

T E N N E S S E E   V A L L E Y   A U T H O R I T Y

P O W E R   P R O G R A M

*First Quarter Report*  
2002



## Letter From the Chairman

While the first quarter of fiscal year 2002 was a difficult time for our nation, it also ushered in a rekindling of the American spirit. As Americans demonstrated strength of unity by taking care of business, so did TVA by providing affordable, reliable electric power.

Net income for the three months ended December 31, 2001 was \$3 million, compared with \$47 million for the same period last year. The weather was the primary reason for this difference. In December 2000, TVA experienced an all-time winter peak demand, while this past December the region experienced extremely mild temperatures. Lower fuel and purchased power costs resulted from the reduced energy sales, and lower interest expense reflected lower interest rates resulting from the monetary actions of the Federal Reserve.

TVA now has a full Board that is committed to sound business practices. Following his appointment by President Bush and unanimous consent by the United States Senate, Bill Baxter, a Knoxville, Tennessee, business executive, was sworn in as the 27th Director on November 30, 2001. With Director Baxter's experience in private business and public service, our leadership team is even more effective.

Two economic development initiatives were approved during the quarter to support sustainable growth in the region's economy. A record \$326 million in tax-equivalent payments was made to state and local governments during 2001. This was an increase of more than \$11 million, or 3.5 percent, over 2000. TVA also approved \$4.5 million in economic development loans to promote business growth. These loans are expected to leverage an additional \$24.4 million in capital investment and help create and retain more than 1,400 jobs for people in the Tennessee Valley.

Also during the first quarter of 2001, our Watts Bar Nuclear Plant received the highest performance rating possible from the Institute of Nuclear Power Operations (INPO). All

three of TVA's nuclear plants have earned INPO 1 ratings during their last two evaluations, demonstrating TVA's commitment to operational excellence.

Everything we do at TVA reflects our dedication to achieving excellence in business performance and public service for the Valley and our nation. We are committed to best business practices at TVA, and we will benchmark our performance with the best companies in generation and transmission of electric power, environmental stewardship, and economic development.



Glenn L. McCullough Jr.  
Chairman

### Financial Highlights (millions)

Three Months Ended December 31	2001	2000
Operating revenues	\$ 1,521	\$ 1,715
Operating expenses	(1,161)	(1,246)
Operating income	360	469
Other income, net	3	6
Interest expense	(360)	(428)
<b>Net income</b>	<b>\$ 3</b>	<b>\$ 47</b>

### Sales of Electricity (millions - kWh)

Three Months Ended December 31	2001	2000
Municipalities and cooperatives	28,642	32,238
Industries directly served	6,121	6,062
Federal agencies and other utilities	1,311	2,076
<b>Total sales of electricity</b>	<b>36,074</b>	<b>40,376</b>

## Results of Operations

TVA had net income of \$3 million for the first quarter of fiscal year 2002 compared with \$47 million for the same period last year.

### Operating Revenues

Operating revenues for the three months ended December 31, 2001, were \$1,521 million, compared with \$1,715 million for the same period last year. The \$194 million decrease reflected a weather-related decline in energy sales of 4.3 billion kilowatt-hours (10.7 percent). The TVA service territory experienced unseasonably warm weather this past December as compared with unseasonably cold weather the previous year.

### Operating Expenses

Operating expenses declined \$85 million, from \$1,246 million for the three months ended December 31, 2000, to \$1,161 million for the three months ended December 31, 2001. Fuel and purchased power expense decreased \$95 million in conjunction with the reduced sales and generation. Operating and maintenance expenses, on the other hand, increased \$64 million, primarily due to major maintenance projects and increased benefit costs. Depreciation and amortization expense decreased \$58 million, primarily as a result of accelerated amortization in 2001.

### Interest Expense

Net interest expense declined \$68 million for the first quarter of fiscal year 2002 compared with the same period last year, reflecting a lower level of total outstanding debt in addition to refinancing bonds at favorable interest rates. The decrease in amortization of debt discount, issue, and reacquisition costs is a result of accelerated amortization in fiscal year 2001.

## Financial Position

Net cash provided by operations decreased \$186 million, from \$244 million to \$58 million, for the three months ended December 31, 2000 and 2001, respectively. Net income declined \$44 million, from \$47 million for the first quarter of fiscal year 2001 to \$3 million for the first quarter of fiscal year 2002. Items not requiring cash decreased by \$58 million, and working capital requirements increased by \$84 million, primarily as a result of a decrease in accounts payable and other accrued expenses.

Net cash used in investing activities increased by \$214 million for the first quarter of fiscal year 2002. Cash used for construction expenditures increased \$140 million for the reporting period, and cash paid for nuclear enrichment and fabrication services increased \$73 million due to the timing of services received.

Cash flows provided by financing activities increased \$405 million, from a net use of funds of \$352 million for the three months ended December 31, 2000, to funds of \$53 million provided by financing activities for the three months ended December 31, 2001. Borrowings decreased \$224 million in fiscal year 2002 as compared with \$337 million in fiscal year 2001. Proceeds received from combustion turbine financing in the current year were \$320 million, and the associated liability is included on the Balance Sheet in Other Liabilities. The increase in other financing costs of \$28 million is due to a valuation adjustment on a currency swap contract.

## Balance Sheets (unaudited)

	December 31 2001	September 30 2001
	(MILLIONS)	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 11	\$ 339
Accounts receivable	511	720
Inventories (at average cost) and other		
Fuel	191	170
Other	<u>274</u>	<u>272</u>
Total current assets	<b>987</b>	1,501
<b>Property, plant, and equipment</b>		
Completed plant	30,555	30,467
Less accumulated depreciation	<u>(10,583)</u>	<u>(10,344)</u>
Net completed plant	19,972	20,123
Construction in progress	1,169	923
Deferred nuclear generating units	4,094	4,110
Nuclear fuel and capital lease assets	<u>552</u>	<u>487</u>
Total property, plant, and equipment	<b>25,787</b>	25,643
<b>Investment funds</b>	<b>812</b>	725
<b>Deferred charges and other assets</b>		
Loans and other long-term receivables	123	124
Debt issue and reacquisition costs	183	140
Other deferred charges	<u>1,400</u>	<u>1,566</u>
Total deferred charges and other assets	<b>1,706</b>	1,830
<b>Total assets</b>	<b>\$ 29,292</b>	<b>\$ 29,699</b>
<b>LIABILITIES AND PROPRIETARY CAPITAL</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 509	\$ 710
Accrued liabilities	157	235
Accrued interest	312	389
Short-term debt	2,519	3,016
Current maturities of long-term debt	<u>1,984</u>	<u>1,984</u>
Total current liabilities	<b>5,481</b>	6,334
<b>Other liabilities</b>	<b>2,929</b>	2,806
<b>Long-term debt</b>		
Public bonds	20,649	20,375
Unamortized discount and other	<u>(529)</u>	<u>(524)</u>
Total long-term debt	<b>20,120</b>	19,851
<b>Proprietary capital</b>		
Appropriation investment	503	508
Retained earnings	302	306
Accumulated other comprehensive loss	<u>(43)</u>	<u>(106)</u>
Total proprietary capital	<b>762</b>	708
<b>Total liabilities and proprietary capital</b>	<b>\$ 29,292</b>	<b>\$ 29,699</b>

## Statements of Income (unaudited)

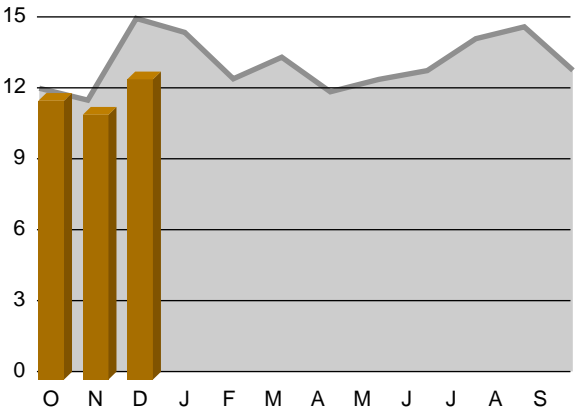
	Three Months Ended December 31	
	2001	2000
	(MILLIONS)	
<b>Operating revenues</b>		
Sales of electricity		
Municipalities and cooperatives	\$ 1,301	\$ 1,456
Industries directly served	162	164
Federal agencies and other utilities	42	74
Other revenue	<u>16</u>	<u>21</u>
Total operating revenues	<b>1,521</b>	1,715
<b>Operating expenses</b>		
Fuel and purchased power	385	480
Operating and maintenance	425	361
Depreciation and amortization	269	327
Tax-equivalents	<u>82</u>	<u>78</u>
Total operating expenses	<b>1,161</b>	1,246
<b>Operating income</b>	<b>360</b>	469
Other income, net	<u>3</u>	<u>6</u>
Income before interest expense	<b>363</b>	475
<b>Interest expense</b>		
Interest on debt	368	420
Amortization of debt discount, issue, and reacquisition costs, net	6	21
Allowance for funds used during construction	<u>(14)</u>	<u>(13)</u>
Net interest expense	<b>360</b>	428
<b>Net income</b>	<b>\$ 3</b>	<b>\$ 47</b>

## Statements of Cash Flows (unaudited)

	Three Months Ended December 31	
	2001	2000
	(MILLIONS)	
<b>Cash flows from operating activities</b>		
Net income	\$ 3	\$ 47
Net items not requiring cash	297	355
Other changes, net	<u>(242)</u>	<u>(158)</u>
Net cash provided by operations	<b>58</b>	244
<b>Cash flows from investing activities</b>		
Construction expenditures	(349)	(209)
Allowance for funds used during construction	14	13
Other, net	<u>(104)</u>	<u>(29)</u>
Net cash used in investing activities	<b>(439)</b>	(225)
<b>Cash flows from financing activities</b>		
Borrowings, net	(224)	(337)
Proceeds from combustion turbine lease/leaseback	320	-
Other	<u>(43)</u>	<u>(15)</u>
Net cash provided by (used in) financing activities	<b>53</b>	(352)
<b>Net change in cash and cash equivalents</b>	<b>\$ (328)</b>	<b>\$ (333)</b>

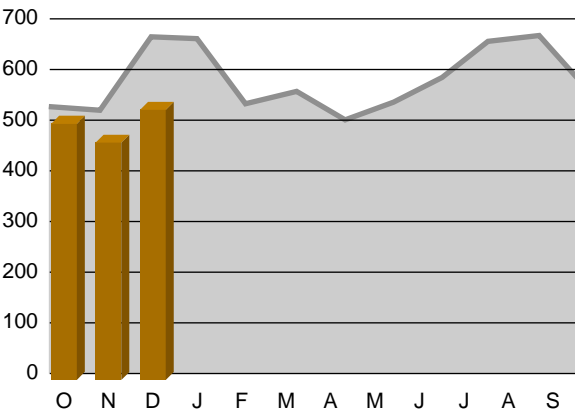
## Total TVA Generation

Billions of kWh



## Total Electric Revenue

Millions of dollars



## Average Revenue

Cents per kWh

