

Tennessee Valley Authority  
Form 10-Q  
August 02, 2016  
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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, 2016

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

62-0474417

(State or other jurisdiction of

(IRS Employer Identification No.)

incorporation or organization)

400 W. Summit Hill Drive

Knoxville, Tennessee

37902

(Address of principal executive offices)

(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).

Yes  No

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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 that may be used in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (the “Quarterly Report”):

Term or Acronym	Definition
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income (loss)
ARO	Asset retirement obligation
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
CAIR	Clean Air Interstate Rule
CCP	Coal combustion products
CCR	Coal combustion residual
CME	Chicago Mercantile Exchange
CO <sub>2</sub>	Carbon dioxide
COL	Combined construction and operating license
COLA	Cost-of-living adjustment
CSAPR	Cross-State Air Pollution Rule
CTs	Combustion turbine unit(s)
CVA	Credit valuation adjustment
CY	Calendar year
DCP	Deferred Compensation Plan
DOE	Department of Energy
EPA	Environmental Protection Agency
ESPA	Early Site Permit Application
FASB	Financial Accounting Standards Board
FCM	Futures Commission Merchant
FERC	Federal Energy Regulatory Commission
FTP	Financial Trading Program
GAAP	Accounting principles generally accepted in the United States of America
GAO	Government Accountability Office
GHG	Greenhouse gas
GWh	Gigawatt hour(s)
IRP	Integrated Resource Plan
JSCCG	John Sevier Combined Cycle Generation LLC
kWh	Kilowatt hour(s)
LIBOR	London Interbank Offered Rate
LPC	Local power company customer of TVA
LTDCP	Long-Term Deferred Compensation Plan
MATS	Mercury and Air Toxics Standards
MD&A	Management’s Discussion and Analysis of Financial Condition and Results of Operations
MISO	Midcontinent Independent System Operator, Inc.
mmBtu	Million British thermal unit(s)
MtM	Mark-to-market
MW	Megawatt
NAAQS	National Ambient Air Quality Standards

NAV

Net asset value

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NDT	Nuclear Decommissioning Trust
NEPA	National Environmental Policy Act
NERC	North American Electric Reliability Corporation
NO <sub>x</sub>	Nitrogen oxide
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
OCI	Other comprehensive income (loss)
PM	Particulate matter
QER	Quadrennial Energy Review
QTE	Qualified technological equipment and software
REIT	Real Estate Investment Trust
SACE	Southern Alliance for Clean Energy
SCCG	Southaven Combined Cycle Generation LLC
SCRs	Selective catalytic reduction systems
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
Seven States	Seven States Power Corporation
SHLLC	Southaven Holdco LLC
SMR	Small modular reactor(s)
SO <sub>2</sub>	Sulfur dioxide
SSSL	Seven States Southaven, LLC
TCWN	Tennessee Clean Water Network
TDEC	Tennessee Department of Environment & Conservation
TOU	Time-of-use
TVARs	Tennessee Valley Authority Retirement System
TN Board	Tennessee Board of Water Quality, Oil and Gas
U.S. Treasury	United States Department of the Treasury
VIE	Variable interest entity
XBRL	eXtensible Business Reporting Language

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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, amended, or existing, laws, regulations, or administrative orders, including those related to environmental matters, and the costs of complying with these laws, regulations, and administrative orders;
- The cost of complying with known, anticipated, and new emissions reduction requirements, some of which could render continued operation of many of TVA's aging coal-fired generation units not cost-effective and result in their removal from service, perhaps permanently;
- Actions taken, or inaction, by the U.S. government relating to the national debt ceiling or automatic spending cuts in government programs;
- Costs and liabilities that are not anticipated in TVA's financial statements for third-party claims, natural resource damages, or fines or penalties associated with unexpected events such as failures of a facility or infrastructure as well as for environmental clean-up activities;
- Addition or loss of customers by TVA or the local power company customers of TVA (“LPCs”);
- Significant reductions in demand for electricity which may result from, among other things, economic downturns, increased energy efficiency and conservation, increased utilization of distributed generation, and improvements in alternative generation and energy storage technologies;
- Changes in customer preferences for energy produced from cleaner generation sources;
- Significant delays, cost increases, or cost overruns associated with the construction and maintenance of generation or transmission assets;
- Changes in the timing or amount of pension and health care obligations and related funding;
- Increases in TVA's financial liabilities for decommissioning its nuclear facilities or retiring other assets;
- Physical or cyber attacks on TVA's assets;
- The outcome of legal or administrative proceedings;
- The failure of TVA's generation, transmission, flood control, and related assets, including coal combustion residual (“CCR”) facilities, to operate as anticipated, resulting in lost revenues, damages, and other costs that are not reflected in TVA's financial statements or projections;
  - Differences between estimates of revenues and expenses and actual revenues earned and expenses incurred;
- Weather conditions;
  - Catastrophic events such as fires, earthquakes, explosions, solar events, electromagnetic pulses, geomagnetic disturbances, droughts, 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;
  - Events at a TVA 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 or changes 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 and those that increase flows across TVA's transmission grid;
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Disruption of fuel supplies, which may result from, among other things, economic conditions, 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 which affect the supply of water for TVA's generation facilities;

Changes in TVA's determinations of the appropriate mix of generation assets;

Ineffectiveness of TVA's efforts at adapting its organization to an evolving marketplace and remaining cost competitive;

Inability to obtain, or loss of, regulatory approval for the construction or operation of assets;

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") or Asset Retirement Trust ("ART");

Limitations on TVA's ability to borrow money which may result from, among other things, TVA's approaching or substantially reaching the limit on bonds, notes, and other evidences of indebtedness specified in the Tennessee Valley Authority Act of 1933, as amended;

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, or, potentially, an increased reliance by TVA on alternative financing should TVA approach its debt limit;

Changes in the economy and volatility in financial markets;

Changes in technology;

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;

• Ineffectiveness of TVA's disclosure controls and procedures or its internal control over financial reporting;

• Inability to eliminate identified deficiencies in TVA's systems, standards, controls, or corporate culture;

• Inability to attract or retain a skilled workforce;

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, ownership, operation, and decommissioning of nuclear facilities or on the storage of spent fuel, obligate TVA to pay retrospective insurance premiums, reduce the availability and affordability of insurance, increase the costs of operating TVA's existing nuclear units, and cause TVA to forego future construction at these or other facilities;

• Loss of quorum of the TVA Board of Directors; and

• Other 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, 2015 (the "Annual Report"), and

Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report for a discussion of factors that could cause actual results to differ materially from those in a forward-looking statement. New factors emerge from time to time, and it is not possible for TVA 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 (2016, 2015, 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 Consolidated 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, and Current Reports on Form 8-K for the preceding five years, as well as all amendments to those reports, are available on TVA's web site, free of charge, as soon as reasonably practicable after such reports are 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. All TVA SEC reports are available to the public without charge from the web site maintained by the SEC at [www.sec.gov](http://www.sec.gov).

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30		Nine Months Ended June 30	
	2016	2015	2016	2015
Operating revenues				
Revenue from sales of electricity	\$2,437	\$2,522	\$7,212	\$7,722
Other revenue	42	36	118	110
Total operating revenues	2,479	2,558	7,330	7,832
Operating expenses				
Fuel	463	608	1,427	1,744
Purchased power	201	244	685	736
Operating and maintenance	677	738	2,086	2,083
Depreciation and amortization	451	534	1,377	1,440
Tax equivalents	121	128	372	383
Total operating expenses	1,913	2,252	5,947	6,386
Operating income	566	306	1,383	1,446
Other income (expense), net	9	8	29	25
Interest expense				
Interest expense	343	337	1,015	1,020
Allowance for funds used during construction	(59 )	(55 )	(175 )	(158 )
Net interest expense	284	282	840	862
Net income (loss)	\$291	\$32	\$572	\$609

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

TENNESSEE VALLEY AUTHORITY  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)  
 (in millions)

	Three Months Ended June 30		Nine Months Ended June 30	
	2016	2015	2016	2015
Net income (loss)	\$291	\$32	\$572	\$609
Other comprehensive income (loss)				
Net unrealized gain (loss) on cash flow hedges	(90 )	62	(144 )	(12 )
Reclassification to earnings from cash flow hedges	63	(53 )	109	31
Total other comprehensive income (loss)	\$(27 )	\$9	\$(35 )	\$19
Total comprehensive income (loss)	\$264	\$41	\$537	\$628

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



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CONSOLIDATED BALANCE SHEETS

(in millions)

## ASSETS

	June 30, 2016	September 30, 2015
Current assets	(Unaudited)	
Cash and cash equivalents	\$ 301	\$ 300
Restricted cash and investments	—	15
Accounts receivable, net	1,489	1,600
Inventories, net	1,058	1,031
Regulatory assets	604	506
Other current assets	83	54
Total current assets	3,535	3,506
Property, plant, and equipment		
Completed plant	51,216	50,069
Less accumulated depreciation	(27,240 )	(26,318 )
Net completed plant	23,976	23,751
Construction in progress	7,992	7,147
Nuclear fuel	1,324	1,415
Capital leases	173	94
Total property, plant, and equipment, net	33,465	32,407
Investment funds	2,125	2,011
Regulatory and other long-term assets		
Regulatory assets	10,424	10,418
Other long-term assets	431	403
Total regulatory and other long-term assets	10,855	10,821
Total assets	\$ 49,980	\$ 48,745

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

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