



1999 **First Quarter** Report

POWER PROGRAM



TVA made solid progress during the first quarter on achieving the 10-year Business Plan's primary goal of ensuring that our price of power remains competitive in 2007. In addition to reducing the debt level from its peak by over \$1 billion at the end of fiscal year 1998, TVA will save more than \$100 million in annual interest costs from long-term refinancing of the \$3.2 billion of debt formerly held by the Federal Financing Bank.

TVA incurred a net loss of \$72 million for the first quarter of fiscal year 1999, compared with a net loss of \$15 million for the same period last year. Primarily this was due to a revenue shortfall resulting from milder weather compared to the first quarter last year.

TVA's outstanding 1998 operational performance continued through the first quarter of fiscal year 1999. Browns Ferry Nuclear Unit 3 completed work that added about 50 megawatts to the TVA system—enough power to supply about 19,000 homes. And TVA's Sequoyah Nuclear Unit 1 set a world refueling record in October for plants of similar design by completing a refueling outage in 29 days.

In December, the Department of Energy selected TVA to supply tritium from its Watts Bar and Sequoyah nuclear reactors. From its inception, TVA has had a role to play in national defense and is proud to continue this tradition.

TVA Director Johnny Hayes recently announced that he is resigning from the TVA Board of Directors effective January 29 to become the national finance chair of the presidential campaign committee for Vice President Al Gore. The TVA Act provides that

Board vacancies will be filled by appointment of the President with confirmation by the Senate.

TVA is dedicated to providing competitively priced power—now and in the future—while serving the public interest. We will continue to hone our operations and lower our costs to remain the power producer of choice for the people of the Tennessee Valley.



Craven Crowell

Financial Highlights (millions)

Three Months Ended December 31	1998	1997
Operating revenues	\$ 1,483	\$ 1,564
Operating expenses	(1,318)	(1,109)
Operating income	165	455
Other income (expense), net	(2)	27
Interest expense	(452)	(497)
Net (loss) income before cumulative effect of change in accounting principle	(289)	(15)
Cumulative effect of change in accounting principle	217	—
Net (loss) income	\$ (72)	\$ (15)

Sales of Electricity (millions - kWh)

Three Months Ended December 31	1998	1997
Municipalities and cooperatives	27,866	29,054
Industries directly served	5,578	4,742
Federal agencies and other	2,540	5,824
Total sales of electricity	35,984	39,620

Results of Operations

TVA incurred a net loss of \$72 million for the first quarter of fiscal year 1999 compared with a net loss of \$15 million for the same period last year.

Operating Revenues

Operating revenues for the three months ended December 31, 1998, were \$1,483 million compared with \$1,564 million for the same period last year. The \$81 million decline was primarily due to a reduction in energy sales of approximately 3.6 billion kWh (9.1 percent) reflecting significantly milder weather during the first quarter of fiscal year 1999 compared with the first quarter of fiscal year 1998. The decrease in volume, however, was partially offset by an increase in price due to a change in the sales mix.

Operating Expenses

Operating expenses for the three months ended December 31, 1998, were \$1,318 million compared with \$1,109 million for the same period last year. The \$209 million increase was primarily due to a \$217 million charge for the acceleration of the amortization of regulatory assets in the first quarter of fiscal year 1999 (see Accounting Changes below). Excluding this charge, operating expenses experienced a slight decline of \$8 million.

Interest Expense

Net interest expense declined \$45 million for the three months ended December 31, 1998, compared with the same period last year. This reduction primarily reflects the interest 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 (see Operating Expenses above).

Financial Position

Net cash provided by operations increased \$65 million from \$77 million to \$142 million for the three months ended December 31, 1997 and 1998, respectively. For the reporting period, the net loss increased by \$57 million and items not requiring cash increased by \$20 million. Working capital requirements, however, declined by \$102 million primarily as a result of a reduction in accounts receivable related to mild weather.

Net cash used in investing activities increased \$158 million from \$127 million for the first quarter of fiscal year 1998 to \$285 million for the first quarter of fiscal year 1999. Cash used for construction expenditures increased \$65 million for the reporting period, primarily due to construction beginning on new natural-gas combustion turbines for peaking capacity. In addition, cash paid for nuclear enrichment and fabrication services increased \$84 million due to the timing of services received.

Cash flows used in financing activities amounted to \$223 million for the three month period ending December 31, 1998. During the same period last year, cash flows from net borrowings were used to increase cash in anticipation of debt refinancings, while in the current year, cash was used to reduce debt by approximately \$185 million.

Balance Sheets (unaudited)

ASSETS	December 31	September 30
	1998	1998
	(MILLIONS)	
Current assets		
Cash and cash equivalents	\$ 25	\$ 391
Accounts receivable	584	796
Inventories at average cost and other		
Fuel	164	153
Other	319	316
Total current assets	1,092	1,656
Property, plant, and equipment		
Completed plant	29,159	29,055
Less accumulated depreciation	<u>(8,139)</u>	<u>(7,945)</u>
Net completed plant	21,020	21,110
Construction in progress	583	548
Deferred nuclear generating units	6,314	6,311
Nuclear fuel and capital leases	661	922
Total property, plant, and equipment	28,578	28,891
Investment funds	700	578
Deferred charges and other assets		
Loans and other long-term receivables	111	104
Debt issue and reacquisition costs	859	861
Other deferred charges	1,724	1,525
Total deferred charges and other assets	2,694	2,490
Total assets	\$ 33,064	\$ 33,615
LIABILITIES AND PROPRIETARY CAPITAL		
Current liabilities		
Accounts payable	\$ 379	\$ 521
Accrued liabilities	162	175
Accrued interest	350	487
Discount notes	2,113	1,757
Current maturities of long-term debt	2,500	1,500
Total current liabilities	5,504	4,440
Other liabilities	2,027	2,007
Long-term debt		
Public bonds—senior	20,787	19,127
Federal Financing Bank—senior	–	3,200
Public bonds—subordinated	1,100	1,100
Unamortized discount and other	<u>(416)</u>	<u>(407)</u>
Total long-term debt	21,471	23,020
Proprietary capital		
Appropriation investment	563	568
Retained earnings reinvested in power program	3,499	3,580
Total proprietary capital	4,062	4,148
Total liabilities and proprietary capital	\$ 33,064	\$ 33,615

Statements of Income (unaudited)

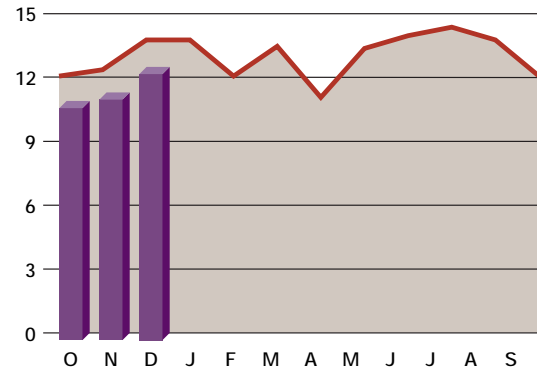
	Three Months Ended December 31	
	1998	1997
	(MILLIONS)	
Operating revenues		
Sales of electricity		
Municipalities and cooperatives	\$ 1,256	\$ 1,290
Industries directly served	143	127
Federal agencies and other	68	130
Other	<u>16</u>	<u>17</u>
Total operating revenues	1,483	1,564
Operating expenses		
Fuel and purchased power	373	428
Operating and maintenance	360	357
Depreciation and amortization	511	258
Tax-equivalents	<u>74</u>	<u>66</u>
Total operating expenses	1,318	1,109
Operating income	165	455
Other income (expense), net	<u>(2)</u>	<u>27</u>
Income before interest charges	163	482
Interest expense		
Interest on debt	446	494
Amortization of debt discount, issue, and reacquisition costs, net	14	19
Allowance for funds used during construction	<u>(8)</u>	<u>(16)</u>
Net interest expense	452	497
Net (loss) income before cumulative effect of change in accounting principle	(289)	(15)
Cumulative effect of change in accounting principle	<u>217</u>	<u>–</u>
Net (loss) Income	\$ (72)	\$ (15)

Statements of Cash Flows (unaudited)

Cash flows from operating activities		
Net (loss) income	\$ (72)	\$ (15)
Items not requiring cash	337	317
Other changes, net	<u>(123)</u>	<u>(225)</u>
Net cash provided by operations	142	77
Cash flows from investing activities		
Construction expenditures	(182)	(117)
Allowance for funds used during construction	8	16
Other, net	<u>(111)</u>	<u>(26)</u>
Net cash used in investing activities	(285)	(127)
Cash flows from financing activities		
Borrowings, net	(185)	397
Other	<u>(38)</u>	<u>298</u>
Net cash (used in) provided by financing activities	(223)	695
Net change in cash and cash equivalents	\$ (366)	\$ 645

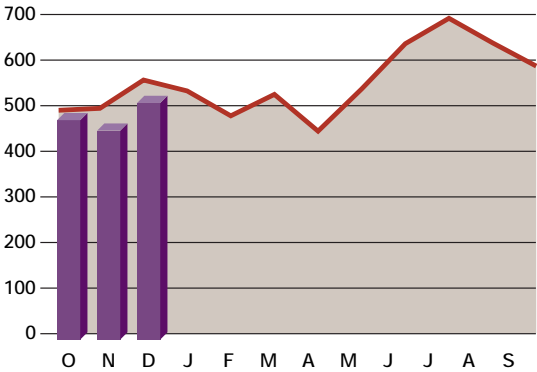
Total TVA Generation

billions of kwh



Total Electric Revenue

millions of dollars



Average Revenue

cents per kwh

