



TACIR INSIGHT

TENNESSEE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

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TENNESSEE VALLEY AUTHORITY'S PAYMENTS IN LIEU OF TAXES

Background

Each year, the Tennessee Valley Authority (TVA) makes payments in lieu of taxes (PILOT) to the eight states in which it owns power property, based on 5% of its prior-year proceeds from power sales. The PILOT is divided among the states based on each state's share of power sold by TVA and the value of TVA property located in each state. The Electric Generation and Transmission Cooperative Act of 2009 directed TACIR to monitor changes in the wholesale distribution of electric power by TVA and its distributors and report any potential effects on the Authority's PILOT. Public Chapter 1035, Acts of 2010, requires payments equivalent to TVA's PILOT from any other entity providing wholesale electric current for resale within the state; these payments are added to those received from TVA and distributed through the state's TVA PILOT distribution formula. The 2010 law was designed to ensure that revenue from power sales in the TVA region would not depend on who produced or who sold power. Since 2010, 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

The Commission sees no immediate need for legislative action at this time. The 2023 report describes the possible effects of many factors on TVA's PILOT and calls attention to several key items:

- TVA estimates the total PILOT for federal fiscal year 2022-23 will be \$611 million—an increase of \$99 million—with payments to Tennessee estimated to increase by \$65 million to a total of \$410 million. This is primarily the result of increases in TVA's fuel costs for natural gas, a cost it passes on to customers. For the state's 2022-23 fiscal year, allocations will increase by an estimated \$15.4 million for counties, \$6.6 million for cities, and \$24.4 million for state's own agencies.
- Memphis Light, Gas, and Water (MLGW)—TVA's largest customer—ended its evaluation of whether to leave the TVA system, choosing to remain under its existing contract with TVA.
- For the first time since Public Chapter 1035, Acts of 2010, was enacted, some distributors in TVA's Tennessee service area are purchasing a portion of their power from entities other than TVA. Tennessee Department of Revenue staff are working to clarify aspects of the law's implementation related to the required payments. As of January 2023, no payments pursuant to the law had been made to the state.

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