

Tennessee Valley Authority

Third Quarter 2025 Earnings Call

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CORPORATE PARTICIPANTS

Don Moul--*President and Chief Executive Officer*

Tom Rice--*Executive Vice President and Chief Financial Officer*

Clifton Lowry--*Vice President of Planning and Investor Relations*

PRESENTATION

Operator

Good morning, everyone, and welcome to the Tennessee Valley Authority's Third Quarter Fiscal Year 2025 Conference Call. [Operator Instructions].

At this time for opening remarks, I would like to turn the call over to Mr. Clifton Lowry, TVA, Vice President of Financial Planning, and Investor Relations. Mr. Lowry, please go ahead.

Clifton Lowry

Thank you, Jamie. Good morning, everyone. Welcome to the Tennessee Valley Authority's third quarter fiscal year 2025 financial review. I am pleased to have with me this morning TVA's Chief Executive Officer, Don Moul and TVA's Chief Financial Officer, Tom Rice.

We'll start this morning, and Don will provide a business update and then Tom will follow with a review of our financial performance through the third quarter of fiscal year 2025. After Tom's remarks, the call will be opened up to give participants the opportunity to ask questions.

And as a reminder before we begin, today's press release and TVA's quarterly report on Form 10-Q for the third quarter ended June 30, 2025, are available on TVA's website at tva.com. A replay of this webcast will also be available on our website for a period of one year.

As a reminder, today's discussion may include forward-looking statements that are subject to various risks and uncertainties, so please refer to our quarterly report on Form 10-Q for the quarter ended June 30, 2025, and TVA's annual report on Form 10-K for the year ended September 30, 2024, for a discussion of these factors.

With that out of the way, I'll now turn the call over to TVA's President and CEO, Don Moul.

Don Moul

Well, good morning, everyone and thank you, Clifton. As I wrap up my first full quarter as CEO, I'm proud of the work and dedication of TVA's 10,000 employees as we continue to drive growth and prosperity in the Tennessee Valley region, through excellence in operations, financial discipline and commitment to the fundamentals of our mission. That mission has not changed in over 90 years. TVA is the economic engine that provides American families and businesses affordable and abundant electricity in the seven states we serve.

Our region continues to experience growth in terms of population and power demand. TVA is moving quickly to build America's energy future. We are making some of the largest capital investments in our history to ensure we provide reliable, resilient and affordable power not just for today, but for the next generation of industries, communities and jobs. As we make these critical investments to strengthen America's energy future, continued partnership with the financial community remains essential. I appreciate the opportunity to speak with you today and share our progress.

I want to begin by acknowledging the recent retirement announcement of Executive Vice President and Chief Nuclear Officer, Tim Rausch. Under Tim's leadership, TVA completed a multi-year power uprate project on the three units at Browns Ferry Nuclear Plant, which provides enough additional generation to power 280,000 homes.

Additionally, Tim led the replacement of all four steam generators at Watts Bar Nuclear Plant. These important projects demonstrate TVA's commitment to advancing safe, reliable, carbon-free nuclear energy. And Tim's leadership helped better position TVA to meet the power demands of today and the future.

Following our succession plan, Matt Rasmussen, currently Vice President, Nuclear Operations will be promoted to the Chief Nuclear Officer position later this year.

I also want to provide an update on TVA's Board of Directors. As you know, our board consists of nine seats and currently only three of those seats are occupied, which leaves us short of a quorum. President Trump has named five nominees for the TVA Board, including three from Tennessee, one from Alabama, and one from Florida. We appreciate each of these individuals' willingness to serve on the TVA Board and look forward to working with them as they move through the Senate confirmation process.

TVA has a nearly 100-year legacy and with that has come many changes among the members of our board, particularly since the move to a nine-member part-time board was legislated about 20 years ago. What has always carried TVA through these changes is our mission of service. That mission keeps our organization, our employees, and our leaders strongly aligned to our core business.

While we are in a time of Board member transition, it's important to remember that TVA's employees continue to stay focused on our objective – providing affordable, reliable service for the 10 million people, businesses, and industries that rely on us every day.

Speaking a little bit about that legacy, TVA has been committed to the mission since it was established by Congress in 1933. TVA was founded to make life better for the people of the Valley through energy, environmental stewardship, and economic development and we continue to focus on that every day. That mission is woven into the fabric of the Tennessee Valley region through our focus on energy – providing affordable, reliable power; the environment – serving as stewards for the Valley's natural resources; and economic development – standing in partnership with the states, counties, and communities to support economic growth. While many years have passed, the enduring nature of our mission and the value of public power remain as tightly threaded as ever.

Operational excellence and system reliability are the foundation of power and growth and prosperity in the Tennessee Valley region. This summer has put and continues to put our system to the test. In June, the entire eastern United States was met with a heat wave resulting in extreme temperatures in many regions.

On June 25th, TVA served loads peaking at over 31,380 megawatts as the average temperature across our system reached 96 degrees. That happens to be the same temperature as June 25th a year ago, but this year TVA saw an approximate 500 megawatt increase in demand. The year-over-year power increase reflects population growth, economic expansion, and the integration of new electricity-dependent technologies. We met this challenge head-on because preparation is not just seasonal, it's year-round for us.

In anticipation of summer, TVA executed nearly 500 preventive maintenance activities at our natural gas, hydro and coal sites and hosted weekly calls to update on progress. These activities stemmed from lessons learned and best practices from previous summers as well as robust inspection programs.

Our fossil assets have outperformed expectations this year, providing reliable generation during periods of elevated demand. Strong fossil performance helped avoid the need for additional costly purchased power. We continue to invest in the reliability of our existing nuclear, coal, and hydro plants, including hydro and nuclear life extensions. The efforts help to ensure we have the megawatts to meet customer demand under challenging conditions and to support continued economic development success.

While we remain focused on the reliability and life extension of current assets, we are also expanding our fleet to meet increasing future demand and strengthen energy security. This requires some of the largest capital investments in TVA's history.

Recent milestones include the completion of new, aeroderivative gas turbines at Johnsonville, which provided 500 megawatts of additional capacity to the system just in time for the summer heat. TVA's current planning assumption includes more than 6,200 megawatts of new firm, dispatchable generation pending required approvals and environmental reviews. Over 3,500 megawatts are currently under construction, including investments in the gas fleet at Cumberland, Kingston, and New Caledonia. We also continue to support customer-driven solar and battery storage additions through power purchase agreements.

On the demand side, we're focusing on energy efficiency and demand management programs, which help customers use energy wisely and reduce demand during peak periods. TVA is expanding its portfolio and plans to invest more than \$1.5 billion in energy efficiency and demand response programs from 2024 through 2028. Since the program's inception, we have saved consumers and businesses over \$500 million over the life of their energy improvements. Across this five-year period, we anticipate having approximately 2,200 gigawatt hours of net incremental energy efficiency savings and over 2,200 megawatts of demand response portfolio capacity by 2028.

Next, turning to our efforts on igniting innovation, TVA continues to open the aperture on advanced nuclear and set a strong foundation with optionality to deploy advanced nuclear technologies in our country. In May, TVA submitted to the Nuclear Regulatory Commission the construction permit application for a BWRX-300 small modular reactor at our Clinch River site near Oak Ridge, Tennessee. This is an industry milestone. TVA was the first utilities to submit a construction permit application for a small modular reactor.

The NRC has accepted the construction permit application for review and expects to complete its review within 18 months. We applaud the NRC's commitment to embrace innovation and accelerate licensing timelines. We are ready to rapidly engage with the NRC to help support deployment of new nuclear technology in our service territory and ultimately across the entire United States.

This is a significant step forward for TVA, our region, and our nation, because we are accelerating the development of new nuclear technology, its supply chain, and delivery model to build America's energy future. Clinch River is uniquely positioned to establish America's energy dominance to power artificial intelligence, quantum computing, and advanced manufacturing. TVA has put in the work to advance the design and develop the first application for the BWRX-300 technology, creating a path for other utilities who choose to pursue the same technology.

TVA looks forward to working with the administration to accelerate advanced nuclear technologies as we share the belief that nuclear will play a role in the future of our nation's energy security.

Developing first-of-a-kind technologies involves substantial costs, and TVA is ready to work with partners to help commercialize this critical technology. In fact, we're leading a coalition of industry partners in pursuing \$800 million from the Department of Energy's Gen III+ grant program for development of the BWRX-300 design SMR at Clinch River.

The benefits of the DOE funding would reach beyond Clinch River as TVA and our partners will share lessons learned and best practices that will offset costs and reduce risks, advancing nuclear technology for the entire country. TVA will continue to work with our partners to rapidly take advantage of innovation to design and deploy technologies that will not only power modern life but also create American jobs.

More recently, we entered into an agreement with Type One Energy to jointly develop plans for a 350-megawatt fusion pilot power plant, called Project Infinity. TVA will use its Power Service Shops facility in North Alabama to develop custom welding and fabrication techniques and create parts for this project. We will continue to update you on our progress.

Focusing on reliability, extending the lives of our current assets, and adding new assets supports a core component of our mission, economic development.

Site Selection Magazine has repeatedly named TVA one of the top utilities in the nation for our economic development efforts and results. We focus on attracting new businesses and helping existing ones grow sustainably within the Tennessee Valley. Over the past five years, our economic development engine with fuel from public power partnerships has helped bring nearly \$46 billion of capital investment, create over 91,000 new jobs, and retain an additional roughly 235,000 jobs in the region we serve.

The TVA service area continues to be an attractive place to locate new businesses with some of the lowest industrial rates in the country. From Choctaw County, Mississippi, up to Simpson County, Kentucky, on to Hamblen County, Tennessee, TVA and our economic development partners drive progress and prosperity. It's who we are. It's what we do.

I'll now turn the call over to our Chief Financial Officer, Tom Rice, to discuss our financial results. Tom.

Tom Rice

Thank you, Don. Good morning to everyone on the call today. I want to begin, as I typically do, with a quick summary of our financial results for the first nine months of our fiscal year. As we reported last quarter, and as Don mentioned, we continue to see higher sales volume year-over-year, really driven by underlying growth on the system, and I'll get into that in a minute. But as you would expect with higher sales, that also drove higher revenues, higher operating cash flows, and higher net income compared to the same period last year.

If we look into the sales and revenue in a bit more detail, you can see power sales up just under 3% year-to-date. And this is mostly due to underlying growth. You can see there was a bit of weather year-over-year with our fiscal year-to-date degree days being 1% higher than the prior year, but also 5% lower than normal, and so we're seeing underlying growth on the system even with below normal weather.

The sales increase contributes to higher base revenues for TVA, also higher fuel cost recovery on higher sales, and the fuel mix, which I'll cover in a minute, drove our operating revenues up nearly \$1 billion over where they were in the same period last year, pretty evenly split between

base revenues and fuel revenues. And then I like to point out at the bottom, the total effective rate through June 30 was \$8.0 per kilowatt-hour.

So, I do want to spend a minute on power supply.

As Don mentioned and covered, we have a very diverse mix of resources – nuclear, natural gas, coal, hydro, storage, and other technologies. And if you look at the power supply by source on the left, you can see nuclear below where it was the same period last year, and this is really due to outages on the non-nuclear side of the fleet that we've covered previously, and our decision to proactively extend some of those outages to work in additional planned nuclear life extension projects into this year.

So, year-to-date, we had 371 outage days versus 99 outage days across the fleet for the same period last year. That generation was replaced with natural gas, hydro and coal-fired generation across the fleet. And if you look at the power supply mix in the pie chart on the right, you can see we still have a very balanced fleet, and we benefit tremendously from the diversity and the size and the balance across the fleet.

Now I want to turn to the income statement, and if you look year-to-date at the top, you can see our base revenues, \$492 million favorable to plan. The two drivers here are higher underlying sales, as well as the 5.25% rate increase we implemented in October. Fuel revenues also higher year-to-date, \$469 million. Again, the drivers here, higher overall sales and then the fuel mix that I covered previously.

And then working down the income statement, you can see on the expense side, really the corollary to the fuel revenues, of course, is our fuel and purchase power expense, which is higher than planned for the reasons I covered previously. Operations and maintenance is \$100 million higher than the same period last year. Really two drivers here. One is general escalation, and the other is severance charges related to our enterprise transformation efforts.

Taxes, depreciation and other increased \$155 million year-over-year, mostly due to increases in depreciation and amortization expenses, as well as higher tax equivalent payments, which you may recall are based on our operating revenues. And that results at the bottom line, as you can see, of \$745 million of net income year-to-date, \$130 million ahead of the same period last year.

Now on to the cash flow statement. Operating cash flow remains strong at nearly \$2.1 billion for the first nine months of the year. Cash used in investing activities was about \$1.1 billion higher year-over-year, coming in at just over \$3.6 billion, and this is primarily driven by the increased expenditures for capacity expansion projects that Don outlined in his remarks just a moment ago.

And as you would expect with that investing activity, our financing needs are higher year-over-year at \$1.5 billion, up \$944 million compared to the same period last year. And then at the bottom, you can see our total debt and financing obligations as of June 30 were \$22.9 billion, increasing year-over-year in line with our plans.

So to recap our financial results, we are seeing higher sales this year driven by increasing demand. That demand growth along with higher rates has led to higher operating revenues and higher operating cash flows. We remain focused on maintaining financial discipline in all aspects of our spending and we're on track with our extensive capital plan.

And we're on track with our internal enterprise transformation program, which is designed to remove a planned \$950 million cost increase over our fiscal year 2024, 2025 and 2026. We met our goals for 2024. We are on target to meet our goals for 2025, and we have line of sight for our 2026 goals as well.

And finally, we continue to take a thoughtful approach to our financing, positioning TVA to support the ongoing investment, as Don mentioned, in delivering America's energy future while maintaining financial strength. And before we open it up for questions, I'll just note we do have some maturities ahead later this calendar year. Between that, and our increased financing needs, you can expect to continue to see us active in the financial markets.

And so, with that, we'll now turn the call over to the operator to start the Q&A session.

QUESTION AND ANSWER

Operator

Ladies and gentlemen, at this time, we will begin the question-and-answer session. [Operator Instructions]. And our first question today comes from Srinjoy Banerjee from Barclays. Please go ahead with your question.

Srinjoy Banerjee

Hey. Good morning. Thanks for taking the question and the presentation. Just in terms of financing plans to begin, if you could discuss maybe the debt financing needs for the balance of the year, what the quantum of that looks like. And then just given the debt limitation sort of in place overall, what are some of the alternatives like lease purchase financing that you've done in the past that we could see more of?

Tom Rice

Yeah. Sure. I'll take that question. So we do have a maturity in November that we would look to refinance. And then with the capital program we have laid out, you'll continue to see us active moving forward. The alternative financing, the lease financing arrangements that you're asking about are similar to what we did with our Johnsonville transaction about a year ago.

And these are really lease finance arrangements that we had the opportunity to do when we commission new assets. And we think that's an attractive part of the capital stack. It's a different type of debt. It hits a slightly different investor base. And so I think you can see us continue to look at that financing arrangement as we have opportunity in line with commissioning the new assets coming online on our system.

Srinjoy Banerjee

Perfect. And then in terms of nuclear, so I think you've mentioned a couple of different opportunities there. So SMRs, I think I heard an opportunity with fusion as well, but just curious what the roadmap looks like, what do you see as being the timeline for different technologies? And then you mentioned federal funding support, but how does that change the funding mix or alternative funding as you evaluate nuclear construction?

Don Moul

Yes, I'll take that. So when we think about new nuclear technologies and I'll lump fusion in with that as well, we say we're opening the aperture, and it means we're taking a look at all the technologies that are out there and evaluating their timelines and their viability. We are moving forward at a very aggressive pace on the BWRX-300.

It's in review with the NRC right now. And as I said in my comments, they're committing to an 18-month timeline for turnaround for that review. But what it really comes down to is we're looking for financial partners to offset that first-of-a-kind cost and not put it on our customers as it launches this industry.

And so while that could be federal funding, it also could be private funding. We're looking for partners who are interested in this type of a product and ways that we can be innovative in that financing arrangement, and that would help us launch and move forward.

Operator

And our next question comes from Eric Schwarzentraub from Bank of America. Please go ahead with your question.

Eric Schwarzentraub

Good morning and thank you. Great presentation. I understand you've been working through a few outages this year on your nuclear fleet. Curious, that work's been completed and could you provide a status update on current availability of your units?

Don Moul

Yes, thanks for the question. We have worked through some of those outages and Tom mentioned the number of outage days. A large portion of that was Sequoyah Unit 2, which we had a failure on the main unit generator, but we pulled forward that nuclear life extension upgrade to that main unit generator to allow it to operate through its extended life. All those units are online today, and we have pretty high demand on the system today and we are meeting that demand right now and the nuclear units are a key foundational part of that today.

Eric Schwarzentraub

Thank you. And also, I appreciate the update on the Clinch River construction permit application. Could you provide a general timeline for the major next steps of that project evaluation, including how the DOE grant fits into that near-term timeline?

Don Moul

Yes, so I can't give a true estimate on when the DOE is going to make their decision. We expect it probably within the next six months or so, but I can't put a clock on what timeline DOE is going to make that final decision. The NRC is working, as I said, towards an 18-month turnaround time, so somewhere in that December of 2026 timeline, we should get results back from that review.

And we truly expect based on the interactions with the NRC and quite frankly their feedback on the quality of our application, that we'll have a successful construction permit application and have a license to construct at that point. And then it really comes down to finding those financing partners so we can put in long lead time orders for materials and once we have that financing structure laid out and we are in active discussions with counterparties looking for that final answer, then we will unlock the ability to move forward.

Eric Schwarzentraub

Thank you. I live in the Valley, and I appreciate all you do. Thanks for your time.

Don Moul

Thank you.

Operator

And our next question comes from Daniel Dassow from Chattanooga Times Free Press. Please go ahead with your question.

Daniel Dassow

Great. Yes, thank you for taking questions. I wanted to start off by asking about the political situation at TVA. You mentioned that the Trump administration has terminated three of the directors from the board, and I know that TVA was gathering some of its local power companies last week to talk about some of these political disruptions, or rather the week before.

But the reason behind all of this is still kind of a mystery to the public, and I'm wondering if you all as TVA executives are equally in the dark about why these disruptions have happened. What can you say about your understanding of why the Trump administration is going after board members and some TVA executives?

Don Moul

Well, Daniel, thank you for the question. We really couldn't even begin to speculate on what the administration's driving force for those decisions are, but it is their choice on board members, right? And so, as it's outlined in the TVA Act, the President nominates board members, the Senate confirms them, and once they're confirmed, they are sworn in as TVA board members. And then I, as the CEO, am their only employee, and the rest of TVA lines up under me as we execute on the strategies that those board members outline for us.

So, for us, Daniel, we really have to just focus on meeting TVA's mission, unleashing American energy, which lines up perfectly with what the administration wants to do, and really driving economic development, and some of these national security imperatives on whether it's artificial intelligence, whether it's supercomputing, quantum computing, but we also have to serve our customers.

So, our folks are staying just laser-focused on day-to-day operational excellence, and Tom's laid out the financial results for this quarter, but this is financial discipline as we define it, right? TVA is in very strong financial shape, and we're going to continue to operate within whatever constraints we may have to deliver on that mission every day, and that's what our team is focused on.

Operator

[Operator Instructions]. Our next question comes from Srishti Gadadia from TD Securities. Please go ahead with your question.

Srishti Gadadia

Hi, good morning. Thanks for the update. I recently saw you were updating plans for one of your pending natural gas projects. Could you provide some background and color on that project and the change of plan?

Don Moul

I think what you're talking about is the potential to build at Cheatham County, and so, as we were very early in the NEPA process and evaluating potential sites for gas generation, and also to support stability in the Middle Tennessee region, which is just growing by leaps and bounds, right?

And so, as we went through that evaluation, we've moved off of the Cheatham County site as the preferred alternative, as our statement did indicate. But we're still working hard to find acceptable

sites to meet the needs on the system. And so, our team is evaluating other potential sites around the area and working with some of the local communities that are looking for economic development improvements in that area, growth, and payment in lieu of taxes coming that way. And really the stimulus that comes from all of those construction jobs and then eventually the operating income.

So, we're in that process. We're still in the NEPA process. And so, as we work through that, we'll have a draft environmental impact statement coming out a little bit later than originally planned based on these new sites to evaluate, and we'll move from there. Our demand doesn't stop for us, so we have to continue to build and grow to meet this growing demand in the region, and we have to follow the least cost planning principles that are in the TVA Act.

Conclusion

Operator

And, ladies and gentlemen, with that, we'll be concluding today's question-and-answer session. I'd like to turn the floor back over to Don Moul for closing remarks.

Don Moul

Yes, well, thank you very much. I really appreciate all the interest, the questions, and just the engagement that we have from the investment community. We definitely need your partnership as we move forward to meet TVA's mission. So, thank you all.

Operator

Ladies and gentlemen, with that, we'll conclude today's conference call and presentation. We do thank you for joining. You may now disconnect your lines.