

White House budget shows pace of TVA debt reduction could slow

The Tennessee Valley Authority may be about to shift its focus from paying down debt toward boosting power generation and pollution controls, White House budget planners said.

In its forecast, the Office of Budget and Management said the nation's largest public utility expects to cut its debt by \$529 million this year and another \$553 million in fiscal 2008. The reductions come on top of more than \$2.5 billion already cut from TVA's long-term financial obligations since 1997, when the agency's debt peaked at more than \$27.7 billion.

The forecast released said the TVA debt reduction will help position the utility "for a more competitive electricity market and achieve a more sound business risk profile." OMB officials have urged TVA leaders for most of the past decade to pay down the debt, which is more than twice that of any other electric utility in the nation.

Last year, TVA said it planned to cut its overall debt by \$7.8 billion, nearly a third, by 2016. The OMB budget included those goals, but noted they soon could be revised by TVA's new board.

TVA directors are expected to adopt a new strategic plan this spring that may put less emphasis on reducing debt and more focus on adding power generation and pollution controls.

TVA officials and distributors said that the share of electricity bills going to pay interest on the debt has dropped nearly 60 percent in the last decade and should continue to shrink over at least the next couple of years.

In a yearend interview in December, TVA Chairman Bill Sansom said he is more concerned about rates and reliability than the agency's balance sheet. "We need to manage TVA in a way that ensures we have low-cost reliable power for the long term."

The share of TVA expenses devoted to interest costs fell from 34 cents of every dollar in 1997 to about 14 cents of every dollar last year. The drop reflects lower interest rates, a reduction in debt and higher revenues for TVA. In fiscal 2006, TVA boosted rates by more than 17 percent to help cover rising fuel expenses.