

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

1999 Second Quarter Report

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



On April 15, the Administration released its Comprehensive Electricity Competition Plan for deregulation of the electric-utility industry. The bill's provisions would permit TVA to continue providing reliable, low-cost power to the people of the Valley while maintaining our traditional river-management and stewardship roles. We believe the legislation treats Tennessee Valley residents fairly, and we are prepared to support it.

TVA updated its vision and values in February, reaffirming our historic mission of "Generating Prosperity for the Valley," and setting new goals for our employees. TVA's goals are to set the standard for improving the quality of life in the Valley by (1) supplying low-cost reliable power, (2) supporting a thriving river system, and (3) stimulating economic growth.

TVA has continued in setting standards for performance. We successfully completed a Year 2000 telecommunications drill conducted by the North American Electric Reliability Council as part of our ongoing preparations to ensure uninterrupted service into the new year. In February TVA's nuclear power units were ranked by *Nucleonics Week* among the top 20 performers in the United States and the top 50 worldwide. And for the third year in a row, two of our fossil plants were ranked by *Electric Light & Power* in the country's top 20 steam plants in plant efficiency.

TVA continues to reposition for the future through innovation. TVA has patented a cost-effective wastewater-treatment technology that efficiently removes pollutants from water using nature's own processes.

TVA also received high marks by *PC Week* for its innovative use of information technology.

TVA is dedicated to providing the financial flexibility, operational excellence, and superior customer service that the people of the Tennessee Valley have come to expect. We will continue to provide electric power competitively, efficiently and reliably while setting the standard for public service.



Craven Crowell

Financial Highlights (millions)

| Six Months Ended March 31 | 1999 | 1998 |
|--|----------------|--------------|
| Operating revenues | \$ 3,042 | \$ 3,121 |
| Operating expenses | (2,398) | (2,144) |
| Operating income | 644 | 977 |
| Other (expense) income, net | (1) | 55 |
| Interest expense | (894) | (988) |
| Net (loss) income before cumulative effect of change in accounting principle | (251) | 44 |
| Cumulative effect of change in accounting principle | 217 | — |
| Net (loss) income | \$ (34) | \$ 44 |

Sales of Electricity (millions - kWh)

| Six Months Ended March 31 | 1999 | 1998 |
|-----------------------------------|---------------|---------------|
| Municipalities and cooperatives | 57,314 | 57,858 |
| Industries directly served | 12,058 | 9,153 |
| Federal agencies and other | 5,320 | 12,492 |
| Total sales of electricity | 74,692 | 79,503 |

Results of Operations

TVA had a net income of \$38 million for the second quarter of 1999, a decline of \$21 million from the net income of \$59 million for the second quarter of 1998. TVA's net loss for the six months ended March 31, 1999 amounted to \$34 million, a decline of \$78 million from the net income of \$44 million for the same period last year.

Operating Revenues

Operating revenues for the three months ended March 31, 1999, of \$1,559 million were essentially unchanged from the same period last year. Fiscal year-to-date operating revenues decreased \$79 million from \$3,121 million in 1998 to \$3,042 million in 1999. This year-to-date decline is attributable to the weather-related reduction in kilowatt-hour sales of 6 percent from 80 billion kilowatt-hours in 1998 to 75 billion kilowatt-hours in 1999.

Operating Expenses

Operating expenses increased \$45 million from \$1,035 million for the three months ended March 31, 1998 to \$1,080 million for the same period of 1999. This increase in operating expenses is primarily attributable to the amortization of additional regulatory assets in 1999. Operating expenses for the six months ended March 31, 1999 were \$2,398 million compared with \$2,144 million for the same period last year. The \$254 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).

Interest Expense

Net interest expense declined \$49 million and \$94 million for the three months and six months ended March 31, 1999, respectively, as compared with the same periods of 1998. These reductions primarily reflect the interest savings associated with refinancing \$3.2 billion of debt formerly held by the Federal Financing Bank and other financing transactions. Average debt outstanding during the first six months of 1999 was \$800 million lower than the same period last year, saving interest expense of about \$94 million.

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)

| | March 31 1999 | September 30 1998 |
|--|-------------------------|-------------------------|
| (MILLIONS) | | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 9 | \$ 391 |
| Accounts receivable | 571 | 796 |
| Inventories at average cost and other | | |
| Fuel | 184 | 153 |
| Other | <u>321</u> | <u>316</u> |
| Total current assets | 1,085 | 1,656 |
| Property, plant, and equipment | | |
| Completed plant | 29,292 | 29,055 |
| Less accumulated depreciation | <u>(8,343)</u> | <u>(7,945)</u> |
| Net completed plant | 20,949 | 21,110 |
| Construction in progress | 581 | 548 |
| Deferred nuclear generating units | 6,316 | 6,311 |
| Nuclear fuel and capital leases | <u>626</u> | <u>922</u> |
| Total property, plant, and equipment | 28,472 | 28,891 |
| Investment funds | | |
| | 724 | 578 |
| Deferred charges and other assets | | |
| Loans and other long-term receivables | 113 | 104 |
| Debt issue and reacquisition costs | 851 | 861 |
| Other deferred charges | <u>1,693</u> | <u>1,525</u> |
| Total deferred charges and other assets | 2,657 | 2,490 |
| Total assets | <u>\$ 32,938</u> | <u>\$ 33,615</u> |
| LIABILITIES AND PROPRIETARY CAPITAL | | |
| Current liabilities | | |
| Accounts payable | \$ 363 | \$ 521 |
| Accrued liabilities | 154 | 175 |
| Accrued interest | 464 | 487 |
| Discount notes | 1,877 | 1,757 |
| Current maturities of long-term debt | <u>1,000</u> | <u>1,500</u> |
| Total current liabilities | 3,858 | 4,440 |
| Other liabilities | | |
| | 2,123 | 2,007 |
| Long-term debt | | |
| Public bonds—senior | 22,267 | 19,127 |
| Federal Financing Bank—senior | - | 3,200 |
| Public bonds—subordinated | 1,100 | 1,100 |
| Unamortized discount and other | <u>(495)</u> | <u>(407)</u> |
| Total long-term debt | 22,872 | 23,020 |
| Proprietary capital | | |
| Appropriation investment | 558 | 568 |
| Retained earnings reinvested in power program | <u>3,527</u> | <u>3,580</u> |
| Total proprietary capital | 4,085 | 4,148 |
| Total liabilities and proprietary capital | <u>\$ 32,938</u> | <u>\$ 33,615</u> |

Statements of Income (unaudited)

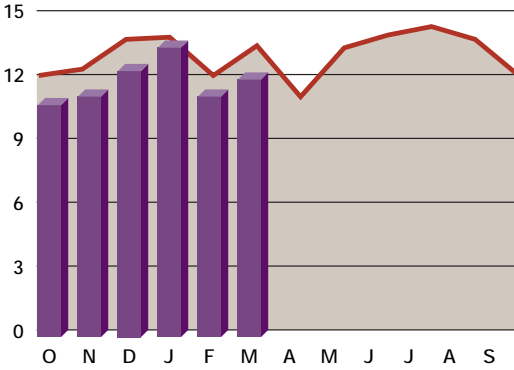
| | Three Months Ended March 31 | | Six Months Ended March 31 | |
|---|--------------------------------|-------------|------------------------------|-------------|
| | 1999 | 1998 | 1999 | 1998 |
| | (MILLIONS) | | (MILLIONS) | |
| Operating revenues | | | | |
| Sales of electricity | | | | |
| Municipalities and cooperatives | \$ 1,309 | \$ 1,290 | \$ 2,565 | \$ 2,580 |
| Industries directly served | 163 | 115 | 306 | 242 |
| Federal agencies and other | 71 | 135 | 139 | 265 |
| Other | <u>16</u> | <u>17</u> | <u>32</u> | <u>34</u> |
| Total operating revenues | 1,559 | 1,557 | 3,042 | 3,121 |
| Operating expenses | | | | |
| Fuel and purchased power | 395 | 394 | 768 | 822 |
| Operating and maintenance | 316 | 317 | 676 | 674 |
| Depreciation and amortization | 295 | 259 | 806 | 517 |
| Tax-equivalents | <u>74</u> | <u>65</u> | <u>148</u> | <u>131</u> |
| Total operating expenses | 1,080 | 1,035 | 2,398 | 2,144 |
| Operating income | 479 | 522 | 644 | 977 |
| Other income (expense), net | <u>1</u> | <u>28</u> | <u>(1)</u> | <u>55</u> |
| Income before interest charges | 480 | 550 | 643 | 1,032 |
| Interest expense | | | | |
| Interest on debt | 437 | 483 | 883 | 977 |
| Amortization of debt discount, issue, and reacquisition costs, net | 14 | 21 | 28 | 40 |
| Allowance for funds used during construction | <u>(9)</u> | <u>(13)</u> | <u>(17)</u> | <u>(29)</u> |
| Net interest expense | 442 | 491 | 894 | 988 |
| Net income (loss) before cumulative effect of change in accounting principle | 38 | 59 | (251) | 44 |
| Cumulative effect of change in accounting principle | <u>-</u> | <u>-</u> | <u>217</u> | <u>-</u> |
| Net Income (loss) | \$ 38 | \$ 59 | \$ (34) | \$ 44 |

Statements of Cash Flows (unaudited)

| | | | | |
|--|----------------|--------------|-----------------|--------------|
| Cash flows from operating activities | | | | |
| Net income (loss) | \$ 38 | \$ 59 | \$ (34) | \$ 44 |
| Net items not requiring cash | 342 | 329 | 679 | 646 |
| Other changes, net | <u>57</u> | <u>93</u> | <u>(66)</u> | <u>(132)</u> |
| Net cash provided by operations | 437 | 481 | 579 | 558 |
| Cash flows from investing activities | | | | |
| Construction expenditures | (168) | (123) | (350) | (240) |
| Allowance for funds used during construction | 9 | 13 | 17 | 29 |
| Other, net | <u>(21)</u> | <u>(9)</u> | <u>(132)</u> | <u>(35)</u> |
| Net cash used in investing activities | (180) | (119) | (465) | (246) |
| Cash flows from financing activities | | | | |
| Borrowings, net | (257) | (560) | (442) | (163) |
| Other | <u>(16)</u> | <u>(103)</u> | <u>(54)</u> | <u>195</u> |
| Net cash (used in) provided by financing activities | (273) | (663) | (496) | 32 |
| Net change in cash and cash equivalents | \$ (16) | \$ (301) | \$ (382) | \$ 344 |

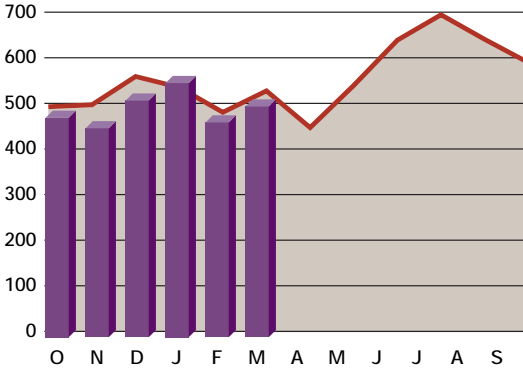
Total TVA Generation

billions of kwh



Total Electric Revenue

millions of dollars



Average Revenue

cents per kwh

