



## **TVA – Taxpayers Enron**

The creation of the Tennessee Valley Authority was an act of revenge by Franklin Roosevelt against his political enemies, the investor owned utilities. TVA's existence has always been an irritant to the country's private utilities. TVA generally has the reputation of being a wise investment of taxpayer money; but it is not.

TVA has generating capacity of 31,500 MW. This compares to Southern Company with 37,000 MW. TVA wholesales sells power to 158 non-profit type distributors and sells retail to 62 direct served end users. TVA's annual revenue is about \$6.8 billion. TVA's rate changes and environmental policies have been in the news lately but less is said about the accounting of its assets and debt.

TVA's debt is almost \$30 billion. Its management states that TVA will not have debt above \$30 billion. TVA claims it has fixed assets of \$25.7 billion, but this includes \$4 billion in deferred nuclear plants. "Deferred" means the money is shown as an asset on its balance sheet, but it is not being depreciated, expensed on the income statement and collected in TVA rates. This \$4 billion is money that was spent on nuclear projects that were never completed. Enron got into trouble by over-investing in generating assets, but at least the Enron assets are real power plants that produce power and, although over-valued, are at least worth something. TVA's deferred assets are broom straw fields with abandoned concrete foundations and rusting equipment.

TVA shows a net between its assets and liabilities of \$687 million that it calls "proprietary capital" which includes retained earnings. If TVA's near useless assets were written down to value, TVA would be insolvent (liabilities exceed assets). Some years ago TVA spokesmen, speaking before a congressional oversight committee, stated that the cost of these deferred assets would eventually be recovered with interest through TVA rates. That day of reckoning, however, continues to be put off. TVA has announced rate increases for 2003, but little, if any, of this money will be used to pay down its debt. The new money will go towards pollution controls on its coal plants.

The Bush administration has criticized TVA for its excessive debt and lack of plans to reduce it. TVA has now announced a plan to avoid going further into debt by having its distributors issue tax-free bonds, and then prepay TVA for future power deliveries. TVA already has in place a leaseback program to reduce debt – at least for accounting purposes. Since 2000, TVA has leased 24 combustion turbine power plants to

private investors in exchange for cash up front; TVA leased the plants back for the generation output.

Both these leaseback and prepay plans have substantially the same impact as debt on TVA's financial condition. In fact, this is very costly debt at that. Further, the distributors will become more financially leveraged. So rather than developing and implementing a plan to work itself out of debt, TVA is digging itself and its distributors deeper into financial trouble.

The core of Enron's problem was the excessive cost of assets that could not meet financial projections; the financial shenanigans that followed were done to inflate earnings and hide debt. Not only are some of its assets near worthless, but also TVA's debt-hiding activities are less sophisticated. The increased financial scrutiny that followed the Enron scandal has been focused on investor owned companies, while TVA has begun new novel financing techniques to avoid fully stating the nature of its liabilities.

### **Implications for End Users**

While there will be rate increases in the future when TVA runs out of financial tricks, end users on the TVA system probably do not have to worry about a future rate shock, as has been the case with customers on investor owned utilities that had bad nuclear programs. TVA, like the Post Office and Amtrak, will be more of a burden on the general taxpayer than its electricity customers.

*Jim Clarkson  
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