UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13, 15(d), OR 37 OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2008

OR

o 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 incorporation or organization)	(IRS Employer Identification No.)
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 x No o

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 o	Accelerated filer o
Non-accelerated filer x	Smaller reporting company o
(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 o No x

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Explanatory Note

In this Amendment to the Quarterly Report on Form 10-Q/A for the three and six months ended March 31, 2008 ("Form 10-Q/A"), the Tennessee Valley Authority ("TVA") is restating the financial statements for the three and six months ended March 31, 2008, and 2007, primarily to restate revenue associated with an accounting error in the financial statements included in the original Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008 (the "Original 10-Q"). The error was discovered during TVA's review of its unbilled revenue estimation process.

TVA is primarily a wholesale provider of power to distributor customers ("distributors") that resell the power to end users at retail rates. Under TVA's end-use billing arrangements with distributors, TVA relies on distributors to report their end-use sales. Because of the delay between the wholesale delivery of power to the distributor and the report of end-use sales to TVA, TVA must estimate the unbilled revenue at the end of each financial reporting period. In September 2006, TVA implemented a change in methodology for estimating unbilled revenue for electricity sales which resulted in an increase of $232 million in unbilled revenue (2.6 percent of operating revenue) for 2006.

The estimation process implemented in September 2006 utilized the distributors' average rates and an estimate of the number of days of revenue outstanding to reflect the delay in reporting the end-use sales to TVA ("days outstanding"). The number of days outstanding was derived using a procedure similar to a cross-correlation calculation that compared the monthly retail load to the monthly wholesale load. The intent was to reflect in the unbilled estimate the end-use sales that would be reported that month by distributors plus any remaining sales that would not be reported until the following month due to the delay between wholesale delivery and end-use reporting.

TVA has determined that the process implemented in September 2006 overestimated the days outstanding and that this overestimation resulted in an error in recording unbilled revenue and unbilled receivables. The previous unbilled process also failed to consider the annual true-up of each distributor's reported distribution losses. The annual true-up reconciles total end-use kilowatt-hour ("kWh") sales and revenue reported by each distributor with the kWh sales recorded for each distributor at wholesale.

TVA has used a new process for estimating unbilled revenues for the three and six months ended March 31, 2008 and 2007 in this Form 10-Q/A. This process carries over only the portion of sales from the distributor's meter read date to the month-end. Those sales, along with the current month sales, are then priced at rates based on each distributor's customer and product mix. Additionally, the true-up component has been added to the unbilled calculation to reflect any timing differences that occur between the retail and wholesale billing cycles. Due to the new process, an adjustment was made to increase revenue for the three and six months ended March 31, 2008, by $61 million (approximately 2.4 percent of quarterly operating revenues) and $69 million (approximately 1.4 percent of year to date operating revenues), respectively, and to decrease revenue for the three and six months ended March 31, 2007, by $25 million (approximately 1.1 percent of quarterly operating revenues) and $4 million (less than one percent of year to date operating revenues), respectively.

The restatement of unbilled revenue also affected TVA's fuel cost adjustment ("FCA") calculation. The FCA is a mechanism by which TVA collects the direct cost of fuel used in its generating facilities and also the energy costs of purchased power used to serve power demand. Implementation of the FCA occurred in October 2006 as a joint effort between TVA and its customers. The goal of the FCA is timely recovery of fuel-related expenses to reduce the volatility driven by fuel and purchased power markets. Under TVA's FCA methodology, adjustments to rates are based primarily on the difference between forecasted and actual expenses for the upcoming quarter, as well as the difference between forecasted and actual revenues for the upcoming quarter. Because the FCA adjustments are forward-looking, there is typically a difference between what is collected in rates and what actual expense is realized over the course of the quarter. This difference is added to or subtracted from a deferred account on TVA's balance sheet.

The restatement of unbilled revenue changed TVA’s forecasted revenues, and since forecasted revenues are a major component of the FCA calculation, the change in forecasted revenues required a restatement of the amounts in TVA’s deferred FCA account. In the Original 10-Q, TVA reported a FCA deferred balance of $199 million at March 31, 2008, which was restated to a deferred balance of $166 million. Of the $166 million, $21 million is a deferred asset and $145 million is a current receivable.

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The unbilled revenue error also affected the application of distributor prepayments. The balance in the distributors' unbilled accounts receivable is offset by a reduction in the advance collections of those distributors who make prepayments for their power. As a result of the change in unbilled revenue, the balances in the unbilled receivable and advance collections accounts were also adjusted. The adjustment related to distributor prepayments decreased the balance in the receivable and advance collections accounts by less than $1 million as of March 31, 2008.

In light of the need for this restatement, TVA has identified a material weakness in its internal control over financial reporting related to its unbilled revenue calculation, and has concluded that its disclosure controls and procedures were not effective as of March 31, 2008, solely because of this material weakness. To rectify the material weakness, the new method of calculating the unbilled revenue estimate described above was used for periods presented in this Form 10-Q/A. See Part 1, Item 4, Controls and Procedures, for additional information regarding controls and procedures related to this material weakness.

TVA has also included in the appropriate periods in its restated consolidated financial statements other miscellaneous adjustments that were deemed to be not material by management, either individually or in the aggregate, and therefore were corrected in the period in which they were originally identified. These adjustments are described in more detail in Note 2.

The effects of these restatements and miscellaneous adjustments on TVA's consolidated financial statements as of and for the quarters ended March 31, 2008, and 2007, are described in Note 2. The restatements had no impact on TVA's cash or cash equivalents.

For the convenience of the reader, TVA is refiling its entire Quarterly Report on Form 10-Q/A for the three and six months ended March 31, 2008, by means of this Form 10-Q/A. However, except for the information affected by the restatement, TVA has not materially updated the information contained herein for events or transactions occurring subsequent to the date the Original 10-Q was filed with the SEC. TVA recommends that this Form 10-Q/A be read in conjunction with the reports and any amendments thereto TVA has filed with the SEC subsequent to the filing date of the Original 10-Q.

The following items have been amended principally as a result of, and to reflect, the restatement, and no other information in the Original 10-Q is amended hereby as a result of the restatement:

Part I – Item 1 – Financial Statements
Part I – Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations
Part I – Item 4 – Controls and Procedures
Part II – Item 1 – Legal Proceedings

TVA is also filing updated certifications by the Chief Executive Officer and Chief Financial Officer as exhibits to this Form 10-Q/A.

This Form 10-Q/A is not superseding or restating financial statements contained in any current report on Form 8-K filed subsequent to September 30, 2007.

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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,” “proba “potential,” or other similar expressions.

Examples of forward-looking statements include, but are not limited to:

- Statements regarding strategic objectives;
- Projections regarding potential rate actions;
- Estimates of costs of certain asset retirement obligations;
- Estimates regarding power and energy forecasts;
- Expectations about the adequacy of TVA’s funding of its pension plans, nuclear decommissioning trust, and asset retirement trust;
- Estimates regarding the reduction of bonds, notes, and other evidences of indebtedness, lease/leaseback commitments, and power prepayment obligations;
- Estimates of amounts to be reclassified from other comprehensive income to earnings over the next year;
- TVA’s plans to continue using short-term debt to meet current obligations; and
- The anticipated cost and timetable for placing Watts Bar Unit 2 in service.

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 laws, regulations, and administrative orders, especially those related to:
  - TVA’s protected service area,
  - The sole authority of the TVA board of directors to set power rates,
  - Various environmental and nuclear matters including laws, regulations, and administrative orders restricting carbon emissions and preferring certain fuels over others,
  - TVA’s management of the Tennessee River system,
  - TVA’s credit rating, and
  - TVA’s debt ceiling;
- Loss of customers;
- Performance of TVA’s generation and transmission assets;
- Availability of fuel supplies;
- Purchased power price volatility;
- Events at facilities not owned by TVA that affect the supply of water to TVA’s generation facilities;
- Compliance with existing environmental laws and regulations;
- Significant delays or cost overruns in construction of generation and transmission assets;
- Significant changes in demand for electricity;
- Legal and administrative proceedings;
- Weather conditions, including drought;
- Failure of transmission facilities;
- Events at any nuclear facility, even one that is not operated by or licensed to TVA;
- Catastrophic events such as fires, earthquakes, floods, tornadoes, pandemics, wars, terrorist activities, and other similar events, especially if these events occur in or near TVA’s service area;
- Reliability of purchased power providers, fuel suppliers, and other counterparties;

- Changes in the market price of commodities such as coal, uranium, natural gas, fuel oil, electricity, and emission allowances;
- Changes in the prices of equity securities, debt securities, and other investments;
- Changes in interest rates;
- Creditworthiness of TVA, its counterparties, or its customers;
- Rising pension costs and health care expenses;
- Increases in TVA's financial liability for decommissioning its nuclear facilities and retiring other assets;
- Limitations on TVA's ability to borrow money;
- Changes in the economy;

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- Ineffectiveness of TVA's disclosure controls and procedures and its internal control over financial reporting;
- Changes in accounting standards;
- The loss of TVA's ability to use regulatory accounting;
- Problems attracting and retaining skilled workers;
- Changes in technology;
- Changes in the market for TVA securities; and
- Unforeseeable events.

Additionally, other risks that may cause actual results to differ from the predicted results are set forth in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report, in Item 1A, Risk Factors and Item 7, Management's Discussion and Analysis of Financial Conditions and Results of Operations in TVA's Annual Report on Form 10-K, as amended, for the fiscal year ended September 30, 2007 ("Annual Report"), and in other filings TVA makes from time to time with the Securities and Exchange Commission ("SEC"). 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

Unless otherwise indicated, years (2008, 2007, etc.) in this Quarterly Report refer to TVA's fiscal years ended September 30.

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 made 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 SEC. TVA's web site is 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. In addition, the public may read and copy any reports or other information that TVA files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. TVA's SEC reports are also available to the public without charge from the web site maintained by the SEC at www.sec.gov.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TENNESSEE VALLEY AUTHORITY
STATEMENTS OF INCOME (UNAUDITED)
(in millions)

	Three months ended March 31		Six months ended March 31	
	2008 As Restated	2007 As Restated	2008 As Restated	2007 As Restated
Operating revenues				
Sales of electricity				
Municipalities and cooperatives	$ 2,072	$ 1,897	$ 3,985	$ 3,660
Industries directly served	382	301	774	603
Federal agencies and other	33	26	58	51
Other revenue	31	35	61	71
Total operating revenues	2,518	2,259	4,878	4,385
Operating expenses				
Fuel and purchased power	973	831	1,895	1,580
Operating and maintenance	559	566	1,139	1,116
Depreciation, amortization, and accretion	392	369	782	730
Tax equivalents	117	109	237	217
Loss on asset impairment	–	–	–	17
Total operating expenses	2,041	1,875	4,053	3,660
Operating income	477	384	825	725
Other (expense) income, net (Note 1)	(2)	17	1	35
Unrealized gain on derivative contracts, net (Note 1)	–	16	–	31
Interest expense				
Interest on debt and leaseback obligations	340	351	681	699
Amortization of debt discount, issue, and reacquisition costs, net	5	5	10	10
Allowance for funds used during construction and nuclear fuel expenditures	(5)	(50)	(8)	(99)
Net interest expense	340	306	683	610
Net income	$ 135	$ 111	$ 143	$ 181

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

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TENNESSEE VALLEY AUTHORITY
BALANCE SHEETS
(in millions)

ASSETS	March 31 2008	September 30 2007
	As Restated	
Current assets	(Unaudited)	
Cash and cash equivalents	$ 760	$ 165
Restricted cash and investments (Note 1)	90	150
Accounts receivable, net (Note 1)	1,195	1,458
Inventories and other	771	663
Total current assets	2,816	2,436
Property, plant, and equipment		
Completed plant	39,152	38,811
Less accumulated depreciation	(16,441)	(15,937)
Net completed plant	22,711	22,874
Construction in progress	1,513	1,286
Nuclear fuel and capital leases	736	672
Total property, plant, and equipment, net	24,960	24,832
Investment funds	1,054	1,169
Regulatory and other long-term assets (Note 1)		
Deferred nuclear generating units	2,934	3,130
Other regulatory assets	2,115	1,790
Subtotal	5,049	4,920
Other long-term assets	817	375
Total regulatory and other long-term assets	5,866	5,295
Total assets	$ 34,696	$ 33,732
LIABILITIES AND PROPRIETARY CAPITAL		
Current liabilities		
Accounts payable and accrued liabilities	$ 899	$ 1,205
Collateral funds held	115	157
Accrued interest	427	406
Current portion of leaseback obligations	41	43
Current portion of energy prepayment obligations	106	106
Short-term debt, net	568	1,422
Current maturities of long-term debt (Note 4)	2,631	90
Total current liabilities	4,787	3,429
Other liabilities		
Other liabilities	2,256	2,067

Regulatory liabilities (Note 1)		648		83
Asset retirement obligations		2,249		2,189
Leaseback obligations		1,000		1,029
Energy prepayment obligations (Note 1)		980		1,032
Total other liabilities		7,133		6,400
Long-term debt, net (Note 4)		19,897		21,099
Total liabilities		31,817		30,928
Commitments and contingencies				
Proprietary capital				
Appropriation investment		4,733		4,743
Retained earnings		1,900		1,763
Accumulated other comprehensive loss (Note 3)		(67)		(19)
Accumulated net expense of stewardship programs		(3,687)		(3,683)
Total proprietary capital		2,879		2,804
Total liabilities and proprietary capital	$	34,696	$	33,732

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 six months ended March 31
(in millions)

	2008 As Restated	2007 As Restated
Cash flows from operating activities		
Net income	$ 143	$ 181
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization, and accretion	792	740
Nuclear refueling outage amortization	50	39
Loss on asset impairment	–	18
Amortization of nuclear fuel	88	59
Non-cash retirement benefit expense	71	101
Net unrealized gain on derivative contracts	–	(31)
Prepayment credits applied to revenue	(53)	(53)
Fuel cost adjustment deferral	(15)	(27)
Other, net	20	(9)
Changes in current assets and liabilities		
Accounts receivable, net	278	213
Inventories and other	(55)	(110)
Accounts payable and accrued liabilities	(253)	11
Accrued interest	21	9
Pension contributions	(37)	(37)
Refueling outage costs	(85)	(77)
Other, net	(6)	26
Net cash provided by operating activities	959	1,053
Cash flows from investing activities		
Construction expenditures	(686)	(811)
Combustion turbine asset acquisitions	–	(98)
Nuclear fuel expenditures	(195)	(92)
Change in restricted cash and investments	43	4
Proceeds of investments, net	2	2
Loans and other receivables		
Advances	(4)	(4)
Repayments	6	8
Proceeds from sale of receivables/loans	–	2
Other, net	–	1
Net cash used in investing activities	(834)	(988)
Cash flows from financing activities		
Long-term debt		
Issues	1,602	28
Redemptions and repurchases	(214)	(464)
Short-term debt, net	(854)	262
Payments on leaseback financing	(24)	(18)
Payments on equipment financing	(7)	(7)

Financing costs, net		(13)		–
Payments to U.S. Treasury		(20)		(20)
Net cash provided by (used in) financing activities		470		(219)
Net change in cash and cash equivalents		595		(154)
Cash and cash equivalents at beginning of period		165		536
Cash and cash equivalents at end of period	$	760	$	382

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

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TENNESSEE VALLEY AUTHORITY
STATEMENTS OF CHANGES IN PROPRIETARY CAPITAL
(in millions)
For the three months ended March 31, 2008 and 2007

	Appropriation Investment	Retained Earnings(Restated)	Accumulated Other Comprehensive Income (Loss)	Accumulated Net Expense of Stewardship Programs	Total(Restated)	Comprehensive Income (Loss)
Balance at December 31, 2006 (as restated) (unaudited)	$ 4,758	$ 1,416	$ 28	$ (3,674)	$ 2,528	
Net income (loss) (as restated)	–	113	–	(2)	111	$ 111
Return on Power Facility Appropriation Investment	–	(5)	–	–	(5)	–
Accumulated other comprehensive loss (Note 3)	–	–	(22)	–	(22)	(22)
Return of Power Facility Appropriation Investment	(5)	–	–	–	(5)	–
Balance at March 31, 2007 (as restated) (unaudited)	$ 4,753	$ 1,524	$ 6	$ (3,676)	$ 2,607	$ 89
Balance at December 31, 2007 (as restated) (unaudited)	$ 4,738	$ 1,768	$ (23)	$ (3,685)	$ 2,798	
Net income (loss) (as restated)	–	137	–	(2)	135	$ 135
Return on Power Facility Appropriation Investment	–	(5)	–	–	(5)	–
Accumulated other comprehensive loss (Note 3)	–	–	(44)	–	(44)	(44)
Return of Power Facility Appropriation Investment	(5)	–	–	–	(5)	–
Balance at March 31, 2008 (as restated) (unaudited)	$ 4,733	$ 1,900	$ (67)	$ (3,687)	$ 2,879	$ 91

For the six months ended March 31, 2008 and 2007

	Appropriation Investment	Retained Earnings(Restated)	Accumulated Other Comprehensive	Accumulated Net Expenseof	Total(Restated)	Comprehensive Income (Loss)

			Income (Loss)	Stewardship Programs		
Balance at September 30, 2006 (as restated)	$ 4,763	$ 1,349	$ 43	$ (3,672)	$ 2,483	
Net income (loss) (as restated)	–	185	–	(4)	181	$ 181
Return on Power Facility Appropriation Investment	–	(10)	–	–	(10)	–
Accumulated other comprehensive loss (Note 3)	–	–	(37)	–	(37)	(37)
Return of Power Facility Appropriation Investment	(10)	–	–	–	(10)	–
Balance at March 31, 2007 (as restated) (unaudited)	$ 4,753	$ 1,524	$ 6	$ (3,676)	$ 2,607	$ 144
Balance at September 30, 2007 (as restated)	$ 4,743	$ 1,763	$ (19)	$ (3,683)	$ 2,804	
Net income (loss) (as restated)	–	147	–	(4)	143	$ 143
Return on Power Facility Appropriation Investment	–	(10)	–	–	(10)	–
Accumulated other comprehensive loss (Note 3)	–	–	(48)	–	(48)	(48)
Return of Power Facility Appropriation Investment	(10)	–	–	–	(10)	–
Balance at March 31, 2008 (as restated) (unaudited)	$ 4,733	$ 1,900	$ (67)	$ (3,687)	$ 2,879	$ 95

The accompanying Notes are an integral part of these financial statements

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(Dollars in millions except where noted)

1. Summary of Significant Accounting Policies

General

The Tennessee Valley Authority ("TVA") is a wholly-owned corporate agency and instrumentality of the United States. TVA was created by the U.S. Congress in 1933 by virtue of the Tennessee Valley Authority Act of 1933, as amended, 16 U.S.C. §§ 831-831ee (as amended, the "TVA Act"). TVA was created to improve navigation on the Tennessee River, reduce flood damage, provide agricultural and industrial development, and provide electric power to the Tennessee Valley region. TVA manages the Tennessee River and its tributaries for multiple river-system purposes, such as navigation; flood damage reduction; power generation; environmental stewardship; shoreline use; and water supply for power plant operations, consumer use, recreation, and industry.

Substantially all TVA revenues and assets are attributable to the power program. TVA provides power in most of Tennessee, northern Alabama, northeastern Mississippi, and southwestern Kentucky, and in portions of northern Georgia, western North Carolina, and southwestern Virginia to a population of approximately 8.8 million people. The power program has historically been separate and distinct from the stewardship programs. The power program is required to be self-supporting from power revenues and proceeds from power financings, such as proceeds from the issuance of bonds, notes, and other evidences of indebtedness ("Bonds"). Although TVA does not currently receive congressional appropriations, it is required to make annual payments to the U.S. Treasury in repayment of, and as a return on, the government's appropriation investment in TVA power facilities (the "Power Facility Appropriation Investment"). Before 2000, most of the funding for TVA's stewardship programs was provided by congressional appropriations. These programs are now funded with power revenues except for certain stewardship activities that generate various revenues and user fees. These activities related to stewardship properties do not meet the criteria of an operating segment pursuant to Statement of Financial Accounting Standard ("SFAS") No. 131, "Disclosures About Segments of an Enterprise and Related Information." Accordingly, stewardship assets and properties are included as part of the power program, TVA's only operating segment.

Power rates are established by the TVA board of directors ("TVA Board") as authorized by the TVA Act. The TVA Act requires TVA to charge rates for power that will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states and counties in lieu of taxes ("tax equivalent payments"); debt service on outstanding indebtedness; payments to the U.S. Treasury in repayment of and as a return on the Power Facility Appropriation Investment; and such additional margin as the TVA Board may consider desirable for investment in power system assets, retirement of outstanding Bonds in advance of maturity, additional reduction of the Power Facility Appropriation Investment, and other purposes connected with TVA's power business. In setting TVA's rates, the TVA Board is charged by the TVA Act to have due regard for the primary objectives of the TVA Act, including the objective that power shall be sold at rates as low as are feasible. Rates set by the TVA Board are not subject to the prior approval of or subsequent review by any state or federal regulatory body.

Basis of Presentation

TVA prepares its interim financial statements in conformity with generally accepted accounting principles ("GAAP") accepted in the United States for interim financial information. Accordingly, TVA's interim financial statements do not include all of the information and notes required by GAAP for complete financial statements. Because the accompanying interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements, they should be read in conjunction with the audited financial statements for the year

ended September 30, 2007, and the notes thereto, which are contained in TVA's Annual Report on Form 10-K/A No. 2, as amended, for the fiscal year ended September 30, 2007 ("Annual Report").

The amounts included in the accompanying interim financial statements are unaudited but, in the opinion of TVA management, reflect all adjustments, which consist solely of normal recurring adjustments, necessary to fairly present TVA's financial position and results of operations for the interim periods. Due to seasonal weather variations and the timing of planned maintenance and refueling outages of electric generating units, the results of operations for interim periods are not necessarily indicative of amounts expected for the entire year.

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Use of Estimates

In preparing financial statements that conform to GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses reflected during the reporting period. Actual results could differ from those estimates.

Fiscal Year

TVA's fiscal year ends September 30. Unless otherwise indicated, years (2008, 2007, etc.) refer to TVA's fiscal years.

Restricted Cash and Investments

As of March 31, 2008, and September 30, 2007, TVA had $90 million and $150 million, respectively, in Restricted cash and investments on its Balance Sheets primarily related to collateral posted with TVA by a swap counterparty in accordance with certain credit terms included in the swap agreement. This resulted in the funds being reported in Restricted cash and investments.

Accounts Receivable

Accounts receivable primarily consist of amounts due from customers for power sales. The table below summarizes the types and amounts of receivables.

Accounts Receivable

	At March 31 2008 As Restated	At September 30 2007
Power receivables billed	$ 246	$ 316
Power receivables unbilled	781	986
Fuel cost adjustment-current	145	132
Total power receivables	1,172	1,434
Other receivables	25	26
Allowance for uncollectible accounts	(2)	(2)
Net accounts receivable	$ 1,195	$ 1,458

Cost-Based Regulation

Regulatory assets and regulatory liabilities are classified under the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS No. 71"), and are included in Accounts receivable, net, Deferred nuclear generating units, Other regulatory assets, and Regulatory liabilities and as an offset to Property, plant, and equipment on the March 31, 2008, and September 30, 2007, Balance Sheets.

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TVA's regulatory assets and liabilities are summarized in the table below.

TVA Regulatory Assets and Liabilities

	At March 31 2008 As Restated		At September 30 2007	
Regulatory Assets:				
Unfunded benefit costs	$	929	$	973
Nuclear decommissioning costs		577		419
Debt reacquisition costs		200		210
Deferred losses relating to TVA's financial trading program		–		8
Deferred outage costs		131		96
Deferred capital lease asset costs		58		66
Unrealized losses on certain swap and swaption contracts		199		–
Fuel cost adjustments: long-term		21		18
Subtotal		2,115		1,790
Deferred nuclear generating units		2,934		3,130
Subtotal		5,049		4,920
Fuel cost adjustment receivable: short-term		145		132
Total	$	5,194	$	5,052
Regulatory Liabilities:				
Unrealized gains on coal purchase contracts	$	540	$	16
Capital lease liabilities		58		67
Deferred gains relating to TVA's financial trading program		50		–
Subtotal		648		83
Reserve for future generation		72		74
Total	$	720	$	157

In the first quarter of 2008, TVA began using regulatory accounting treatment to defer the unrealized mark-to-market gains and losses on certain swap and swaption contracts to reflect that the gain or loss is included in the ratemaking formula when these transactions actually settle. The value of the swap and swaptions is still recorded on TVA's balance sheet with realized gains or losses on these contracts recorded in TVA's income statement. The deferred unrealized loss on the value of the swaps and swaptions was $199 million for the first two quarters of 2008 and is included as a Regulatory asset on the March 31, 2008, Balance Sheet. See Swaps and Swaptions in this Note 1.

On February 8, 2008, TVA finalized an agreement to purchase the Office of Power Complex (the major portion of TVA's Chattanooga Office Complex in Chattanooga, Tennessee) upon the expiration of the existing lease term on January 1, 2011. The purchase price is $22 million, payable on January 3, 2011. In accordance with Financial

Accounting Standards Board ("FASB") Interpretation ("FIN") No. 26, "Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease—an interpretation of FASB Statement No. 13," TVA increased the basis of the capital lease asset by $14 million, increased the capital lease regulatory asset by $1 million, and increased the capital lease obligation by $15 million.

TVA established a reserve for future generation funded by power customers which is also classified as a regulatory liability. Because of the nature of the reserve, it is considered as an offset to Property, plant, and equipment on the March 31, 2008, and September 30, 2007, Balance Sheets.

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Reserve for Future Generation

During the first quarter of 2007, TVA began collecting in rates amounts intended to fund future generation based on the need for additional generating capacity in TVA's service area. Because these amounts were intended to fund future costs, they were originally deferred as a regulatory liability. The funds were based on a predetermined rate applied to electricity sales approved as part of TVA's 2007 budget. Collections for the three months and six months ended March 31, 2007, amounted to $13 million and $21 million, respectively. Total collections for the year ended September 30, 2007, amounted to $76 million. These amounts were recorded as a regulatory liability on the March 31, 2007, and September 30, 2007, Balance Sheets, respectively, as a component of Completed plant.

Following the purchase of two combustion turbine facilities, these funds were applied as credits to Completed plant and are reflected on the September 30, 2007, Balance Sheet. The funds collected for future generation are being amortized to revenue in order to match revenue with the corresponding depreciation expense of the facilities on the Statement of Income. This revenue recognition process began when the facilities were placed into service. The reserve for future generation was not extended beyond 2007. The balance of the reserve for future generation was $72 million at March 31, 2008, and $74 million at September 30, 2007. TVA recognized revenue of $1 million during both the first and second quarters of 2008 consistent with the manner in which the related assets are being depreciated.

Energy Prepayment Obligations

Prior to 2005, TVA entered into sales agreements with 36 customers for 54.5 discounted energy units totaling $54.5 million. Total credits applied to power billings on a cumulative basis from these arrangements through March 31, 2008, exceeded $28.6 million. Of this amount, over $1 million was recognized as revenue for each of the six month periods ended March 31, 2008, and 2007.

In November 2003, TVA, Memphis Light, Gas, and Water Division ("MLGW"), and the City of Memphis entered into agreements whereby MLGW prepaid a portion of its power requirements for 15 years. The amount of the prepayment was $1.5 billion. The prepayment credits are being applied to reduce MLGW's monthly power bill on a straight-line basis over the same 15-year period. Total credits applied to power billings on a cumulative basis through March 31, 2008, exceeded $440 million. Of this amount, $25 million was recognized as revenue for each of the six month periods ended March 31, 2008, and 2007. These amounts were based on the ratio of kilowatt-hours of electricity delivered to the total kilowatt-hours under contract.

At March 31, 2008, and September 30, 2007, obligations for these energy prepayments were $1,086 million and $1,138 million, respectively. These amounts are included in Energy prepayment obligations and Current portion of energy prepayment obligations on the March 31, 2008, and September 30, 2007, Balance Sheets.

Asset Retirement Obligations

In accordance with the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations," TVA recognizes the fair value of legal obligations associated with the retirement of certain tangible long-lived assets. The fair value of the liability is added to the book value of the associated asset. The liability increases due to the passage of time (accretion expense), based on the time value of money, until the obligations settle. Subsequent to the initial recognition, the future liability is adjusted for any periodic revisions to the expected cost of the retirement obligation (changes in estimates to future cash flows) and for accretion of the liability due to the passage of time.

During the second quarter of 2008, TVA's total asset retirement obligation ("ARO") increased $30 million due to accretion expense. The nuclear accretion expense of $23 million was deferred and charged to a regulatory asset in accordance with SFAS No. 71. The remaining accretion expense of $7 million, related to coal-fired and gas/oil

combustion turbine plants, asbestos, and polychlorinated biphenyls ("PCBs"), was expensed during the second quarter of 2008. During the second quarter of 2007, TVA's total ARO increased $105 million. The increase was comprised of $83 million in new AROs plus $22 million in ARO expense (accretion of the liability).

During the first six months of 2008, TVA's total ARO increased $60 million due to accretion expense, $46 million related to nuclear ARO accretion and $14 million related to non-nuclear ARO accretion. For the first six months of 2007, TVA's total ARO increased $127 million. The increase was comprised of $83 million in new AROs plus $44 million in ARO expense (accretion of the liability).

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Reconciliation of Asset Retirement Obligation Liability

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
Balance at beginning of period	$ 2,219	$ 2,007	$ 2,189	$ 1,985
Changes in nuclear estimates to future cash flows	–	82	–	82
Non-nuclear additional obligations	–	1	–	1
	–	83	–	83
Add: ARO (accretion) expense				
Nuclear accretion (recorded as a regulatory asset)	23	15	46	30
Non-nuclear accretion (charged to expense)	7	7	14	14
	30	22	60	44
Balance at end of period	$ 2,249	$ 2,112	$ 2,249	$ 2,112

Other (Expense) Income, Net

Other (expense) income, net is comprised of the following:

Other (Expense) Income, Net

	Three Months Ended March 31		Six Months Ended March 31	
	2008	2007	2008	2007
	As Restated	As Restated	As Restated	As Restated
Interest income	$ 5	$ 9	$ 10	$ 20
External services	4	2	5	7
Unrealized (losses) gains on investments	(11)	–	(23)	1
Claims settlement	–	–	8	–
Miscellaneous	–	6	1	7
Total other (expense) income, net	$ (2)	$ 17	$ 1	$ 35

Allowance for Funds Used During Construction

TVA capitalizes interest as an allowance for funds used during construction ("AFUDC"), based on the average interest rate of TVA's outstanding debt. The allowance is applicable to construction in progress related to certain projects and certain nuclear fuel inventories. TVA will continue to capitalize a portion of current interest costs associated with funds invested in most nuclear fuel inventories, but interest on funds invested in construction projects will be capitalized beginning in 2008 only if (1) the expected total cost of a project is $1 billion or more and (2) the estimated construction period is at least three years in duration. The adoption of this new criteria has greatly reduced the number of qualifying projects, which was approximately 800 at September 30, 2007. During the first six months of 2008, only one project — Watts Bar Nuclear Plant Unit 2 — met the new AFUDC criteria. The project base for the year ending September 30, 2007, averaged approximately $2.7 billion. By contrast, the project base for the six months ending March 31, 2008, averaged approximately $26 million.

Swaps and Swaptions

From time to time TVA has entered into call monetization transactions using swaptions to hedge the value of call provisions on certain of its Bond issues. A swaption essentially grants a third party an option to enter into a swap agreement with TVA under which TVA receives a floating rate of interest and pays the third party a fixed rate of interest equal to the interest rate on the Bond issue whose call provision TVA monetized.

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These call monetization transactions result in long-term liabilities until such time as TVA repurchases the option or until the option matures. These liabilities are marked to market each quarter. In accordance with the accounting policy that was in effect on September 30, 2007, the changes in the value of these liabilities were reported as unrealized gains or losses through TVA's income statement in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). The volatility of the valuations resulted in the recognition of sizable amounts of non-cash expense or income, which affected net income.

The TVA Board approved, beginning in 2008, the utilization of regulatory accounting treatment for swaps and swaptions related to call monetization transactions in order to better match the income statement recognition of gain and loss with the economic reality of when these transactions actually settle. This treatment removes the non-cash impacts to TVA's earnings that result from marking the value of these instruments to market each quarter. The value of the swaps and swaptions will still be recorded on TVA's balance sheet, and any interest expense impacts will continue to be reflected in TVA's income statement. The deferred unrealized loss on the value of the swaps and swaptions was $100 million and $199 million for the second quarter and first six months of 2008, respectively. The deferred loss of $199 million is included as a Regulatory asset on the March 31, 2008, Balance Sheet.

Impact of New Accounting Standards and Interpretations

Accounting for Defined Benefit Pension and Other Postretirement Plans. On September 30, 2007, TVA adopted the provisions contained within SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires employers to fully recognize within their financial statements the obligations associated with single-employer defined benefit pension, retiree healthcare, and other postretirement plans. Specifically, SFAS No. 158 requires an employer to recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Such changes are to be reported within comprehensive income of a business entity (except that regulated entities may report such changes as regulatory assets and/or liabilities in accordance with the provisions of SFAS No. 71), and within changes in net assets of a not-for-profit organization.

TVA's 2007 adoption of SFAS No. 158 resulted in the recognition of the following amounts on its Balance Sheet at September 30, 2007: additional regulatory assets of $475 million (including the reclassification of $246 million in unamortized prior service cost previously classified as intangible assets) resulting in post-SFAS No. 158 benefit regulatory assets of $973 million; and additional pension and postretirement obligations of $330 million and $143 million, and $2 million classified as accumulated other comprehensive gain, resulting in post-SFAS No. 158 benefit obligations of $1,128 million. The recognition of such amounts increased total assets and liabilities by $475 million at September 30, 2007.

Fair Value Measurements. In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities that currently require fair value measurement. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. SFAS No. 157 establishes a fair value hierarchy that prioritizes the information used to develop measurement assumptions. Provisions of SFAS No. 157 were to be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. However, in February 2008, the FASB issued FASB Staff Position ("FSP") FAS 157-2, "Effective Date of

FASB Statement No. 157" which delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. This FSP defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. TVA is currently evaluating the requirements of SFAS No. 157 and has not yet determined the impact of its implementation, which may or may not be material to TVA's results of operations or financial position.

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Fair Value Option. In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option established by SFAS No.159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Most of the provisions in SFAS No. 159 are elective. The provisions of SFAS No. 159 are effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and elects to apply the provisions of SFAS No. 157. At this time, TVA is evaluating the requirements of SFAS No. 159 and has not yet determined the potential impact of its implementation, which may or may not be material to TVA's results of operations or financial position.

Offsetting Amounts. On April 30, 2007, FASB issued FSP FIN No. 39-1, "Amendment of FASB Interpretation No. 39" ("FIN No. 39-1"), which addresses certain modifications to FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts." FIN No. 39-1 replaces the terms "conditional contracts" and "exchange contracts" with the term "derivative instruments" as defined in SFAS No. 133. FIN No. 39-1 also permits a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. The guidance in FIN No. 39-1 is effective for fiscal years beginning after November 15, 2007, with early application permitted. At this time, TVA is evaluating the requirements of FIN No. 39-1 and has not yet determined the potential impact of its implementation, which may or may not be material to TVA's financial position.

Derivative Instruments and Hedging Activities. In March 2008, FASB issued SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133" ("SFAS No. 161"), which establishes, among other things, the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133. TVA currently includes many of the disclosures now required by SFAS No. 161 but does not plan to early adopt the requirements of the new standard. The effective date of adoption for TVA is the second quarter of 2009.

2. Restatement

The accompanying financial statements as of March 31, 2008 and 2007, and September 30, 2007, have been restated. TVA determined that the method implemented to estimate unbilled revenues in September 2006 had resulted in errors in unbilled revenue presented in TVA's financial statements for the fiscal years ended September 30, 2006, and 2007, and the quarterly periods ended December 31, 2006, March 31, 2007, June 30, 2007, December 31, 2007, and March 31, 2008. There was no effect on periods prior to the three months ended September 30, 2006.

Under TVA's end-use billing arrangements with its distributors, TVA relies on the distributors to report their end-use sales. Because of the delay between the wholesale delivery of power to the customer and the report of end-use sales to TVA, TVA must estimate the unbilled revenue at the end of each financial reporting period. In September 2006, TVA implemented a change in methodology for estimating unbilled revenue for electricity sales which resulted in an increase of $232 million in unbilled revenue (or 2.6 percent of operating revenues) for 2006.