

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 Second*  
Quarter  
*Report*



TVA continues to meet the challenges of an increasingly competitive marketplace, ending the second quarter of the fiscal year 2001 in sound financial condition.

Net income for the six months ending March 31 was \$169 million, an increase of \$57 million from the same period last year.

TVA has maintained a reliable supply of power to the Valley. Despite increased demand, interruption frequency has decreased 27 percent since 1995 with a further nine percent reduction planned in 2001. Today TVA's transmission system is 99.999 percent reliable.

TVA continues to demonstrate operational excellence. TVA's nuclear program continues to raise performance standards for the entire nuclear industry. In a recent ranking published by Nucleonics Week covering 1998-2000, Browns Ferry Unit 2 ranked second in the United States and fifth in the world for capacity factor.

TVA is dedicated to finding innovative ways to improve its performance and deliver value to Valley residents. Since TVA's Green Power Switch<sup>SM</sup> program was launched on Earth Day last year, consumers have demonstrated they are willing to pay a premium for renewable energy. During the first 11 months of the program, TVA and distributors of TVA power sold nearly 20 percent more units of green power than expected. To meet growing

demand, TVA plans to bring additional generation online this summer, for a total of about five megawatts of Green Power Switch<sup>SM</sup> generation.

TVA will continue to focus its attention and resources on the corporation's core businesses of electric power generation, transmission, river management, and economic development to deliver value to the people it serves in the Tennessee Valley.



Skila Harris



Glenn L. McCullough, Jr.

**Financial Highlights** (millions)

Six Months Ended March 31	2001	2000
Operating revenues	\$ 3,473	\$ 3,141
Operating expenses	(2,701)	(2,168)
Operating income	772	973
Other income, net	239	5
Interest expense	(842)	(866)
<b>Net income</b>	<b>\$ 169</b>	<b>\$ 112</b>

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

Six Months Ended March 31	2001	2000
Municipalities and cooperatives	64,121	58,801
Industries directly served	12,234	11,870
Federal agencies and other utilities	4,728	6,027
<b>Total sales of electricity</b>	<b>81,083</b>	<b>76,698</b>

## Results of Operations

TVA had net income of \$122 million for the second quarter of 2001, an increase of \$41 million from net income of \$81 million for the second quarter of 2000. TVA's net income for the six months ended March 31, 2001, amounted to \$169 million, an increase of \$57 million from net income of \$112 million for the same period last year.

### Operating Revenues

Operating revenues for the three months ended March 31, 2001, were \$1,758 million compared with \$1,613 million for the same period last year. Fiscal year-to-date operating revenues were \$3,473 million compared with \$3,141 million for the same period last year. The \$332 million increase was primarily due to an increase in energy sales of approximately 4.4 billion kWh (or 5.7 percent) primarily reflecting the record cold weather experienced during the winter of fiscal year 2001.

### Operating Expenses

Operating expenses increased \$349 million from \$1,106 million for the three months ended March 31, 2000, to \$1,455 million for the same period of 2001. Operating expenses for the six months ended March 31, 2001, were \$2,701 million compared with \$2,168 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 and increased weather related fuel and purchased power costs.

### Other Income

The increases in net other income of \$231 million and \$234 million for the three months and six months ended March 31, 2001, respectively, as compared with the same periods of 2000, include 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 \$14 million and \$24 million for the three months and six months ended March 31, 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 six months of fiscal year 2001.

## Financial Position

Net cash provided by operations increased \$401 million and \$359 million for the three months and six months ended March 31, 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 used in financing activities increased \$420 million and \$655 million for the three months and six months ended March 31, 2001, respectively, as compared with the same periods of 2000. These changes reflect a reduction in net borrowings of \$424 million and \$778 million, respectively.

## Balance Sheets (unaudited)

	March 31 2001	September 30 2000
	(MILLIONS)	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 12	\$ 348
Accounts receivable	532	688
Inventories at average cost and other		
Fuel	128	141
Other	248	249
<b>Total current assets</b>	<b>920</b>	<b>1,426</b>
<b>Property, plant, and equipment</b>		
Completed plant	30,292	30,157
Less accumulated depreciation	(9,976)	(9,520)
Net completed plant	20,316	20,637
Construction in progress	1,065	793
Deferred nuclear generating units	6,328	6,325
Nuclear fuel and capital leases	521	559
<b>Total property, plant, and equipment</b>	<b>28,230</b>	<b>28,314</b>
<b>Investment funds</b>	<b>683</b>	<b>840</b>
<b>Deferred charges and other assets</b>		
Loans and other long-term receivables	161	144
Debt issue and reacquisition costs	1,303	1,302
Other deferred charges	1,008	1,155
<b>Total deferred charges and other assets</b>	<b>2,472</b>	<b>2,601</b>
<b>Total assets</b>	<b>\$ 32,305</b>	<b>\$ 33,181</b>
<b>LIABILITIES AND PROPRIETARY CAPITAL</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 462	\$ 531
Accrued liabilities	183	200
Accrued interest	401	438
Short-term debt	1,694	1,274
Current maturities of long-term debt	1,100	2,350
<b>Total current liabilities</b>	<b>3,840</b>	<b>4,793</b>
<b>Other liabilities</b>	<b>2,441</b>	<b>2,455</b>
<b>Long-term debt</b>		
Public bonds—senior	21,758	21,261
Public bonds—subordinated	500	1,100
Unamortized discount and other	(590)	(608)
<b>Total long-term debt</b>	<b>21,668</b>	<b>21,753</b>
<b>Proprietary capital</b>		
Appropriation investment	518	528
Retained earnings	3,803	3,652
Accumulated other comprehensive income	35	—
<b>Total proprietary capital</b>	<b>4,356</b>	<b>4,180</b>
<b>Total liabilities and proprietary capital</b>	<b>\$ 32,305</b>	<b>\$ 33,181</b>

## Statements of Income (unaudited)

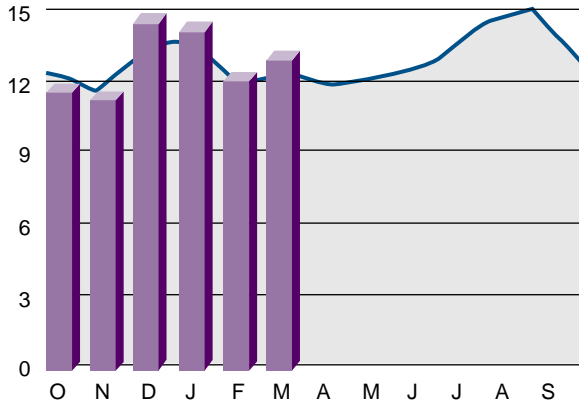
	Three Months Ended March 31		Six Months Ended March 31	
	2001 (MILLIONS)	2000 (MILLIONS)	2001 (MILLIONS)	2000 (MILLIONS)
<b>Operating revenues</b>				
Sales of electricity				
Municipalities and cooperatives	\$ 1,472	\$ 1,360	\$ 2,928	\$ 2,638
Industries directly served	163	163	327	318
Federal agencies and other utilities	104	73	178	151
Other revenue	<u>19</u>	<u>17</u>	<u>40</u>	<u>34</u>
<b>Total operating revenues</b>	<b>1,758</b>	<b>1,613</b>	<b>3,473</b>	<b>3,141</b>
<b>Operating expenses</b>				
Fuel and purchased power	453	404	933	790
Operating and maintenance	365	331	726	636
Depreciation and amortization	559	295	886	589
Tax-equivalents	<u>78</u>	<u>76</u>	<u>156</u>	<u>153</u>
<b>Total operating expenses</b>	<b>1,455</b>	<b>1,106</b>	<b>2,701</b>	<b>2,168</b>
<b>Operating income</b>	<b>303</b>	<b>507</b>	<b>772</b>	<b>973</b>
Other income, net	<u>233</u>	<u>2</u>	<u>239</u>	<u>5</u>
<b>Income before interest expense</b>	<b>536</b>	<b>509</b>	<b>1,011</b>	<b>978</b>
<b>Interest expense</b>				
Interest on debt	406	419	826	849
Amortization of debt discount, issue, and reacquisition costs, net	22	22	43	42
Allowance for funds used during construction	<u>(14)</u>	<u>(13)</u>	<u>(27)</u>	<u>(25)</u>
<b>Net interest expense</b>	<b>414</b>	<b>428</b>	<b>842</b>	<b>866</b>
<b>Net Income</b>	<b>\$ 122</b>	<b>\$ 81</b>	<b>\$ 169</b>	<b>\$ 112</b>

## Statements of Cash Flows (unaudited)

	Three Months Ended March 31		Six Months Ended March 31	
	2001 (MILLIONS)	2000 (MILLIONS)	2001 (MILLIONS)	2000 (MILLIONS)
<b>Cash flows from operating activities</b>				
Net income	\$ 122	\$ 81	\$ 169	\$ 112
Net items not requiring cash	595	330	950	656
Other changes, net	<u>152</u>	<u>57</u>	<u>(7)</u>	<u>(15)</u>
<b>Net cash provided by operations</b>	<b>869</b>	<b>468</b>	<b>1,112</b>	<b>753</b>
<b>Cash flows from investing activities</b>				
Construction expenditures	(239)	(234)	(448)	(437)
Allowance for funds used during construction	14	13	27	25
Other, net	<u>(22)</u>	<u>(41)</u>	<u>(51)</u>	<u>(121)</u>
<b>Net cash used in investing activities</b>	<b>(247)</b>	<b>(262)</b>	<b>(472)</b>	<b>(533)</b>
<b>Cash flows from financing activities</b>				
Borrowings, net	(601)	(177)	(938)	(160)
Other	<u>(24)</u>	<u>(28)</u>	<u>(38)</u>	<u>(161)</u>
<b>Net cash used in financing activities</b>	<b>(625)</b>	<b>(205)</b>	<b>(976)</b>	<b>(321)</b>
<b>Net change in cash and cash equivalents</b>	<b>\$ (3)</b>	<b>\$ 1</b>	<b>\$ (336)</b>	<b>\$ (101)</b>

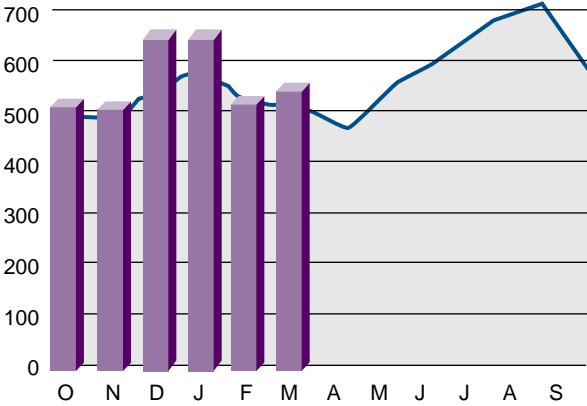
## Total TVA Generation

billions of kwh



## Total Electric Revenue

millions of dollars



## Average Revenue

cents per kwh

