

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

Second Quarter Report



During the second quarter TVA announced the addition of new peaking capacity, which will allow TVA to continue offering competitively priced, dependable electricity. By June 2002, we will add 680 megawatts of peaking capacity by bringing eight additional combustion turbines on-line. This is in addition to our previously announced plans to add eight combustion turbines this summer, providing 600 megawatts of peaking capacity.

TVA's net income for the six months ending March 31 was \$112 million, an improvement of \$146 million from the net loss of \$34 million for the same period last year. These favorable results are attributable to a 2.7 percent increase in energy sales over the same period last year reflecting demand growth within the Tennessee Valley region, coupled with a \$59 million increase in pension income.

Everything we do at TVA to improve reliability and lower prices is directly related to our commitment to customer satisfaction. TVA demonstrated its commitment to meet the changing needs of its customers in an increasingly competitive marketplace. In April, we initiated a new "Wholesale Energy-to-Market" program for distributors of TVA power. Also in April, TVA began selling "green power" generated from solar, wind and landfill gas sources through Green Power Switchsm, one of three clean energy technologies nationwide to earn national accreditation.

TVA is firmly dedicated to supporting and enhancing the economic prosperity of the Tennessee Valley region. We will remain actively engaged in the national restructuring debate to promote legislation that is fair to all consumers and that fosters reliability, universal access, environmental stewardship, and economic development.



Craven Crowell
Chairman

Financial Highlights (millions)

Six Months Ended March 31	2000	1999
Operating revenues	\$ 3,141	\$ 3,042
Operating expenses	(2,168)	(2,398)
Operating income	973	644
Other income (expense), net	5	(1)
Interest expense	(866)	(894)
Cumulative effect of change in accounting principle	—	217
Net income (loss)	\$ 112	\$ (34)

Sales of Electricity (millions - kWh)

Six Months Ended March 31	2000	1999
Municipalities and cooperatives	58,801	57,314
Industries directly served	11,870	12,058
Federal agencies and other utilities	6,027	5,320
Total sales of electricity	76,698	74,692

Results of Operations

Operating Revenues

Operating revenues for the three months ended March 31, 2000, were \$1,613 million compared with \$1,559 million for the same period last year. Fiscal year-to-date operating revenues were \$3,141 million compared with \$3,042 million for the same period last year. The \$99 million increase was primarily due to an increase in energy sales of approximately 2 billion kWh (or 2.7 percent) reflecting demand growth within the Valley region.

Operating Expenses

Operating expenses increased \$26 million from \$1,080 million for the three months ended March 31, 1999 to \$1,106 million for the same period of fiscal year 2000. Operating expenses for the six months ended March 31, 2000 were \$2,168 million compared with \$2,398 million for the same period last year. The \$230 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).

Interest Expense

Net interest expense declined \$14 million and \$28 million for the three months and six months ended March 31, 2000, respectively, compared with the same periods of fiscal year 1999. These reductions reflect lower average interest rates and a lower level of total outstanding debt during the first six months of fiscal year 2000 compared with the same period of 1999.

1999 Accounting Changes

Results of operations for the six months ended March 31, 1999 reflect a one-time gain of \$217 million related to a change in accounting for pension costs, as well as a \$217 million change 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 and anticipates refinancing these notes as long-term debt as opportunities arise. During the second quarter, TVA refinanced a portion of the short-term notes by issuing \$250 million in Quarterly Income-Tiered Securities ("QUINTS"). The QUINTS consist of five different securities with maturities ranging from five to 30 years.

Balance Sheets (unaudited)

	March 31 2000	September 30 1999
(MILLIONS)		
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2	\$ 103
Accounts receivable	518	730
Inventories at average cost and other		
Fuel	167	178
Other	<u>305</u>	<u>307</u>
Total current assets	992	1,318
Property, plant, and equipment		
Completed plant	29,717	29,569
Less accumulated depreciation	<u>(9,199)</u>	<u>(8,762)</u>
Net completed plant	20,518	20,807
Construction in progress	973	730
Deferred nuclear generating units	6,323	6,320
Nuclear fuel and capital leases	<u>566</u>	<u>560</u>
Total property, plant, and equipment	28,380	28,417
Investment funds	855	731
Deferred charges and other assets		
Loans and other long-term receivables	129	122
Debt issue and reacquisition costs	1,349	1,188
Other deferred charges	<u>1,484</u>	<u>1,610</u>
Total deferred charges and other assets	2,962	2,920
Total assets	\$ 33,189	\$ 33,386
LIABILITIES AND PROPRIETARY CAPITAL		
Current liabilities		
Accounts payable	\$ 379	\$ 493
Accrued liabilities	191	178
Accrued interest	360	464
Short-term debt	3,490	982
Current maturities of long-term debt	<u>1,250</u>	<u>1,000</u>
Total current liabilities	5,670	3,117
Other liabilities	2,264	2,156
Long-term debt		
Public bonds—senior	20,379	23,294
Public bonds—subordinated	1,100	1,100
Unamortized discount and other	<u>(519)</u>	<u>(491)</u>
Total long-term debt	20,960	23,903
Proprietary capital		
Appropriation investment	538	548
Retained earnings	<u>3,757</u>	<u>3,662</u>
Total proprietary capital	4,295	4,210
Total liabilities and proprietary capital	\$ 33,189	\$ 33,386

Statements of Operations (unaudited)

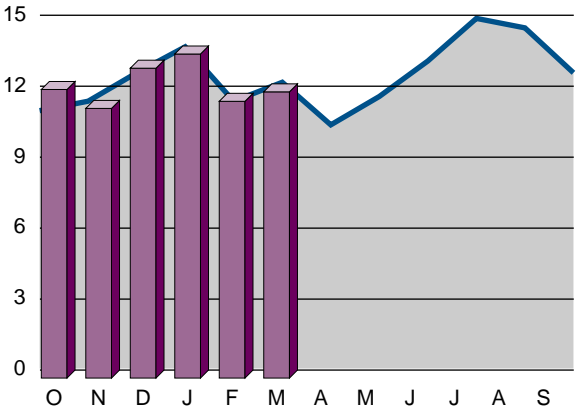
	Three Months Ended March 31		Six Months Ended March 31	
	2000	1999	2000	1999
	(MILLIONS)		(MILLIONS)	
Operating revenues				
Sales of electricity				
Municipalities and cooperatives	\$ 1,360	\$ 1,309	\$ 2,638	\$ 2,565
Industries directly served	163	163	318	306
Federal agencies and other utilities	73	71	151	139
Other revenue	<u>17</u>	<u>16</u>	<u>34</u>	<u>32</u>
Total operating revenues	1,613	1,559	3,141	3,042
Operating expenses				
Fuel and purchased power	404	395	790	768
Operating and maintenance	331	316	636	676
Depreciation and amortization	295	295	589	589
Tax-equivalents	76	74	153	148
Accelerated amortization	<u>—</u>	<u>—</u>	<u>—</u>	<u>217</u>
Total operating expenses	1,106	1,080	2,168	2,398
Operating income	507	479	973	644
Other income (expense), net	<u>2</u>	<u>1</u>	<u>5</u>	<u>(1)</u>
Income before interest expense and cumulative effect of change in accounting principle	509	480	978	643
Interest expense				
Interest on debt	419	437	849	883
Amortization of debt discount, issue, and reacquisition costs, net	22	14	42	28
Allowance for funds used during construction	<u>(13)</u>	<u>(9)</u>	<u>(25)</u>	<u>(17)</u>
Net interest expense	428	442	866	894
Cumulative effect of change in accounting principle	<u>—</u>	<u>—</u>	<u>—</u>	<u>217</u>
Net Income (loss)	\$ 81	\$ 38	\$ 112	\$ (34)

Statements of Cash Flows (unaudited)

Cash flows from operating activities				
Net income (loss)	\$ 81	\$ 38	\$ 112	\$ (34)
Net items not requiring cash	330	342	656	679
Other changes, net	<u>57</u>	<u>57</u>	<u>(15)</u>	<u>(66)</u>
Net cash provided by operations	468	437	753	579
Cash flows from investing activities				
Construction expenditures	(234)	(168)	(437)	(350)
Allowance for funds used during construction	13	9	25	17
Other, net	<u>(41)</u>	<u>(21)</u>	<u>(121)</u>	<u>(132)</u>
Net cash used in investing activities	(262)	(180)	(533)	(465)
Cash flows from financing activities				
Borrowings, net	(177)	(257)	(160)	(442)
Other	<u>(28)</u>	<u>(16)</u>	<u>(161)</u>	<u>(54)</u>
Net cash used in financing activities	(205)	(273)	(321)	(496)
Net change in cash and cash equivalents	\$ 1	\$ (16)	\$ (101)	\$ (382)

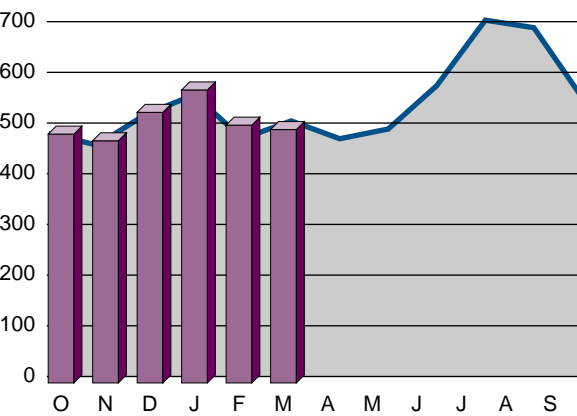
Total TVA Generation

billions of kwh



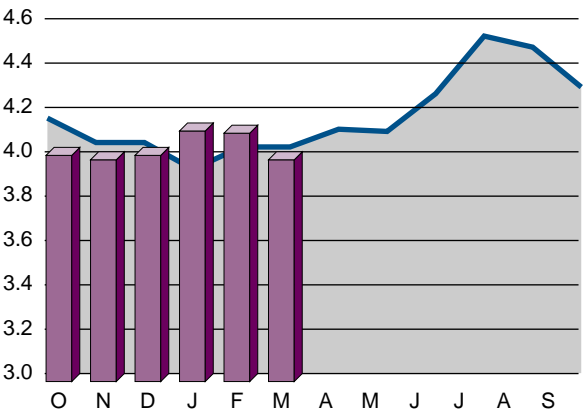
Total Electric Revenue

millions of dollars



Average Revenue

cents per kwh



Tennessee Valley Authority
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 Knoxville, Tennessee 37902-1499

■ Fiscal Year 2000
 ■ Fiscal Year 1999