

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

*2001 Third*  
**Quarter**  
*Report*



## Letter from the Chairman

During the third quarter, TVA continued to deliver value to the people of the Tennessee Valley through achievements in operational performance, financial flexibility, and public service.

TVA reported net income of \$144 million for the nine months ending June 30, an increase of \$37 million over the same period last year. Net cash from operations was up \$310 million for the nine months ending June 30, compared to the same period in 2000.

TVA received national acclaim when it was named the 2001 Rochester Institute of Technology/ *USA Today* Quality Cup government winner for improvements made in key operational processes. These improvements—the result of employees' teamwork—have generated about \$30 million in annual savings resulting from more accurate and timely data using state-of-the-art computer models.

TVA's solid financial performance ensures that the price of power is competitive today and will remain competitive in the future. A report issued in June compared TVA's 1999 retail prices with those of 12 investor-owned utilities in the seven states that border TVA. The results showed that average retail prices in the TVA service area were 8 percent below the average of utilities in the surrounding states.

TVA continues to lead the way in developing new technologies for energy production, delivery, and use in harmony with the environment. On June 5,

TVA added an additional solar power site in the Valley, bringing the total to ten. By stimulating public interest in and demand for solar power, TVA intends to encourage further technological development that could help bring the cost down and increase environmentally beneficial generation over time.

TVA is dedicated to meeting the region's electricity needs affordably and reliably, while protecting the environment and supporting a vibrant economy that the people of the Tennessee Valley desire and deserve.



Glenn L. McCullough, Jr.

### Financial Highlights (millions)

<i>Nine Months Ended June 30</i>	<u>2001</u>	<u>2000</u>
Operating revenues	\$ 5,100	\$ 4,789
Operating expenses	<u>(3,957)</u>	<u>(3,390)</u>
Operating income	1,143	1,399
Other income, net	242	6
Interest expense	<u>(1,241)</u>	<u>(1,298)</u>
<b>Net income</b>	<b>\$ 144</b>	<b>\$ 107</b>

### Sales of Electricity (millions - kWh)

<i>Nine Months Ended June 30</i>	<u>2001</u>	<u>2000</u>
Municipalities and cooperatives	94,038	89,317
Industries directly served	18,250	17,181
Federal agencies and other utilities	<u>6,601</u>	<u>8,954</u>
<b>Total sales of electricity</b>	<b>118,889</b>	<b>115,452</b>

## Results of Operations

TVA had a net loss of \$25 million for the third quarter of 2001, an increase of \$20 million from the net loss of \$5 million for the third quarter of 2000. TVA's net income for the nine months ended June 30, 2001 amounted to \$144 million, an increase of \$37 million from the net income of \$107 million for the same period last year.

### Operating Revenues

Operating revenues for the three months ended June 30, 2001, were \$1,627 million compared with \$1,648 million for the same period last year. Fiscal year-to-date operating revenues were \$5,100 million compared with \$4,789 million for the same period last year. The \$311 million increase was primarily due to an increase in energy sales of approximately 3.4 billion kWh (or 3.0 percent) primarily reflecting cold weather experienced during the winter of fiscal year 2001.

### Operating Expenses

Operating expenses increased \$34 million from \$1,222 million for the three months ended June 30, 2000 to \$1,256 million for the same period of 2001. Operating expenses for the nine months ended June 30, 2001 were \$3,957 million compared with \$3,390 million for the same period last year. These increases were primarily due to a one-time charge in excess of \$200 million for the acceleration of the amortization of regulatory assets in March 2001, an increase in depreciation due to the addition of combustion turbines placed in service during 2001 and increased weather related fuel and purchased power costs.

### Other Income

The increase in net other income of \$236 million for the nine months ended June 30, 2001, as compared with the same period of 2000, includes the receipt of an amount in excess of \$200 million under settlement of litigation involving a power purchase contract.

### Interest Expense

Net interest expense declined \$33 million and \$57 million for the three months and nine months ended June 30, 2001, respectively, as compared with the same periods of 2000. These reductions reflect lower average interest rates and a lower level of total outstanding debt during the first nine months of fiscal year 2001.

## Financial Position

Net cash provided by operations decreased \$49 million for the three months but increased \$310 million for the nine months ended June 30, 2001, respectively, as compared with the same periods of 2000. These increases primarily reflect the cash receipt of a litigation settlement (see Other Income above), coupled with improved results of operations.

Cash flows provided by financing activities increased \$408 million for the three months ended June 30, while cash flows used by financing activities increased \$247 million for the nine months ended June 30, 2001, as compared with the same periods of 2000. These changes reflect an increase in net borrowings of \$394 million for the three months ended June 30 and a decrease of \$384 million for the nine months ended 2001 as compared with the same periods of 2000.

## Balance Sheets (unaudited)

	June 30 2001	September 30 2000
	(MILLIONS)	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 390	\$ 348
Accounts receivable	588	688
Inventories (at average cost) and other		
Fuel	161	141
Other	<u>261</u>	<u>249</u>
<b>Total current assets</b>	<b>1,400</b>	1,426
<b>Property, plant, and equipment</b>		
Completed plant	30,622	30,157
Less accumulated depreciation	<u>(10,120)</u>	<u>(9,520)</u>
Net completed plant	20,502	20,637
Construction in progress	860	793
Deferred nuclear generating units	6,329	6,325
Nuclear fuel and capital leases	<u>512</u>	<u>559</u>
<b>Total property, plant, and equipment</b>	<b>28,203</b>	28,314
<b>Investment funds</b>	<b>727</b>	840
<b>Deferred charges and other assets</b>		
Loans and other long-term receivables	132	144
Debt issue and reacquisition costs	1,298	1,302
Other deferred charges	<u>911</u>	<u>1,155</u>
<b>Total deferred charges and other assets</b>	<b>2,341</b>	2,601
<b>Total assets</b>	<b><u>\$ 32,671</u></b>	<b><u>\$ 33,181</u></b>
<b>LIABILITIES AND PROPRIETARY CAPITAL</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 531	\$ 531
Accrued liabilities	174	200
Accrued interest	337	438
Short-term debt	2,409	1,274
Current maturities of long-term debt	<u>1,100</u>	<u>2,350</u>
<b>Total current liabilities</b>	<b>4,551</b>	4,793
<b>Other liabilities</b>	<b>2,514</b>	2,455
<b>Long-term debt</b>		
Public bonds—senior	21,972	21,261
Public bonds—subordinated	-	1,100
Unamortized discount and other	<u>(598)</u>	<u>(608)</u>
<b>Total long-term debt</b>	<b>21,374</b>	21,753
<b>Proprietary capital</b>		
Appropriation investment	513	528
Retained earnings	3,769	3,652
Accumulated other comprehensive loss	<u>(50)</u>	<u>-</u>
<b>Total proprietary capital</b>	<b>4,232</b>	4,180
<b>Total liabilities and proprietary capital</b>	<b><u>\$ 32,671</u></b>	<b><u>\$ 33,181</u></b>

## Statements of Operations (unaudited)

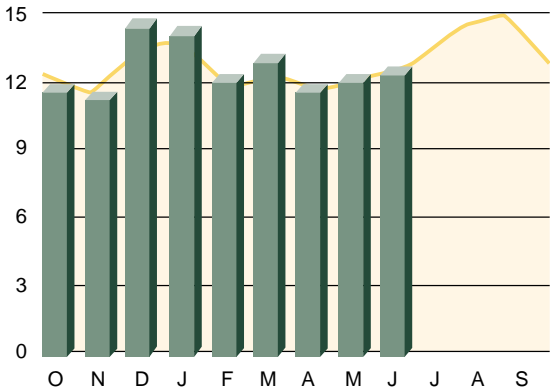
	Three Months Ended June 30		Nine Months Ended June 30	
	2001	2000	2001	2000
	(MILLIONS)		(MILLIONS)	
<b>Operating revenues</b>				
Sales of electricity				
Municipalities and cooperatives	\$ 1,352	\$ 1,362	\$ 4,280	\$ 4,000
Industries directly served	175	161	502	479
Federal agencies and other utilities	77	98	255	249
Other revenue	<u>23</u>	<u>27</u>	<u>63</u>	<u>61</u>
<b>Total operating revenues</b>	<b>1,627</b>	1,648	<b>5,100</b>	4,789
<b>Operating expenses</b>				
Fuel and purchased power	472	507	1,405	1,297
Operating and maintenance	382	343	1,108	979
Depreciation and amortization	324	296	1,210	885
Tax-equivalents	<u>78</u>	<u>76</u>	<u>234</u>	<u>229</u>
<b>Total operating expenses</b>	<b>1,256</b>	1,222	<b>3,957</b>	3,390
<b>Operating income</b>	<b>371</b>	426	<b>1,143</b>	1,399
Other income, net	<u>3</u>	<u>1</u>	<u>242</u>	<u>6</u>
<b>Income before interest expense</b>	<b>374</b>	427	<b>1,385</b>	1,405
<b>Interest expense</b>				
Interest on debt	393	422	1,219	1,271
Amortization of debt discount, issue, and recquisition costs, net	22	25	65	67
Allowance for funds used during construction	<u>(16)</u>	<u>(15)</u>	<u>(43)</u>	<u>(40)</u>
<b>Net interest expense</b>	<b>399</b>	432	<b>1,241</b>	1,298
<b>Net (loss) income</b>	<b>\$ (25)</b>	<b>\$ (5)</b>	<b>\$ 144</b>	<b>\$ 107</b>

## Statements of Cash Flows (unaudited)

	Three Months Ended June 30		Nine Months Ended June 30	
	2001	2000	2001	2000
	(MILLIONS)		(MILLIONS)	
<b>Cash flows from operating activities</b>				
Net (loss) income	\$ (25)	\$ (5)	\$ 144	\$ 107
Net items not requiring cash	369	397	1,319	1,053
Other changes, net	<u>(109)</u>	<u>(108)</u>	<u>(116)</u>	<u>(123)</u>
<b>Net cash provided by operations</b>	<b>235</b>	284	<b>1,347</b>	1,037
<b>Cash flows from investing activities</b>				
Construction expenditures	(225)	(209)	(673)	(646)
Allowance for funds used during construction	16	15	43	40
Other, net	<u>(56)</u>	<u>(66)</u>	<u>(107)</u>	<u>(187)</u>
<b>Net cash used in investing activities</b>	<b>(265)</b>	(260)	<b>(737)</b>	(793)
<b>Cash flows from financing activities</b>				
Net borrowings (repayments)	426	32	(512)	(128)
Other	<u>(18)</u>	<u>(32)</u>	<u>(56)</u>	<u>(193)</u>
<b>Net cash provided by (used in) financing activities</b>	<b>408</b>	-	<b>(568)</b>	(321)
<b>Net change in cash and cash equivalents</b>	<b>\$ 378</b>	<b>\$ 24</b>	<b>\$ 42</b>	<b>\$ (77)</b>

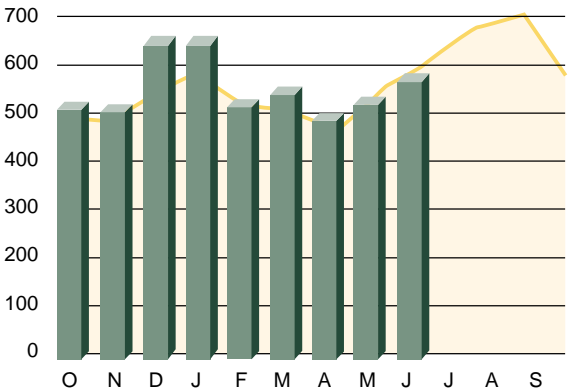
## Total TVA Generation

billions of kwh



## Total Electric Revenue

millions of dollars



## Average Revenue

cents per kwh

