



*Tennessee Valley Authority*

# Meeting the Challenges of Tomorrow

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# Forward-Looking Statements

This presentation contains forward-looking statements relating to future events and future performance. Any statements regarding expectations, beliefs, plans, projections, estimates, objectives, intentions, assumptions or otherwise relating to future events or performance may be forward-looking.

In certain cases, forward-looking statements can be identified by the use of the words such as “may,” “will,” “should,” “expect,” “anticipate,” “believe,” “intend,” “project,” “plan,” “predict,” “assume,” “estimate,” “objective,” “possible,” “potential,” or other similar expressions.

Some examples of forward-looking statements include statements regarding TVA’s projections of future power and energy requirements; future costs related to environmental compliance; impacts of potential legislation on TVA and the likelihood of enactment of such legislation; strategic objectives; anticipated availability of nuclear waste storage facilities; projections of nuclear decommissioning costs; and impacts of pending litigation and various administrative orders which have been or may be issued.

Although TVA believes that the assumptions underlying the forward-looking statements are reasonable, TVA does not guarantee the accuracy of these statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things, new laws, regulations, and administrative orders, especially those related to the restructuring of the electric power industry and various environmental matters; increased competition among electric utilities; legal and administrative proceedings affecting TVA; the financial and economic environment; performance of TVA’s generation and transmission assets; fuel prices; demand for electricity; changes in technology; changes in the price of power; loss of any significant customers or suppliers; creditworthiness of counterparties; weather conditions and other natural phenomena; changes in accounting standards; and unforeseeable events. New factors emerge from time to time, and it is not possible for management to predict all such factors or to assess the extent to which any factor or combination of factors may impact TVA’s business or cause results to differ materially from those contained in any forward-looking statement.

TVA undertakes no obligation to update any forward-looking statement to reflect developments that occur after the statement is made.



# TVA Financial Review

- **FY 2004 Forecast & Highlights**
- **FY 2005 Budget**
  - *The Challenges Ahead*
  - *FY 2005 Budget*
- **Conclusion & Recommendation**



# FY 2004 Highlights

- **TVA continues to provide affordable, reliable power supply to the Valley**
- **Reduced Total Financing Obligations by \$275 million, and**
- **Remains committed to a financially strong TVA**

# FY 2004 Highlights

## *Meeting the Challenge*

### Operations

- TVA met a new record peak power demand of 29,878 megawatts on July 13, 2004.
- TVA, PJM, and MISO reached an agreement that will strengthen regional reliability by sharing grid data on a continuous basis.
- Generating units at Shawnee, Gallatin, and Widows Creek fossil plants set continuous-operation records.
- The forecast for Browns Ferry Unit 1 restart has been accelerated by several months.
- For the 2004 summer ozone season, TVA had 18 SCR systems in service to reduce NO<sub>x</sub> emissions, up from 8 SCR systems last ozone season.

# FY 2004 Highlights – *Continued*

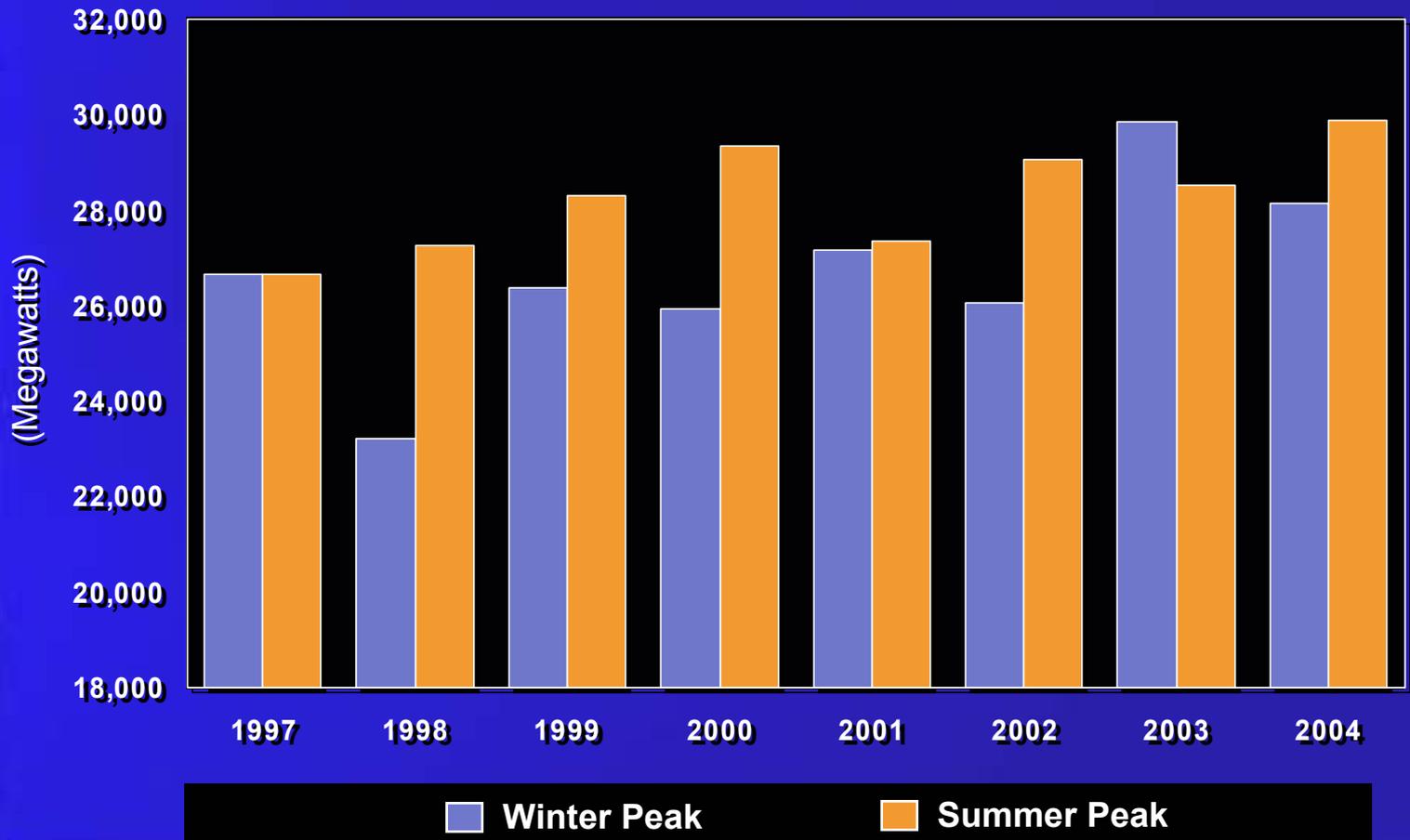
## *Meeting the Challenge*

### Financial

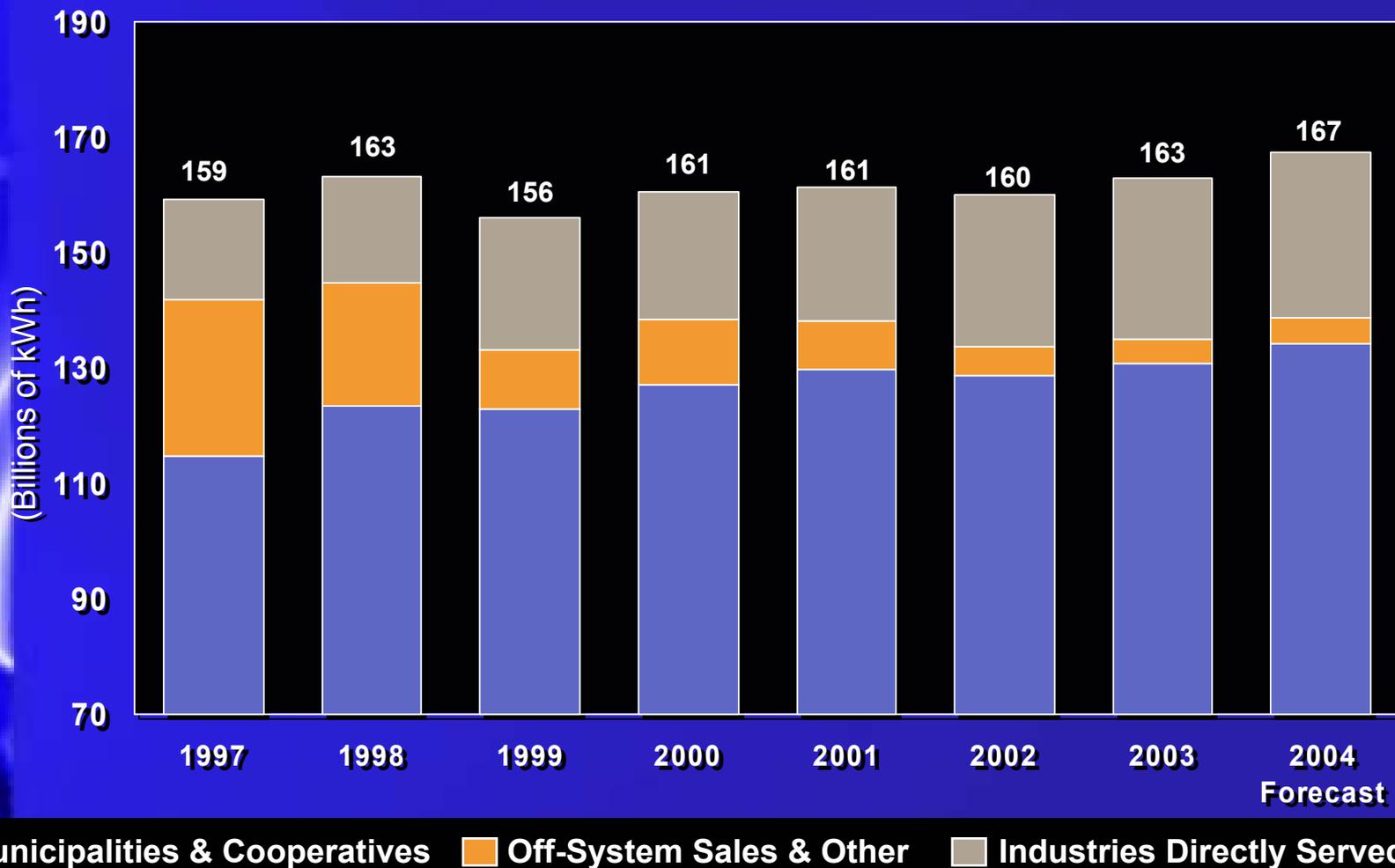
- Revenues are essentially on plan for the year, which includes the rate adjustment effective October 1, 2003 (collected \$304 million through August from the rate adjustment).
- Received proceeds of over \$1.5 billion from energy prepayment transactions
- Leveraged low interest rates to reduce planned interest expense by \$83 million
- Contributed \$22.5 million to the TVA pension plan
- As part of the Strategic Plan adopted in January, TVA performed comprehensive program reviews and has taken steps to reduce costs in 2004 and going forward to improve financial flexibility.

# New Record Peak Demand of 29,878 Megawatts

*Met July 13, 2004*

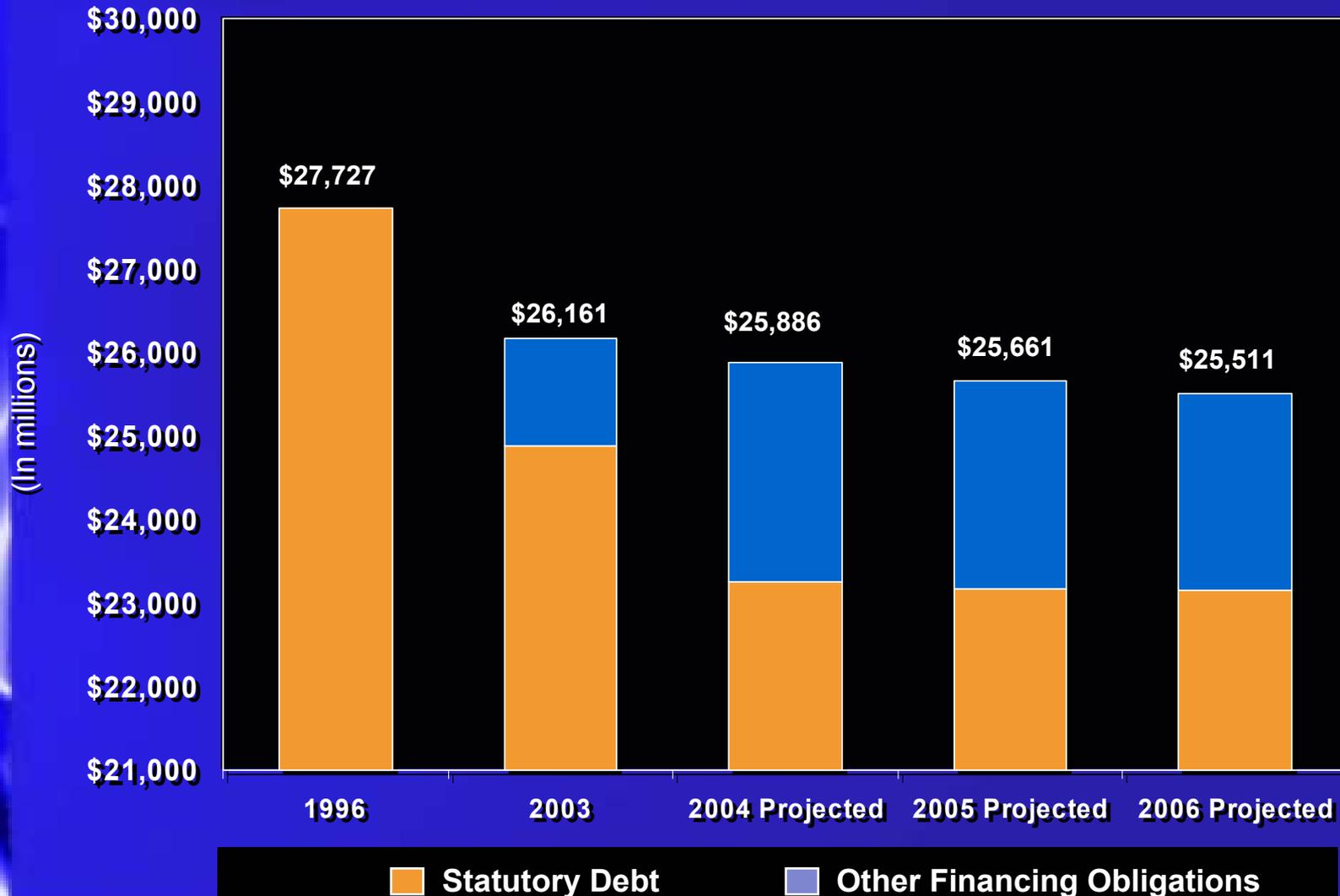


# Energy Sales Are Expected to Reach a Record 167 Billion kWh



# Change in Total Financing Obligations

Statutory Debt with Financing Obligations at Year End





# FY 2004 Forecast Income Statement

(Millions of Dollars)

|   | <u>2004<br/>Budget</u> | <u>2004<br/>Forecast</u> | <u>Fav/<br/>(Unfav)</u> |
|---|------------------------|--------------------------|-------------------------|
| <b>Revenue</b>                              | \$ 7,580               | \$ 7,525                 | \$ (55)                 |
| <b>Operating Expenses</b>                   |                        |                          |                         |
| Fuel & Purchased Power                      | (2,113)                | (2,110)                  | 3                       |
| Operating, Maintenance & Other              | (2,306)                | (2,275)                  | 31                      |
| Depreciation & Amortization                 | (1,119)                | (1,109)                  | 10                      |
| Tax Equivalents                             | <u>(343)</u>           | <u>(338)</u>             | <u>5</u>                |
| Subtotal                                    | <u>(5,881)</u>         | <u>(5,832)</u>           | <u>49</u>               |
| <b>Operating Income</b>                     | 1,699                  | 1,693                    | (6)                     |
| <b>Other Income</b>                         | 17                     | 80                       | 63                      |
| <b>Interest Expense (net)</b>               | <u>(1,394)</u>         | <u>(1,311)</u>           | <u>83</u>               |
| <b>Net Income before Accounting Changes</b> | <u><u>\$ 322</u></u>   | <u><u>\$ 462</u></u>     | <u><u>\$ 140</u></u>    |

# The Challenges Ahead

- **Challenges Ahead**
  - Cost pressures
  - Many uncontrollable risks
  - Need to retire financing obligations
- **Key Factors Making this a Challenge**
  - Environmental costs, reliability, refinancing risk, fuel costs, resource vs. load, etc.
- **Attacking the Challenge**
  - Focus on controllable costs

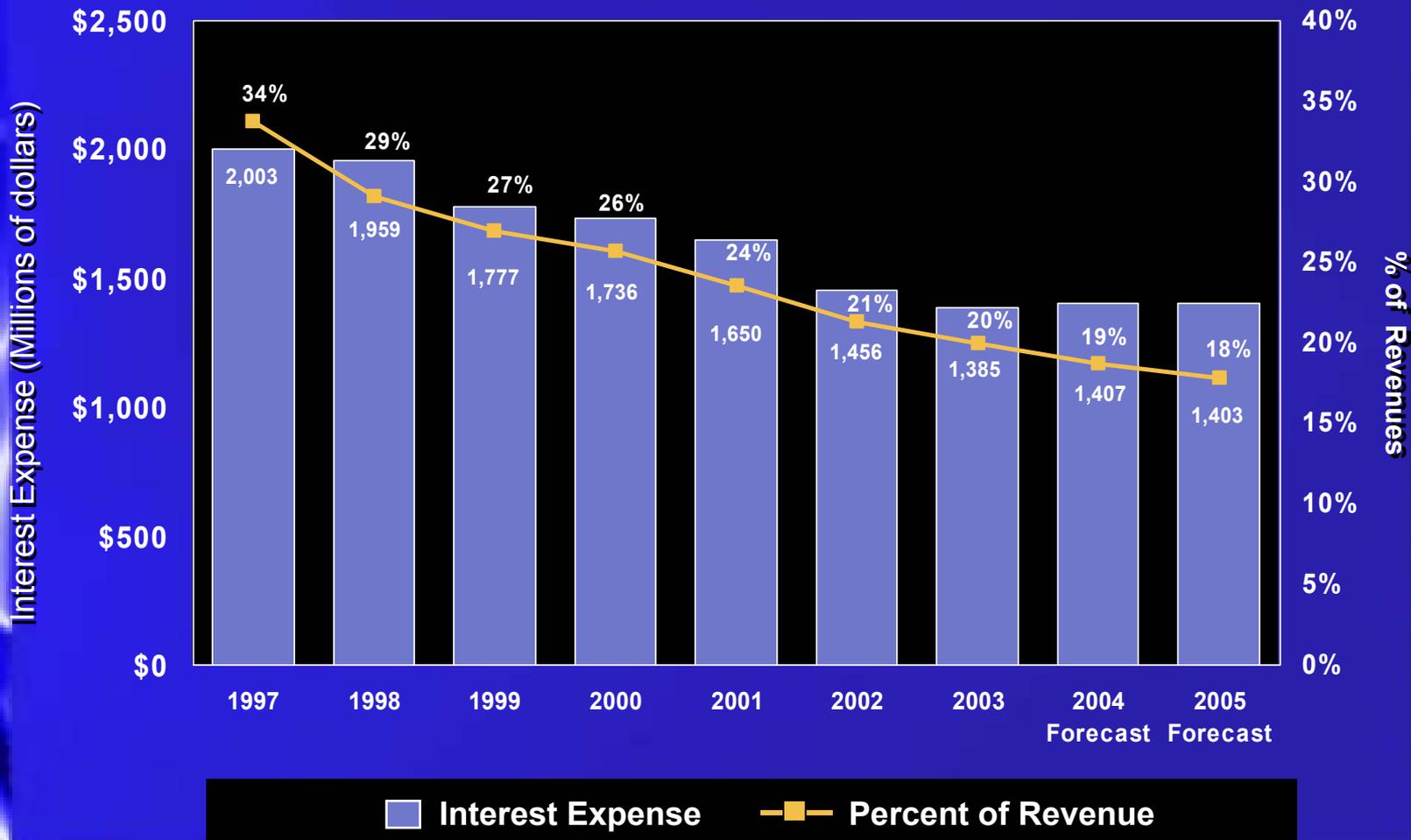


# 2005 Net Income Is Expected to be Unchanged from 2004

(Millions of Dollars)

|                                      | <u>2003<br/>Actual</u> | <u>2004<br/>Forecast</u> | <u>2005<br/>Budget</u> | <u>2006<br/>Projection</u> |
|--------------------------------------|------------------------|--------------------------|------------------------|----------------------------|
| Revenue                              | \$ 6,952               | \$ 7,525                 | \$ 7,875               | \$ 8,083                   |
| Operating Expenses                   |                        |                          |                        |                            |
| Fuel & Purchased Power               | (1,957)                | (2,110)                  | (2,383)                | (2,528)                    |
| Operating, Maintenance & Other       | (2,027)                | (2,275)                  | (2,243)                | (2,215)                    |
| Depreciation & Amortization          | (1,062)                | (1,109)                  | (1,149)                | (1,195)                    |
| Tax Equivalents                      | <u>(329)</u>           | <u>(338)</u>             | <u>(369)</u>           | <u>(381)</u>               |
| Total Operating Expenses             | <u>(5,375)</u>         | <u>(5,832)</u>           | <u>(6,144)</u>         | <u>(6,319)</u>             |
| Operating Income                     | 1,577                  | 1,693                    | 1,731                  | 1,764                      |
| Other Income                         | 12                     | 80                       | 34                     | 34                         |
| Interest Expense (net)               | <u>(1,350)</u>         | <u>(1,311)</u>           | <u>(1,305)</u>         | <u>(1,352)</u>             |
| Net Income before accounting changes | <u>\$ 239</u>          | <u>\$ 462</u>            | <u>\$ 460</u>          | <u>\$ 446</u>              |

# Interest on Total Financing Obligations as Percent of Revenue



# Clean Air Program Statistics

## Committed Clean Air Program\* Costs

- From 2002 to 2010 TVA will have incurred over \$1.3 billion in Clean Air capital costs and over \$22 million in Clean Air operating costs. Through the end of August 2004 TVA has recovered nearly \$304 million of this Clean Air investment.
- 2002 – 2010: ~\$2.9 billion capital, excluding interest
- Emission reductions
  - SO<sub>2</sub> reduction of 270,000 tons/yr
  - NO<sub>x</sub> reduction of 55,000 tons/yr
- 2003 – 2010: ~\$330 million in cumulative operating expenses related to the operation and maintenance of clean air equipment

\*Committed clean air program does not include projected expenditures for Clear Air Interstate Transport Rule of \$2.5 billion through 2022.

# FY 2005 Capital Investments

*Continues to reflect a high level of spending for Clean Air and New Generation*



# Investing in Reliability

*Expenditures of \$1.5 billion over seven years*

## Transmission Capital Investment



# Ensuring a Reliable Future

## *Results of Investing in Transmission Reliability*

- TVA's transmission system is one of the largest and most reliable in North America, maintaining 99.999 percent reliability to TVA's customers over the last five years.
- TVA has reduced the frequency of customer interruptions by 53 percent over the past eight years.
- TVA will meet 100 percent of its in-service-date targets for new customer delivery points in 2004.
- The installation of over 100 lightning-mitigation projects has helped reduce the number of lightning interruptions by over 45% since 1995.



# FY 2005 Cash Flow Statements

(Millions of Dollars)

|                                     | <u>2003<br/>Actual</u> | <u>2004<br/>Forecast</u> | <u>2005<br/>Projection</u> | <u>2006<br/>Projection</u> |
|-------------------------------------|------------------------|--------------------------|----------------------------|----------------------------|
| <b>Sources:</b>                     |                        |                          |                            |                            |
| Cash from Operations*               | \$ 1,581               | \$ 1,814                 | \$ 1,626                   | \$ 1,718                   |
| Proceeds from Fin. Oblig. A         | 765                    | 1,504                    | –                          | –                          |
| <b>Total Sources</b>                | <b>\$ 2,346</b>        | <b>\$ 3,318</b>          | <b>\$ 1,626</b>            | <b>\$ 1,718</b>            |
| <b>Uses:</b>                        |                        |                          |                            |                            |
| Capital Projects                    | \$(1,643)              | \$(1,491)                | \$(1,425)                  | \$(1,432)                  |
| Long-Term Investments               | (118)                  | –                        | –                          | –                          |
| Nuclear Fuel                        | (187)                  | (131)                    | (163)                      | (311)                      |
| Other (Uses)                        | 64                     | 121                      | 234                        | 221                        |
| Payments to U.S. Treasury           | (42)                   | (38)                     | (47)                       | (46)                       |
| Reduction in Total Fin. Oblig. B    | (420)                  | (1,779)                  | (225)                      | (150)                      |
| <b>Total Uses</b>                   | <b>\$(2,346)</b>       | <b>\$(3,318)</b>         | <b>\$(1,626)</b>           | <b>\$(1,718)</b>           |
| <b>Net Change in Fin. Oblig A+B</b> | <b><u>\$ 345</u></b>   | <b><u>\$ (275)</u></b>   | <b><u>\$ (225)</u></b>     | <b><u>\$ (150)</u></b>     |

\*Excludes proceeds from energy prepayments which are included in "Proceeds from Financing Obligations."

# FY 2005 Budget Summary

- TVA continues to maintain and improve System Reliability and invest in New Generation, while continuing our commitment to Clean Air.
- We are committed to a continued trend of reducing Total Financing Obligations and increasing Financial Flexibility by holding costs down everywhere we can and improving our efficiency while the cost of certain things we must buy (i.e., fuel, materials and purchased power) are rising quickly.

# Conclusion and Recommendation

- TVA fighting to hold down controllable cost
- System exhibiting good growth
- Pressures building with respect to uncontrollable costs
- Examining all options to hold down cost and increase financial flexibility
- Looking to capture the value from our long term contracts initiative
- No rate increase requested

**TVA**