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 2025 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.
- Seven 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 2024-25 will be $600 million, an increase of $12 million. Tennessee's estimated share increased by $11 million to a total of $405 million. This is primarily the result of TVA's 4.5% wholesale-rate increase in October 2023, the end of pandemic-era credits, and higher sales volume. For the state's 2024-25 fiscal year, allocations through the state's distribution formula will increase by a total of $3.8 million. 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).
- The TVA board approved a new 5.25% wholesale rate increase—excluding adjustments made for changes in the cost of fuel—effective October 1, 2024, which is estimated to produce an additional $495 million of revenue during 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.