

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

2000

Third Quarter Report



During the third quarter, TVA continued to set the standard for operational excellence in the electric utility industry. TVA received national acclaim when the Sequoyah Nuclear Plant was recognized by *Nucleonics Week* for having the lowest operating cost of any nuclear plant in the United States in 1999. The ranking also placed Watts Bar and Browns Ferry nuclear plants in the top 20. In May, Browns Ferry Nuclear Plant Unit 3 set a world refueling record for plants of similar design by returning to service in 18 days—the shortest outage ever for a TVA nuclear plant. Also, TVA's high safety standards paid off when Browns Ferry and Sequoyah nuclear plants earned high marks from the Nuclear Regulatory Commission for meeting safety standards in all major areas monitored and for operating in a manner that preserves public health and safety.

TVA is committed to finding innovative ways to improve performance, which is essential to TVA's success in a competitive electric utility industry. A new technique for moving fuel assemblies developed and implemented by TVA at its Browns Ferry Nuclear Plant earned national recognition for TVA and a Top Industry Practice award from the Nuclear Energy Institute. The new method saves time during refueling outages and serves as a model for nuclear plants throughout the country. TVA's Kingston Fossil Plant began operation of its new high-speed coal-unloading facility, reducing the time it takes to unload coal from nearly nine hours to just over two hours.

TVA remains focused on its responsibilities to serve the public interest. TVA's Public Power Institute signed a memorandum of agreement with the Cooperative Research Network, the research-and-development arm of the National Rural Electric Cooperative Association. This agreement signals a growing partnership among public power organizations to pool expertise and ideas

to provide benefits to the public through low-cost and reliable energy, while balancing environmental sustainability.

TVA is uniquely positioned to serve as a benchmark for innovation and operational excellence as the electric utility industry addresses the challenges of restructuring. TVA is prepared for the transition, and we will keep looking for efficient, innovative ways to continue providing power to the people of the Tennessee Valley, reliably and competitively.



Craven Crowell
Chairman

Financial Highlights (millions)

Nine Months Ended June 30	2000	1999
Operating revenues	\$ 4,789	\$ 4,609
Operating expenses	<u>(3,390)</u>	<u>(3,552)</u>
Operating income	1,399	1,057
Other income (expense), net	6	—
Interest expense	(1,298)	(1,336)
Cumulative effect of change in accounting principle	—	217
Net income (loss)	\$ 107	\$ (62)

Sales of Electricity (millions - kWh)

Nine Months Ended June 30	2000	1999
Municipalities and cooperatives	89,317	86,560
Industries directly served	17,181	17,797
Federal agencies and other utilities	<u>8,954</u>	<u>7,544</u>
Total sales of electricity	<u>115,452</u>	<u>111,901</u>

Operating Revenues

Operating revenues for the three months ended June 30, 2000, were \$1,648 million compared with \$1,567 million for the same period last year. Fiscal year-to-date operating revenues were \$4,789 million compared with \$4,609 million for the same period last year. The \$180 million increase was primarily due to an increase in energy sales of approximately 3.6 billion kWh (or 3.2 percent) reflecting demand growth within the Valley region.

Operating Expenses

Operating expenses increased \$68 million from \$1,154 million for the three months ended June 30, 1999 to \$1,222 million for the same period of 2000 due to higher fuel and purchased power costs. Operating expenses for the nine months ended June 30, 2000 were \$3,390 million compared with \$3,552 million for the same period last year. The \$162 million decrease was primarily due to a one-time \$217 million charge for the acceleration of the amortization of regulatory assets in December 1998 (see 1999 Accounting Changes below), coupled with an \$80 million increase in non-cash pension income in fiscal year 2000. These favorable items were partially offset by an increase in fuel and purchased power expense of \$93 million and higher generation expenses of \$41 million.

Interest Expense

Net interest expense declined \$10 million and \$38 million for the three months and nine months ended June 30, 2000, respectively, compared with the same periods of 1999. These reductions reflect a higher allowance for funds used during construction, debt refinancings and a lower level of total outstanding debt during the first nine months of fiscal year 2000 compared with the same period of 1999.

1999 Accounting Changes

Results of operations for the nine months ended June 30, 1999 include a one-time gain of \$217 million related to a change in accounting for pension costs, as well as a \$217 million charge related to accelerated amortization of certain regulatory assets.

Capital Resources

In December 1999, TVA redeemed all of its 1989 Series G Power Bonds due November 15, 2029 by issuing approximately \$2 billion in short-term notes. During the second quarter, TVA refinanced a portion of the short-term notes by issuing \$250 million with maturities ranging from five to 30 years. During the third quarter, TVA refinanced an additional \$1.75 billion by issuing \$1 billion noncallable, 30-year Global Power Bonds and \$750 million of 12-year bonds that include an option for investors to return the bonds to TVA at par value in two years.

	June 30 2000	September 30 1999
	(MILLIONS)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 26	\$ 103
Accounts receivable	643	730
Inventories at average cost and other		
Fuel	150	178
Other	<u>308</u>	<u>307</u>
Total current assets	1,127	1,318
Property, plant, and equipment		
Completed plant	29,810	29,569
Less accumulated depreciation	<u>(9,421)</u>	<u>(8,762)</u>
Net completed plant	20,389	20,807
Construction in progress	1,070	730
Deferred nuclear generating units	6,324	6,320
Nuclear fuel and capital leases	<u>579</u>	<u>560</u>
Total property, plant, and equipment	28,362	28,417
Investment funds	830	731
Deferred charges and other assets		
Loans and other long-term receivables	136	122
Debt issue and reacquisition costs	1,325	1,188
Other deferred charges	<u>1,291</u>	<u>1,610</u>
Total deferred charges and other assets	2,752	2,920
Total assets	\$ 33,071	\$ 33,386
LIABILITIES AND PROPRIETARY CAPITAL		
Current liabilities		
Accounts payable	\$ 494	\$ 493
Accrued liabilities	185	178
Accrued interest	335	464
Short-term debt	1,797	982
Current maturities of long-term debt	<u>1,250</u>	<u>1,000</u>
Total current liabilities	4,061	3,117
Other liabilities	2,077	2,156
Long-term debt		
Public bonds—senior	22,110	23,294
Public bonds—subordinated	1,100	1,100
Unamortized discount and other	<u>(553)</u>	<u>(491)</u>
Total long-term debt	22,657	23,903
Proprietary capital		
Appropriation investment	533	548
Retained earnings	<u>3,743</u>	<u>3,662</u>
Total proprietary capital	4,276	4,210
Total liabilities and proprietary capital	\$ 33,071	\$ 33,386

Statements of Operations (unaudited)

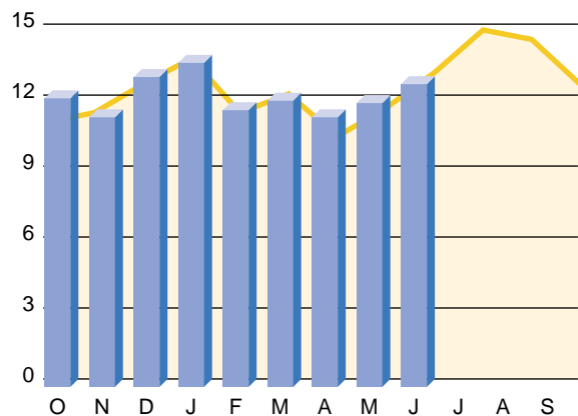
	Three Months Ended June 30		Nine Months Ended June 30	
	2000 (MILLIONS)	1999	2000 (MILLIONS)	1999
Operating revenues				
Sales of electricity				
Municipalities and cooperatives	\$ 1,362	\$ 1,307	\$ 4,000	\$ 3,872
Industries directly served	161	168	479	474
Federal agencies and other utilities	98	70	249	209
Other revenue	<u>27</u>	<u>22</u>	<u>61</u>	<u>54</u>
Total operating revenues	1,648	1,567	4,789	4,609
Operating expenses				
Fuel and purchased power	507	436	1,297	1,204
Operating and maintenance	343	349	979	1,025
Depreciation and amortization	296	295	885	884
Tax-equivalents	76	74	229	222
Accelerated amortization	<u>—</u>	<u>—</u>	<u>—</u>	<u>217</u>
Total operating expenses	1,222	1,154	3,390	3,552
Operating income	426	413	1,399	1,057
Other income, net	<u>1</u>	<u>1</u>	<u>6</u>	<u>—</u>
Income before interest expense and cumulative effect of change in accounting principle	427	414	1,405	1,057
Interest expense				
Interest on debt	422	436	1,271	1,319
Amortization of debt discount, issue, and reacquisition costs, net	25	15	67	43
Allowance for funds used during construction	<u>(15)</u>	<u>(9)</u>	<u>(40)</u>	<u>(26)</u>
Net interest expense	432	442	1,298	1,336
Cumulative effect of change in accounting principle	<u>—</u>	<u>—</u>	<u>—</u>	<u>217</u>
Net (loss) income	\$ (5)	\$ (28)	\$ 107	\$ (62)

Statements of Cash Flows (unaudited)

Cash flows from operating activities				
Net income (loss)	\$ (5)	\$ (28)	\$ 107	\$ (62)
Net items not requiring cash	397	356	1,053	1,035
Other changes, net	<u>(108)</u>	<u>(109)</u>	<u>(123)</u>	<u>(175)</u>
Net cash provided by operations	284	219	1,037	798
Cash flows from investing activities				
Construction expenditures	(209)	(199)	(646)	(549)
Allowance for funds used during construction	15	9	40	26
Other, net	<u>(66)</u>	<u>(18)</u>	<u>(187)</u>	<u>(150)</u>
Net cash used in investing activities	(260)	(208)	(793)	(673)
Cash flows from financing activities				
Borrowings, net	32	126	(128)	(316)
Other	<u>(32)</u>	<u>(114)</u>	<u>(193)</u>	<u>(168)</u>
Net cash provided by (used in) financing activities	—	12	(321)	(484)
Net change in cash and cash equivalents	\$ 24	\$ 23	\$ (77)	\$ (359)

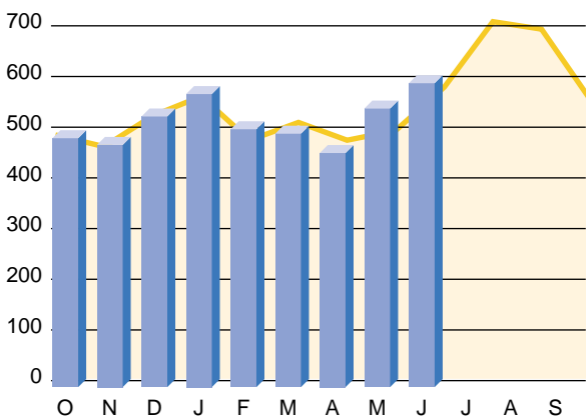
Total TVA Generation

billions of kwh



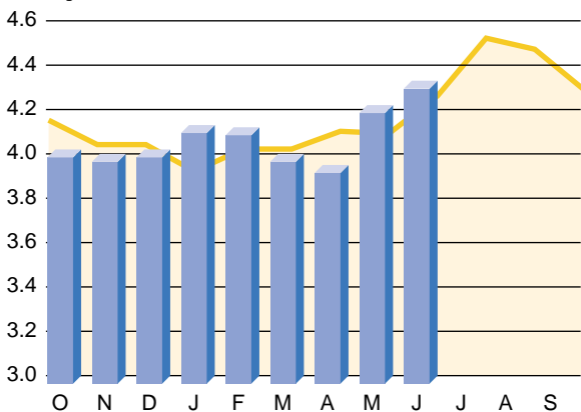
Total Electric Revenue

millions of dollars



Average Revenue

cents per kwh



Tennessee Valley Authority
 400 West Summit Hill Drive
 Knoxville, Tennessee 37902-1499

■ Fiscal Year 2000
 ■ Fiscal Year 1999