

Tennessee Valley Authority
Form 10-Q
August 03, 2012
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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, 2012

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
(State or other jurisdiction of incorporation or organization)

62-0474417

(IRS Employer Identification No.)

400 W. Summit Hill Drive

Knoxville, Tennessee

(Address of principal executive offices)

(865) 632-2101

(Registrant's telephone number, including area code)

37902

(Zip 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 frequently used in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (the “Quarterly Report”):

Term or Acronym	Definition
AFUDC	Allowance for funds used during construction
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
CCOLA	Combined construction and operating license application
CCR	Coal combustion residual
CME	Chicago Mercantile Exchange
CO ₂	Carbon dioxide
COLA	Cost of living adjustment
CSAPR	Cross State Air Pollution Rule
CTs	Combustion turbine unit(s)
CVA	Credit valuation adjustment
CY	Calendar year
EPA	Environmental Protection Agency
FASB	Financial Accounting Standards Board
FTP	Financial Trading Program
GAAP	Accounting principles generally accepted in the United States of America
GAO	U.S. Government Accountability Office
GHG	Greenhouse gas
JSCCG	John Sevier Combined Cycle Generation LLC
kWh	Kilowatt hour(s)
LIBOR	London Interbank Offer Rate
MD&A	Management’s Discussion and Analysis of Financial Condition and Results of Operations
mmBtu	Million British thermal unit(s)
MtM	Mark-to-market
MW	Megawatt
NAV	Net asset values
NDT	Nuclear Decommissioning Trust
NEPA	National Environmental Policy Act
NO _x	Nitrogen oxides
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NSPS	New Source Performance Standards
OCI	Other Comprehensive Income (Loss)
PM	Particulate matter
QTE	Qualified technological equipment and software
REIT	Real Estate Investment Trust
SACE	Southern Alliance for Clean Energy
SEC	Securities and Exchange Commission

SERP
Seven States

Supplemental Executive Retirement Plan
Seven States Power Corporation

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SO ₂	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
TWQCB	Tennessee Water Quality Control Board
USEC	United States Enrichment Corporation, or its parent company, USEC, Inc.
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 or changed laws, regulations, and administrative orders, including those related to environmental matters, and the costs of complying with these new or changed laws, regulations, and administrative orders, as well as complying with existing laws, regulations, and administrative orders;
- 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”);
- Events at a TVA nuclear 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 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, 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, negatively affect the cost and schedule for completing Watts Bar Nuclear Plant (“Watts Bar”) Unit 2 and Bellefonte Nuclear Plant (“Bellefonte”) Unit 1, or cause TVA to forego future construction at these or other facilities;
- Significant delays, cost increases, or cost overruns associated with the construction of generation or transmission assets;
- Settlements, natural resource damages, fines and penalties associated with the Kingston Fossil Plant (“Kingston”) ash spill;
- The outcome of legal and administrative proceedings;
- Significant changes in demand for electricity;
- Addition or loss of customers;
- The continued operation, performance, or failure of TVA's generation, transmission, flood control, and related assets, including coal combustion residual (“CCR”) facilities;
- Modernizing aging coal-fired generating units and installing emission control equipment to meet existing and anticipated emissions reduction requirements which could render continued operation of many of these units not cost-effective and result in their removal from service, perhaps permanently;
- Disruption of fuel supplies, which may result from, among other things, 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 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, as well as inadequacies in the supply of water to TVA's generation facilities;
- Inability to obtain regulatory approval for the construction or operation of assets;
- Weather conditions;
- Catastrophic events such as fires, earthquakes, solar events, 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;

Restrictions on TVA's ability to use or manage real property currently under its control;

Reliability and creditworthiness of counterparties;

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;

- Rising pension and health care costs;

Increases in TVA's financial liability for decommissioning its nuclear facilities and retiring other assets;

Limitations on TVA's ability to borrow money which may result from, among other things, TVA's approaching or reaching its debt ceiling and changes in TVA's borrowing authority;

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, and an increased reliance by TVA on alternative financing arrangements as TVA approaches its debt ceiling;

Changes in the economy and volatility in financial markets;

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

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

Problems attracting and retaining a qualified workforce;

Changes in technology;

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• Failure of TVA's assets to operate as planned and the failure of TVA's cyber security program to protect TVA's assets from cyber attacks;
• Differences between estimates of revenues and expenses and actual revenues earned and expenses incurred; and
• 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, 2011 (the "Annual Report") and Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report. 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

References to years (2012, 2011, 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, Current Reports on Form 8-K, and all amendments to those reports are 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 Securities and Exchange Commission ("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. TVA's SEC reports are also available to the public without charge from the web site maintained by the SEC at www.sec.gov. In addition, the public may read and copy any reports or other information that TVA files with or furnishes to the SEC at the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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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	
	2012	2011	2012	2011
Operating revenues				
Sales of electricity	\$2,741	\$2,628	\$7,850	\$8,362
Other revenue	36	29	99	91
Total operating revenues	2,777	2,657	7,949	8,453
Operating expenses				
Fuel	683	584	1,847	2,071
Purchased power	277	387	925	1,026
Operating and maintenance	882	994	2,625	2,677
Depreciation and amortization	505	436	1,439	1,296
Tax equivalents	152	174	452	464
Total operating expenses	2,499	2,575	7,288	7,534
Operating income	278	82	661	919
Other income (expense), net	21	4	16	25
Interest expense				
Interest expense	366	358	1,092	1,072
Allowance for funds used during construction and nuclear fuel expenditures	(44	) (32	) (125	) (93
Net interest expense	322	326	967	979
Net income (loss)	\$(23	) \$(240	) \$(290	) \$(35

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

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CONSOLIDATED BALANCE SHEETS

(in millions)

ASSETS

	June 30, 2012 (Unaudited)	September 30, 2011
Current assets		
Cash and cash equivalents	\$247	\$507
Restricted cash of variable interest entity	30	—
Restricted cash and investments	11	11
Accounts receivable, net	1,636	1,739
Inventories, net	1,145	1,028
Regulatory assets	854	543
Other current assets	129	215
Total current assets	4,052	4,043
Property, plant, and equipment		
Completed plant	45,684	44,187
Less accumulated depreciation	(21,772)	) (20,643)
Net completed plant	23,912	23,544
Construction in progress	4,486	4,662
Nuclear fuel	1,134	1,073
Capital leases	44	26
Total property, plant, and equipment, net	29,576	29,305
Investment funds	1,345	1,168
Regulatory and other long-term assets		
Regulatory assets	11,403	11,505
Other long-term assets	449	372
Total regulatory and other long-term assets	11,852	11,877
Total assets	\$46,825	\$46,393

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

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CONSOLIDATED BALANCE SHEETS

(in millions)

LIABILITIES AND PROPRIETARY CAPITAL

	June 30, 2012 (Unaudited)	September 30, 2011
Current liabilities		
Accounts payable and accrued liabilities	\$1,785	\$1,840
Environmental cleanup costs - Kingston ash spill	117	182
Accrued interest	340	403
Current portion of leaseback obligations	448	80
Current portion of energy prepayment obligations	103	105
Regulatory liabilities	168	280
Short-term debt, net	2,530	482
Current maturities of power bonds	1,395	1,537
Current maturities of long-term debt of variable interest entities	12	—
Total current liabilities	6,898	4,909
Other liabilities		
Post-retirement and post-employment benefit obligations	6,156	6,007
Asset retirement obligations	3,254	3,138
Other long-term liabilities	2,819	2,405
Leaseback obligations	762	1,202
Energy prepayment obligations	535	612
Environmental cleanup costs - Kingston ash spill	173	194
Regulatory liabilities	113	285
Total other liabilities	13,812	13,843
Long-term debt, net		
Long-term power bonds, net	20,189	22,412
Long-term debt of variable interest entities	988	—
Total long-term debt, net	21,177	22,412
Total liabilities	41,887	41,164
Proprietary capital		
Power program appropriation investment	293	308
Power program retained earnings	4,141	4,429
Total power program proprietary capital	4,434	4,737
Nonpower programs appropriation investment, net	622	630
Accumulated other comprehensive income (loss)	(118)	(138)
Total proprietary capital	4,938	5,229
Total liabilities and proprietary capital	\$46,825	\$46,393

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

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TENNESSEE VALLEY AUTHORITY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
For the nine months ended June 30
(in millions)

	2012	2011	
Cash flows from operating activities			
Net income (loss)	\$(290)	) \$(35))
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization (including amortization of debt issuance costs and premiums/discounts)	1,457	1,311	
Nuclear refueling outage amortization cost	—	38	
Amortization of nuclear fuel cost	195	158	
Non-cash retirement benefit expense	456	349	
Prepayment credits applied to revenue	(79)	) (79))
Fuel cost adjustment deferral	(12)	) 7	
Fuel cost tax equivalents	28	75	
Environmental cleanup costs – Kingston ash spill – non cash	55	57	
Changes in current assets and liabilities			
Accounts receivable, net	103	100	
Inventories and other, net	(136)	) (92))
Margin cash collateral, net	(318)	) (24))
Accounts payable and accrued liabilities	(137)	) 19	
Accrued interest	(63)	) (73))
Environmental cleanup costs – Kingston ash spill, net	(81)	) (74))
Preconstruction costs	—	(96))
Other, net	74	62	
Net cash provided by operating activities	1,252	1,703	
Cash flows from investing activities			
Construction expenditures	(1,617)	) (1,678))
Nuclear fuel expenditures	(264)	) (184))
Loans and other receivables			
Advances	(2)	) (26))
Repayments	9	9	
Other, net	7	(1))
Net cash used in investing activities	(1,867)	) (1,880))
Cash flows from financing activities			
Long-term debt			
Issues of power bonds	135	1,582	
Issues of variable interest entities	1,000	—	
Redemptions and repurchases of power bonds	(2,690)	) (1,020))
Short-term debt issues (redemptions), net	2,047	(27))
Proceeds from leasebacks	—	5	
Payments on leases and leasebacks	(75)	) (109))
Proceeds from call monetization	60	—	
Financing costs, net	(72)	) (19))
Change in restricted cash of variable interest entity	(30)) —	
Payments to U.S. Treasury	(21)) (20))
Other, net	1	(1))

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Net cash provided by financing activities	355	391
Net change in cash and cash equivalents	(260) 214
Cash and cash equivalents at beginning of period	507	328
Cash and cash equivalents at end of period	\$247	\$542

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

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TENNESSEE VALLEY AUTHORITY
CONSOLIDATED STATEMENTS OF CHANGES IN PROPRIETARY CAPITAL (Unaudited)
For the three months ended June 30, 2012, and 2011
(in millions)

	Power Program Appropriation Investment	Power Program Retained Earnings	Nonpower Programs Appropriation Investment, Net	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income (Loss)
Balance at March 31, 2011 (unaudited)	\$318	\$4,470	\$635	\$(52)	\$5,371	
Net income (loss)	—	(239)	(1)	—	(240)	\$(240)
Other comprehensive income (loss)						
Net unrealized gain (loss) on future cash flow hedges	—	—	—	(12)	(12)	(12)
Reclassification to earnings from cash flow hedges	—	—	—	(1)	(1)	(1)
Total other comprehensive income (loss)	—	—	—	(13)	(13)	(13)
Total comprehensive income (loss)						\$(253)
Return on power program appropriation investment	—	(1)	—	—	(1)	
Return of power program appropriation investment	(5)	\$—	—	—	(5)	
Balance at June 30, 2011 (unaudited)	\$313	\$4,230	\$634	\$(65)	\$5,112	
Balance at March 31, 2012 (unaudited)	\$298	\$4,164	\$625	\$(100)	\$4,987	
Net income (loss)	—	(20)	(3)	—	(23)	\$(23)
Other comprehensive income (loss)						
Net unrealized gain (loss) on future cash flow hedges	—	—	—	(36)	(36)	(36)
Reclassification to earnings from cash flow hedges	—	—	—	18	18	18
Total other comprehensive income (loss)	—	—	—	(18)	(18)	(18)
Total comprehensive income (loss)						\$(41)
Return on power program appropriation investment	—	(3)	—	—	(3)	
Return of power program appropriation investment	(5)	—	—	—	(5)	
Balance at June 30, 2012 (unaudited)	\$293	\$4,141	\$622	\$(118)	\$4,938	

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

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TENNESSEE VALLEY AUTHORITY
CONSOLIDATED STATEMENTS OF CHANGES IN PROPRIETARY CAPITAL (Unaudited)
For the nine months ended June 30, 2012, and 2011
(in millions)

	Power Program Appropriation Investment	Power Program Retained Earnings	Nonpower Programs Appropriation Investment, Net	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income (Loss)
Balance at September 30, 2010	\$328	\$4,264	\$640	\$(95)	\$5,137	
Net income (loss)	—	(29)	(6)	—	(35)	\$(35)
Other comprehensive income (loss)						
Net unrealized gain (loss) on future cash flow hedges	—	—	—	51	51	51
Reclassification to earnings from cash flow hedges	—	—	—	(21)	(21)	(21)
Total other comprehensive income (loss)	—	—	—	30	30	30
Total comprehensive income (loss)						\$(5)
Return on power program appropriation investment	—	(5)	—	—	(5)	
Return of power program appropriation investment	(15)	—	—	—	(15)	
Balance at June 30, 2011 (unaudited)	\$313	\$4,230	\$634	\$(65)	\$5,112	
Balance at September 30, 2011	\$308	\$4,429	\$630	\$(138)	\$5,229	
Net income (loss)	—	(282)	(8)	—	(290)	\$(290)
Other comprehensive income (loss)						
Net unrealized gain (loss) on future cash flow hedges	—	—	—	27	27	27
Reclassification to earnings from cash flow hedges	—	—	—	(7)	(7)	(7)
Total other comprehensive income (loss)	—	—	—	20	20	20
Total comprehensive income (loss)						\$(270)
Return on power program appropriation investment	—	(6)	—	—	(6)	
Return of power program appropriation investment	(15)	—	—	—	(15)	
Balance at June 30, 2012 (unaudited)	\$293					