

# 1999 Third Quarter Report

P O W E R P R O G R A M



During the third quarter, TVA demonstrated its dedication to remaining competitive in a restructured electric industry by continuing its outstanding operational performance. TVA's Sequoyah Nuclear Plant Unit 2 set a third straight world refueling record for plants of similar design by returning to service in 23 days. Also, following a refueling outage, at the Brown's Ferry Nuclear Plant, Unit 2 was reconnected to the power system with five percent more generating capacity and an extended operating cycle, improving the overall efficiency of the plant.

TVA continued to look for innovative ways to provide low-cost, reliable power to meet the Valley's growth demands while improving the quality of life for the people of the Tennessee Valley. For example, TVA and the city of Memphis recently signed a 20-year partnership agreement that allows TVA to use gases emitted from the city's wastewater-treatment plant to produce electricity at TVA's Allen Fossil Plant. This biogas project will eliminate greenhouse gases from the atmosphere and improve the air quality in the city of Memphis, while simultaneously reducing TVA's fuel costs and generating revenue for the city.

Another way that TVA is serving the public interests is through the creation of the Public Power Institute. The Institute, which is part of the Administration's Sustainable America initiative, will serve as a think tank on public policies and strategic positions critical to the future of sustainable energy development. It will be used by TVA and others in the energy community to achieve advancements in energy supply technologies, end-use efficiency, and environmental protections.

In June, TVA established the Regional Resource Stewardship Council to provide input to TVA on

policies, practices and priorities related to the unified development of resources in the Valley. This citizen's advisory council will include up to 20 representatives of both public and private organizations, seven of which will be nominated by the Governors of the Valley states.

TVA's vision for the public good in the energy industry is growing in importance and value as the pace of electric utility restructuring accelerates. TVA is well positioned to serve as a yardstick for energy production and transmission by which the performance of all power companies can be measured.



Craven Crowell

**Financial Highlights** (millions)

<i>Nine Months Ended June 30</i>	<u>1999</u>	<u>1998</u>
Operating revenues	\$ 4,609	\$ 4,765
Operating expenses	<u>(3,552)</u>	<u>(3,201)</u>
Operating income	1,057	1,564
Other (expense) income, net	—	(3)
Interest expense	<u>(1,336)</u>	<u>(1,474)</u>
Net (loss) income before cumulative effect of change in accounting principle	(279)	87
Cumulative effect of change in accounting principle	<u>217</u>	<u>—</u>
Net (loss) income	<u>\$ (62)</u>	<u>\$ 87</u>

**Sales of Electricity** (millions - kWh)

<i>Nine Months Ended June 30</i>	<u>1999</u>	<u>1998</u>
Municipalities and cooperatives	86,560	87,536
Industries directly served	17,796	13,876
Federal agencies and other utilities	<u>7,544</u>	<u>18,131</u>
Total sales of electricity	<u>111,900</u>	<u>119,543</u>

## Results of Operations

TVA had a net loss of \$28 million for the third quarter of 1999, a decline of \$71 million from the net income of \$43 million for the third quarter of 1998. TVA's net loss for the nine months ended June 30, 1999 amounted to \$62 million, a decline of \$149 million from the net income of \$87 million for the same period last year.

### Operating Revenues

Operating revenues for the three months ended June 30, 1999, of \$1,567 million were \$77 million lower than operating revenues for the same period last year. Fiscal year-to-date operating revenues decreased \$156 million from \$4,765 million in 1998 to \$4,609 million in 1999. This year-to-date decline is primarily attributable to a reduction in wholesale sales to other utilities related to mild weather and a weaker spot market for power during 1999.

### Operating Expenses

Operating expenses increased \$97 million from \$1,057 million for the three months ended June 30, 1998 to \$1,154 million for the same period of 1999. This increase is primarily attributable to additional amortization of regulatory assets in 1999. Operating expenses for the nine months ended June 30, 1999 were \$3,552 million compared with \$3,201 million for the same period last year. The \$351 million increase was primarily due to a \$217 million charge for the acceleration of the amortization of regulatory assets in December, 1998 (see Accounting Changes below), coupled with an \$83 million increase in the amortization of regulatory assets attributable to the reclassification of certain nuclear fuel costs.

### Interest Expense

Net interest expense declined \$44 million and \$138 million for the three months and nine months ended June 30, 1999, respectively, compared with the same periods of 1998. These reductions largely reflect the savings associated with refinancing \$3.2 billion of debt formerly held by the Federal Financing Bank.

### Accounting Changes

TVA changed its accounting policy regarding the method for determining the market-related value of pension assets—resulting in a one-time gain of approximately \$217 million—which is presented on the Statement of Income under the caption “Cumulative effect of change in accounting principle.” Also effective October 1, 1998, the TVA Board authorized a change in the amortization policy for regulatory assets to provide for adjusting periodic amortization amounts as necessary to achieve annual earnings levels set by the Board of Directors in connection with the rate review. In accordance with the revised policy, TVA accelerated amortization of certain regulatory assets by a corresponding \$217 million during December 1998 (see Operating Expenses above).

## Balance Sheets (unaudited)

	June 30 1999	September 30 1998
(MILLIONS)		
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 32	\$ 391
Accounts receivable	624	796
Inventories at average cost and other		
Fuel	170	153
Other	<u>320</u>	<u>316</u>
Total current assets	1,146	1,656
<b>Property, plant, and equipment</b>		
Completed plant	29,366	29,055
Less accumulated depreciation	<u>(8,571)</u>	<u>(7,945)</u>
Net completed plant	20,795	21,110
Construction in progress	702	548
Deferred nuclear generating units	6,317	6,311
Nuclear fuel and capital leases	<u>601</u>	<u>922</u>
Total property, plant, and equipment	28,415	28,891
<b>Investment funds</b>	791	578
<b>Deferred charges and other assets</b>		
Loans and other long-term receivables	121	104
Debt issue and reacquisition costs	924	861
Other deferred charges	<u>1,621</u>	<u>1,525</u>
Total deferred charges and other assets	<u>2,666</u>	<u>2,490</u>
<b>Total assets</b>	<u>\$ 33,018</u>	<u>\$ 33,615</u>
<b>LIABILITIES AND PROPRIETARY CAPITAL</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 434	\$ 521
Accrued liabilities	160	175
Accrued interest	359	487
Discount notes	1,477	1,757
Current maturities of long-term debt	<u>1,000</u>	<u>1,500</u>
Total current liabilities	3,430	4,440
<b>Other liabilities</b>	2,196	2,007
<b>Long-term debt</b>		
Public bonds—senior	22,796	19,127
Federal Financing Bank—senior	—	3,200
Public bonds—subordinated	1,100	1,100
Unamortized discount and other	<u>(547)</u>	<u>(407)</u>
Total long-term debt	23,349	23,020
<b>Proprietary capital</b>		
Appropriation investment	553	568
Retained earnings	<u>3,490</u>	<u>3,580</u>
Total proprietary capital	<u>4,043</u>	<u>4,148</u>
<b>Total liabilities and proprietary capital</b>	<u>\$ 33,018</u>	<u>\$ 33,615</u>

## Statements of Income (unaudited)

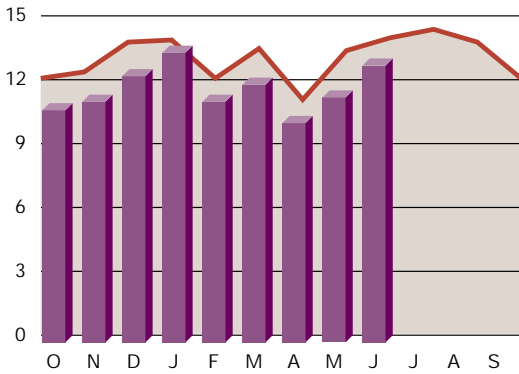
	Three Months Ended June 30		Nine Months Ended June 30	
	1999	1998	1999	1998
	(MILLIONS)		(MILLIONS)	
<b>Operating revenues</b>				
Sales of electricity				
Municipalities and cooperatives	\$ 1,307	\$ 1,323	\$ 3,872	\$ 3,903
Industries directly served	168	135	474	377
Federal agencies and other utilities	70	165	209	430
Other	<u>22</u>	<u>21</u>	<u>54</u>	<u>55</u>
Total operating revenues	1,567	1,644	4,609	4,765
<b>Operating expenses</b>				
Fuel and purchased power	436	461	1,204	1,283
Operating and maintenance	349	271	1,025	945
Depreciation and amortization	295	259	1,101	776
Tax-equivalents	<u>74</u>	<u>66</u>	<u>222</u>	<u>197</u>
Total operating expenses	<u>1,154</u>	<u>1,057</u>	<u>3,552</u>	<u>3,201</u>
Operating income	413	587	1,057	1,564
Other income (expense), net	<u>1</u>	<u>(58)</u>	<u>—</u>	<u>(3)</u>
Income before interest expense	414	529	1,057	1,561
<b>Interest expense</b>				
Interest on debt	436	476	1,319	1,453
Amortization of debt discount, issue, and reacquisition costs, net	15	22	43	62
Allowance for funds used during construction	<u>(9)</u>	<u>(12)</u>	<u>(26)</u>	<u>(41)</u>
Net interest expense	<u>442</u>	<u>486</u>	<u>1,336</u>	<u>1,474</u>
Net (loss) income before cumulative effect of change in accounting principle	(28)	43	(279)	87
Cumulative effect of change in accounting principle	<u>—</u>	<u>—</u>	<u>217</u>	<u>—</u>
Net (loss) Income	<u>\$ (28)</u>	<u>\$ 43</u>	<u>\$ (62)</u>	<u>\$ 87</u>

## Statements of Cash Flows (unaudited)

<b>Cash flows from operating activities</b>				
Net (loss) income	\$ (28)	\$ 43	\$ (62)	\$ 87
Net items not requiring cash	356	330	1,035	976
Other changes, net	<u>(109)</u>	<u>(85)</u>	<u>(175)</u>	<u>(217)</u>
Net cash provided by operations	219	288	798	846
<b>Cash flows from investing activities</b>				
Construction expenditures	(199)	(161)	(549)	(401)
Allowance for funds used during construction	9	12	26	41
Other, net	<u>(18)</u>	<u>(76)</u>	<u>(150)</u>	<u>(111)</u>
Net cash used in investing activities	(208)	(225)	(673)	(471)
<b>Cash flows from financing activities</b>				
Borrowings, net	126	(410)	(316)	(573)
Other	<u>(114)</u>	<u>(55)</u>	<u>(168)</u>	<u>140</u>
Net cash provided by (used in) financing activities	12	(465)	(484)	(433)
Net change in cash and cash equivalents	<u>\$ 23</u>	<u>\$ (402)</u>	<u>\$ (359)</u>	<u>\$ (58)</u>

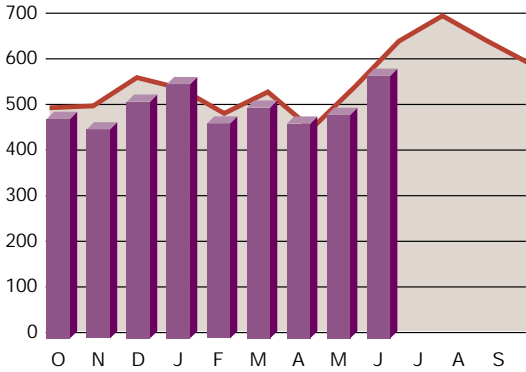
## Total TVA Generation

billions of kwh



## Total Electric Revenue

millions of dollars



## Average Revenue

cents per kwh

