TVA's overall payments increased to 68.0% this year because of increases in both the state's share of TVA's power revenue and the value of TVA power property. Allocations for the state's 2025-26 fiscal year are estimated to increase by \$19.8 million for the state's own agencies, \$14.1 million for counties, and \$5.6 million for cities. The allocations increase less for the state fiscal year than for the current federal fiscal year because of the lag between the start of the state fiscal year (July) and the federal fiscal year (October).
- TVA's 5.25% wholesale rate increase—excluding adjustments made for the cost of fuel—that went into effect October 1, 2024, combined with a higher sales volume, increased TVA revenue by \$690 million from what it otherwise would have been in federal fiscal year 2024-25.

See TACIR's full report at the following link for additional information: <https://www.tn.gov/tacir/tacir-publications.html>.