

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 First
Quarter
Report



TVA's outstanding 2000 operational performance continued through the first quarter of fiscal year 2001. During the unusually cold weather in the Tennessee Valley region, TVA met new winter peak energy demands without service interruptions or power curtailments—demonstrating TVA's commitment to meet growing customer demand without disruption.

TVA's net income for the three months ending December 31, 2000, was \$47 million, an improvement of \$16 million over the first quarter of fiscal year 2000. These positive results are attributable to a 7.2 percent weather-related increase in energy sales over the same period last year, coupled with a \$10 million reduction in interest expense.

To meet the growing demand for safe, reliable and environmentally responsible electricity, TVA announced plans to build a first-of-its-kind energy-storage plant using the fuel cell technology called Regenesys. The 12-megawatt plant is expected to begin operation in 2003 and will store electricity during periods of low demand and provide it during times of peak demand—improving power quality and system reliability with minimal impact on the environment. TVA also signed an agreement with BP Amoco to install solar panels on new BP stations in Tennessee, increasing the amount of solar power generation for TVA's Green Power SwitchSM program.

In October, TVA was honored by the American Public Works Association as one of the ten most outstanding public-works projects of the 20th century. TVA was recognized for significantly affecting and improving the quality of life in North America. TVA remains firmly committed to its role of sustaining and improving the quality of life in the Tennessee Valley and across the nation.



Craven Crowell
Chairman

Financial Highlights (millions)

Three Months Ended December 31	2000	1999
Operating revenues	\$ 1,715	\$ 1,528
Operating expenses	(1,246)	(1,062)
Operating income	469	466
Other income, net	6	3
Interest expense	(428)	(438)
Net income	\$ 47	\$ 31

Sales of Electricity (millions - kWh)

Three Months Ended December 31	2000	1999
Municipalities and cooperatives	32,238	28,636
Industries directly served	6,062	5,876
Federal agencies and other utilities	2,076	3,144
Total sales of electricity	40,376	37,656

Results of Operations

TVA had net income of \$47 million for the first quarter of fiscal year 2001 compared with net income of \$31 million for the same period last year.

Operating Revenues

Operating revenues for the three months ended December 31, 2000, were \$1,715 million compared with \$1,528 million for the same period last year. The \$187 million increase was primarily due to a weather-related increase in energy sales of approximately 2.7 billion kWh (7.2 percent) and change in sales mix. The TVA service territory experienced record cold weather during December with TVA meeting a new winter peak demand of 26,719 megawatts during that period.

Operating Expenses

Operating expenses increased \$184 million from \$1,062 million for the three months ended December 31, 1999, to \$1,246 million for the three months ended December 31, 2000. Fuel and purchased power expense increased \$94 million during the period as a result of the increase in sales and generation, while operating and maintenance expenses increased \$56 million primarily due to planned and unplanned outages. In addition, depreciation and amortization expense increased \$33 million.

Interest Expense

Net interest expense declined \$10 million for the three months ended December 31, 2000, compared with the same period last year. This reduction primarily reflects a lower level of total outstanding debt during fiscal year 2001.

Financial Position

Net cash provided by operations decreased \$41 million from \$285 million to \$244 million for the three months ended December 31, 1999 and 2000, respectively. Net income increased \$16 million from \$31 million for the first quarter of fiscal year 2000 to \$47 million for the first quarter of fiscal year 2001. Items not requiring cash increased by \$29 million, and working capital requirements increased by \$86 million primarily as a result of an increase in accounts receivable.

Net cash used in investing activities declined by \$46 million from \$271 million for the first quarter of fiscal year 2000 to \$225 million for the first quarter of fiscal year 2001. Cash used for construction expenditures increased \$6 million for the reporting period and cash paid for nuclear enrichment and fabrication services declined \$38 million due to the timing of services received.

Cash flows used in financing activities increased \$236 million from \$116 million for the three months ended December 31, 1999, to \$352 million for the three months ended December 31, 2000. This change reflects a reduction in net borrowings of \$337 million in 2000 compared to an increase in debt of \$16 million for 1999. The reduction in other financing costs of \$117 million is due to premiums paid in the first quarter of fiscal year 2000 to redeem debt.

Effects of New Accounting Pronouncements

Effective October 1, 2000, TVA adopted the provisions of Statements of Financial Accounting Standards Nos. 133 and 138 which standardize the accounting for derivative instruments by requiring that an entity recognize those items as assets or liabilities in the statement of financial position and measure them at fair value. The effective portion of the derivatives' gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. As of December 31, 2000, TVA determined the effective portion of the gains related to the derivative contracts to be approximately \$34 million, which was recorded as accumulated other comprehensive income.

Subsequent Event

In January 2001, TVA recovered an amount in excess of \$200 million under settlement of litigation involving a power purchase contract.

Balance Sheets (unaudited)

ASSETS	December 31	September 30
	2000	2000
	(MILLIONS)	
Current assets		
Cash and cash equivalents	\$ 15	\$ 348
Accounts receivable	657	688
Inventories at average cost and other		
Fuel	105	141
Other	<u>249</u>	<u>249</u>
Total current assets	1,026	1,426
Property, plant, and equipment		
Completed plant	30,229	30,157
Less accumulated depreciation	<u>(9,753)</u>	<u>(9,520)</u>
Net completed plant	20,476	20,637
Construction in progress	916	793
Deferred nuclear generating units	6,326	6,325
Nuclear fuel and capital leases	<u>553</u>	<u>559</u>
Total property, plant, and equipment	28,271	28,314
Investment funds	775	840
Deferred charges and other assets		
Loans and other long-term receivables	148	144
Debt issue and reacquisition costs	1,305	1,302
Other deferred charges	<u>1,206</u>	<u>1,155</u>
Total deferred charges and other assets	2,659	2,601
Total assets	\$ 32,731	\$ 33,181
LIABILITIES AND PROPRIETARY CAPITAL		
Current liabilities		
Accounts payable	\$ 480	\$ 531
Accrued liabilities	182	200
Accrued interest	333	438
Short-term debt	2,444	1,274
Current maturities of long-term debt	<u>1,350</u>	<u>2,350</u>
Total current liabilities	4,789	4,793
Other liabilities	2,374	2,455
Long-term debt		
Public bonds—senior	20,757	21,261
Public bonds—subordinated	1,100	1,100
Unamortized discount and other	<u>(535)</u>	<u>(608)</u>
Total long-term debt	21,322	21,753
Proprietary capital		
Appropriation investment	523	528
Retained earnings	3,689	3,652
Accumulated other comprehensive income	<u>34</u>	<u>—</u>
Total proprietary capital	4,246	4,180
Total liabilities and proprietary capital	\$ 32,731	\$ 33,181

Statements of Income (unaudited)

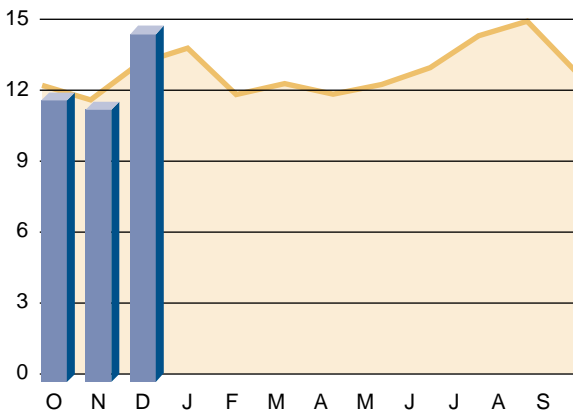
	Three Months Ended December 31	
	2000	1999
	(MILLIONS)	
Operating revenues		
Sales of electricity		
Municipalities and cooperatives	\$ 1,456	\$ 1,278
Industries directly served	164	155
Federal agencies and other utilities	74	78
Other revenue	<u>21</u>	<u>17</u>
Total operating revenues	1,715	1,528
Operating expenses		
Fuel and purchased power	480	386
Operating and maintenance	361	305
Depreciation and amortization	327	294
Tax-equivalents	<u>78</u>	<u>77</u>
Total operating expenses	1,246	1,062
Operating income	469	466
Other income, net	<u>6</u>	<u>3</u>
Income before interest expense	475	469
Interest expense		
Interest on debt	420	430
Amortization of debt discount, issue, and reacquisition costs, net	21	20
Allowance for funds used during construction	<u>(13)</u>	<u>(12)</u>
Net interest expense	428	438
Net income	\$ 47	\$ 31

Statements of Cash Flows (unaudited)

	Three Months Ended December 31	
	2000	1999
	(MILLIONS)	
Cash flows from operating activities		
Net income	\$ 47	\$ 31
Net items not requiring cash	355	326
Other changes, net	<u>(158)</u>	<u>(72)</u>
Net cash provided by operations	244	285
Cash flows from investing activities		
Construction expenditures	(209)	(203)
Allowance for funds used during construction	13	12
Other, net	<u>(29)</u>	<u>(80)</u>
Net cash used in investing activities	(225)	(271)
Cash flows from financing activities		
Borrowings, net	(337)	16
Other	<u>(15)</u>	<u>(132)</u>
Net cash used in financing activities	(352)	(116)
Net change in cash and cash equivalents	\$ (333)	\$ (102)

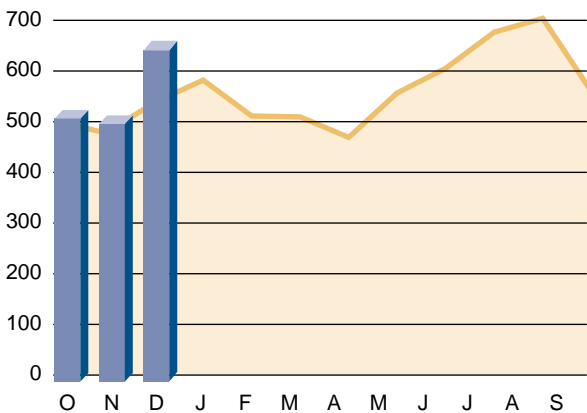
Total TVA Generation

billions of kwh



Total Electric Revenue

millions of dollars



Average Revenue

cents per kwh

