

# Seven States: Doing It Right Trumps Doing It Quickly

*Care is paramount in clearing business, legal hurdles*

**W**hen my two boys were younger, they spent a particular summer Saturday building a tree house.

I was busy with my own set of chores, but I gave them – somewhat reluctantly – access to my tool chest. I did this knowing full well that some of my prize man-things would likely disappear into the woods, not to be seen again until some archeological dig in the 25th century.

After picking the right tree and scoping out the project, the two of them started dragging pieces of scrap wood, nails, and a ladder into the woods.

After a couple of hours of banging and sawing, one of my sons came to me while I was mowing the lawn. He was dragging a two-by-four and clearly frustrated.

“Dad,” he said, “we need some help. We’ve cut this board twice, and it’s still too short!”

Many of our members have expressed interest and concern in the

process we are pursuing to complete the final arrangements between TVA and Seven States Power Corporation (7SPC). The goal, of course, is to establish equity ownership of generating assets for Tennessee Valley power distributors.

to test each of the options and to give an opinion on the issue.

A second constraint we have been addressing is related to ensuring that we have the ability, from a legal perspective and a tax perspective, to

*... the last piece of the equation comes down to preferences among the parties related to the ultimate business model solution. This is perhaps the stickiest of all issues.*

As we have described on many occasions, we are faced with an extremely complicated set of equations to solve – actually, it’s kind of like three equations and six unknowns. So there have been a lot of conceptual trial-and-error attempts to nail a solution without having to actually cut the board – only to find that it’s already too short.

remain organized as a tax-exempt entity for income tax purposes and can take advantage of tax-exempt bond financing for at least part of our long-term obligations.

On this issue, we owe recognition and huge kudos to our lawyers, Carlos and Mark Smith, for their coordinated efforts with TECA and TMEPA to amend the Tennessee Energy Acquisition Corporation statute during last year’s legislative session. The amendment was passed unanimously by the Tennessee General Assembly and was ultimately signed into law by Gov. Phil Bredesen.

The new law essentially allows 7SPC members to organize a tax-exempt entity as a political subdivision of the State of Tennessee, with a modified governance structure that allows up to one-third of its directors to be from cooperatives and non-Tennessee municipals. It further establishes a new structure for G&T cooperatives in Tennessee that mirrors the original structure outlined in the 7SPC bylaws.

It is our belief that these amendments establish a legal

## Tennessee Valley Public Power Association, Inc.

The Tennessee Valley Public Power Association, a non-profit regional service organization headquartered at 1206 Broad Street, Chattanooga, TN 37402, represents the consumer-owned utilities in the Tennessee Valley Authority service area. These 108 municipal and 50 rural electric cooperatives distribute electricity to 8.5 million residents in

Tennessee, Alabama, Mississippi, Kentucky, Georgia, North Carolina and Virginia.

Jack W. Simmons  
President & CEO



## Debt Dilemma

One of the toughest issues with which we’ve been trying to deal involves the question of how to satisfy specific accounting rules and regulations related to consolidation of assets on TVA’s balance sheet, even if the asset is owned outright by 7SPC. The issue there is one of a continued impact on TVA’s debt ceiling in terms of a debt-like obligation if the consolidation rules apply.

Several business-model options have been and continue to be evaluated with an eye toward navigating the various triggers that could result in consolidation. We have engaged a nationally recognized accounting firm

platform for facilitating the most cost-effective financing arrangements for new power supply assets for the Valley in the future.

**Cutting Just Once**

As you can see, the landscape for compliance with accounting rules, tax rules, and legal structures has been full of peaks and valleys. But at least we know what the map looks like and we think we have found a path to the other side.


Added to that are the firm business principles we established at the outset which include, among others, fairness to all distributors in the Valley, joint planning with TVA for future generating assets, cost-effective financing, allegiance to the public-power model, including cost-based revenue recovery vs. profit for some and loss for others; and continued responsibility by TVA for power supply reliability assurance, transmission service, and delivery of power and energy to distributors.

As we comply with various rules and adhere to our business principles, the last piece of the equation comes down to preferences among the parties related to the ultimate business model solution. This is perhaps the stickiest of all issues.

Both TVA and 7SPC have key staff, leadership, board directors, lawyers, accountants, and consultants who have been involved to greater and lesser degrees in this process. The difficulty that arises is that each of these participants has his/her own vision and preference for what the final business model should and should not include.

We are rapidly approaching decision points on whether we can continue to sustain the temporary financing arrangements for the Southaven, MS, combined-cycle plant. Our next step must be to assemble all the facts related to actual constraints and principles. We must then have an earnest dialogue and negotiation among the business leaders on both sides to wade through the remaining set of preferences to find a solution that will move us forward.

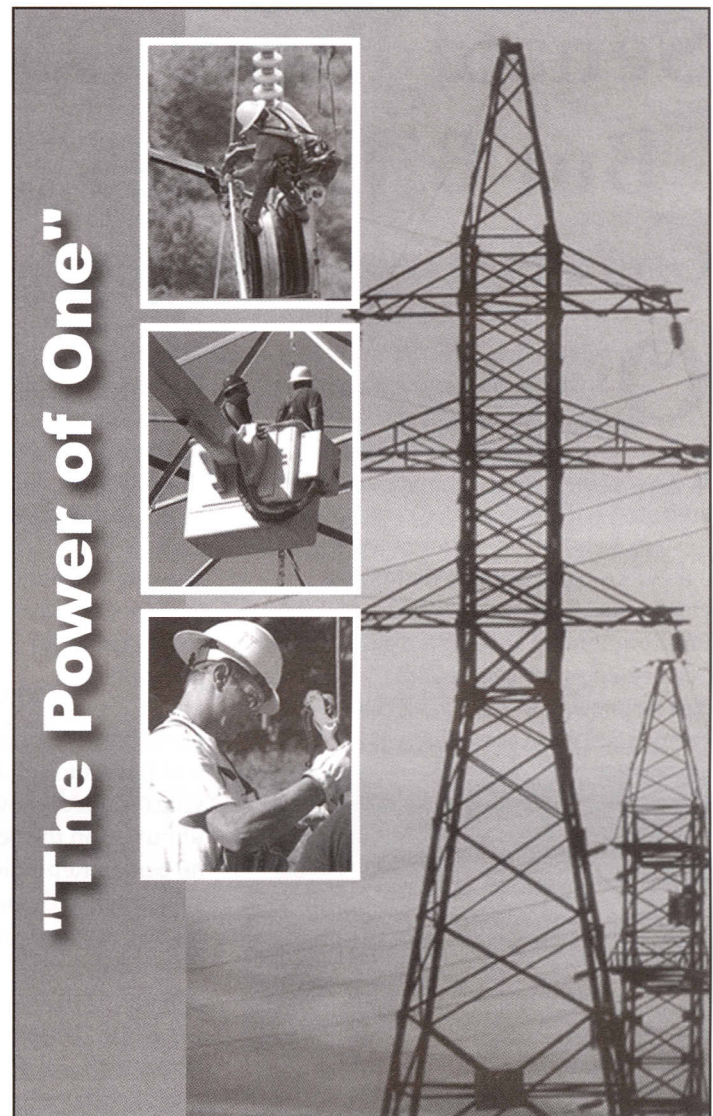
I believe the leadership teams of TVA and 7SPC are ready for that challenge. I look forward to a solution that will fundamentally change the future equity model of asset ownership in the Tennessee Valley.

When that happens, we'll cut the board just once – and it will fit the first time. 



**Pass It Along!**

Do you have a great relationship with a contractor or service provider? Pass along your copy of TVPPA News magazine and tell them about the advertising opportunities TVPPA offers.



**"The Power of One"**

Your partner providing Quality Utility Services since 1947.

**SERVICES:**

- Transmission
- Distribution
- Underground Cabling
- Energized/Robotics
- Outdoor Lighting
- Substation Specialists
- Fiber Optics
- Meter Reading
- Emergency Restoration
- Maintenance/Inspection

**CORPORATE HEADQUARTERS:**

4001 Industry Drive  
Chattanooga, TN 37416  
(423) 894-4336

**REGIONAL OFFICE:**

1020 U.S. Highway 11 E.  
New Market, TN 37820

**CONTACT:**

Arnold Clevenger, Regional Mgr.  
Harold Hicks, Exec. V.P.  
(865) 475-4721



**Dillard Smith  
Construction  
Company**

A Quanta Services Company

[www.dillardsmith.com](http://www.dillardsmith.com) • [www.quantaservices.com](http://www.quantaservices.com)