

SUPPLEMENT TO OFFERING CIRCULAR DATED APRIL 9, 1992

\$1,000,000,000

Tennessee Valley Authority

8 1/4 % Power Bonds 1992 Series D, Due April 15, 2042

Footnote (1) to the table on the front cover of the Offering Circular dated April 9, 1992 (the "Offering Circular") is revised as follows:

"(1) Plus accrued interest from April 15, 1992. As to the initial public offering price, the 96.992% reflects the aggregate price at which the fully constituted Bonds and the Strips will be sold by the representatives and/or the Underwriters. The initial public offering price of the fully constituted Bonds is 96.935%."

In addition, the date from which interest shall accrue which also appears as "April 16, 1992" on pages C-3 and C-12 of the Offering Circular shall be revised to read "April 15, 1992".

The date of this Supplement is April 13, 1992.

\$1,000,000,000

Tennessee Valley Authority

8 1/4% Power Bonds 1992 Series D, Due April 15, 2042

Interest on the Power Bonds 1992 Series D, Due April 15, 2042 (the "Bonds") is payable on April 15 and October 15 of each year, commencing October 15, 1992. The Bonds will be redeemable, in whole only, on not less than 30 days' notice at any time on or after April 15, 2012 at the option of Tennessee Valley Authority ("TVA") at the applicable redemption prices set forth herein, together with accrued interest to the date fixed for redemption. The Bonds will be issued in minimum denominations of \$1,000 and integral multiples thereof in book-entry form only through the Federal Reserve Banks. See "Description of Bonds".

The Bonds may be separated ("stripped") into their separate Interest and Principal Components (as hereinafter defined) and maintained as such on the book-entry records of the Federal Reserve Banks. The components of each stripped Bond are: each future interest payment due on or prior to April 15, 2012 (each an "Interest Component"), and the principal payment, plus any interest payments due after April 15, 2012 (the "Principal Component" and together with the Interest Components hereinafter collectively referred to as the "Strips"). See "Description of Bonds"—"Stripping" and "Tax Matters"—"Tax Considerations Applicable to Strips".

TVA is a wholly owned corporate agency and instrumentality of the United States of America. Principal and interest will be payable solely from TVA's Net Power Proceeds as herein defined.

THE BONDS WILL NOT BE OBLIGATIONS OF, NOR WILL PAYMENT OF THE PRINCIPAL THEREOF OR THE INTEREST THEREON BE GUARANTEED BY, THE UNITED STATES OF AMERICA. THE BONDS ARE NOT REQUIRED TO BE REGISTERED UNDER THE SECURITIES ACT OF 1933. ACCORDINGLY, NO REGISTRATION STATEMENT HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. TVA IS NOT SUBJECT TO THE PERIODIC REPORTING REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934.

	<u>Initial Public Offering Price(1)</u>	<u>Underwriting Discount(2)</u>	<u>Proceeds to TVA(1)(3)</u>
Per Bond	96.992%	0.625%	96.367%
Total	\$969,920,000	\$6,250,000	\$963,670,000

- (1) Plus accrued interest, if any, from April 16, 1992.
- (2) TVA has agreed to indemnify the several Underwriters against certain civil liabilities. See "Underwriters".
- (3) Before deducting expenses payable by TVA estimated at \$100,000.

The Bonds are offered severally by the Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that delivery of the Bonds, in book-entry form, will be made through the book-entry system of the Federal Reserve Banks on or about April 16, 1992, against payment therefor in immediately available funds.

The representatives of the Underwriters may, but are not obligated to, strip some or all of the Bonds constituting the representatives' underwriting obligations immediately upon their acceptance of such Bonds and deliver Strips rather than Bonds to investors purchasing such Strips. Sales of Strips will be at negotiated prices. It is expected that delivery of any such Strips, in book-entry form, will be made through the book-entry system of the Federal Reserve Banks on or about April 20, 1992, against payment therefor in immediately available funds.

Goldman, Sachs & Co.
The First Boston Corporation
Lehman Brothers
Merrill Lynch & Co.
Morgan Stanley & Co.
 Incorporated
Salomon Brothers Inc

The date of this Offering Circular is April 9, 1992.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Offering Circular should be read in conjunction with TVA's current Information Statement, dated November 22, 1991, and any supplement thereto (the "current Information Statement") which is incorporated herein by this reference. Any statement contained in the current Information Statement shall be deemed modified or superseded for all purposes of the current Information Statement and this Offering Circular to the extent that a statement contained in this Offering Circular modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified, to constitute a part of the current Information Statement. Additional copies of this Offering Circular and copies of the current Information Statement may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (615) 632-3366.

SUMMARY OF OFFERING

The information below is qualified in its entirety by the detailed information appearing in TVA's current Information Statement (and any supplement thereto) and elsewhere in this Offering Circular. Capitalized terms used and not defined herein have the meanings defined in such Information Statement and elsewhere in this Offering Circular.

Issuer	TVA is a wholly owned corporate agency and instrumentality of the United States of America established by the Tennessee Valley Authority Act of 1933, as amended.
Securities Offered	\$1,000,000,000 aggregate principal amount of 8¼% Power Bonds 1992 Series D, Due April 15, 2042.
Interest	The Bonds will bear interest from April 16, 1992, at the annual rate set forth on the cover page hereof, payable semi-annually in arrears on each April 15 and October 15, commencing October 15, 1992.
Redemption	The Bonds may be redeemed at TVA's option, in whole only, at any time on or after April 15, 2012 at the applicable redemption prices set forth herein plus accrued interest, if any, to the date fixed for redemption.
Fiscal Agent	Federal Reserve Banks.
Form of Bonds	The Bonds will be issued and maintained and may be transferred by Holders only on the book-entry system of the Federal Reserve Banks. See "Description of Bonds"—"Book-Entry System".
Stripping	The Bonds may be stripped into their separate Interest and Principal Components and maintained as such on the book-entry records of the Federal Reserve Banks. The components of each stripped Bond are: each future interest payment due on or prior to April 15, 2012, and the principal payment, plus any interest payments due after April 15, 2012. Each Interest Component and the Principal Component will receive an identifying designation and CUSIP number. See "Description of Bonds"—"Stripping" and "Tax Matters"—"Tax Considerations Applicable to Strips".
Delivery of Strips	The representatives of the Underwriters may, but are not obligated to, strip some or all of the Bonds constituting the representatives' underwriting obligations immediately upon their acceptance of such Bonds and deliver Strips rather than Bonds to investors purchasing such Strips. Sales of Strips by the representatives will be at negotiated prices.
Use of Proceeds	The net proceeds received by TVA from the sale of Bonds will be used to retire short-term debt incurred for capital expenditures relating to TVA's power program.

Source of Payment	The interest and principal on the Bonds are payable solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. See “The Basic Resolution; Power Bonds and Discount Notes” in the current Information Statement.
Legality of Investment	<p>The stripped Interest and Principal Components of the Bonds, see “Description of Bonds”—“Stripping”, could be subject to restrictions or requirements which do not apply to Bonds held in their fully constituted form. Thus, each person or entity is advised to consult with their own counsel with respect to the legality of investment of such Interest and Principal Components. The following describes the legality of investment of Bonds in their fully constituted form. The Bonds described herein:</p> <ul style="list-style-type: none"> ● are acceptable as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America; ● are eligible as collateral for Treasury tax and loan accounts; ● are among those obligations which national banks may deal in, underwrite and purchase for their own accounts up to ten percent of unimpaired capital and surplus; ● are eligible as collateral for advances by Federal Reserve Banks to depository institutions; ● are legal investments for federal savings associations and federal savings banks; ● are eligible as collateral for advances by Federal Home Loan Banks for which the Bonds are legal investments; and ● are legal investments for federal credit unions. <p>See “Legality of Investment”.</p>
Taxation	<p>Interest on the Bonds is subject to various tax consequences. See “Tax Matters”—“Tax Considerations Applicable to Bonds”.</p> <p>For tax consequences with respect to the purchase, ownership or disposition of Strips, see “Tax Matters”—“Tax Considerations Applicable to Strips”.</p>

CUSIP Numbers Power Bonds 1992 Series D 880591 BL5

The Bonds may be stripped, see “Description of Bonds”
—“Stripping”, into their separate Interest and Principal
Components for the following dates, at which time the
following CUSIP numbers will apply:

Interest Components

October 15, 1992	88059E	AA2
April 15, 1993	88059E	AB0
October 15, 1993	88059E	AC8
April 15, 1994	88059E	AD6
October 15, 1994	88059E	AE4
April 15, 1995	88059E	AF1
October 15, 1995	88059E	AG9
April 15, 1996	88059E	AH7
October 15, 1996	88059E	AJ3
April 15, 1997	88059E	AK0
October 15, 1997	88059E	AL8
April 15, 1998	88059E	AM6
October 15, 1998	88059E	AN4
April 15, 1999	88059E	AP9
October 15, 1999	88059E	AQ7
April 15, 2000	88059E	AR5
October 15, 2000	88059E	AS3
April 15, 2001	88059E	AT1
October 15, 2001	88059E	AU8
April 15, 2002	88059E	AV6
October 15, 2002	88059E	AW4
April 15, 2003	88059E	AX2
October 15, 2003	88059E	AY0
April 15, 2004	88059E	AZ7
October 15, 2004	88059E	BA1
April 15, 2005	88059E	BB9
October 15, 2005	88059E	BC7
April 15, 2006	88059E	BD5
October 15, 2006	88059E	BE3
April 15, 2007	88059E	BF0
October 15, 2007	88059E	BG8
April 15, 2008	88059E	BH6
October 15, 2008	88059E	BJ2
April 15, 2009	88059E	BK9
October 15, 2009	88059E	BL7
April 15, 2010	88059E	BM5
October 15, 2010	88059E	BN3
April 15, 2011	88059E	BP8
October 15, 2011	88059E	BQ6
April 15, 2012	88059E	BR4
Principal Component		
April 15, 2042	88059F	AA9

TENNESSEE VALLEY AUTHORITY

TVA is a wholly owned corporate agency and instrumentality of the United States of America established pursuant to the Tennessee Valley Authority Act of 1933, as amended (the "Act"). TVA's objective is to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. The programs of TVA consist of power and non-power programs. For the fiscal year ended September 30, 1991, TVA received \$135 million in Congressional appropriations from the federal government for the non-power programs. TVA has also received \$135 million in Congressional appropriations for the fiscal year ending September 30, 1992. The power program is required to be self-supporting from revenues it produces. The Act authorizes TVA to issue Evidences of Indebtedness (as such term is defined under "Description of Bonds") that may only be used to finance its power program.

USE OF PROCEEDS

The net proceeds received by TVA from the sale of the Bonds will be used to retire short-term debt incurred for capital expenditures relating to TVA's power program.

RECENT DEVELOPMENTS

Financial Results

The financial data for the fiscal years ended September 30, 1991 and 1990 has been derived from TVA's audited financial statements. The condensed financial statements for TVA's power program for the three months ended December 31, 1991 and 1990 are unaudited but in the opinion of management of TVA include all adjustments (consisting only of normal recurring adjustments, except for recording in the three months ended December 31, 1990 the nonrecurring cumulative effect of adopting the accrual method of accounting for postretirement benefits) necessary for the fair presentation of results for such period. The following information should be read in conjunction with the audited financial statements and notes thereto presented in the current Information Statement. Results for the three months ended December 31, 1991 are not necessarily indicative of results for fiscal 1992.

TENNESSEE VALLEY AUTHORITY
(A Corporation Wholly Owned by the United States of America)
POWER PROGRAM

CONDENSED BALANCE SHEETS
at December 31, 1991 and September 30, 1991

	<u>December 31,</u> 1991	<u>September 30,</u> 1991
(In Millions)		
ASSETS		
PROPERTY, PLANT, AND EQUIPMENT		
Completed plant	\$13,870	\$13,822
Less accumulated depreciation	4,702	4,612
Completed plant, net	9,168	9,210
Construction in progress	6,312	6,091
Deferred nuclear generating units	5,945	5,928
Nuclear fuel and capital lease assets	2,649	2,645
Total	24,074	23,874
INVESTMENT FUNDS	176	170
CURRENT ASSETS	1,897	1,813
DEFERRED CHARGES	2,198	2,164
Total assets	<u>\$28,345</u>	<u>\$28,021</u>
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Proprietary capital		
Appropriation investment, net	\$ 708	\$ 708
Less requirement for repayment of appropriation investment .	5	—
Retained earnings reinvested in the power program	3,025	2,999
Total	3,728	3,707
Long-term debt	18,306	18,374
Total	22,034	22,081
OTHER LIABILITIES	3,135	3,127
CURRENT LIABILITIES		
Short-term debt	1,928	1,264
Other current liabilities	1,248	1,549
Total	3,176	2,813
Total capitalization and liabilities	<u>\$28,345</u>	<u>\$28,021</u>

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM**

CONDENSED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

**For the Three Months Ended December 31, 1991 and 1990,
and for the Years Ended September 30, 1991 and 1990**

	Three Months Ended December 31,		Years Ended September 30,	
	1991	1990	1991	1990
	(In Millions)			
OPERATING REVENUES				
Sales of electric energy				
Municipalities and cooperatives	\$1,035	\$ 981	\$4,272	\$ 4,292
Federal agencies	63	63	257	413
Industries	123	135	531	548
Electric utilities	—	3	8	17
Other	16	17	68	69
Total operating revenues	1,237	1,199	5,136	5,339
OPERATING EXPENSES				
Fuel and purchased power, net	335	341	1,379	1,381
Other production expense	152	129	537	511
Tax-equivalent payments	60	60	243	233
Depreciation	96	84	350	341
Other	146	122	537	755
Total operating expenses	789	736	3,046	3,221
OPERATING INCOME	448	463	2,090	2,118
OTHER INCOME AND DEDUCTIONS, NET	5	13	23	(1,138)
Total income before interest charges	453	476	2,113	980
INTEREST CHARGES				
Interest expense	417	419	1,677	1,670
Allowance for funds used during construction	(4)	(21)	(73)	(303)
Total interest charges	413	398	1,604	1,367
Income before cumulative effect of accounting change	40	78	509	—
CUMULATIVE EFFECT OF POSTRETIREMENT BENEFITS CHANGE(1)				
	—	(223)	(223)	—
NET INCOME (LOSS)	40	(145)	286	(387)
Return on appropriation investment	14	16	64	68
Increase (decrease) in retained earnings reinvested ..	26	(161)	222	(455)
Retained earnings reinvested at beginning of period	2,999	2,777	2,777	3,232
Retained earnings reinvested at end of period	\$3,025	\$2,616	\$2,999	\$ 2,777

(1) See Note 11 to Financial Statements contained in the current Information Statement.

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM**

CONDENSED STATEMENTS OF CASH FLOWS

**For the Three Months Ended December 31, 1991 and 1990,
and for the Years Ended September 30, 1991 and 1990**

	Three Months Ended December 31,		Years Ended September 30,	
	1991	1990	1991	1990
	(In Millions)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net power income (loss)	\$ 40	\$ (145)	\$ 286	\$ (387)
Items not requiring cash	138	318	618	1,582
Other changes, net	(102)	(9)	128	167
Net cash provided by operating activities	76	164	1,032	1,362
CASH FLOWS FROM INVESTING ACTIVITIES				
Construction expenditures	(295)	(297)	(1,271)	(1,814)
Other, net	(304)	125	(406)	688
Net cash used in investing activities	(599)	(172)	(1,677)	(1,126)
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings, net	500	173	910	(305)
Other	(19)	(21)	(84)	(88)
Net cash provided by (used in) financing activities	481	152	826	(393)
Net change in cash and cash equivalents	(42)	144	181	(157)
Cash and cash equivalents at beginning of period	186	5	5	162
Cash and cash equivalents at end of period	\$ 144	\$ 149	\$ 186	\$ 5

Results of Operations for the Three Months Ended December 31, 1991

For the three month period ended December 31, 1991 TVA had net income of \$40 million, compared to a net loss of \$145 million for the three months ended December 31, 1990. During fiscal 1991, TVA adopted the accrual method of accounting for postretirement benefits. Accordingly, TVA recognized a charge of \$223 million for the cumulative effect of adoption and restated previously reported fiscal 1991 quarterly results of operations, which quarterly results included the three months ended December 31, 1990. Excluding this charge, net income would have been \$78 million compared to \$40 million for the three months ended December 31, 1991. This reduction was caused by increased operating expenses related to Browns Ferry Unit Two returning to commercial operation in August 1991, a scheduled outage at Sequoyah Unit One and increased interest expense due to less capitalized interest related to construction work in progress.

TVA's operating income of \$448 million for the three months ended December 31, 1991 was down slightly from the \$463 million for the same period a year earlier. Operating revenue increased three percent from \$1,199 million to \$1,237 million as the result of additional sales of electric energy due to relatively colder weather (although the effect of colder weather was partially offset by the economic downturn). Operating expenses increased seven percent from \$736 million to \$789 million, resulting from increased expenses associated with the return of Browns Ferry Unit Two to commercial operation and the scheduled outage at Sequoyah Unit One as previously described.

Revenues from the sale of electric energy to municipalities and cooperatives for the three months ended December 31, 1991 and the three months ended December 31, 1990 represented 84 percent and 82 percent of total revenues, respectively. Sales of electric energy in kilowatthours ("kWh") to municipalities and cooperatives increased four percent for the three months ending December 31, 1991, compared to the three months ended December 31, 1990. Energy sales in kWh to direct served industries decreased by six percent for the three months ended December 31, 1991, compared to the same period a year earlier.

Liquidity and Capital Resources

In January 1992, TVA issued \$2.0 billion in Power Bonds in the public market to refinance \$1.95 billion of existing debt held by the public and the Federal Financing Bank. As a result, TVA will realize annual interest expense savings of \$10.5 million. This refinancing, combined with previous refundings and early retirement of high interest debt, brings the total annual interest expense savings from TVA's refinancing efforts to approximately \$184 million since 1989. The January 1992 refinancing resulted in a net increase in the principal amount of long-term debt of \$50.0 million.

Other Matters

Rate Change Implementation

Consistent with the power contract provisions described in the current Information Statement, TVA and the municipal and cooperative distributors of TVA power are in the process of implementing changes in the wholesale and resale rate schedules. In general, the changes are intended (a) to improve the match between the distributors' wholesale power cost and their resale revenues and (b) to allow resale rates to better reflect individual cost conditions on each distributor's system. The changes are designed to have no impact on TVA's revenues.

Bill Credits for Schools and Industries

TVA announced a Jobs and Education Bill Credit program on March 16, 1992. Approximately 2,500 public schools and 4,500 industries throughout the TVA area will benefit from this program, which is scheduled to last for one year beginning May 1, 1992. All public primary and secondary schools and

public colleges and universities will receive a ten-percent credit on their power bills, while manufacturing industries that have a minimum 50 kilowatt firm power demand are eligible for a five-percent credit. The resulting energy cost savings for these consumers will mean that TVA will receive approximately \$75 million less in revenues for this usage during the program period. This program is intended to strengthen TVA's customer base, leading to increased electricity sales and allowing more effective use of power resources, thereby ultimately helping to hold down rates for all consumers of TVA power.

Nuclear Program

In a February 1992 public meeting, the Nuclear Regulatory Commission (the "NRC") characterized the Browns Ferry Unit Two restart effort as exceeding expectations, and noted substantial improvements in plant operations. The NRC also noted, however, that a sustained period of improved performance would be necessary before lessening its oversight. Unit Two was returned to commercial operation during August 1991.

For budget planning purposes, TVA's current plans are to seek NRC approval to bring Watts Bar Unit One into commercial operation during the summer of 1994, rather than the spring of 1994 date reported in TVA's current Information Statement.

Published statistics for the nuclear industry indicated that in calendar year 1991 TVA's Sequoyah Unit Two ranked 4th in the United States and 14th in the world in terms of kWh of generation and 8th in the United States and 21st in the world in terms of capacity factor for nuclear units.

Amendments to the Basic Resolution

Certain previously adopted amendments to the Basic Resolution (as hereinafter defined) recently became effective and certain new amendments, which were recently adopted, will become effective in the future. See "Description of Bonds"—"Amendments to the Basic Resolution".

DESCRIPTION OF BONDS

General

The Bonds are to be issued pursuant to authority vested in TVA by the Act and pursuant to the Basic Tennessee Valley Authority Power Bond Resolution adopted on October 6, 1960, as amended on September 28, 1976, October 17, 1989 and March 25, 1992 (the "Basic Resolution"), and the Supplemental Resolution authorizing the Bonds adopted on January 22, 1992 (the "Supplemental Resolution" and together with the Basic Resolution, the "Resolutions"). TVA has entered into a Fiscal Agency Agreement dated as of October 17, 1989 (the "Fiscal Agency Agreement"), with the Federal Reserve Banks, as fiscal agents (together, the "Fiscal Agent"). The Secretary of the Treasury has approved the time of issuance of, and the maximum rate of interest to be borne by, the Bonds in compliance with Section 15d(c) of the Act. The Bonds represent obligations of TVA payable solely from TVA's Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America.

The Act authorizes TVA to issue and sell bonds, notes and other evidences of indebtedness (hereinafter collectively referred to as "Evidences of Indebtedness") to assist in financing its power program and to refund such Evidences of Indebtedness. Evidences of Indebtedness issued pursuant to Section 2.2 of the Basic Resolution designated as Tennessee Valley Authority Power Bonds are hereinafter referred to as "Power Bonds". The aggregate amount of Evidences of Indebtedness at any one time outstanding is limited to \$30 billion. As of April 1, 1992, TVA had \$22.5 billion of Evidences of Indebtedness outstanding, including \$1.95 billion of debt being defeased under in-substance defeasance arrangements.

The summaries herein of certain provisions of the Act, the Resolutions and the Fiscal Agency Agreement do not purport to be complete and are qualified in their entirety by reference to all the provisions of the Act, the Resolutions and the Fiscal Agency Agreement, copies of which may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (615) 632-3366.

The Bonds will be Power Bonds as defined above and will be payable as to both principal and interest solely from TVA's Net Power Proceeds, which are defined as the remainder of TVA's Gross Power Revenues (as defined in the Basic Resolution) after deducting the costs of operating, maintaining, and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and payments to states and counties in lieu of taxes, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds of the sale or other disposition of any Power Facility (as defined in the Basic Resolution) or interest therein. The Act also requires TVA to make certain payments to the United States Treasury each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment (as defined in the Basic Resolution). See "Certain Provisions of the Tennessee Valley Authority Act"—"Payments to the Treasury" in the current Information Statement.

The Bonds rank equally as to the application of Net Power Proceeds with other Power Bonds. As to the application of Net Power Proceeds, Power Bonds presently rank senior to other Evidences of Indebtedness as to principal and on a parity with or senior to other Evidences of Indebtedness as to interest. At some future date prior to maturity of the Bonds, Evidences of Indebtedness other than Power Bonds may also rank on parity with Bonds as to principal. See "Description of Bonds"—"Amendments to the Basic Resolution". For a further discussion of the application of Net Power Proceeds, see "Certain Provisions of the Tennessee Valley Authority Act" and "The Basic Resolution; Power Bonds and Discount Notes"—"Application of Net Power Proceeds" in the current Information Statement. There is no limit on other indebtedness or securities which may be issued by TVA and no financial or similar restrictions on TVA, except as provided under the Act, the Basic Resolution and the Supplemental Resolution. See "The Basic Resolution; Power Bonds and Discount Notes" in the current Information Statement.

The Supplemental Resolution provides that, at the option of TVA, additional Bonds may be issued in one or more future installments pursuant to an amendment to the Supplemental Resolution not requiring the consent of holders of Bonds. Additional Bonds so issued shall be identical in all respects with the Bonds offered hereby.

Payment of Principal and Interest

The Bonds will consist of \$1,000,000,000 aggregate principal amount of 8¼% Power Bonds 1992 Series D, Due April 15, 2042 (the "Maturity Date"). The Bonds will be issued in minimum denominations of \$1,000 and integral multiples thereof in book-entry form only through the Federal Reserve Banks as described below under "Book-Entry System". Interest will be payable semi-annually in arrears on April 15 and October 15 (each an "Interest Payment Date") commencing October 15, 1992. Such interest payments will include interest accrued from and including April 16, 1992 or the preceding Interest Payment Date, as the case may be, to but excluding the relevant Interest Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months. The principal amount of the Bonds, together with the interest accrued and unpaid thereon, is due in full on the Maturity Date. Payments of principal, premium, if any, and interest on the Bonds will be made on the applicable payment dates to Holders (as such term is defined under "Book-Entry System") of the Bonds which are Holders as of the close of business on the Business Day preceding such payment dates, by credit of the payment amount to the Holders' accounts at the Federal Reserve Banks. The Holder and each other financial intermediary in the chain to the beneficial owner will have the responsibility of remitting payments for the accounts of their customers.

In any case in which an Interest Payment Date, redemption date, or the Maturity Date is not a Business Day, payment of principal, premium, if any, or interest, as the case may be, shall be made on the next succeeding Business Day with the same force and effect as if made on such Interest Payment Date, redemption date, or the Maturity Date. The term "Business Day" shall mean any day other than a Saturday or Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to be closed.

Redemption

The Bonds are subject to redemption upon not less than 30 days' notice broadcast to each Holder on the book-entry system of the Federal Reserve Banks, at any time on or after April 15, 2012, as a whole only, at the election of TVA, at a Redemption Price equal to the percentage of the principal amount set forth below if redeemed during the following periods:

<u>Redemption Period</u>	<u>Redemption Price</u>
4/15/12-10/14/12	106.00
10/15/12-4/14/13	105.85
4/15/13-10/14/13	105.70
10/15/13-4/14/14	105.55
4/15/14-10/14/14	105.40
10/15/14-4/14/15	105.25
4/15/15-10/14/15	105.10
10/15/15-4/14/16	104.95
4/15/16-10/14/16	104.80
10/15/16-4/14/17	104.65
4/15/17-10/14/17	104.50
10/15/17-4/14/18	104.35
4/15/18-10/14/18	104.20
10/15/18-4/14/19	104.05
4/15/19-10/14/19	103.90
10/15/19-4/14/20	103.75
4/15/20-10/14/20	103.60
10/15/20-4/14/21	103.45
4/15/21-10/14/21	103.30
10/15/21-4/14/22	103.15
4/15/22-10/14/22	103.00
10/15/22-4/14/23	102.85
4/15/23-10/14/23	102.70
10/15/23-4/14/24	102.55
4/15/24-10/14/24	102.40
10/15/24-4/14/25	102.25
4/15/25-10/14/25	102.10
10/15/25-4/14/26	101.95
4/15/26-10/14/26	101.80
10/15/26-4/14/27	101.65
4/15/27-10/14/27	101.50
10/15/27-4/14/28	101.35
4/15/28-10/14/28	101.20
10/15/28-4/14/29	101.05
4/15/29-10/14/29	100.90
10/15/29-4/14/30	100.75
4/15/30-10/14/30	100.60
10/15/30-4/14/31	100.45
4/15/31-10/14/31	100.30
10/15/31-4/14/32	100.15

and thereafter at a Redemption Price equal to 100 percent of the principal amount, together in each case with accrued interest to the Redemption Date.

Book-Entry System

The Bonds will be issued and maintained and may be transferred only on the book-entry system of the Federal Reserve Banks in minimum principal amounts of \$1,000 and additional integral multiples thereof.

The Federal Reserve Banks will issue the Bonds in book-entry form and will maintain book-entry accounts with respect to the Bonds and will make payments, on behalf of TVA, of interest on and principal of the Bonds on the applicable payment dates by crediting Holders' accounts at the Federal Reserve Banks.

The foregoing paragraph is a summary of certain provisions of the Fiscal Agency Agreement and does not purport to be a complete statement of all the provisions of such agreement.

Regulations governing the use of the book-entry system for the Bonds are contained in 18 C.F.R. Part 1314, and such procedures, insofar as applicable, as may from time to time be established by regulations of the United States Treasury Department governing obligations of the United States Treasury are contained in Treasury Department Circular No. 300. These regulations and procedures relate primarily to the registration, transfer, exchange and pledge of such obligations. A copy of Circular No. 300 may be obtained upon request from any Federal Reserve Bank, the Department of the Treasury or TVA. The accounts of holders on the Federal Reserve Banks' book-entry system are governed by applicable operating circulars and letters of the Federal Reserve Banks.

The Bonds may be held of record only by entities eligible to maintain book-entry accounts with the Federal Reserve Banks. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts the Bonds have been deposited are herein referred to as "Holders". A Holder is not necessarily the beneficial owner of a Bond. Beneficial owners will ordinarily hold Bonds through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of a Bond, and each other financial intermediary in the chain to the beneficial owner, will have the responsibility of establishing and maintaining accounts for their respective customers. The rights of the beneficial owner of a Bond with respect to TVA and the Federal Reserve Banks may be exercised only through the Holder thereof. TVA and the Federal Reserve Banks will have no direct obligation to a beneficial owner of a Bond that is not also the Holder of such Bond. The Federal Reserve Banks will act only upon the instructions of Holders in recording transfers of the Bonds.

Stripping

At the request of a Holder, a Bond may be separated ("stripped") into its Interest and Principal Components and maintained as such on the book-entry records of the Federal Reserve Banks. The components of each stripped Bond are: each future interest payment due on or prior to April 15, 2012 (each an "Interest Component"); and the principal payment, plus any interest payments due after April 15, 2012 (the "Principal Component"). Each Interest Component and the Principal Component will receive an identifying designation and CUSIP number as previously listed in the "Summary of Offering".

A Bond may be separated into its Interest and Principal Components at any time from the issue date to but not including April 15, 2012 at the option of the Holder. A request for separation must be made to the Federal Reserve Bank of New York ("FRBNY") and a small fee paid to the FRBNY by the Holder. For a Bond to be stripped into its Interest and Principal Components as described above, the principal amount of the Bond must be in a minimum principal amount of \$800,000 (the amount that,

based on the stated interest rate of the Bonds, will produce a semi-annual interest payment of \$1,000) or an integral multiple thereof. Interest and Principal Components will be obligations of TVA payable solely from TVA's Net Power Proceeds.

Once a Bond has been stripped into its Interest and Principal Components, the Interest and Principal Components may be maintained and transferred on the book-entry system of the Federal Reserve Banks in integral multiples of \$1,000. Payments on the Interest and Principal Components will be made on the applicable payment dates on the related Bonds by crediting Holders' accounts at FRBNY. At the request of a Holder and on the Holder's payment of a fee (currently the FRBNY's fee applicable to on-line book-entry securities transfers), the FRBNY will restore ("reconstitute") the unmatured Interest and Principal Components of a stripped Bond to their fully constituted form. Holders wishing to reconstitute the unmatured Interest and Principal Components of a stripped Bond to their fully constituted form must (i) produce all outstanding Interest and Principal Components, and (ii) comply with all applicable requirements of the FRBNY governing the stripping and reconstitution of securities. Only stripped Bonds with a minimum original principal amount of \$800,000 or integral multiples thereof may be reconstituted.

The representatives of the Underwriters may, but are not obligated to, strip some or all of the Bonds constituting the representatives' underwriting obligations immediately upon their acceptance of such Bonds and deliver Interest and/or Principal Components rather than Bonds to investors purchasing such Strips. Under such circumstances, Goldman, Sachs & Co., on behalf of such representatives, will request the FRBNY to strip Bonds into their Interest and Principal Components.

If the representatives of the Underwriters elect to so strip the Bonds, the offering price of the Interest and Principal Components sold by the representatives could be at substantial discounts from their face amounts and, as a result, these components may be subject to greater interest rate volatility than the fully constituted Bonds or other obligations bearing current interest. There also may be a less liquid secondary market for such Interest and Principal Components as compared to the secondary market for the fully constituted Bonds.

The Interest and Principal Components could be subject to restrictions or requirements with respect to the legality of investment therein which do not apply to Bonds held in their fully constituted form. Thus, each person is advised to consult with its own counsel with respect to the legality of investment in Interest and Principal Components.

Amendments to the Basic Resolution

On March 25, 1992, TVA adopted a resolution amending the Basic Resolution, entitled "Fourth Amendatory Resolution to Basic Tennessee Valley Authority Power Bond Resolution" (the "Fourth Amendatory Resolution"). The amendments to the Basic Resolution made by the Fourth Amendatory Resolution will become effective only at such time as either (a) all Power Bonds issued prior to the date of adoption of the Fourth Amendatory Resolution cease to be outstanding (which will occur not later than November 15, 2029) or (b) the holders of at least 66 $\frac{2}{3}$ percent of the principal amount of all then outstanding Power Bonds issued prior to the adoption of the Fourth Amendatory Resolution consent in writing to such amendments. At such time as the amendments become effective, they shall apply to all Power Bonds, including New Power Bonds. The holders of the New Power Bonds offered after March 25, 1992, shall be deemed to have given their consent to the effect that, at any time after the conditions set forth in (a) or (b) above have been met, the Basic Resolution amendments will become effective in the manner provided. No further vote or consent of the holders of the New Power Bonds offered after March 25, 1992, is required to permit such amendments to the Basic Resolution to become effective.

The Fourth Amendatory Resolution, when effective in accordance with its terms and the terms of the Basic Resolution as described above, will (1) delete from the Basic Resolution the limitation on issuance of Power Bonds set forth in Section 3.4 thereof and (2) amend the Basic Resolution to permit issuance of other Evidences of Indebtedness under Section 2.5 thereof that rank on a parity with Power Bonds as to principal and interest.

Section 3.4 of the Basic Resolution presently restricts TVA's ability to issue Power Bonds unless net power income (after interest expense and depreciation charges but before payments as a return on or in reduction of the Appropriation Investment) for the latest five fiscal years has aggregated at least \$200 million. That amount is increased by \$15 million for each ¼ percent (or major fraction thereof) by which the October 1 average interest rates payable by the United States Treasury upon its total marketable public obligations exceeds 3¼ percent. Upon the effectiveness of the Fourth Amendatory Resolution (which eliminates Section 3.4) Sections 3.5 through 3.10 will be renumbered as appropriate.

The foregoing is a brief summary of certain provisions of the Fourth Amendatory Resolution. This summary is not to be considered a full statement of the terms of the Fourth Amendatory Resolution and, accordingly, is qualified by reference to the Fourth Amendatory Resolution. Copies in reasonable quantity of the Fourth Amendatory Resolution may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (615) 632-3366.

On March 27, 1992, the amendments contained in the "Third Amendatory Resolution to Basic Tennessee Valley Authority Power Bond Resolution" (the "Third Amendatory Resolution") became effective upon the written consent of the Federal Financing Bank, the holder of all remaining outstanding TVA Power Bonds issued prior to the date of the adoption of the Third Amendatory Resolution. The amendments contained in the Third Amendatory Resolution shall apply to the Bonds offered hereby and to all future issuances of Power Bonds. See "The Basic Resolution; Power Bonds and Discount Notes"—"Amendments to the Basic Resolution to Become Effective in the Future" in the current Information Statement.

LEGALITY OF INVESTMENT

The stripped Interest and Principal Components of the Bonds, see "Description of Bonds"—"Stripping", could be subject to restrictions or requirements which do not apply to Bonds held in their fully constituted form. Thus, each person or entity is advised to consult with their own counsel with respect to the legality of investment of such Interest and Principal Components. The following describes the legality of investment of Bonds in their fully constituted form.

The Bonds are lawful investments and may be accepted as security for all fiduciary, trust and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America. 16 U.S.C. § 831n-4(d).

The Bonds are acceptable as collateral for Treasury tax and loan accounts pursuant to 31 C.F.R. § 203.15(d)(1).

National banks may deal in, underwrite and purchase the Bonds for their own accounts in an amount not to exceed ten percent of unimpaired capital and surplus. 12 U.S.C. § 24, seventh paragraph.

Federal Reserve Banks may accept the Bonds as eligible collateral for advances to depository institutions. 12 U.S.C. § 347 and 12 C.F.R. § 201.108(b)(13).

Federal savings associations and federal savings banks may invest in the Bonds without regard to limitations generally applicable to investments. 12 U.S.C. § 1464(c)(1)(F).

The Bonds are eligible as collateral for advances by Federal Home Loan Banks to federal savings and loan associations, federal savings banks and other members for which the Bonds are legal investments. 12 U.S.C. § 1430(a) and 12 C.F.R. § 935.7(b)(2).

Federal credit unions may purchase the Bonds. 12 U.S.C. § 1757(7)(E).

The Bonds are “obligations of a corporation which is an instrumentality of the United States” within the meaning of Section 7701(a)(19)(C)(ii) of the Internal Revenue Code for purposes of the 60 percent of assets limitation applicable to domestic building and loan associations.

TAX MATTERS

Tax Considerations Applicable to Bonds

The following discussion describes certain United States federal (and state and local, where specifically noted) income and estate tax consequences of the ownership of the Bonds, without consideration of the particular facts and circumstances of each beneficial owner’s situation. The discussion below does not address the tax consequences associated with stripping a Bond into its Interest and Principal Components or of the purchase, ownership or disposition of an Interest or Principal Component. See “Tax Considerations Applicable to Strips”. In addition, the rules described below and their application to the Bonds are subject to change. Thus, each prospective beneficial owner and any other person or entity may neither construe as legal advice nor rely on the following discussion but rather each is urged to consult its own tax advisor with respect to United States federal and state tax consequences associated with ownership of a Bond, or of an Interest or Principal Component, as well as any consequences arising under the laws of any other taxing jurisdiction.

For purposes of this sub-section (“Tax Considerations Applicable to Bonds”), “U.S. Person” means a citizen or resident of the United States, or a corporation or partnership organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust the income of which is includible in gross income for United States tax purposes regardless of its source. The term “U.S. beneficial owner” includes any U.S. Person which is a beneficial owner of a Bond and any person which is a beneficial owner of a Bond to the extent that the income attributable to such Bond is effectively connected with the person’s conduct of a United States trade or business.

U.S. Beneficial Owners

A U.S. beneficial owner is subject to United States federal income taxation on income on a Bond, and there is no special exemption for a Bond from United States federal estate and gift tax. The Act, however, provides that the Bonds are exempt both as to principal and interest from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes. This exemption might not extend to franchise or other non-property taxes in lieu thereof imposed on corporations or to gain or loss realized upon the sale or exchange of a Bond.

Upon a sale or exchange of a Bond, a U.S. beneficial owner generally will recognize capital gain or loss equal to the difference between the amount realized on the sale or exchange and the beneficial owner’s adjusted basis for the Bond.

If a U.S. beneficial owner purchases a Bond for less than its stated redemption price at maturity, in general, that difference will be market discount (unless the discount is less than $\frac{1}{4}$ of 1% of the stated redemption price at maturity of the Bond multiplied by the number of complete years remaining to maturity). In general, under the market discount rules, unless the U.S. beneficial owner elects to accrue market discount in income currently, any gain on a disposition of a market discount Bond will

be ordinary income to the extent of accrued market discount, and deductions for a portion of the interest on any indebtedness incurred or continued to purchase or carry the Bond may be deferred.

A U.S. beneficial owner who purchases a Bond for an amount greater than the amount payable at maturity of the Bond may elect to amortize the bond premium. In the case of a U.S. beneficial owner that makes an election to amortize bond premium or has previously made an election that remains in effect, amortizable bond premium on a Bond generally will be treated as a reduction of the interest income on a Bond on a constant yield basis (except to the extent regulations may provide otherwise) over the term of the Bond. The basis of a debt obligation purchased at a premium is reduced by the amount of amortized bond premium. An election to amortize bond premium will apply to certain other debt instruments acquired at a premium by a U.S. beneficial owner and may have different tax consequences depending on when the debt instruments were issued or acquired. A U.S. beneficial owner should consult a tax advisor before making that election.

Non-U.S. Beneficial Owners

Generally, a non-U.S. beneficial owner will not be subject to United States federal income taxation on interest on a Bond. To qualify for the exemption from taxation, the last U.S. Person in the chain of payment prior to payment to a non-U.S. beneficial owner (the "Withholding Agent") must have received in the year in which such a payment occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner under penalties of perjury, (ii) certifies that such owner is not a U.S. beneficial owner, and (iii) provides the name and address of the beneficial owner. The statement may be made on an Internal Revenue Service Form W-8 or substantially similar substitute form, and the beneficial owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. If a Bond is held through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent. However, in such case, the signed statement must be accompanied by a copy of a Form W-8 or substitute form provided by the beneficial owner to the organization or institution holding the Bond on behalf of the beneficial owner.

Generally, any amount which constitutes capital gain to a non-U.S. beneficial owner upon retirement or disposition of a Bond will not be subject to federal income taxation in respect of such amount. Certain exceptions may be applicable and an individual non-U.S. beneficial owner should consult a tax advisor.

The Bonds will not be includible in the federal estate of a non-U.S. beneficial owner.

Backup Withholding

Backup withholding of United States federal income tax at a rate of 20 percent may apply to payments made in respect of the Bonds to beneficial owners who are not exempt recipients and who fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the manner required. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the Bonds to a U.S. beneficial owner must be reported to the United States Internal Revenue Service, unless such U.S. beneficial owner is an exempt recipient or establishes an exemption. Compliance with the identification procedures (described in the preceding section) would establish an exemption from backup withholding for those non-U.S. beneficial owners who are not exempt recipients.

In addition, upon the sale of a Bond to (or through) a broker, the broker must withhold at a rate of 20 percent of the reportable payment, unless either (i) the broker determines that the seller is a corporation or other exempt recipient or (ii) the seller provides, in the required manner, certain identifying information and, in the case of a non-U.S. beneficial owner, certifies that such seller is a

non-U.S. beneficial owner (and certain other conditions are met). Such a sale must also be reported by the broker to the United States Internal Revenue Service, unless either (i) the broker determines that the seller is an exempt recipient or (ii) the seller certifies its non-U.S. status (and certain other conditions are met). Certification of the beneficial owner's non-U.S. status usually would be made on Form W-8 under penalties of perjury, although in certain cases it may be possible to submit other documentary evidence. The term broker generally includes all persons who, in the ordinary course of a trade or business, stand ready to effect sales made by others, as well as brokers and dealers registered as such under the laws of the United States or a state. These requirements generally will apply to a United States office of a broker, and the information reporting requirement generally will apply to a foreign office of a United States broker, as well as to a foreign office of a foreign broker (i) who is a controlled foreign corporation within the meaning of Section 957(a) of the Internal Revenue Code or (ii) 50 percent or more of whose gross income from all sources for the 3-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the foreign broker has been in existence) was effectively connected with the conduct of a trade or business within the United States.

Generally, any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's United States federal income tax.

Tax Considerations Applicable to Strips

The following summary of the United States federal income and estate tax consequences of the purchase, ownership and disposition of Strips has been prepared by Mudge Rose Guthrie Alexander & Ferdon, as special tax counsel to TVA, and is based upon the laws, regulations, rulings and decisions now in effect, which are subject to change. The summary does not discuss all aspects of United States federal income and estate taxation that may be relevant to a particular investor in light of its personal investment circumstances or to certain types of investors subject to special treatment under the United States federal income tax laws (for example, banks, life insurance companies and tax-exempt organizations), and generally does not discuss state and local taxation. Further, the discussion is limited to persons who will hold the Strips as capital assets, and does not deal with United States federal income tax consequences applicable to persons who will hold the Strips in the ordinary course or as an integral part of their trade or business, or as part of a hedging or straddle transaction. Each prospective owner of a Strip is urged to consult with its own tax advisor with respect to the United States federal, state and local tax consequences associated with the purchase, ownership and disposition of a Strip, as well as the tax consequences arising under the laws of any other taxing jurisdiction, and should not construe the following discussion as legal advice.

For purposes of this subsection ("Tax Considerations Applicable to Strips"), "U.S. Person" means a citizen or resident of the United States, or a corporation or a partnership organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust the income of which is includible in gross income for United States tax purposes regardless of its source. The term "U.S. beneficial owner" includes any U.S. Person which is a beneficial owner of a Strip and any person which is a beneficial owner of a Strip to the extent that the income attributable to such Strip is effectively connected with the person's conduct of a United States trade or business.

U.S. Beneficial Owners

A U.S. beneficial owner is subject to United States federal income taxation on the income of a Strip, and there is no special exemption from United States federal estate and gift tax with respect to Strips. Although the Act provides that bonds issued by TVA are exempt both as to principal and interest from all state and local taxation (except estate, inheritance and gift taxes), it is unclear whether this exemption applies to the income on a Strip. If all of the income on a Strip were to be exempt from state and local taxation, the amount of income exempted from such taxation could be in excess of the amount that would have been exempted had the Bonds not been separated into their Interest and

Principal Components. It is unclear whether or not this was intended. Therefore, while it is believed that the income on a Strip should qualify for the exemption provided in the Act at least to the extent of the rate of interest payable on the Bonds, there is no controlling precedential authority and, therefore, each owner of a Strip is urged to consult its own tax advisor as to whether or not the income of a Strip qualifies in whole or in part for the exemption provided in the Act.

A U.S. beneficial owner which elects to strip a Bond into its Interest and Principal Components and to dispose of one or more of such Components will be required to include in income all interest and market discount accrued on the Bond to the date of disposition (to the extent that such income has not previously been included in income), and the owner's basis in the Bond will be increased, immediately prior to effecting the strip, by the amount so included in income. Upon the disposition of a Strip, the U.S. beneficial owner will be required to recognize gain or loss equal to the difference between the amount realized on the disposition of the Strip and the owner's basis in the Strip immediately prior to the sale. For purposes of determining that basis, the owner will be required to allocate its tax basis in the Bond immediately prior to the sale (as adjusted in the manner detailed above) between the Interest and Principal Components based on their respective fair market values on the date of the sale.

A U.S. beneficial owner of a Strip will accrue income on the Strip in accordance with the original issue discount ("OID") rules set forth in the Internal Revenue Code of 1986, as amended. In this regard, the application of the OID rules to the Strips is subject to significant uncertainty, and therefore purchasers of the Strips are urged to consult with their own tax advisors. Generally, however, it is anticipated that each U.S. beneficial owner of a Strip will be required to include in income, as OID, the difference between (1) the stated redemption price at maturity of the Interest or Principal Component owned by such person (which generally would include all payments to be made on the Component subsequent to the date that the strip was effected or, if later, the date of the owner's purchase of the Component) and (2) the owner's purchase price for the Component (or, in the case of a person who effects a strip but retains one or more of the Components, the portion of the person's basis in the Bond which is allocable to the retained Components, as determined pursuant to the rules set forth in the preceding paragraph). In the case of a Principal Component, however, it is possible that the stated redemption price at maturity may only include the principal payment due on April 15, 2012 if the yield to maturity would be reduced by assuming a redemption of this Component on that date; if this rule applies (which is unclear under current law, since it is not known whether the determination of whether or not there would be a reduced yield to maturity should be made by reference to the Principal Component alone or, instead, by reference to the underlying Bond) and the Principal Component is not, in fact, redeemed on April 15, 2012, the Principal Component would be treated (solely for purposes of the OID rules) as if it were redeemed on such date and a new debt instrument were issued on that same date for an amount equal to the principal amount of the Principal Component.

The amount of OID on a Strip (determined as set forth above) will be includible on a constant yield basis in the income of a U.S. beneficial owner of a Strip over the life of the Strip (but excluding, in the case of any Principal Component that is subject to the special rule discussed above, the period following April 15, 2012, and excluding, with respect to certain owners, Strips having a maturity of one year or less from the date of purchase—which Strips would be subject to special OID rules which are not discussed herein), even in years in which the owner of the Strip does not receive any actual payment. Payments of interest and principal received by a U.S. beneficial owner of a Strip will not be includible in income, and an owner's basis in a Strip will be increased by the amount of OID includible in income by the owner, and reduced by the amount of any interest or principal payments received by the owner. The amount of OID that must be included in income each year by the owner of a Strip will be equal to the sum of the daily portions of the OID that accrued during each day of the year during which the person owned the Strip. The daily portions will be determined by allocating to each day of the accrual period, as defined below, a pro rata portion of an amount equal to the adjusted issue price of the Strip, also as defined below, multiplied by the yield to maturity (or yield to call, in the case of any Principal Component that is subject to the special rule discussed above) of the Strip, determined by

compounding at the close of each accrual period. For purposes of these calculations, (i) the accrual periods will be six month periods (or shorter period from the date of purchase) ending on a day in the calendar year corresponding to the maturity date of the Strip or the date six months before that date, and (ii) the adjusted issue price of a Strip will be the owner's purchase price for the Strip (or, in the case of a person who effects a strip but retains one or more of the Components, the portion of the person's basis in the Bond which is allocable to the retained Components, as determined pursuant to the rules set forth above), increased by the OID accrued by the owner in previous accrual periods and decreased by any payments received by the owner in prior accrual periods.

TVA is selling the Bonds (and not Strips) to the Underwriters; it is possible, however, that the representatives of the Underwriters may elect to strip the Bonds and sell Interest and Principal Components (as well as Bonds) immediately upon their acceptance of the Bonds. Such Strips might be viewed, for United States federal income tax purposes, as OID bonds issued by TVA to the purchasers of the Strips. If the Internal Revenue Service were to characterize the transaction in this fashion, the rules set forth above would generally apply, except that (1) the amount of OID on each Strip so sold would be measured, and the adjusted issue price would be determined, by reference to the initial offering price at which a substantial amount of each such Strip was sold, rather than by reference to the price paid by the purchaser for the Strip (not only in the case of an initial purchaser of the Strip, but also in the case of any transferee thereof) and (2) the stated redemption price at maturity would be determined by reference to all payments to be made on the Strip subsequent to the date of the closing relating to the Bonds offered hereby (subject to the special rule, discussed above, that may apply in the case of Principal Components), rather than by reference to the payments to be made subsequent to the owner's acquisition of the Strip. Each U.S. beneficial owner is urged to consult with its own tax advisor as to the likelihood of such a characterization, as well as to the application of the "acquisition premium" and "market discount" rules which would apply if the transaction were to be so characterized.

The OID rules are also unclear as to the treatment of a U.S. beneficial owner who acquires a Principal Component and all the associated Interest Components; it is believed, however, that such a person would not treat the Components as a Bond, but would instead recognize income on each of the Components in the manner detailed above. However, if such a person requests the FRBNY to reconstitute the Components into a Bond and that Bond is then sold to another person, it is believed that the new purchaser would be treated as having acquired a Bond (rather than Interest and Principal Components) with the result that the rules set forth above, under "Tax Considerations Applicable to Bonds", would apply. Each purchaser of a Strip is urged to consult its own tax advisor as to this issue.

Gain or loss recognized by a U.S. beneficial owner on a sale, redemption or other disposition of a Strip will be capital gain or loss if the Strip is held as a capital asset by the U.S. beneficial owner.

Non-U.S. Beneficial Owners

Generally, a non-U.S. beneficial owner of a Strip will not be subject to United States federal income taxation on the income of the Strip. To qualify for the exemption from taxation, the Withholding Agent must have received in the year in which such a payment occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner under penalties of perjury, (ii) certifies that such owner is a non-U.S. beneficial owner, and (iii) provides the name and address of the beneficial owner. The statement may be made on an Internal Revenue Service Form W-8 or substantially similar substitute form, and the beneficial owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. If a Strip is held through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent. However, in such case, the signed statement must be accompanied by a copy of a Form W-8 or substitute form provided by the beneficial owner to the organization or institution holding the Strip on behalf of the beneficial owner.

Generally, any amount which constitutes capital gain to a non-U.S. beneficial owner upon retirement or disposition of a Strip will not be subject to United States federal income taxation. Certain exceptions may be applicable and non-U.S. beneficial owners are therefore urged to consult their own tax advisors.

The Strips will not be includible in the federal estate of a non-U.S. beneficial owner.

Backup Withholding

Backup withholding of United States federal income tax at a rate of 20 percent may apply to payments made in respect of the Strips to owners of the Strips that are not “exempt recipients” and that fail to provide certain identifying information (such as taxpayer identification number) to the Withholding Agent at the time and in the manner required. Such backup withholding may also apply in the case of payments made upon the disposition of a Strip. Individuals generally are not exempt recipients, whereas corporations and certain other entities are generally exempt recipients. Compliance with the identification procedures described in the preceding section would establish an exemption from backup withholding for those non-U.S. beneficial owners who are not exempt recipients. Generally, any amounts withheld under the backup withholding rules will be allowable as a refund or credit against the beneficial owners United States federal income tax.

UNDERWRITERS

Subject to the terms and conditions set forth in the Underwriting Agreement, TVA has agreed to sell to each of the Underwriters named below, and each of the Underwriters, for whom Goldman, Sachs & Co., The First Boston Corporation, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, Salomon Brothers Inc, and Shearson Lehman Brothers Inc. are acting as representatives, has severally agreed to purchase, the principal amount of the Bonds set forth opposite its name below:

<u>Underwriter</u>	<u>Principal Amount of Bonds</u>
Goldman, Sachs & Co.	\$ 147,500,000
The First Boston Corporation	146,500,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	146,500,000
Morgan Stanley & Co. Incorporated	146,500,000
Salomon Brothers Inc	146,500,000
Shearson Lehman Brothers Inc.	146,500,000
Bank of America NT & SA	7,500,000
J. C. Bradford & Co.	7,500,000
Craigie Incorporated	7,500,000
Donaldson, Lufkin & Jenrette Securities Corporation	7,500,000
A. G. Edwards & Sons, Inc.	7,500,000
First Tennessee Bank N.A.	7,500,000
Kemper Securities Group, Inc.	7,500,000
Kidder, Peabody & Co. Incorporated	7,500,000
McDonald & Company Securities, Inc.	7,500,000
Morgan, Keegan & Company, Inc.	7,500,000
PaineWebber Incorporated	7,500,000
Prudential Securities Incorporated	7,500,000
Pryor, McClendon, Counts & Co., Inc.	7,500,000
Smith Barney, Harris Upham & Co. Incorporated	7,500,000
Wheat, First Securities, Inc.	7,500,000
Dean Witter Reynolds Inc.	7,500,000
Total	<u>\$1,000,000,000</u>

INFORMATION STATEMENT

TENNESSEE VALLEY AUTHORITY A Wholly Owned Corporate Agency and Instrumentality of the UNITED STATES OF AMERICA

The Tennessee Valley Authority (“TVA” or “Corporation”) presents this Information Statement (“Statement”) for the information of potential purchasers of its Power Bonds (the “New Power Bonds”) and Discount Notes to be issued pursuant to authority vested in TVA by the Tennessee Valley Authority Act of 1933, as amended (the “Act”), and the Basic Tennessee Valley Authority Power Bond Resolution adopted by the Board of Directors of TVA (the “Board”) on October 6, 1960, as amended on September 28, 1976 and October 17, 1989 (the “Basic Resolution”).

TVA may from time to time offer New Power Bonds and may offer on a continuous basis Discount Notes for sale by direct placements, through selected investment dealers, dealer banks, underwriters, or underwriting syndicates as TVA deems appropriate. Information concerning particular offerings of New Power Bonds or Discount Notes will be described in an appropriate offering circular and in any supplement thereto. This Statement, and any supplement hereto, should be read in conjunction with the offering circular and any supplement thereto for the particular New Power Bonds or Discount Notes being offered.

This Statement will be updated by supplements or replaced from time to time to reflect annual financial results of the Corporation and as otherwise determined appropriate by the Corporation. Any provisions herein modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Statement. Additional copies of this Statement may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (615) 632—3366.

No salesperson, dealer or other person has been authorized to give any information or to make any representations not contained herein or in a specific offering circular or supplement approved by TVA, and if given or made, such information or representation must not be relied upon as having been authorized by TVA. This Statement and any offering circular or supplement do not constitute an offer to sell or a solicitation of any offer to buy any of the New Power Bonds or Discount Notes offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. The delivery of this Statement and any offering circular or supplement at any time does not imply that the information given herein or therein is correct at any time subsequent to its respective date.

THE NEW POWER BONDS AND DISCOUNT NOTES OF TVA WILL NOT BE OBLIGATIONS OF, NOR WILL PAYMENT OF PRINCIPAL THEREOF OR ANY INTEREST THEREON BE GUARANTEED BY, THE UNITED STATES OF AMERICA. PRINCIPAL AND INTEREST, IF ANY, WILL BE PAYABLE SOLELY FROM TVA’S NET POWER PROCEEDS AS HEREIN DEFINED. THE NEW POWER BONDS AND DISCOUNT NOTES ARE NOT REQUIRED TO BE REGISTERED UNDER THE SECURITIES ACT OF 1933. ACCORDINGLY, NO REGISTRATION STATEMENT HAS BEEN, AND NONE WILL BE, FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. TVA IS NOT SUBJECT TO THE PERIODIC REPORTING REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934.

This Statement describes the business and operations of TVA as of its date and the financial condition of TVA as of the date of the financial statements included herein. Recipients of this Statement should retain it for future reference until such times as a subsequent Statement is made available by TVA, but delivery or retention of this Statement after the date hereof shall not create any implication that the information provided herein is correct at any time after the date hereof.

The date of this Information Statement is November 22, 1991.

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THE TENNESSEE VALLEY AUTHORITY

TVA is a wholly owned corporate agency and instrumentality of the United States established by the Act with the objective of developing the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Its specific purposes include providing: (1) an ample supply of power within an area of 80,000 square miles; (2) a modern navigable channel for the Tennessee River; (3) flood control on the Tennessee River and its tributaries, and assistance to flood control on the lower Ohio and Mississippi Rivers; (4) development and introduction of more efficient soil fertilizers; and (5) greater agricultural and industrial development and improved forestry in the Tennessee Valley region.

TVA's programs fall into two types of activities — the power program and the non-power programs. Substantially all TVA revenues and assets are attributable to the power program. Most of the funding for TVA's non-power programs, like similar services provided by the federal government in other regions of the country, is provided by Congressional appropriations. Additional funds are obtained for financing certain non-power activities from various revenues and user fees associated with non-power activities. For the fiscal year ended September 30, 1991, TVA received \$135 million in Congressional appropriations from the federal government for the non-power programs. TVA has also received \$135 million in Congressional appropriations for the fiscal year ending September 30, 1992. The power program is required to be self-supporting from revenues it produces. Financial accounts for the two types of TVA activities — power and non-power — are kept separately. Proceeds from the sale of TVA's bonds, notes, and other evidences of indebtedness, including New Power Bonds and Discount Notes (collectively "Evidences of Indebtedness"), may be used only for the power program.

TVA is authorized by the Act to issue Evidences of Indebtedness to assist in financing its power program in an amount not exceeding \$30 billion outstanding at any one time. At September 30, 1991, outstanding Evidences of Indebtedness aggregated \$22.5 billion, including \$2.6 billion of Power Bonds held by the Federal Financing Bank (the "FFB") that are being redeemed under in-substance defeasance arrangements.

Congress has reserved the right to alter, amend, or repeal the Act, but has provided that no amendment or repeal shall operate to impair the obligation of any contract made by TVA in the exercise of any power conferred by the Act.

TVA'S STATUS AS A U.S. GOVERNMENT CORPORATION

TVA is, and has been since its inception, a wholly owned corporate agency and instrumentality of the United States of America.

TVA is administered by the Board which is composed of three persons appointed by the President and confirmed by the Senate. Appointments are for nine-year staggered terms with one term expiring with each three-year interval. The Board has sole authority for determining the rates which TVA charges for power. The Act requires the Corporation to charge rates for power which, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states and counties in lieu of taxes; debt service on outstanding Evidences of Indebtedness, including provision and maintenance of reserve funds and other funds established in connection therewith; and annual payments to the U.S. Treasury (the "Treasury") in repayment of and as a return on the Government's appropriation investment in TVA power facilities. See "The Basic Resolution; Power Bonds and Discount Notes". Such appropriation investment totaled \$708 million as of September 30, 1991. See "Certain Provisions of the Tennessee Valley Authority Act"—"Payments to the Treasury".

TVA is required annually to file with the President and with the Congress a financial statement and a complete report as to the business of the Corporation. The Comptroller General of the United States is authorized to periodically audit the transactions of TVA.

Under certain conditions, TVA may borrow from the Treasury up to \$150 million for a period of one year or less. Any issuance by TVA of Evidences of Indebtedness with a term of one year or longer is subject

to the approval of the Secretary of the Treasury as to the issue date and maximum interest rate. The borrowing authority of TVA is treated as budget authority by the Office of Management and Budget for purposes of the budget of the United States.

During the period of 1960 to 1974, TVA issued Evidences of Indebtedness in the public markets. Beginning in 1974, with the exception of its borrowings from the Treasury, TVA borrowed solely from the FFB. Pursuant to the Federal Financing Bank Act of 1973, Congress established the FFB under the general direction and supervision of the Secretary of the Treasury. The purpose of the FFB is to coordinate the market financing of federal agencies and, accordingly, it is authorized to purchase obligations issued, sold or guaranteed by any federal agency. TVA reentered the public markets for long-term debt in October 1989 and for short-term borrowings in August 1991. See "Financing Arrangements".

Income on Evidences of Indebtedness issued by TVA is subject to various federal tax consequences. Under the Act, Evidences of Indebtedness are exempt both as to principal and interest from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes.

FINANCING ARRANGEMENTS

In September 1989, TVA announced, based on discussions with the Treasury, that it would access the public markets to effect refinancing of its high coupon debt through an in-substance defeasance. FFB advised TVA that FFB policy does not permit federal agencies accessing public markets financing to freely access FFB financing. However, for a period of two years thereafter, the FFB provided a short-term facility of \$2 billion for working capital purposes. That short-term borrowing arrangement with the FFB expired in October 1991. In August 1991, TVA began selling discount notes to meet its short-term financing needs. FFB will continue to make available up to \$2.5 billion of financing for TVA's nuclear fuel lease arrangement with Seven States Energy Corporation ("SSEC") until October 1993. TVA presently estimates that \$2.4 billion will be outstanding under such facility and, at some point prior to October 1993, this amount will be financed through some other arrangements which may include the issuance of Evidences of Indebtedness. See "Nuclear Power Program"—"Nuclear Fuel".

SELECTED FINANCIAL DATA

The following selected financial data of TVA's power program for the fiscal years 1987 through 1991 have been summarized or derived from TVA's audited financial statements. These data should be read in conjunction with the audited financial statements and notes thereto presented elsewhere herein.

Condensed Statement of Earnings (Dollars in Millions)

	Fiscal Year Ended September 30				
	1991	1990	1989	1988	1987
Operating Revenues	\$5,136	\$ 5,339	\$5,287	\$5,322	\$5,156
Operating Expenses	3,046	3,221	3,203	3,450	3,300
Operating Income	2,090	2,118	2,084	1,872	1,856
Other Income and Deductions	23	(1,138)(1)	61	(155)	(172)
Income Before Interest Charges	2,113	980	2,145	1,717	1,684
Interest Expense	1,677	1,670	1,842	1,829	1,756
Allowance for Funds Used During Construction	(73)	(303)	(256)	(525)	(523)
Net Interest Charges	1,604	1,367	1,586	1,304	1,233
Power Income (Loss) before cumulative effect of accounting change	509	(387)	559	413	451
Cumulative effect of postretirement benefits change(3)	223	—	—	—	—
Net Power Income (Loss)	\$ 286	\$ (387)(2)	\$ 559	\$ 413	\$ 451
Ratio of Earnings to Fixed Charges (Unaudited)(4) ...	1.17	0.77	1.30	1.23	1.26

(1) See Note 1 of Notes to Financial Statements.

(2) Reflects a \$900 million nonrecurring writeoff of costs of canceled nuclear units.

(3) See Note 11 of Notes to Financial Statements.

(4) Ratio of Earnings to Fixed Charges is calculated by dividing Net Power Income plus Interest Charges by Interest Charges.

Condensed Balance Sheet (Dollars in Millions)

	September 30				
	1991	1990	1989	1988	1987
Assets					
Property Plant and Equipment	\$23,874	\$22,909	\$21,477	\$20,618	\$19,355
Investment Funds	170	297	263	922	710
Current Assets	1,813	1,231	1,333	1,194	1,273
Deferred Charges and Other Assets	2,164	2,035	2,901	3,090	2,979
TOTAL ASSETS	<u>\$28,021</u>	<u>\$26,472</u>	<u>\$25,974</u>	<u>\$25,824</u>	<u>\$24,317</u>
Capitalization and Liabilities					
Proprietary Capital	\$ 3,707	\$ 3,505	\$ 3,980	\$ 3,508	\$ 3,184
Long-Term Debt(5)	18,374	18,583	17,303	17,403	17,502
Other Liabilities	3,127	2,812	2,715	2,677	2,266
Current Liabilities	2,813	1,572	1,976	2,236	1,365
TOTAL CAPITALIZATION AND LIABILITIES	<u>\$28,021</u>	<u>\$26,472</u>	<u>\$25,974</u>	<u>\$25,824</u>	<u>\$24,317</u>

(5) Excludes defeased debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cost Reduction Program

In 1988, the Board announced a restructuring and downsizing of TVA and set the goal of no rate increases for three years. To accomplish this goal, significant steps were taken to make the power system more efficient and productive. As a result of the restructuring and downsizing, the ongoing annual labor cost reduction is approximately \$400 million. This amount includes both operating and capitalized costs. Approximately 55 percent of these costs are operating expenses.

In the fall of 1989, TVA sold a total of \$8 billion in Power Bonds in the public markets primarily to refinance high-interest debt. This refinancing, combined with the retirement of high-interest debt through sales of an internal fund, resulted in annual savings of \$170 million. In October 1991, TVA sold \$500 million in Power Bonds in the public markets. The net proceeds were used together with internal funds to refund \$500 million aggregate principal amount of high-interest debt held by the FFB, resulting in annual interest expense savings of \$3.7 million.

To date, the management actions taken to reduce cost and interest expense have allowed TVA to keep rates at the 1988 level. On July 16, 1991, the Chief Financial Officer recommended no rate increase for fiscal 1992. A fifth year of stable electric rates for TVA customers, as recommended, was approved by the TVA Board of Directors in September 1991, as TVA continues to control operating costs. Other measures are being studied to contribute to the overall efficiency of TVA and to maintain competitive rates in the future.

On November 18, 1991, TVA redeemed all of its \$70 million 1967 Series A 5.70% Power Bonds due May 15, 1992, and all of its \$60 million 1967 Series B 6.375% Power Bonds due November 1, 1992. Proceeds from the sale of discount notes were used together with internal funds to redeem those Power Bonds, with a resulting savings in interest expense of \$862,000.

Results of Operations

Earnings Summary

Operating income decreased to \$2,090 million in fiscal 1991 from \$2,118 million in fiscal 1990, due primarily to lower electric revenue partially offset by reduced operating expenses as described below. In fiscal 1991, TVA had net income of \$286 million compared to a net loss of \$387 million in fiscal 1990. TVA recorded a charge of \$223 million in fiscal 1991 for the cumulative effect of accruing postretirement benefits. See Note 11 of Notes to Financial Statements. Net income decreased by \$946 million from fiscal 1989 to fiscal 1990 primarily because of a one-time writeoff of \$900 million for previously canceled nuclear units. See Note 1 of Notes to Financial Statements.

Operating Revenues

Operating revenues decreased by \$203 million for the fiscal year ended September 30, 1991, compared to fiscal 1990, primarily due to the \$151 million reduction in the settlement payment as scheduled from the Department of Energy (the "DOE"). Operating revenues in 1990 were enhanced by the highest demand ever recorded on the TVA power system, due to colder than normal weather. Conversely, milder weather in 1991 resulted in lower than normal power demand. Revenues were also affected by the economic downturn. Operating revenues increased slightly from fiscal 1989 to fiscal 1990 primarily due to higher sales to municipalities and cooperatives. Revenues from the sale of electric energy to municipalities and cooperatives have represented 83 percent, 80 percent, and 78 percent of total revenues for fiscal years 1991, 1990, and 1989, respectively. Sales of electric energy to municipalities and cooperatives increased 0.6 billion kilowatthours ("kWh") from fiscal 1990 to fiscal 1991. Energy sales in kWh to industries increased by 2 percent for the fiscal year ended September 30, 1991, compared to fiscal 1990, and 5 percent in fiscal 1990 compared to fiscal 1989.

Operating Expenses

Operating expenses for the fiscal year ended September 30, 1991, decreased by \$175 million compared to fiscal 1990, primarily due to the elimination of the amortization of charges associated with canceled nuclear units. Operating expenses for the fiscal year ended September 30, 1990, increased by \$18 million compared to fiscal 1989.

Financial Condition

Liquidity and Capital Resources

TVA's liquidity is affected primarily by construction expenditures and by expenditures related to debt maturities and redemptions. The resources available to meet these requirements include internal cash generation and external financing. In June and July 1989, an in-substance defeasance totaling \$800 million of TVA's highest cost Power Bonds was accomplished with the proceeds from the sale of an internal fund. This action provides annual net savings of approximately \$45 million. TVA also provided for the in-substance defeasance of \$6.1 billion of additional high-coupon debt by issuing Power Bonds in October and November 1989. The refinancing resulted in a reduction in interest expense of \$105 million annually. In the fall of 1990, TVA sold investments from an internal fund and repurchased its \$150 million 12.095 percent bond from the FFB. The repurchase of this bond will lower interest charges by \$18 million annually.

TVA met 55 percent of capital requirements for the fiscal year ended September 30, 1991 from cash generated internally, compared with 100 percent in fiscal 1990, 86 percent in fiscal 1989, 29 percent in fiscal 1988, and 43 percent in fiscal 1987. For cash required by TVA for construction expenditures and estimated new borrowings, see "Construction Expenditures".

No long-term debt was issued in fiscal 1991 or 1990 to finance construction of the power program. Additional debt was issued for refinancing in fiscal 1990 as previously described. During fiscal 1989, long-term debt of \$700 million was issued to redeem a maturing issue of \$500 million of Power Bonds and to provide \$200 million for the construction program. There was a net decrease of \$600 million in outstanding debt at September 30, 1989, as a result of the defeasance of \$800 million using proceeds from the sale of an internal fund as previously described. The net increase in long-term debt to finance the power program was \$400 million in fiscal 1988, and \$855 million in fiscal 1987.

In August 1991, TVA began selling discount notes to meet its short-term financing needs. This was done after TVA received a letter from FFB in August 1991 advising TVA that the existing short-term financing agreement with FFB would expire according to its terms in October 1991. This agreement expired October 6, 1991. As of November 22, 1991, TVA had outstanding approximately \$1.6 billion in discount notes at interest rates competitive with FFB short-term financing rates and discount notes of other government agencies.

THE AREA SUPPLIED BY TVA

TVA supplies power in most of Tennessee, northern Alabama, northeastern Mississippi, and southwestern Kentucky, and in small portions of Georgia, North Carolina, and Virginia. The population of the area served by TVA is over 8 million. Subject to certain minor exceptions, TVA may not without specific authorization by Act of Congress enter into contracts which would have the effect of making it or its distributors a source of power supply outside the area for which TVA or its distributors were the primary source of power supply on July 1, 1957.

TVA is primarily a wholesaler of power. Its customers are composed of three major groups: (1) distributors, consisting of municipal and cooperative systems; (2) industries which have large or unusual loads; and (3) federal agencies. In addition, TVA has entered into exchange power arrangements with most of the surrounding electric systems.

RATES, CUSTOMERS AND MARKET

The Act delegates to the Board sole responsibility for establishing the rates which TVA charges and authorizes it to include in power contracts such terms and conditions as in its judgment may be necessary or desirable for carrying out the purposes of the Act. The Act requires the Corporation to charge rates for power which, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states and counties in lieu of taxes; debt service on outstanding Evidences of Indebtedness, including provision and maintenance of reserve funds and other funds established in connection therewith; and annual payments to the Treasury in repayment of

and as a return on the Government's appropriation investment in TVA power facilities. See "The Basic Resolution; Power Bonds and Discount Notes" — "Rate Covenant". Rates set by the Board are not subject to review or approval by any state or federal regulatory body.

The revenue increases resulting from rate adjustments implemented by the Board in fiscal years 1987 and 1988 were 7.5 percent and 1.8 percent, respectively. The Board determined that there was no need to adjust rates for fiscal years 1989, 1990, 1991, and 1992. Because of DOE's withholding of certain power contract payments, it was initially determined that an increase of 7.8 percent was necessary for fiscal 1988 and such an increase was placed in effect. However, after a resolution of the DOE matter by agreement between TVA and DOE in December 1987, a substitute adjustment was implemented three months later that reduced the increase to the 1.8 percent noted above. For a discussion of the DOE matter, see "Federal Agencies".

A summary of power program operating revenues by customer groups for each of the last five fiscal years ended September 30 follows:

Fiscal Year	Total	Municipal and Cooperative Distributors	Industries	Federal Agencies (1)	Electric Utilities and Other
		(Dollars in Millions)			
1991	\$5,136	\$4,272	\$531	\$257	\$76
1990	5,339	4,292	548	413	86
1989	5,287	4,109	526	569	83
1988	5,322	4,100	513	623	86
1987	5,156	3,974	502	608	72

(1) Includes TVA use for construction and non-power programs.

Municipal and Cooperative Distributors

TVA has entered into wholesale power contracts with 160 municipal and cooperative distributors. Such contracts are for terms of 20 years and require distributors to purchase substantially all of their electric power and energy requirements from TVA. Prior to fiscal 1990, each contract expired and was replaced at the end of its 20-year term but was subject to termination by TVA or the distributor after the first 10 years on at least 4 years' prior notice. Since that time, power contracts were renewed or amended for 150 distributors to change the term provisions such that ten years' notice is required to terminate the contract and that on each annual anniversary of the contract beginning with the tenth anniversary, one additional year is automatically added to the term. The remaining 10 distributors continue to operate under the original term provisions, but the revised provisions will be included in any replacements of their existing contracts. Municipal and cooperative distributors accounted for approximately 83 percent of total revenues in fiscal 1991.

The contracts contain standard provisions specifying the wholesale rates, resale rates, and terms and conditions under which the power is to be distributed. Under the contracts, TVA, on a quarterly basis, may determine and make adjustments in the wholesale rate schedule with corresponding adjustments in resale rate schedules necessary to enable TVA to meet all requirements of the Act and the tests and provisions of its bond resolutions. In addition, the contracts provide for agreement between the parties on general or major changes in both the wholesale and resale rate schedules, and permit TVA, if agreement is not reached, to make changes in such schedules to carry out the objectives of the Act, to meet financial requirements and tests, and to comply with the provisions of its bond resolutions.

For fiscal 1991, the average charge for power sold to distributors under TVA's wholesale power rate was 4.4 cents per kWh.

The resale rates under which the distributors serve ultimate consumers are stipulated in the power contracts between the distributors and TVA and are revised from time to time to reflect changes in costs, including changes in the wholesale cost of power. They are designed to promote the Act's objective of

providing an adequate supply of power at the lowest feasible rates. The average residential charge in the TVA region was 5.7 cents per kWh for fiscal 1991. The corresponding national average was 8.2 cents per kWh for the quarter ending June 1991.

Five of the municipalities which purchase power from TVA accounted for approximately 30 percent of revenues for fiscal 1991.

Industries Served Directly

Contracts with industries served directly by TVA normally are for terms of 10 years but are subject to termination by TVA or the customer upon a minimum notice period that varies according to the customer's contract demand and the period of time service has been provided at that location. Industries directly served accounted for approximately 10 percent of revenues in fiscal 1991. The power sold directly to industries is delivered under contracts at rates established by TVA. Such rates are the same as those charged by distributors to large industries (those with demand greater than 5,000 kW) they serve. The average charge to directly served industrial customers during fiscal 1991 was 3.0 cents per kWh.

Federal Agencies

Power is sold to federal agencies under the same contract terms and rates as directly served industries. In fiscal 1991, the average charge for power sold to directly served federal agencies, excluding the scheduled payment from DOE, was 4.5 cents per kWh. Sales of electric power to DOE amounted to approximately 10 percent of power sales in fiscal 1989, 6.5 percent in fiscal 1990, and 3.5 percent in fiscal 1991. Under an agreement with DOE, DOE's payment obligations are being satisfied over the remaining contract term through 1994. Reductions in demand under the DOE contracts have been taken into account in TVA's future supply plans. See Note 13 of Notes to Financial Statements.

COMPETITION

The electric power industry has become increasingly competitive in the past decade. Competition may intensify in the future as a result of federally encouraged deregulation of utilities affecting the wholesale power markets. Although other power suppliers, under certain circumstances, may sell power in the area where TVA power is distributed, there are statutory provisions restricting TVA from expanding the area in which it is a source of power supply. It is important that TVA market power at rates competitive with other suppliers in the region. TVA's success in keeping power rates constant for five successive years is already showing results. TVA believes that its rate freeze has assisted distributors of TVA power in competing for new commercial and industrial loads. From the July 1988 announcement of TVA's rate freeze through July 1991, more than 1,700 industries announced plans to locate or expand in the Tennessee Valley region. The total investment resulting from these plans is estimated at \$13.0 billion and almost 97,000 new jobs.

In today's competitive environment, some of the municipal and cooperative distributors may consider alternative wholesale supply arrangements upon expiration or termination of their power contracts with TVA. The city of Memphis, which accounted for about 10 percent of revenue in fiscal 1991, after conducting an extensive study to review the possibility of alternate power supply arrangements for its long-term power supply, concluded that its customers would be best served by staying with the TVA power system. Another municipal distributor, representing less than one-half of one percent of TVA revenues, has provided TVA with notice of power contract termination to permit it to study alternative power supply arrangements.

POWER AND ENERGY REQUIREMENTS

TVA's load (net system energy requirements) on a weather normalized basis grew from 94.4 billion kWh in fiscal 1970 to 123.3 billion kWh in fiscal 1980, representing a compound annual growth rate of 2.7 percent.

During the period of 1980 to 1986, TVA's load actually declined to 107.8 billion kWh in 1986 on a weather normalized basis. This decline was caused by the severe economic recession of 1982-1983, high energy prices, and a decline in sales to DOE for its uranium enrichment operations from 15.9 billion kWh in 1980 to 0.8 billion kWh in 1986. TVA's load, excluding sales to DOE, grew from 95.3 billion kWh on a weather normalized basis in 1983 to 121.6 billion kWh in 1991, which corresponds to a compound annual growth rate of 3.1 percent. TVA's best estimate of net system energy requirements for fiscal 1992 is 123.8 billion kWh.

The following table sets forth TVA's historical demand and energy requirements on a weather normalized basis for the periods indicated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations"—"Results of Operations" for further discussion of changes between fiscal 1990 and fiscal 1991.

<u>Fiscal Year Ended Sept. 30,</u>	<u>Demand</u> (Megawatts)	<u>% Change</u>	<u>Net System Energy Requirements</u> (Billions of kWh)	<u>% Change</u>
1987	19,535	1.7	110.1	2.1
1988	20,269	3.8	112.9	2.5
1989	21,149	4.3	116.4	3.1
1990	21,890	3.5	121.2	4.1
1991	21,810	-0.4	121.6	0.3

TVA prepares annual forecasts of future power and energy requirements as part of its planning and budgeting process. In preparing its energy forecast, TVA utilizes forecasts of national economic activity and of substitute fuel prices, primarily natural gas and oil. TVA produces its own forecast of electricity prices for the TVA area based on TVA's system expansion plan and power supply requirements. Three major causal factors (economic activity, substitute fuel prices and electricity prices) are used to forecast electricity sales to distributor served residential, commercial and industrial customers. Special studies are made to forecast electricity requirements for the directly served industries of paper, chemicals, aluminum and ferroalloys. These forecasts are combined to arrive at the load forecast for the entire TVA system.

TVA's forecast procedure involves producing a range of load forecasts for the explicit purpose of bounding the range of uncertainty associated with load growth. The load forecasts are produced probabilistically. TVA believes that the high load forecast has a 90 percent probability that actual load will be less than forecast, that the medium load forecast has a 50 percent probability that actual load will be less than forecast, and that the low load forecast has a 10 percent probability that actual load will be less than forecast. The range of forecasts for fiscal years 1992-2000 are provided below.

**Forecasted Net System Energy and Demand Requirements
(Weather Normalized)**

Fiscal Year Ending Sept. 30,	High Forecast		Medium Forecast		Low Forecast	
	Energy	Demand	Energy	Demand	Energy	Demand
	(Billions of kWh)	(Megawatts)	(Billions of kWh)	(Megawatts)	(Billions of kWh)	(Megawatts)
1992	127.7	22,847	123.8	22,371	120.3	21,939
1993	133.0	23,810	127.3	23,133	122.5	22,446
1994	138.0	24,742	130.8	23,776	124.4	22,915
1995	143.1	25,691	134.3	24,472	126.2	23,385
1996	148.6	26,769	137.5	25,154	127.3	23,704
1997	154.2	27,850	140.7	25,834	128.3	24,030
1998	159.8	28,933	143.9	26,515	129.4	24,356
1999	165.4	30,020	147.1	27,198	130.4	24,676
2000	171.0	31,114	150.3	27,878	131.4	24,994

CONSTRUCTION EXPENDITURES

Cash required by TVA for construction expenditures totaled \$1,371 million, \$1,128 million, and \$929 million for fiscal years 1991, 1990, and 1989, respectively. Cash required by TVA for construction expenditures and estimated new borrowings for the fiscal years 1992—1996 are shown in the table below. See “Nuclear Power Program” for assumed nuclear plant startup dates used for planning purposes.

Projected Expenditures for Capital Facilities	Fiscal Year Ending September 30				
	1992	1993	1994	1995	1996
	(Dollars in Millions)				
Generating Additions and Improvements and Combustion Turbines	\$ 394	\$ 361	\$ 393	\$ 417	\$ 443
Transmission System Facilities	125	150	191	203	204
Nuclear Facilities					
New Construction	533	695	828	804	755
Modifications	415	300	273	314	225
Recovery Cost(1)	148	238	99	34	—
Clean Air Compliance(2)	54	282	441	151	33
Total Capital Facilities(3)	<u>\$1,669</u>	<u>\$2,026</u>	<u>\$2,225</u>	<u>\$1,923</u>	<u>\$1,660</u>
New Borrowings for Projected Capital Facilities	\$ 800	\$1,500	\$1,700	\$1,300	\$ 900

(1) See Note 1 of Notes to Financial Statements.

(2) These Clean Air Compliance costs are the estimated capital costs for one possible strategy to achieve initial compliance with the Clean Air Amendments of 1990. It is not certain if this strategy will be chosen by TVA or approved by appropriate regulatory agencies.

(3) Excludes requirements for other general facilities and miscellaneous capital.

TVA's construction program and related expenditures are continuously reviewed and periodically revised because of changes in estimated system load growth, rates of inflation, nuclear licensing requirements and schedules, the availability and timing of environmental, siting and other regulatory approvals, the scope of modifications required by regulatory agencies, including the Nuclear Regulatory Commission (the “NRC”), the availability and costs of external sources of capital and other factors beyond TVA's control. All estimated capital costs assume an inflation rate of 5.1 percent.

POWER SYSTEM

TVA's power generating facilities at September 30, 1991, included 29 hydroelectric plants, 12 coal-fired plants, 2 nuclear plants, 1 pumped storage hydroelectric plant, and 4 gas turbine plants. Power is delivered to TVA customers over a transmission system of approximately 16,800 miles of lines, including 2,400 miles of extra-high-voltage (500,000 volt) transmission lines. The system interconnects with neighboring power systems at numerous points, and TVA has various types of interchange arrangements with these systems. The extent and types of interchange transactions depend upon the characteristics of the systems' loads, the management policies of the systems and other factors. Interchange arrangements are an essential part of TVA's efforts to minimize investment in electrical facilities, increase the reliability of service, affect operating economies and minimize the cost of electric energy.

During the fiscal year ended September 30, 1991, 68 percent of the power generated by the TVA coordinated system was by fossil fired plants, 16 percent by hydro, and 16 percent by nuclear. Coal consumption during this time was 33.4 million tons. Coal is purchased under contracts ranging from a single delivery to deliveries over several years. Management believes the sources and availability of fuel materials essential to its business should be adequate for the foreseeable future. Based on full burn, TVA attempts to keep approximately 30 days' coal supply on hand. As of September 30, 1991, TVA had approximately 33 days' coal supply in inventory at full burn.

TVA's power system is one of the largest in the nation in capacity and in energy production. Its size permits the construction of large facilities which result in lower unit costs. Most of TVA's dams were completed years ago when construction costs were far below present-day levels. Because most of the dams are multipurpose, their cost is shared by navigation, flood control, recreation and local economic development, as well as by power; thus, each purpose is served at a substantially lower cost than if the dams had been built for a single purpose.

The following table shows the generating capacity on this coordinated system as of September 30, 1991:

	<u>Generating Units</u>	<u>Year Last Unit Placed In Service</u>	<u>Installed Unit Capacity kW(1)</u>
TVA Hydro Plants			
Appalachia	2	1943	82,800
Blue Ridge	1	1931	22,000
Boone	3	1953	76,400
Chatuge	1	1954	10,000
Cherokee	4	1953	135,180
Chickamauga	4	1952	120,000
Douglas	4	1954	120,600
Fontana	3	1954	238,500
Fort Loudoun.....	4	1949	139,140
Fort Patrick Henry	2	1954	36,000
Great Falls.....	2	1925	31,860
Guntersville.....	4	1952	115,200
Hiwassee	2	1956	117,100
Kentucky	5	1948	175,000
Melton Hill	2	1964	72,000
Nickajack	4	1968	103,950
Norris	2	1936	100,800
Nottely	1	1956	15,000
Ocoee No. 1	5	1914	18,000
Ocoee No. 2	2	1913	21,000
Ocoee No. 3	1	1943	28,800

	Generating Units	Year Last Unit Placed In Service	Installed Unit Capacity kW(1)
Pickwick	6	1952	240,240
South Holston	1	1951	38,500
Tims Ford	1	1972	45,700
Watauga	2	1949	57,600
Watts Bar	5	1944	166,500
Wheeler	11	1963	378,000
Wilbur	4	1950	10,700
Wilson	21	1962	629,840
Total TVA Hydro Plants			<u>3,346,410</u>
Other Hydro Plants			
Corps of Engineers plants			405,000(2)
TVA Pumped Storage Plant			
Raccoon Mountain Pumped Storage Hydro	4	1979	1,530,000
Total Hydro			<u>5,281,410</u>
Coal-Fired Plants			
Allen	3	1959	990,000
Bull Run	1	1967	950,000
Colbert	5	1965	1,350,000
Cumberland	2	1973	2,600,000
Gallatin	4	1959	1,255,200
John Sevier	4	1957	800,000
Johnsonville	10	1959	1,485,200
Kingston	9	1955	1,700,000
Paradise	3	1970	2,558,200
Shawnee	10	1956	1,750,000
Watts Bar	4	1945	240,000(3)
Widows Creek	8	1965	1,968,760
Total Coal-Fired Plants			<u>17,647,360</u>
Nuclear Plants			
Browns Ferry	3	1977	3,456,000(4)
Sequoyah	2	1982	2,441,160
Total Nuclear Plants			<u>5,897,160</u>
Gas Turbine Installations			
Allen	20	1972	620,800
Colbert	8	1972	476,000
Johnsonville	16	1975	1,088,000
Gallatin	4	1975	325,200
Total Gas Turbine Installations			<u>2,510,000</u>
Total Capacity			<u>31,335,930</u>

(1) Installed capacity as stated is the name-plate ratings of the generating units. Dependable generating capacity of a unit may be higher or lower than the name-plate rating and will vary with the season, weather, fuel quality and other factors. In addition, the gas turbine units are undergoing major rehabilitation to improve their reliability. For the status of certain units, see footnotes 3 and 4 below. For planning purposes, TVA currently estimates summer dependable total hydro capacity of approximately 5,224 MW; coal-fired capacity of approximately 16,057 MW; nuclear power capacity of approximately 5,491 MW; and gas turbine capacity of approximately 2,066 MW, for a total dependable capacity of approximately 28,838 MW.

- (2) The Corps of Engineers' plants on the Cumberland River System have a total installed capacity of 853,000 kW, of which 405,000 kW of dependable capacity is available to TVA under a marketing agreement with Southeastern Power Administration.
- (3) These units are mothballed and are not readily capable of operating. Additional capital investment would likely be required to bring these units back to reliable operating status.
- (4) This three-unit nuclear plant in northern Alabama was taken offline in March 1985 for certain plant modifications and regulatory improvements. In August 1991, Browns Ferry Unit Two returned to commercial operation. See "Nuclear Power Program".

Under arrangements among TVA, the United States Corps of Engineers (the "CORPS") and the Southeastern Power Administration (the "SEPA"), eight hydro plants of the CORPS comprising the Cumberland River system are operated in coordination with the TVA system. These arrangements further provide for capacity (405,000 kW) and energy from the Cumberland River system to be supplied to TVA by SEPA at the points of generation, and the price paid for the power to be based on the operating and maintenance expenses and amortization of the power facilities. A portion of the output of the Cumberland River system is also made available to SEPA's customers outside the TVA region. The agreement with SEPA covering these arrangements for power from the Cumberland River system continues through June 30, 1994, and year to year thereafter. The agreement can be terminated upon three years' notice but not prior to June 30, 1994.

NUCLEAR POWER PROGRAM

Overview

TVA began an ambitious nuclear plant construction program in 1966 to meet projected system load growth. At the height of the construction program, TVA had 17 nuclear units either under construction or in commercial operation at seven plant sites.

In August 1982, because of lower-than-expected load growth (see "Power and Energy Requirements"), TVA canceled construction of four nuclear units. In August 1984, four more units were canceled. Total investment in the eight units at the time of cancellation was \$4.6 billion. All of this amount had been written off by September 30, 1990. See Note 1 of Notes to Financial Statements.

By August 1985, TVA had delayed completion of two units each at Watts Bar and Bellefonte Nuclear Plants, and TVA had shut down its three-unit Browns Ferry Nuclear Plant and its two-unit Sequoyah Nuclear Plant because of an increasing number of technical and operational problems. Many of these problems had resulted in multiple escalated enforcement actions by the NRC for violations of its regulations and the imposition by the NRC of significant civil fines. In a September 1985 letter, the NRC required TVA to address its corrective actions in three general areas of concern: (1) programmatic and management deficiencies contributing to poor direction and control of TVA's nuclear activities, (2) plant specific deficiencies in several functional areas and (3) a lack of confidence in TVA management expressed to NRC by TVA employees regarding the adequacy of construction of the Watts Bar units. In that letter, the NRC requested that TVA furnish certain information to the NRC before restarting any of its licensed nuclear units or requesting a license for Watts Bar Unit One.

Nuclear Recovery Program

As a result of an extensive review of its nuclear program, TVA determined that the primary cause of the problems was the lack of a sufficient number of experienced nuclear managers who could provide leadership and proper direction for TVA's nuclear activities. In response to this situation, TVA restructured its organization and assigned responsibility for all of its nuclear power activities to a single organization. In early 1986, TVA assembled a new management team for the TVA nuclear program. Because of difficulties stemming from federal pay cap restrictions, many of these managers were obtained on an interim basis through contract arrangements.

To provide a comprehensive recovery plan from the problems with its nuclear program and to answer the questions raised by the NRC, TVA developed a Nuclear Performance Plan. The plan has been used as a key reference in TVA's recovery efforts, being frequently updated as recovery efforts have progressed. Part of

TVA's recovery plan was to eliminate temporary contract managers. TVA's efforts to hire experienced nuclear managers as permanent TVA employees have been successful, and temporary contract managers have now been eliminated.

Nuclear Plant Regulation

A Construction Permit must be obtained from the NRC before constructing a nuclear plant, and an Operating License must be obtained from the NRC before a nuclear plant may be operated. Each of these steps requires the submission of extensive documentation, notice to the public, and opportunity for public participation in what sometimes become lengthy public hearings. In the past in the nuclear industry, such hearings and challenges through the courts have often resulted in delays in the operation of nuclear plants. Because of such delays and extensive regulatory requirements, estimates of costs to complete or recover nuclear plants have typically been unreliable. Activities related to nuclear plant construction and operation are constantly inspected by the NRC for compliance with detailed NRC regulations, and the NRC vigorously enforces those regulations. The NRC has the authority to enforce its regulations through several mechanisms including modification, suspension or revocation of licenses.

During TVA's nuclear recovery program, the NRC formed an Office of Special Projects to provide intense scrutiny and monitoring of TVA's nuclear recovery program. The NRC has since determined that the Office of Special Projects is no longer necessary and it was dissolved in June 1990. TVA's four volume Nuclear Performance Plan covering TVA corporate activities and Sequoyah, Browns Ferry and Watts Bar Nuclear Plants has been submitted to the NRC. The NRC has completed its review of the recovery plan for TVA's corporate activities, Sequoyah, Browns Ferry and Watts Bar.

Sequoyah

Sequoyah Nuclear Plant is a two-unit plant located approximately 7.5 miles northeast of the city limits of Chattanooga, Tennessee, with pressurized water reactors supplied by Westinghouse Electric Corporation. Each unit is rated at 1148 megawatts net electrical output. TVA received an Operating License for Unit One in 1980, and the unit began commercial operation in 1981. TVA received an Operating License for Unit Two in 1981 and the unit began commercial operation in 1982. The Operating Licenses expire 40 years after issuance. The plant was designed, built and is operated by TVA. Because of questions raised about the qualification of electrical equipment to operate in the harshest possible environment for which the plant was designed, TVA voluntarily shut down both units in August 1985.

Prior to restarting the Sequoyah units, TVA extensively addressed organizational, programmatic and specific plant improvements. Unit Two was restarted in May 1988, and Unit One was restarted in November 1988. Since restart, both units have established new records for continuous operation of 299 days (previously 197 days) for Unit One and 306 days (previously 209 days) for Unit Two. In addition, in 1989 Sequoyah Unit One was recognized as the second ranked nuclear unit in the United States in net generation.

Because of improvement in the operation of TVA's Sequoyah Nuclear Plant, in May 1989 the NRC notified TVA that both Sequoyah units had improved sufficiently to be removed from the NRC's list of plants that required close monitoring. Since that time, NRC oversight of Sequoyah has been of the normal routine associated with any operating nuclear plant.

NRC completed a Systematic Assessment of Licensee Performance ("SALP") for Sequoyah for the period April 1990 to May 1991. Performance was evaluated in the functional areas of plant operations, radiological controls, maintenance/surveillance, emergency preparedness, security, engineering/technical support and safety assessment/quality verification. A category rating of 1, 2, or 3 was assigned for each functional area. Summarized definitions for each rating are as follows: Category 1 — Performance substantially exceeds regulatory requirements; reduced NRC attention may be appropriate. Category 2 — Performance above that needed to meet regulatory requirements; NRC attention may be maintained at normal levels. Category 3 — Performance does not significantly exceed that needed to meet minimal regulatory requirements; NRC attention should be increased above normal levels. TVA received a rating of 1 in two functional areas (security and emergency planning) and a rating of 2 in the remaining areas.

Browns Ferry

Browns Ferry Nuclear Plant is a three-unit plant located approximately 10 miles southwest of Athens, Alabama, with boiling water reactors supplied by General Electric Company. Each unit is rated at 1067 megawatts net electrical output. The plant was designed, built and is operated by TVA. TVA received Operating Licenses for Units One, Two, and Three in 1973, 1974, and 1976, respectively. They began commercial operation in 1974, 1975, and 1977, respectively. The Operating Licenses for these units expire 40 years after issuance. Units One and Three were voluntarily shut down by TVA in March 1985 in response to technical and operational concerns. Unit Two was in a refueling outage at the time. Because of these and subsequently discovered concerns, TVA decided not to restart any Browns Ferry units until it was determined that the plant could be operated safely.

As part of TVA's nuclear recovery effort, an in-depth review was conducted to determine what needed to be accomplished prior to restart, and to determine the root causes of the decline in regulatory compliance at Browns Ferry. TVA determined that the difficulties at Browns Ferry stemmed from three primary causes: (1) lack of a clear assignment of responsibility and authority to managers and their organizations to clearly establish accountability for performance, (2) insufficient management involvement and control in the workplace leading to a failure to adequately establish highest quality, and (3) failure to maintain consistently a documented design basis for the plant and to control consistently the plant's configuration with that basis.

The conditions at Browns Ferry have been addressed in several ways. TVA has restructured and strengthened the Browns Ferry organization with new management having proven nuclear experience, by more accurately delineating responsibilities of its managers, and by strengthening supervisory knowledge of the plant through additional training. Management involvement and control have been enhanced, and communication with employees and training have been strengthened. Corrective action programs have been enhanced to improve timely and effective correction of conditions adverse to quality. Finally, a number of programs to identify actions to be completed prior to restart were established because of past deficiencies in design control. Some of the technical issues addressed include qualification of electrical equipment to operate in the harshest environment for which the plant was designed, documentation of design changes and plant modifications, review of suspended components for structural adequacy during an earthquake, fire protection, qualification for nuclear use of replacement parts, various electrical design control issues, and restart operational readiness programs. Wherever possible in these efforts, TVA has applied the knowledge gained from its successful resolution of similar issues in the recovery and startup of the Sequoyah units. In summary, TVA has taken extensive and significant steps to improve the management of its nuclear program at Browns Ferry.

In July 1990, the NRC completed a SALP for Browns Ferry for the period January 1989 through March 1990. Weaknesses highlighted by the NRC were continuing problems in correcting long-term deficiencies (involving unclear procedures) in the surveillance of nuclear systems and components, insufficient attention to detail by personnel performing procedures, and instances of poor performance in quantity and quality of work on plant modifications. In the seven categories rated, TVA received a rating of 1 in one category, a rating of 2 in four categories, and a rating of 3 in two categories. For the two categories receiving ratings of 3, the NRC noted improving trends.

In January 1991, the NRC informed TVA that it had decided to maintain the Browns Ferry units in the category of plants that require NRC authorization to operate and receive close monitoring by the NRC. Plants placed in this category are having or have had significant weaknesses that warrant maintaining the plant in a shutdown condition until the licensee can demonstrate to the NRC that adequate programs have both been established and implemented to ensure substantial improvement. The NRC noted improvement in management involvement and that TVA's betterment programs were resulting in improved performance. The NRC expressed concern, however, about failure to meet restart milestones. The NRC staff later informed the NRC Commissioners that they believed a restart of Unit Two in April 1991 was achievable. TVA completed the corrective actions necessary to load fuel in Unit Two during first quarter of calendar year 1991 and restarted the unit in May 1991. It was placed in commercial operation during August 1991. Units One and Three remain in the category of plants that require NRC authorization to operate, while the status of Unit Two has been upgraded since restart, requiring continued close monitoring by NRC.

From March 1985 through September 1991, the capitalized costs for improvements to Browns Ferry during the nuclear recovery program were \$1.8 billion, including capitalized interest. The schedules for Browns Ferry Unit Three and subsequent startup of Browns Ferry Unit One are currently being developed. The capitalized costs for returning these units to service, based on the inflation assumptions set forth in "Construction Expenditures", are anticipated to be in the range of \$600 million to \$700 million for Unit Three and in the range of \$650 million to \$750 million for Unit One, which includes estimated capitalized interest in the range of approximately \$50 million to \$75 million for each unit. For budget planning purposes only, these amounts are based on an assumption that Units Three and One will be placed in service in the fall of 1993 and the fall of 1995, respectively. Assurance cannot be given that these estimates will not be changed significantly.

Watts Bar

Watts Bar Nuclear Plant is a two-unit power plant located approximately 50 miles northeast of Chattanooga, Tennessee, with pressurized water reactors supplied by Westinghouse Electric Corporation. Each unit is rated at 1160 megawatts net electrical output. The plant was designed, has been built to its present level of completion, and will be operated by TVA. Construction Permits were obtained for both units in January 1973. Construction Permits expire for Unit One in December 1993, and for Unit Two in June 1997.

The last SALP performed by the NRC for Watts Bar was prior to the start of TVA's nuclear recovery program. For that period (January 1985 through May 1985 for Unit One and March 1984 through May 1985 for Unit Two), TVA received a rating of 3 in licensing activities and a rating of 2 in the remaining ten categories rated.

As of September 30, 1991, nuclear plant construction in progress for TVA's entire system consisted of Unit One at Watts Bar. Although physical construction of Watts Bar Unit One was substantially complete in 1985, efforts to obtain a license from the NRC to operate it were delayed by the expression of numerous safety concerns by construction and other Watts Bar workers. Overall, TVA determined that while it had organizations, programs, processes and procedures in place to control plant design and construction activities, there were weaknesses identified in some of TVA's programs that were not in all cases adequately addressed. In some cases, TVA had not identified adequately the scope of weaknesses, identified root causes, implemented corrective actions, or provided adequate controls to prevent recurrence of problems.

TVA established a special Watts Bar Task Force in March 1986, consisting of senior personnel experienced in nuclear design and construction. The Task Force developed a list of corrective actions, except for those of a routine nature, to be completed before fuel load. However, toward the end of 1987, it was recognized that the issue discovery process at Watts Bar may not have identified all nonconforming items. Therefore, the Watts Bar Program Team was established to perform an integrated, systematic evaluation of Watts Bar and to make recommendations regarding the adequacy of Watts Bar design and construction. Some of the technical issues addressed include welding, design baseline verification, electrical issues, qualification of replacement parts, instrumentation lines, control room design, equipment seismic qualification, fire protection, quality assurance records and the prestart test program. Wherever possible, in these efforts to prepare Watts Bar for operation, TVA has applied the knowledge gained from its successful resolution of similar issues in the recovery and startup of Browns Ferry Unit Two and the Sequoyah units.

While undertaking modifications to address some of these issues in preparation for operation, TVA discovered problems in its work control processes which called into question the effectiveness of the work being performed. As a result, in December 1990, TVA halted construction-related work at the site until corrections to the work control processes were made to ensure the quality of the work. TVA revised and improved its work control practices and in November 1991, TVA obtained NRC concurrence to restart construction-related work. While construction work has been resumed, no assurance can be given that further delays in bringing the units into operation will not occur.

For budget planning purposes, TVA's current plans are to seek NRC approval to bring Unit One into commercial operation during the spring of 1994. Total investment in Unit One at September 30, 1991, was

\$5.2 billion, including capitalized interest. Anticipated cost to complete Unit One is currently estimated to be from \$800 million to \$1.0 billion, excluding capitalized interest. Assurance cannot be given that these estimates will not be changed significantly. Completion cost and schedule are currently under review.

TVA anticipates the corrective actions on Watts Bar Unit Two to be similar to those of Watts Bar Unit One. The cost to complete Unit Two is currently estimated to be from \$1.1 billion to \$1.3 billion. For budget planning purposes, the cost to complete is based on an assumption that Unit Two will be placed in service in 1996. Assurance cannot be given that these estimates will not be changed significantly.

On October 1, 1988, TVA suspended construction activities at Unit Two because of a reduction in the forecasted load growth, and the unit is currently in layup pending a determination of when it will be required to meet future TVA power needs. As of September 30, 1991, construction of Unit Two was estimated to be approximately 70 percent complete including retrofit work based on an estimate of remaining workhours for known work. Total investment in Unit Two at September 30, 1991, was \$1.6 billion, including capitalized interest. Completion cost and schedule are currently under review.

Bellefonte

Bellefonte Nuclear Plant is a two-unit power plant located approximately 59 miles southwest of Chattanooga with pressurized water reactors supplied by Babcock & Wilcox Company (“B&W”) rated at 1212 megawatts net electrical output each. The plant was designed, has been built to its present level of completion, and will, under current plans, be operated by TVA. Construction Permits were obtained from the NRC for both units in December 1974.

TVA deferred construction activities on Unit Two at Bellefonte because of a reduction in forecasted load growth in October 1985. Construction activity was deferred on Unit One in July 1988. In July 1988, TVA notified the NRC of this action in accordance with the NRC’s October 1987 Policy Statement on Deferred Nuclear Plants. TVA anticipates that the Construction Permits from the NRC, which expire July 1, 1994, for Unit One and July 1, 1996, for Unit Two, will need to be extended. Such extensions have been obtained in the past without difficulty.

While the design is similar to earlier B&W designs, the Bellefonte reactors are larger and include certain improvements over earlier designs. No other plants using this later design have obtained operating licenses in the United States. The only other unit of this design in the United States that has not been canceled is in a deferred status, and another unit of a similar design is in Germany. Since this particular design has not previously been licensed by the NRC, additional testing to validate certain analyses may be necessary before the unit is placed in commercial operation.

As of September 30, 1991, TVA had \$4.3 billion, including capitalized interest, invested in these units. Problems that may exist, upgrades that may be required, and the corrective actions that may be necessary in view of the problems discovered at other TVA designed and constructed plants will be described and submitted to the NRC at such time as efforts to restart construction may occur.

TVA currently estimates, based on the inflation assumptions set forth in “Construction Expenditures”, the cost to complete these two units to be in the range of \$3.0 billion to \$3.5 billion, excluding capitalized interest. For budget planning purposes, these amounts are based on an assumption that Units One and Two will be placed in service in 1997 and 1999, respectively. However, these estimates are under review, and due to numerous uncertainties, no assurance can be given that the estimated range of completion costs will not be changed significantly.

Nuclear Units Without Schedules for Completion of Construction or Operation

Although TVA has not established a schedule for Browns Ferry Units One and Three, Watts Bar Unit Two and Bellefonte Units One and Two, under the medium load forecast, capacity equivalent to those units will be needed by the year 2000. Numerous risks and uncertainties that may significantly affect costs and schedules are inherent in bringing these units into operation, particularly in obtaining operating licenses for the Watts Bar and Bellefonte units. On an ongoing basis, TVA is continually evaluating various alternatives and schedules to ensure its power needs are met in the most cost-effective manner.

Nuclear Fuel

All nuclear fuel purchased to date by TVA is now held by SSEC, from which TVA leases its fuel for all TVA nuclear units (operating, under construction, and deferred). The net book value of such fuel was \$2,409 million as of September 30, 1991. The net book value of the nuclear fuel for each nuclear plant site as of September 30, 1991 (including interest component on the investment in fuel being prepared for use in the units), is as follows (in millions):

Sequoyah Units One and Two	\$ 353
Browns Ferry Units One, Two, and Three	466
Watts Bar Units One and Two	300
Bellefonte Units One and Two	391
Uranium Inventories (unassigned)	899
Total	<u>\$2,409</u>

SSEC’s investment in the fuel being used in the Sequoyah units and Browns Ferry Unit Two is being amortized, and TVA’s rental payments are accounted for as a fuel expense. The recovery of the investment in the fuel inventories is also dependent upon the future operation of TVA’s nuclear units. If the nuclear fuel already fabricated is not used in the units intended, TVA will incur additional costs in preparing this fuel for use in other units or for sale. Any fuel which does not perform through its life expectancy is carried as a part of the investment in the fuel remaining in operation and is amortized as part of the fuel expense.

SSEC borrows from the FFB the funds it needs to pay for the nuclear fuel, securing its loan with the assignment of lease payments to be made by TVA. At such time as FFB financing may no longer be available (see “Financing Arrangements”), it may be possible to continue the SSEC lease arrangement with another funding source replacing the FFB. In the absence of such arrangement, the lease will be terminated with TVA having the obligation to either purchase the fuel from SSEC or cause it to be purchased by a third party such as a privately financed leasing company. Other events could also result in termination of the lease such as (1) the occurrence of various circumstances described in the lease which would expose SSEC to potential liability for which indemnification by TVA under the lease would not be available (which includes changes in certain laws and regulations) and (2) the occurrence of events of default, as defined in the lease (which includes nonpayment of amounts owned by TVA and failure by TVA to perform or observe its contractual obligations under the lease). In the event of any such termination, TVA would be required to purchase, or cause a third party to purchase, all nuclear fuel held by SSEC at the then remaining net book cost.

Nuclear Waste

Spent Nuclear Fuel

The Nuclear Waste Policy Act of 1982 (the “NWP”) provides that the federal government has the responsibility for the permanent disposal of spent nuclear fuel, but charges each nuclear power system with the responsibility for the cost of such permanent disposal. The NWP requires each nuclear power system to enter into a disposal contract with DOE for such material. The contract requires each nuclear power system to pay a fee which is currently one mill per kWh for the net electricity generated and sold by each of its reactors. TVA’s spent fuel efforts will ensure that sufficient cost-effective at-reactor storage is available to meet all of TVA’s spent fuel storage requirements until DOE is prepared to accept TVA’s spent fuel.

TVA presently has the capability to store its spent fuel at Sequoyah and Browns Ferry nuclear plants through the years 1996 and 2005, respectively. TVA plans to extend storage capability through life-of-plant by using higher density racks in its existing storage pools, fuel rod consolidation, or dry storage casks. Design

work was begun in April 1991 to increase the storage capacity of the Sequoyah spent fuel pool. TVA estimates the cost of extending its spent fuel storage capacity at approximately \$1 million to \$2 million per year per unit. Storage capacity increases will require TVA to obtain appropriate license amendments from the NRC, which may result in notices of opportunity for public hearings. However, all of the above methods of extending storage capability have been licensed by the NRC at other facilities.

Low-Level Radioactive Waste

Disposal costs for low-level radioactive waste that result from normal operation of nuclear units have increased significantly in recent years and are expected to continue to rise. Pursuant to the Low-Level Radioactive Waste Policy Act, each state is responsible for disposal of low-level waste generated in that state. States may form regional compacts to jointly fulfill their responsibilities, and existing disposal sites in South Carolina, Nevada, and Washington are permitted to impose volume limits and surcharges on low-level waste from states not participating in a site compact. The States of Tennessee and Alabama (where TVA nuclear plants are located) have joined with six other southeastern states to form the Southeast Compact Commission for Low-Level Radioactive Waste Management. This commission regulates the siting of new disposal facilities and the disposal of low-level waste within the southeastern states.

Low-level waste generators (such as TVA) located in the eight southeastern states are required to dispose of such waste at an existing facility in South Carolina until December 1992. The states participating in the Southeast Compact Commission have selected North Carolina as the host state for the next disposal site, and work is underway in that state to select, license, and construct a new disposal site to take the place of the South Carolina site. The current schedule for this work will result in the opening of the new North Carolina disposal facility in 1995. Therefore, TVA may have to provide alternate radwaste management (such as onsite or offsite storage or use of another compact's disposal site) for two or more years. TVA cannot predict the future availability of low-level waste disposal facilities or the cost of such disposal. Storage capacity is available at TVA nuclear plant sites, and space has been identified and is available for additional storage capacity, if necessary.

Nuclear Insurance

The indemnification and limitation of liability plan afforded the United States nuclear industry by the Price-Anderson Act was extended for an additional 15 years in 1988, with certain provisions of the Price-Anderson Act now due to expire on August 1, 2002. The 1988 amendments to the Price-Anderson Act substantially increased the limit of liability from an accident at an NRC-licensed reactor to approximately \$7.4 billion, composed of primary and secondary layers of financial protection.

The primary layer consists of nuclear liability insurance which is required to be maintained in the amount of \$200 million for each plant site with units licensed to operate. Should the damages from a nuclear accident exceed a licensee's liability insurance coverage, a secondary layer of protection is triggered whereby each nuclear reactor licensee could be retrospectively assessed, for each of its nuclear units licensed to operate, an amount not to exceed \$63 million per nuclear accident, but subject to a maximum annual assessment of \$10 million per unit per accident. Any damages in excess of this amount in any year would be carried forward until fully paid. In addition, the Price-Anderson Act requires that this retrospective premium be adjusted by the NRC for inflation at least once every five years. Should the sum of all public liability and legal costs arising from any nuclear accident exceed the maximum amount of financial protection, each reactor licensee can be assessed an additional 5 percent of the \$63 million assessment (\$3.15 million) per unit. TVA maintains for each of its two nuclear plant sites with units licensed to operate, nuclear liability insurance in the amount of \$200 million. The \$10 million maximum annual assessment per unit serves to limit TVA's financial responsibility in the event of a nuclear accident to \$50 million per year per accident at this time since TVA has five licensed units.

NRC regulations require nuclear power plant licensees to obtain, and TVA has acquired, onsite property damage insurance coverage of \$1.06 billion. Some of the nuclear property insurance may require the payment of retrospective premiums of up to approximately \$31.2 million in the event that losses by another insured party or TVA exceed available funds.

In accordance with NRC regulations, the proceeds of nuclear property insurance are used first to ensure that the reactor is in safe and stable condition and that it can be maintained in a condition that prevents significant risk to the public. Next, the proceeds go for decontamination or, if necessary, decommissioning the reactor. Any excess proceeds insure against casualties to property.

Decommissioning

Since 1982, TVA has made investments in an internal fund for decommissioning nuclear plants. As of September 30, 1991, the decommissioning fund consisted of \$700 million face value zero-coupon bonds maturing between 1998 and 2008. These investments are carried on TVA's balance sheet at accreted cost.

In July 1990, TVA notified the NRC of its intent to have adequate funds available for decommissioning when necessary. The amount stated for each of the Browns Ferry units was \$190 million, and for each of the Sequoyah units was \$150 million. TVA assumes that decommissioning funds will be needed for Browns Ferry by 2016 and Sequoyah by 2021 (the years in which the last operating licenses expire at each site). Based on these dates and a 5 percent annual escalation rate, TVA projects that \$2.0 billion and \$1.4 billion, respectively, will be necessary to decommission the Browns Ferry and Sequoyah sites.

ENVIRONMENTAL MATTERS

TVA's activities are subject to various federal, state, and local environmental statutes and regulations. Major areas of regulation affecting TVA's activities include air pollution control, water pollution control, and management and disposal of solid and hazardous wastes. Because TVA is a federal agency, it is subject only to those state and local environmental requirements for which Congress has clearly waived federal agency immunity. Respecting the major environmental areas (air, water, and waste), limited waivers have been enacted by Congress. TVA's activities may also be subject to other, narrower environmental requirements or to environmental requirements which affect only federal activities.

TVA has incurred and continues to incur substantial capital expenditures and operating expenses to comply with environmental requirements. Because of the continually changing nature of these requirements, the total amount of these costs is not now determinable. It is anticipated that environmental requirements will become more stringent and that compliance costs will increase, perhaps by substantial amounts.

Air Pollution

Under the Clean Air Act, the United States Environmental Protection Agency (the "EPA") has promulgated national ambient air quality standards for certain air pollutants, including sulfur dioxide, particulate matter, and nitrogen oxides. Coal-fired generating units are major sources of these pollutants. TVA also operates other, smaller sources. The States of Alabama and Tennessee and the Commonwealth of Kentucky have promulgated implementation plans which regulate sources within their boundaries, including TVA sources, in order to achieve and maintain the national ambient standards. TVA has installed control equipment and employs control strategies to comply with applicable state-established emission limitations. TVA estimates that it has spent about \$1.2 billion in capital costs on air pollution control activities and annual expenditures (operation, maintenance, amortization of control equipment, and low sulfur coal premiums) range from \$300 million to \$350 million presently.

On November 15, 1990, President Bush signed into law the Clean Air Act Amendments of 1990. One of the major titles in this legislation establishes additional requirements to control acid rain. These requirements will result in substantial capital expenditures and increases in operating costs. Scrubbing the two units at Cumberland Fossil Plant, assuming receipt of bonus allowances, and switching to a lower sulfur coal at Gallatin Fossil Plant has been found to be the most cost-effective strategy for complying with the Phase I requirements of those amendments. The allocation of bonus allowances by EPA for units scrubbing early is not expected to be determined until the spring of 1992. The cost-effectiveness of constructing scrubbers at Cumberland will be reevaluated at that time if no bonus allowances are received. The total capital cost of the program (Phases 1 and 2) is estimated to be in the range of \$1.5 billion to \$2.0 billion. Additional annual revenue requirements for compliance with Phase 1 (1999) are estimated to be in the \$150 million to \$200 million range.

TVA is also working with the States of Alabama and Tennessee and the Commonwealth of Kentucky to resolve opacity problems which occur at several units. How these problems will be resolved and the cost and timing of such resolution cannot now be determined, but costs are not expected to be significant on an annual basis.

Water Pollution

Under the Clean Water Act, every point source which discharges pollutants into navigable waters must obtain a National Pollutant Discharge Elimination System (“NPDES”) permit specifying the allowable quantity and characteristics of the pollutants discharged. TVA’s various point sources have received NPDES permits, including all of its major generating units. Compliance with NPDES requirements has necessitated substantial expenditures and may require additional, substantial expenditures in the future as NPDES permits come up for renewal and applicable requirements are made more stringent. EPA’s stormwater discharge monitoring and reporting regulations (which became effective on December 17, 1990) could eventually require modification of TVA’s NPDES permits to set new limits.

The Clean Water Act allows the permitting authority to establish thermal limits less stringent than the water quality criteria if the discharger can demonstrate that the alternate limit will assure protection and propagation of a balanced, indigenous aquatic population. TVA submitted such a demonstration to EPA and Tennessee for its John Sevier Fossil Plant in 1977. The plant was issued, on an interim basis, the discharge limit which TVA requested be established as the final limit. In July 1989, Tennessee informed TVA that it was rejecting the demonstration. Subsequent negotiations with Tennessee resulted in the withdrawal of this adverse determination. Resolution of this issue remains uncertain. If the alternative thermal limit proposed by TVA is eventually denied, TVA could be required to erect cooling towers at the plant. Preliminary capital cost estimates for cooling towers range from \$100 million to \$150 million. This could also lead to removal of a detention dam and the sediment accumulated behind the dam with uncertain but potentially substantial costs. Compliance with the thermal limits at several of TVA’s other plants may require operational or equipment changes in the future. The potential costs and timing of such changes are unknown at this time.

Solid and Hazardous Waste Management

Under the Resource Conservation and Recovery Act (“RCRA”), the storage, transportation, and disposal of hazardous wastes are regulated by EPA and the states. RCRA also allows EPA and the states to regulate solid wastes and the states have detailed permitting programs for this. TVA has detailed procedures in place that comply with all applicable requirements for the management of hazardous wastes. In addition, TVA has instituted a restricted award list for hazardous waste disposal contractors under which such contractors’ financial status, compliance history, and physical facilities and operations are reviewed before they are allowed to dispose of any of the hazardous wastes generated by TVA facilities. TVA does not itself operate any hazardous waste disposal or treatment facilities. TVA has obtained or is in the process of obtaining solid waste disposal permits for the solid waste disposal areas (e.g., fly ash, scrubber sludge, demolition materials, asbestos) it operates at its plant sites. TVA’s costs in this area have not been substantial but applicable requirements are constantly changing and are expected to become more stringent. If those requirements evolve to the point that previously disposed ash must be removed, significant expenditures could be involved.

Under the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), the release and cleanup of hazardous substances are regulated. Persons who generate, store, transport, or dispose of the substances can be held responsible for the cost of such cleanups regardless of when the substances were generated and whether or not the substances were properly handled at the time of disposal by the generator. Liability under CERCLA is viewed as joint and several. TVA, in a manner similar to other industries and power systems, has generated hazardous substances which were disposed of at offsite disposal areas. Some hazardous substances were also disposed of at TVA facilities which generated them. As required by CERCLA, TVA has reviewed its power system facilities and has not yet identified any areas where hazardous substances were disposed of by TVA in amounts which are likely to generate substantial cleanup costs or which appear to have had other than a minor impact on the environment. TVA cannot meaningfully

evaluate its exposure to potential liability for cleanup of offsite disposal areas. At this time, TVA has been formally identified as a potentially responsible party at two offsite disposal areas. Assuming its liability is established at these two sites, TVA's potential share of any cleanup costs would not be substantial.

Miscellaneous

Polychlorinated biphenyls ("PCBs") have been widely used as insulating fluids in electric equipment (e.g., transformers and capacitors). Use of such equipment and the cleanup of released PCBs are regulated by EPA under the Toxic Substances Control Act. The TVA power system uses thousands of pieces of equipment which contain some level of PCBs. Most of this equipment can continue to be operated under EPA's PCB regulations for the remainder of their useful lives, but TVA is phasing out much of this equipment as a matter of policy. The cost of phasing out all of this equipment would exceed \$100 million (equipment replacement and disposal costs) but cannot be accurately determined at this time. TVA has in place detailed procedures to conform its operations to EPA's PCB regulations, and it has not incurred substantial costs in this area.

There is a growing public concern about whether there are adverse health effects from exposure to electric and magnetic fields (EMF). There are many sources of EMF, including electric transmission lines. Although there is no conclusive evidence that EMF causes adverse health effects, research in this area continues. Substantial costs could be incurred by TVA and other electric systems if EMF levels from transmission lines have to be reduced.

As a federal agency, TVA is required to consider the potential environmental effects of major federal actions affecting the quality of the human environment under the National Environmental Policy Act (the "NEPA"), and implementing regulations and to make these evaluations available to the public. Other federal agencies are also required to consider the potential environmental effects of major federal actions within their control which, among other actions, includes the issuance of permits or licenses relating to the construction or operation of electric generation facilities. NEPA does not dictate that a particular decision be made, but the NEPA review process can take 12 to 18 months to complete on the average for major proposals for which environmental impact statements are prepared. TVA has incorporated the NEPA review process into its decision making process. NEPA-related costs are incurred continuously but not in substantial amounts.

Omnibus energy legislation pending in Congress would make changes in a wide range of laws affecting energy use and development in the country. Among the more significant aspects of this pending legislation from TVA's standpoint are (1) provisions that would establish rules for how electric power suppliers plan and select methods for meeting future energy needs, including the consideration of new power plants, renewable energy resources, and conservation; and (2) provisions that would encourage or require electric power suppliers that own transmission networks to make transmission service on those networks available to other electric utilities and power generators. The prospects of these legislative proposals, as well as their final wording, are uncertain.

INSURANCE

It is the policy of TVA not to carry disaster or public liability insurance except as may be required or appropriate with respect to nuclear facilities. Liability for service-connected injuries to employees is governed by the Federal Employees' Compensation Act. See "Nuclear Power Program"—"Nuclear Insurance" and Note 12 of Notes to Financial Statements for additional information with respect to insurance.

MANAGEMENT

TVA is administered by a Board of Directors composed of three persons appointed by the President and confirmed by the Senate. The Board and selected officers, their ages, their years of employment with TVA and principal occupations for the past five years are as follows:

<u>Name and Title</u>	<u>Age</u>	<u>Year Commenced Employment</u>	<u>Year Term Expires</u>
Marvin Runyon Chairman of the Board	67	1988	1996
John B. Waters Director	62	1984	1993
William H. Kennoy Director	54	1991	1999
Oliver D. Kingsley, Jr. President, Generating Group	48	1988	
Mary Sharpe Hayes President, Customer Group	37	1990	
William F. Willis Senior Executive Officer and President, Resource Group	57	1960	
William F. Malec Senior Vice President of Finance and Administration and Chief Financial Officer	51	1989	
Mary L. Cartwright Senior Vice President, Communications and Employee Development	43	1989	
Edward S. Christenbury General Counsel and Secretary	50	1987	

Mr. Runyon was appointed as Chairman of the Board in January 1988. Prior to his current position, he served as President and Chief Executive Officer of Nissan Motor Manufacturing Corporation U.S.A. (1980-1988).

Mr. Waters was appointed to the Board in August 1984. He is an attorney with twenty-three years of legal experience in the State of Tennessee.

Mr. Kennoy was appointed to the Board in April 1991. Prior to his current position, he served as President of Kennoy Engineers for twenty-five years.

Mr. Kingsley was named President of the Generating Group in January 1991. Prior to his current position, he served as TVA's Senior Vice President of Nuclear Power (1988-1991) and as Vice President, Nuclear Operations for System Energy Resources, Inc. (Mississippi Power and Light Company) (1985-1988).

Ms. Sharpe Hayes was named President of the Customer Group in January 1991. Prior to her current position, she served as TVA's Vice President of Marketing and Strategic Planning (1990-1991) and as Senior Marketing and Strategic Planning Consultant with Temple, Barker and Sloane (1985-1990).

Mr. Willis was named Senior Executive Officer, Chairman of the Executive Committee, and President of the Resource Group in January 1991. Prior to his current position, he served as TVA's Executive Vice President and Chief Operating Officer (1988-1991) and as TVA's General Manager (1979-1988).

Mr. Malec was named Senior Vice President of Finance and Administration and Chief Financial Officer in January 1991. Prior to his current position, he served as TVA's Senior Vice President and Chief Financial Officer (1989-1991) and as Treasurer of Central and South West Corporation (1978-1989).

Ms. Cartwright was named Senior Vice President of Communications and Employee Development in June 1991. Prior to her current position, she served as TVA's Vice President of Communications (1989-1991) and as Communications Manager for Duke Power Company (1979-1989).

Mr. Christenbury assumed the position of General Counsel of TVA in January 1987. Prior to his current position, he served as an Assistant General Counsel at the Nuclear Regulatory Commission (1980-1987).

TVA has established an Executive Committee which shapes long-term business strategies, recommends major program initiatives, and guides the day-to-day operations of TVA. Presidents of each major operating group report to TVA's Chairman through the Executive Committee, and all major items going to TVA's Board of Directors for approval are first recommended by the Executive Committee.

TVA's Senior Executive Officer serves as Chairman of the Executive Committee. Members of the committee include the President of each major operating group, TVA's Chief Financial Officer, TVA's General Counsel, TVA's Senior Vice President of Communications and Employee Development, and TVA's Vice President of Diversity Development. TVA Board members serve as ex officio members.

EMPLOYEES

On September 30, 1991, TVA had about 24,801 employees, of which 10,977 were trades and labor employees. Neither the federal labor laws covering most private sector employers, nor those covering most federal agencies are applicable to TVA; however, the Board has a longstanding policy of recognizing and dealing with recognized representatives of its employees. TVA employees are prohibited by federal law from engaging in strikes against TVA. About 84 percent of TVA's employees are in bargaining units, all of which are covered by existing collective bargaining agreements. TVA has an agreement with 6 unions representing the annual trades and labor employees working inside the power plants and a separate agreement with the Teamsters covering materials-handling work. TVA also currently has negotiated agreements with the 15-union Tennessee Valley Trades and Labor Council covering hourly trades and labor work. TVA also has a collective bargaining agreement with the Salary Policy Employee Panel (comprised of 5 unions) covering its non-trades and labor employees. There are no expiration dates in these agreements; however, within the next year there is expected to be little or no work being performed under the hourly trades and labor agreement. Negotiations have generally been held annually and the contracts are subject to reopening or cancellation. Unresolved disputes over rates of pay for trades and labor employees are resolved by binding decisions of the Secretary of Labor, while such pay disputes for other represented employees are resolved through binding arbitration. TVA is currently transitioning to a new way of doing its trades and labor work, under which hourly construction, modification, and supplemental maintenance work will be performed by contractors under project labor agreements recently negotiated by TVA and the Tennessee Valley Trades and Labor Council. Permanent craft operating and regular maintenance work will be performed by annual TVA employees represented by the 6 unions which comprise a new Trades and Labor Council for operating and maintenance employees, and by the Teamsters for materials handling work. A new agreement with the new Council is currently being negotiated.

Salaries of regular TVA employees are limited by a federal pay cap (Executive Level IV, currently \$108,300). This had led in the past to difficulties in the recruitment and retention of top management talent, and continues to be an issue which TVA must face in its recruitment and retention efforts. The impact of the pay cap has been alleviated somewhat by the recent increase in TVA's pay cap from \$80,700 to \$108,300. TVA has also addressed this issue by developing and implementing supplementary compensation arrangements, which have substantially reduced the impact of the pay cap. In TVA's opinion, the implementation of these arrangements is within TVA's legal authority. The General Accounting Office (the "GAO") has expressed the opinion that some of these arrangements are not within TVA's legal authority. However, GAO has no authority to issue binding legal opinions on this matter or to stop any TVA payments. Congress is aware of TVA's supplemental compensation arrangements and has not taken any action that would undermine TVA's position that the arrangements are within its legal authority.

CERTAIN PROVISIONS OF THE TENNESSEE VALLEY AUTHORITY ACT

The following summarizes certain provisions of the Act.

Payments in Lieu of Taxes

TVA is not subject to federal income taxes or to taxation by states or their subdivisions. However, the Act requires payments in lieu of taxes by TVA to states and counties in which it operates, in amounts equal to 5 percent of its gross revenues from the sale of power (exclusive of sales to federal agencies not for resale). In addition, the municipal distributors make tax equivalent payments, and the cooperative systems pay such taxes as are required by the various states.

Payments to the Treasury

The Act requires TVA to make certain payments into the Treasury each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment. Net Power Proceeds are defined as the remainder of TVA's Gross Power Revenues after deducting the cost of operating, maintaining, and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and payments to states and counties in lieu of taxes, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds of the sale or other disposition of any power facility or interest therein. See Note 1 of Notes to Financial Statements.

The Act further provides that by March 31 of each year TVA shall pay into the Treasury the proceeds derived by TVA during the preceding fiscal year from all its activities, excepting such part as in the opinion of the Board is necessary in the conduct of certain specified activities including its business in generating, transmitting, and distributing electric energy, plus a continuing fund of \$1 million. This provision is subject, however, to a further provision in the Act permitting TVA to pledge and use its Net Power Proceeds for payment of the principal of and interest on its Evidences of Indebtedness, notwithstanding any other provision of law. Under the Basic Resolution, TVA pledges to and will apply Net Power Proceeds as set forth under "The Basic Resolution; Power Bonds and Discount Notes"—"Application of Net Power Proceeds".

Acquisition of Real Estate

The Act empowers TVA to acquire real estate in the name of the United States of America by purchase or by exercise of the right of eminent domain, "and thereupon all such real estate shall be entrusted to the Corporation as the agent of the United States to accomplish the purposes of (the Act)". Since nearly all of TVA's properties, including powerhouses and transmission line rights-of-way, constitute real estate, title to which is held in the name of the United States and entrusted to TVA as agent of the United States, all references in this Statement to "TVA properties" and the like, and to the amounts invested therein, should be read and construed in the light of this provision of the Act.

THE BASIC RESOLUTION; POWER BONDS AND DISCOUNT NOTES

TVA's Power Bonds are issued pursuant to Section 15d of the Act and pursuant to the Basic Resolution. At November 22, 1991, TVA had outstanding \$18,525 million principal amount of Power Bonds and \$2,600 million of Power Bonds held by the FFB that are being redeemed under in-substance defeasance arrangements, issued pursuant to the Basic Resolution and resolutions supplemental thereto. Bankers Trust Company, New York, New York, acts as Trustee (the "Trustee") for holders of the Power Bonds under the Basic Resolution.

Power Bonds may be issued only to provide capital for TVA's power program (including refunding any Evidences of Indebtedness issued for like purposes) and only as authorized by law at the time of issuance. Power Bonds are payable as to both principal and interest solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. Net Power Proceeds for 1991, 1990, and 1989 were \$2.6 billion, \$2.9 billion and \$2.8 billion, respectively. Power Bonds of each series must be further authorized by Supplemental Resolution filed with the Trustee.

TVA intends from time to time to issue New Power Bonds with maturities and on terms determined in light of market conditions at the time of sale. The New Power Bonds may be sold to dealers or underwriters, who may resell the New Power Bonds in public offerings or otherwise. In addition, New Power Bonds may be sold by TVA directly or through agents.

The specific aggregate principal amount, maturity, interest rate or method for determining such rate, interest payment dates, if any, purchase price to be paid to TVA, any terms for redemption or other special terms, form and denomination of New Power Bonds, information as to any stock exchange listing, and the names of any dealers, underwriters or agents, together with a description of any amendments or supplements to the Basic Resolution in connection with the sale of New Power Bonds being offered at a particular time will be set forth in an offering circular, and any appropriate supplement thereto, together with the terms of such New Power Bonds.

TVA's Discount Notes are also issued pursuant to Section 15d of the Act and in accord with Section 2.5 of the Basic Resolution. As of November 22, 1991, TVA had outstanding approximately \$1.6 billion in discount notes.

The net proceeds received by TVA from the sale of Discount Notes will be used to assist in financing TVA's power program. The Discount Notes are payable solely from Net Power Proceeds (but may, at the option of TVA, be paid from the proceeds of refunding obligations or other funds legally available for such payment) and are not obligations of, or guaranteed by, the United States of America.

TVA intends to offer Discount Notes for sale on a continuous basis to a group of securities dealers selected by TVA, who will resell such notes. Discount Notes will be issued in such form and upon such terms and conditions as deemed appropriate by TVA. Certain information respecting Discount Notes will be set forth in a discount notes offering circular and any appropriate supplement thereto.

The following summary of certain provisions of the Basic Resolution does not purport to be complete and is qualified in its entirety by reference to the full text of the Basic Resolution.

Application of Net Power Proceeds

Section 2.3 of the Basic Resolution provides as follows:

Net Power Proceeds shall be applied, and the Corporation hereby specifically pledges them for application, first to payments due as interest on Bonds, on Bond Anticipation Obligations, and on any Evidences of Indebtedness issued pursuant to Section 2.5 which rank on a parity with Bonds as to interest; to payments of the principal due on Bonds for the payment of which other provisions have not been made; and to meeting requirements of sinking funds or other analogous funds under any Supplemental Resolutions. The remaining Net Power Proceeds shall be used only for:

- (a) Required interest payments on any Evidences of Indebtedness issued pursuant to Section 2.5 which do not rank on a parity with Bonds as to interest.
- (b) Required payments of or on account of principal of any Evidences of Indebtedness other than Bonds.
- (c) Minimum payments into the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment.
- (d) Investment in Power Assets, additional reductions of the Corporation's capital obligations, and other lawful purposes related to the Power Program; provided, however, that payments into the United States Treasury in any fiscal year in reduction of the Appropriation Investment in addition to the minimum amounts required for such purpose by the Act may be made only if there is a net reduction during such year in the dollar amount of outstanding Evidences of Indebtedness issued for capital purposes, and only to such extent that the percentage of aggregate reduction in the Appropriation Investment during such year does not exceed the percentage of net reduction during the year in the dollar amount of outstanding Evidences of Indebtedness issued for capital purposes.

Section 2.4 of the Basic Resolution provides as follows:

The Corporation, having first adopted a Supplemental Resolution authorizing the issuance of a Series of Bonds and pending such issuance, may issue Bond Anticipation Obligations and renewals thereof (including Interim Obligations to the Secretary of the Treasury) to be paid from the proceeds of such Series of Bonds when issued or from other funds that may be available for that purpose.

Section 2.5 of the Basic Resolution provides as follows:

To assist in financing its Power Program the Corporation may issue Evidences of Indebtedness other than Bonds and Bond Anticipation Obligations, which may be payable out of Net Power Proceeds subject to the provisions of Section 2.3 hereof, but no such other Evidences of Indebtedness shall rank on a parity with or ahead of the Bonds as to payments on account of the principal thereof or rank ahead of the Bonds as to payments on account of the interest thereon.

Rate Covenant

Section 3.2 of the Basic Resolution provides as follows:

The Corporation shall fix, maintain, and collect rates for power sufficient to meet in each fiscal year the requirements of that portion of the present subsection (f) of Section 15d of the Act which states as follows:

The Corporation shall charge rates for power which will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to States and counties in lieu of taxes; debt service on outstanding bonds, including provision and maintenance of reserve funds and other funds established in connection therewith; payments to the Treasury as a return on the appropriation investment pursuant to subsection (e) hereof; payment to the Treasury of the repayment sums specified in subsection (e) hereof; and such additional margin as the Board may consider desirable for investment in power system assets, retirement of outstanding bonds in advance of maturity, additional reduction of appropriation investment, and other purposes connected with the Corporation's power business, having due regard for the primary objectives of the Act, including the objective that power shall be sold at rates as low as are feasible.

For purposes of this Resolution, "debt service on outstanding bonds," as used in the above provision of the Act, shall mean for any fiscal year the sum of all amounts required to be (a) paid during such fiscal year as interest on Evidences of Indebtedness, (b) accumulated in such fiscal year in any sinking or other analogous fund provided for in connection with any Evidences of Indebtedness, and (c) paid in such fiscal year on account of the principal of any Evidences of Indebtedness for the payment of which funds will not be available from sinking or other analogous funds, from the proceeds of refunding issues, or from other sources; provided, however, that for purposes of clause (c) of this definition Bond Anticipation Obligations and renewals thereof shall be deemed to mature in the proportions and at the times provided for paying or setting aside funds for the payment of the principal of the authorized Bonds in anticipation of the issuance of which such Bond Anticipation Obligations were issued.

The rates for power fixed by the Corporation shall also be sufficient so that they would cover all requirements of the above-quoted provision of subsection (f) of Section 15d of the Act if, in such requirements, there were substituted for "debt service on outstanding bonds" for any fiscal year the amount which if applied annually for 35 years would retire, with interest at the rates applicable thereto, the originally issued amounts of all series of Bonds and other Evidences of Indebtedness, any part of which was outstanding on October 1 of such year.

Covenant for Protection of Bondholders' Investment

Under the Act and the Basic Resolution, TVA must, in each successive five-year period beginning October 1, 1960, use either for the reduction of its capital obligations (including Evidences of Indebtedness and the Appropriation Investment) or for investment in Power Assets an amount of Net Power Proceeds at least equal to the sum of (1) depreciation accruals and other charges representing the amortization of capital expenditures and (2) the net proceeds from any disposition of power facilities.

Depreciation

The Basic Resolution requires TVA to accrue, in accordance with a recognized method, annual amounts for depreciation of its power properties (except land and other nondepreciable property) which will amortize their original cost less anticipated net salvage value within their expected useful lives. TVA has provided allowances for depreciation of its power properties (except land and other nondepreciable property) on a straight-line basis during their expected useful lives.

Issuance of Additional Bonds and Other Evidences of Indebtedness

The Act presently limits the issuance of Evidences of Indebtedness by TVA to a total of \$30 billion outstanding at any one time to assist in financing TVA's power program (and for refunding). At September 30, 1991, TVA had approximately \$22.5 billion of outstanding Evidences of Indebtedness including \$2.6 billion of Power Bonds held by the FFB that are being redeemed under in-substance defeasance arrangements. The Basic Resolution permits the issuance of Power Bonds only to provide capital for TVA's power program, including the refunding of any Evidences of Indebtedness issued for that purpose.

Power Bonds, the terms and conditions of which may not be inconsistent with the Basic Resolution, must also be authorized by Supplemental Resolution filed with the Trustee.

The issuance of Power Bonds is limited as follows by the Basic Resolution:

Each Supplemental Resolution authorizing the issuance of Power Bonds must contain a finding by the Board that after the Power Bonds authorized thereby have been issued Gross Power Revenues will be adequate to meet the requirements of the Basic Resolution with respect to rates and the application of depreciation accruals. These requirements are described under "The Basic Resolution; Power Bonds and Discount Notes"—"Rate Covenant" and — "Covenant for Protection of Bondholders' Investment".

The amount of Power Bonds outstanding may not be increased unless net power income (after interest expense and depreciation charges but before payments as a return on or in reduction of the appropriation investment) for the latest five fiscal years has aggregated at least \$200 million. Moreover, that minimum requirement is increased by \$15 million for each ¼ percent (or major fraction thereof) over an average of ¾ percent for those five years of the October 1 average interest rate payable by the United States Treasury upon its total marketable public obligations. TVA had aggregate net power income for the five fiscal years ended September 30, 1991, of \$1,322 million.

Pending the issuance of Power Bonds authorized by a Supplemental Resolution, Bond Anticipation Obligations and renewals thereof (including Interim Obligations to the Secretary of the Treasury) may be issued, to be paid from the proceeds of such Power Bonds when issued or from other funds that may be available for that purpose.

Evidences of Indebtedness (such as Discount Notes) other than Power Bonds and Bond Anticipation Obligations may also be issued to assist in financing TVA's power program. They may be payable out of Net Power Proceeds subject to the provisions of Section 2.3 of the Basic Resolution. They may not rank on a parity with or ahead of the Power Bonds as to principal or ahead of them as to interest.

Mortgaging and Disposal of Power Properties

TVA may not mortgage any part of its power properties and may not dispose of all or any substantial portion of such properties unless provision is made for a continuance of the interest, principal and sinking fund payments due and to become due on all outstanding Evidences of Indebtedness, or for the retirement of such Evidences of Indebtedness.

Modifications of Resolutions and Outstanding Bonds

The Basic Resolution provides for amendments to it, to any Supplemental Resolution, and to any outstanding Power Bonds. In summary, amendments of the respective rights and obligations of TVA and the bondholders may be made with the written consent of the holders of at least 66⅔ percent in principal amount of the outstanding Power Bonds to which the amendment applies; but changes in the maturity, principal

amount, redemption premium, or rate of interest or maturity of any interest installment, with respect to any Power Bond, or in the above percentage for any such consent, cannot be made without the consent of the holder of such Power Bonds.

In addition, TVA may amend the Basic Resolution or any Supplemental Resolution without the consent of the bondholders in order (1) to close the Basic Resolution against the issuance of additional Power Bonds or to restrict such issuance by imposing additional conditions or restrictions; (2) to add other covenants and agreements to be observed by TVA or to eliminate any right, power or privilege conferred upon TVA by the Basic Resolution; (3) to modify any provisions to release TVA from any of its obligations, covenants, agreements, limitations, conditions or restrictions, provided that such modification or release shall not become effective with respect to any Power Bonds issued prior to the adoption of such amendment; or (4) to correct any defect, ambiguity or inconsistency in, or to make provisions in regard to matters or questions arising under, the Basic Resolution or any Supplemental Resolution, so long as such amendments are not contrary to, or inconsistent with, the Basic Resolution or such Supplemental Resolution.

Events of Default

Any of the following shall be deemed an Event of Default under the Basic Resolution: (i) default in the payment of the principal or redemption price of any Power Bond when due and payable at maturity, by call for redemption, or otherwise; (ii) default in the payment of any installment of interest on any Power Bond when due and payable for more than 30 days; or (iii) failure of TVA to duly perform any other covenant, condition or agreement contained in the Power Bonds or in the Basic Resolution or any Supplemental Resolution for 90 days after written notice specifying such failure has been given to TVA by the Trustee or to TVA and the Trustee by the holders of at least 25 percent in aggregate principal amount of the then outstanding Power Bonds.

Upon any such Event of Default, the Trustee or the holders of the Power Bonds may proceed to protect and enforce their respective rights, subject to the restrictions described below. The Trustee shall, subject to certain restrictions, have the right and power to institute a proceeding (i) to enforce TVA's covenants and agreements, (ii) to enjoin any acts in violation of the rights of holders of Power Bonds, and (iii) to protect and enforce the rights of holders of Power Bonds and the Trustee. Power Bonds do not provide for acceleration upon an Event of Default.

The Trustee has no right to bring any such action or proceeding against TVA unless the Trustee has previously determined in good faith that there exists, and has given TVA written notice of, an Event of Default, and TVA has had a reasonable opportunity to take appropriate corrective action with respect thereto and has failed or refused to do so.

No holder of any Power Bond shall have the right to bring any judicial proceeding against TVA for enforcement of any provision of the Basic Resolution or any Supplemental Resolution, or for any remedy, unless (i) such holder shall have previously given TVA and the Trustee written notice of the existence of an Event of Default, (ii) the holders of at least 25 percent in aggregate principal amount of the then outstanding Power Bonds, or their duly authorized representative or representatives, shall have made written request, and offered reasonable indemnity, to the Trustee to institute such proceeding as trustee, (iii) the Trustee shall not have received a direction inconsistent with such request from the holders of a majority in aggregate principal amount of the outstanding Power Bonds, and (iv) the Trustee shall have failed to institute such proceeding within 120 days after receipt of such written notice. However, such limitations do not apply to an action instituted by a holder of a Power Bond for the enforcement of payment of the principal of and redemption price overdue and unpaid, if any, or interest on such Power Bond on or after the respective due dates expressed in such Supplemental Resolution.

Holders of a majority in aggregate principal amount of the outstanding Power Bonds have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee and may waive any default and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any Power Bonds.

Amendments to the Basic Resolution to Become Effective in the Future

On October 17, 1989, TVA adopted a resolution amending the Basic Resolution, entitled “Third Amendatory Resolution to Basic Tennessee Valley Authority Power Bond Resolution” (the “Third Amendatory Resolution”). The amendments to the Basic Resolution made by the Third Amendatory Resolution will become effective only at such time as either (a) all Power Bonds issued prior to the date of adoption of the Third Amendatory Resolution cease to be outstanding under the Basic Resolution or (b) the holders of all the outstanding Power Bonds issued prior to the date of adoption of the Third Amendatory Resolution consent in writing to such amendments. At such times as the amendments become effective, they shall apply to all Power Bonds, including the New Power Bonds. TVA presently intends to seek the consent of the FFB at such time as all presently outstanding Power Bonds other than those owned by the FFB are no longer outstanding under the Basic Resolution, with such amendments becoming effective upon the giving of such consent. The holders of the New Power Bonds offered after October 17, 1989, shall be deemed to have given their consent to the effect that, at any time after the conditions set forth in (a) or (b) above have been met, the Basic Resolution amendments will become effective in the manner provided above. No further vote or consent of the holders of the New Power Bonds offered after October 17, 1989, is required to permit such amendments to the Basic Resolution to become effective.

The Third Amendatory Resolution, when effective in accordance with its terms and the terms of the Basic Resolution as described above, will eliminate the requirements for a trustee, and will remove from or modify all provisions in the Basic Resolution relating to the trustee. The Basic Resolution, as so amended, will not require that a trustee serve as such thereunder, but will provide for the appointment of a transfer agent and paying agent with respect to each series of Power Bonds issued thereunder in certificated form, and for the appointment of a Fiscal Agent with respect to each series of Power Bonds issued thereunder in book-entry form. The Basic Resolution, as so amended, will permit TVA to serve as transfer agent or paying agent. The Fiscal Agents, transfer agents and paying agents will not be responsible for enforcing any rights or remedies of holders of the Power Bonds under the Basic Resolution, as is now the case with the Trustee.

The Basic Resolution as so amended by the Third Amendatory Resolution will give to Holders of 5 percent in aggregate principal amount of the then outstanding Power Bonds the right to give notices of default to, and bring judicial proceedings against, TVA, which rights are presently lodged in the Trustee and the holders of 25 percent in aggregate principal amount of the outstanding Power Bonds, as described in the first four paragraphs under “Events of Default”.

The Basic Resolution as so amended will also permit TVA, in addition to the amendments permitted by the Basic Resolution as described under “The Basic Resolution; Power Bonds and Discount Notes”—“Modifications of Resolutions and Outstanding Bonds”, to amend the Basic Resolution or any Supplemental Resolution without the consent of any holders of Power Bonds in order to make any other modification or amendment which the Board by resolution determines will not materially and adversely affect the interests of holders of Power Bonds.

The foregoing is a brief summary of certain provisions of the Third Amendatory Resolution. This summary is not to be considered a full statement of the terms of the Third Amendatory Resolution and, accordingly, is qualified by reference to the Third Amendatory Resolution. Copies in reasonable quantity of the Act and the Basic Resolution, including the Third Amendatory Resolution, may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (615) 632-3366.

INDEPENDENT ACCOUNTANTS

The financial statements of TVA at September 30, 1991, and 1990 and for each of the three fiscal years in the period ended September 30, 1991, appended hereto as part of the Information Statement have been audited by Coopers & Lybrand, independent accountants, as set forth in their report, which includes an explanatory paragraph related to TVA’s 1991 adoption of the accrual method of accounting for certain postretirement benefits, dated November 8, 1991, which report is also appended hereto.

* * * * *

Any statements in this Information Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Information Statement is not to be construed as a contract or agreement with the purchaser of any of the New Power Bonds or Discount Notes.

This Information Statement has been approved by a duly authorized officer of the Tennessee Valley Authority.

Tennessee Valley Authority

By: /s/ WILLIAM F. MALEC

William F. Malec
*Senior Vice President of
Finance and Administration
and Chief Financial Officer*

Dated November 22, 1991

TENNESSEE VALLEY AUTHORITY
FINANCIAL STATEMENTS
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FINANCIAL HIGHLIGHTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30

	<u>1991</u>	<u>1990</u>	<u>Percent</u>
		(In Millions)	<u>Change</u>
Operating Revenues	\$ 5,136	\$ 5,339	(3.8)
Operating Expenses	3,046	3,221	(5.4)
Operating Income	2,090	2,118	(1.3)
Interest Expense, exclusive of AFUDC	1,677	1,670	.4
Net Income (Loss)	286	(387)	173.9
Total Assets	\$29,314	\$27,672	5.9
Capitalization			
Proprietary Capital	4,811	4,599	4.6
Long-Term Debt	18,374	18,583	(1.1)
Total Capitalization	23,185	23,182	—

SYSTEM STATISTICS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30
(Millions of kilowatt-hours)

	<u>1991</u>	<u>1990</u>	<u>Percent Change</u>
System Input			
System Generation			
Hydro, including Pumped Storage	18,264	21,654	(15.7)
Coal	79,504	78,504	1.3
Nuclear	18,634	15,275	22.0
Combustion Turbine	34	203	(83.3)
Total Net Generation	116,436	115,636	.7
Purchased	1,077	959	12.3
Net Interchange and Wheeling	2,893	4,191	(31.0)
Total System Input	<u>120,406</u>	<u>120,786</u>	<u>(.3)</u>
System Output			
Sales			
Municipalities and Cooperatives	97,299	96,748	.6
Federal Agencies	2,148	2,336	(8.1)
Industries	17,422	17,134	1.7
Electric Utilities	48	265	(81.9)
Total Sales	116,917	116,483	.4
Delivered Under Cogeneration Agreement	—	1,168	(100.0)
Losses	3,489	3,135	11.3
Total System Output	<u>120,406</u>	<u>120,786</u>	<u>(.3)</u>
Installed Capacity in Service (megawatts)	29,497	28,328	4.1
Percent of Average Gross Generation to Installed Capacity in Service ...	48.33	50.02	(3.4)
System Peak Load (megawatts)	22,081	24,627	(10.3)
Annual Load Factor	<u>60.20</u>	<u>53.60</u>	<u>12.3</u>
Percent Installed Capacity by Fuel Source			
Coal	60%	62%	(3.2)
Hydro	19%	20%	(5.0)
Combustion Turbine	9%	9%	—
Nuclear in service	12%	9%	33.3

TENNESSEE VALLEY AUTHORITY
(A CORPORATION WHOLLY OWNED BY THE UNITED STATES OF AMERICA)

BALANCE SHEETS at September 30, 1991 and 1990

	Power program		All programs	
	1991	1990	1991	1990
ASSETS				
(In Millions)				
PROPERTY, PLANT, AND EQUIPMENT				
Completed plant	\$13,822	\$12,830	\$14,982	\$13,989
Less accumulated depreciation and depletion	4,612	4,422	4,853	4,653
Completed plant, net	9,210	8,408	10,129	9,336
Construction in progress	6,091	6,022	6,195	6,117
Deferred nuclear generating units	5,928	5,890	5,928	5,890
Capital lease assets and nuclear fuel	2,645	2,589	2,645	2,589
Total	23,874	22,909	24,897	23,932
INVESTMENT FUNDS, at accreted cost	170	297	170	297
CURRENT ASSETS				
Cash	186	5	328	119
Short-term investments	459		459	
Accounts receivable	697	731	776	747
Inventories, at average cost	471	495	471	498
Total	1,813	1,231	2,034	1,364
DEFERRED CHARGES AND OTHER ASSETS				
Loans and other long-term receivables	295	260	344	304
Deferred nuclear recovery costs	997	847	997	847
Unamortized debt issue and reacquisition costs	863	919	863	919
Other deferred charges	9	9	9	9
Total	2,164	2,035	2,213	2,079
Total assets	\$28,021	\$26,472	\$29,314	\$27,672
CAPITALIZATION AND LIABILITIES				
CAPITALIZATION				
Proprietary capital				
Appropriation investment, net	\$ 708	\$ 728	\$ 4,236	\$ 4,121
Retained earnings reinvested in the power program	2,999	2,777	2,999	2,777
Accumulated net expense of nonpower programs			(2,424)	(2,299)
Total	3,707	3,505	4,811	4,599
Long-term debt	18,374	18,583	18,374	18,583
Total	22,081	22,088	23,185	23,182
OTHER LIABILITIES				
Capital lease obligations	2,397	2,383	2,397	2,383
Decommissioning of nuclear plant	264	264	264	264
Other accrued liabilities	466	165	466	165
Total	3,127	2,812	3,127	2,812
CURRENT LIABILITIES				
Short-term debt	1,264	207	1,264	207
Current maturities of long-term debt	70		70	
Current portion of capital lease obligations	245	201	245	201
Accounts payable	645	557	808	635
Payrolls and other accrued costs	72	90	98	118
Interest accrued	517	517	517	517
Total	2,813	1,572	3,002	1,678
COMMITMENTS AND CONTINGENCIES				
(Notes 5, 9, 12, 14, and 15)				
Total capitalization and liabilities	\$28,021	\$26,472	\$29,314	\$27,672

The accompanying notes are an integral part of these financial statements.

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM**

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

For the Years Ended September 30, 1991, 1990, and 1989

	<u>1991</u>	<u>1990</u>	<u>1989</u>
	(In Millions)		
OPERATING REVENUES			
Sales of electric energy			
Municipalities and cooperatives	\$4,272	\$4,292	\$4,109
Federal agencies	257	413	569
Industries	531	548	526
Electric utilities	8	17	21
Total sales of electric energy	5,068	5,270	5,225
Other	68	69	62
Total operating revenues	5,136	5,339	5,287
OPERATING EXPENSES			
Production			
Fuel and purchased power, net	1,379	1,381	1,370
Other	537	511	534
Tax-equivalent payments	243	233	232
General and administrative	363	313	299
Amortization of canceled nuclear units and deferred nuclear costs	49	315	311
Provision for depreciation	350	341	343
Other operating expenses	125	127	114
Total operating expenses	3,046	3,221	3,203
Operating income	2,090	2,118	2,084
OTHER INCOME AND DEDUCTIONS			
Interest income	24	38	90
Charges related to:			
Canceled nuclear generating units	—	(900)	—
Other deferred costs	(1)	(276)	(29)
Total other income and deductions	23	(1,138)	61
Income before interest charges	2,113	980	2,145
INTEREST CHARGES			
Interest expense	1,677	1,670	1,842
Allowance for funds used during construction	(73)	(303)	(256)
Net interest charges	1,604	1,367	1,586
Income before cumulative effect of accounting change	509	—	—
CUMULATIVE EFFECT OF POSTRETIREMENT BENEFITS CHANGE			
	(223)	—	—
NET INCOME (LOSS)	286	(387)	559
Return on appropriation investment	64	68	67
Increase (decrease) in retained earnings reinvested	222	(455)	492
Retained earnings reinvested at beginning of period	2,777	3,232	2,740
Retained earnings reinvested at end of period	\$2,999	\$2,777	\$3,232

The accompanying notes are an integral part of these financial statements.

**TENNESSEE VALLEY AUTHORITY
NONPOWER PROGRAMS**

STATEMENTS OF NET EXPENSE AND ACCUMULATED NET EXPENSE

For the Years Ended September 30, 1991, 1990, and 1989

	<u>1991</u>	<u>1990</u>	<u>1989</u>
	(In Millions)		
STEWARDSHIP	\$ 63	\$ 58	\$ 54
WATER AND LAND	8	14	14
LAND BETWEEN THE LAKES	4	4	4
RURAL DEVELOPMENT	14	30	31
NATIONAL FERTILIZER AND ENVIRONMENTAL RESEARCH CENTER	37	40	45
OTHER EXPENSE, NET	<u>(1)</u>	<u>1</u>	<u>1</u>
NET EXPENSE	125	147	149
Accumulated net expense at beginning of period	<u>2,299</u>	<u>2,152</u>	<u>2,003</u>
Accumulated net expense at end of period	<u>\$2,424</u>	<u>\$2,299</u>	<u>\$2,152</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 1991, 1990, and 1989

	Power program			All programs		
	1991	1990	1989	1991	1990	1989
	(In Millions)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Net power income (loss)	\$ 286	\$ (387)	\$ 559	\$ 286	\$ (387)	\$ 559
Net expense of nonpower programs	—	—	—	(125)	(147)	(149)
Items not requiring (providing) cash						
Provision for depreciation	350	341	343	361	350	357
Amortization of canceled nuclear units and deferred nuclear costs	49	315	311	49	315	311
Allowance for funds used during construction	(73)	(303)	(256)	(73)	(303)	(256)
Charges related to losses on canceled nuclear generating units, deferred operating costs, and uranium and coal properties	—	1,118	—	—	1,118	—
Cumulative effect of postretirement benefits	223	—	—	223	—	—
Other, net	69	111	(17)	69	111	25
Changes in current assets and liabilities						
Accounts receivable, net	34	(25)	(14)	(29)	(28)	(15)
Inventories	24	(31)	27	27	(24)	28
Prepaid expenses	—	12	(8)	—	12	(8)
Accounts payable	70	76	(8)	153	94	(4)
Interest payable	—	135	(15)	—	135	(15)
Net cash provided by operating activities	<u>1,032</u>	<u>1,362</u>	<u>922</u>	<u>941</u>	<u>1,246</u>	<u>833</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Construction expenditures	(1,271)	(1,814)	(1,114)	(1,282)	(1,830)	(1,123)
Allowance for funds used during construction	73	303	256	73	303	256
Transfer of certain costs of canceled nuclear generating units	—	410	—	—	410	—
Other, net	(173)	(27)	(71)	(178)	5	(68)
Cash construction expenditures	<u>(1,371)</u>	<u>(1,128)</u>	<u>(929)</u>	<u>(1,387)</u>	<u>(1,112)</u>	<u>(935)</u>
Investments	(306)	2	892	(306)	2	892
Net cash used in investing activities	<u>(1,677)</u>	<u>(1,126)</u>	<u>(37)</u>	<u>(1,693)</u>	<u>(1,110)</u>	<u>(43)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Long-term debt						
Issues	—	8,000	700	—	8,000	700
Redemptions	(150)	(400)	(500)	(150)	(400)	(500)
Debt defeased	—	(6,100)	(800)	—	(6,100)	(800)
Short-term borrowings, net	1,057	(685)	136	1,057	(685)	136
Borrowing expenses, net	3	(1,120)	(182)	3	(1,120)	(182)
Congressional appropriations and transfers	—	—	—	135	120	104
Payments to U.S. Treasury	(84)	(88)	(87)	(84)	(88)	(87)
Net cash provided by (used in) financing activities	<u>826</u>	<u>(393)</u>	<u>(733)</u>	<u>961</u>	<u>(273)</u>	<u>(629)</u>
Net change in cash and cash equivalents	181	(157)	152	209	(137)	161
Cash and cash equivalents at beginning of year	5	162	10	119	256	95
Cash and cash equivalents at end of year	<u>\$ 186</u>	<u>\$ 5</u>	<u>\$ 162</u>	<u>\$ 328</u>	<u>\$ 119</u>	<u>\$ 256</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

The Tennessee Valley Authority (TVA) is a wholly-owned corporation of the United States Government created by the Tennessee Valley Authority Act of 1933. The Tennessee Valley Authority was created for the purpose of maintaining and operating the properties owned by the United States in the vicinity of Muscle Shoals, Alabama, in the interest of the national defense and for agricultural and industrial development, and to improve navigation in the Tennessee River and to control the destructive flood waters in the Tennessee River and Mississippi River Basins. Power rates are established by the TVA Board of Directors as authorized by the TVA Act.

1. Summary of significant accounting policies

Power accounts are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission. Nonpower accounts are maintained in accordance with applicable generally accepted accounting principles.

Plant additions and retirements | Additions to plant are recorded at cost, which includes material and labor as well as indirect construction costs. Indirect costs include general engineering, a portion of corporate overhead, and an allowance for funds used during construction. The cost of renewals and betterments of units of property is capitalized. The cost of current repairs and minor replacements is charged to operating expense. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation.

Depreciation and depletion | Straight-line depreciation is provided for substantially on a composite basis. Rates of depreciation are derived from engineering studies of useful life and are reviewed each year. The average of the composite rates that were applied individually to each major class of plant for fiscal years 1991, 1990, and 1989 was 2.75 percent, 2.78 percent, and 2.89 percent, respectively. As a result of studies, the estimated useful lives of Browns Ferry and Sequoyah nuclear plants were revised in fiscal years 1989 and 1990 from 30 to 38 and 37 years, respectively. The effect of this revision was to reduce the annual depreciation provision for 1989, 1990 and 1991 by \$18 million, \$35 million and \$35 million, respectively.

Decommissioning | Provision for decommissioning costs of nuclear generating units is derived through engineering studies of useful life and estimated costs based on the dismantling/removal method. The cost estimates for decommissioning as provided in fiscal year 1991 were based on a current dollar value amounting to \$150 million and \$190 million per unit, respectively, for TVA's two pressurized water and three boiling water reactors in completed plant. The excess of the annual provision over earnings from the investments designated for funding decommissioning costs is financed by revenues, and accordingly, is included with the provision for depreciation on the statements of operations and retained earnings and cash flows. Effective for fiscal year 1991, the decommissioning accruals were adjusted to reflect revised estimated useful lives for Browns Ferry and Sequoyah. This revised study resulted in an estimated five year deferral to the existing policy which reduced decommissioning expense for 1991 by \$40 million.

Investment funds | Certain power funds have been invested in order to provide adequate funding for decommissioning nuclear power plants. Investments are carried at cost, adjusted for amortization of premiums and accretion of discounts at the yield rate over the life of each instrument.

Short-term investments | Funds are invested in commercial paper and medium-term notes with maturities of 364 days or less to manage working capital levels. Investments are carried at cost, which approximates market value.

Allowance for funds used | The practice of capitalizing an allowance for funds used during construction is followed in the power program. In accordance with the TVA Board of Directors' criteria for establishing wholesale power rates, the allowance is applicable to construction in progress excluding deferred nuclear generating units and Unit One at Watts Bar Nuclear Plant which is substantially complete. The amount of interest capitalized is limited to the amount of depreciation and certain other noncash charges less the amount of the repayment of the appropriation investment to the U.S. Treasury. The method used provides

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

for the monthly calculation of interest on debt equivalent to the average balance of construction work in progress. The interest is calculated on the most recent debt issues except for those representing refunding of existing debt, in which case the maturity date of the original issue is used.

Nuclear fuel | The cost of nuclear fuel is charged to operations on a unit of production basis in amounts equal to lease payments (the cost of fuel burned plus finance charges) and a provision for spent nuclear fuel disposal. Total charges for nuclear fuel included in operating expense amounted to (in millions) \$191, \$153, and \$138 for fiscal years 1991, 1990, and 1989, respectively.

Unamortized cost of canceled nuclear generating units | In August 1990, the TVA Board of Directors elected to transfer \$410 million of the unamortized cost to “plant held for future use,” as TVA has identified certain alternative generation uses for one of the canceled sites. The Board also elected not to recover from customers through rates the remaining unamortized balance of \$900 million. Accordingly, that amount was charged to the 1990 statement of operations. Prior to August 1990 these costs were deferred and amortized through rates charged to customers.

Other deferred charges | Certain costs associated with uranium and coal mine and mill development activities, and annual aggregate depreciation and fuel interest charges for Units One and Two at Browns Ferry had been deferred. In August 1990 the Board elected not to recover these deferred amounts from customers. Accordingly, the respective unamortized balances were charged to the 1990 statement of operations.

Deferred nuclear recovery costs | The costs incurred by TVA at the nonoperating completed nuclear production plants to accomplish the corrective actions necessary to obtain the Nuclear Regulatory Commission’s approval to restart the plants are deferred and charged to operations over a ten-year period beginning with the restart of each idled unit. Three units were returned to commercial operation as follows: Sequoyah Unit Two — July 1988, Sequoyah Unit One — January 1989, and Browns Ferry Unit Two — August 1991. Amortization of the deferred costs amounted to \$49 million for fiscal year 1991, \$42 million for fiscal year 1990, and \$38 million for fiscal year 1989.

Tax-equivalent payments | The TVA Act requires TVA to make payments to states and local governments in which the power operations of the corporation are carried out. The basic amount is five percent of gross revenues from the sale of power to other than Federal agencies during the preceding year, with the provision for minimum payments under certain circumstances.

Statements of Cash Flows | For purposes of the Statements of Cash Flows, TVA considers the cash available in commercial bank accounts and U.S. Treasury accounts to be cash and cash equivalents. During fiscal years 1991, 1990, and 1989, interest paid (net of amount capitalized) was \$1,546 million, \$1,179 million, and \$1,596 million, respectively. Capital lease additions including capitalized interest were \$206 million, \$194 million and \$189 million in fiscal years 1991, 1990 and 1989, respectively (Note 7).

Borrowing expenses | Issue and reacquisition expenses and discounts on power borrowings from the public are amortized and accreted, respectively, on a straight-line basis over the term of the related securities. Issue expenses on power borrowings from the Federal Financing Bank are amortized over a five-year period. Reacquisition expense of recalled debt and call premiums and other costs associated with advance refunded debt are amortized over the remaining terms of the replacement issues.

Reclassifications | Reclassifications have been made to the Nonpower Statements of Net Expense and Accumulated Net Expense of prior periods to conform with the 1991 presentations which are based on the five major Gramm-Rudman budget categories.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

2. Nuclear power program

The nuclear power program at September 30, 1991 consists of nine generating units at four locations with investments as follows and in the status indicated:

	<u>Capacity</u> (Megawatts)	<u>Completed Plant, Net</u>	<u>Construction in Progress</u>	<u>Deferred</u>	<u>Fuel Investment</u>	<u>Scheduled Operation</u>
				(Millions)		
Sequoyah						
Unit 1.....	1,221	\$ 455	\$ 16	\$ —	\$ 158	Operating
Unit 2.....	1,221	418	26	—	195	Operating
Common	—	823	50	—	—	
Browns Ferry						
Unit 1.....	1,152	197	22	—	158	Fall 1995
Unit 2.....	1,152	236	—	—	190	Operating
Unit 3.....	1,152	206	21	—	118	Fall 1993
Common	—	1,059	79	—	—	
Watts Bar						
Unit 1.....	1,270	—	5,150	—	145	Spring 1994
Unit 2.....	1,270	—	—	1,623	155	1997
Bellefonte						
Unit 1.....	1,332	—	—	3,512	195	1997
Unit 2.....	1,332	—	—	793	196	1999
Raw Materials	—	—	—	—	899	
Total	<u>11,102</u>	<u>\$3,394</u>	<u>\$5,364</u>	<u>\$5,928</u>	<u>\$2,409</u>	

The completed units at Browns Ferry were taken off-line in March 1985 for plant modifications and regulatory improvements. TVA completed the corrective actions necessary to restart Unit 2 in May 1991. The modifications and improvements for Units 1 and 3 are expected to be completed as shown in the above schedule.

Unit 1 at Watts Bar under construction is substantially complete. In December 1990, TVA halted construction-related work at the site until corrections to the work control processes can be made to ensure the quality of the work. TVA has committed to review work control practices with the Nuclear Regulatory Commission (NRC) and obtain NRC concurrence prior to the restart of construction-related work. While TVA is optimistic that NRC concurrence to restart construction will be obtained, no assurance can be given that further delays in bringing the unit into operation will not occur. Interest capitalization for Watts Bar Unit 1 was suspended in October 1990 since the unit is substantially complete. Capitalized interest was \$244 million in fiscal year 1990 and \$210 million in fiscal year 1989.

On October 1, 1988 TVA suspended construction activities at Watts Bar Unit 2 because of a reduction in the forecasted load growth, and the unit is currently in layup. Units 1 and 2 at Bellefonte Nuclear Plant were deferred in 1988 and 1985, respectively. A 1990 study of the two Bellefonte units was conducted to assess the feasibility of resumption of construction to allow the units to be placed in service around 1998-2000. Although no formal action has been taken to resume construction of these units, TVA has developed a systematic approach to coordinate placing these three units in service to meet forecasted generation capacity requirements. For financial reporting purposes, the cost of these three units is presented as deferred nuclear generating units. Interest capitalization for Watts Bar Unit 2 and Bellefonte Units 1 and 2 was suspended in 1988. Budgeted 1992 expenditures for these three units are limited to certain licensing and design activities and maintenance costs. The total project costs to complete these suspended construction and deferred units cannot reasonably be estimated until firm completion dates are established.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

All units not operating are expected to be completed as indicated. If abandonment of any of these units should occur, TVA would recover these costs (including fuel) through rates charged to future customers.

Nuclear waste | As provided in the Nuclear Waste Policy Act of 1982, TVA has entered into contracts with the United States Department of Energy (DOE) for disposal of spent nuclear fuel. Under the terms of the contract, TVA is required to pay a fee to the DOE of one mill per kilowatt-hour on the net electricity generated by each of its reactors. Total fees charged to operations for the years ended September 30, 1991, 1990, and 1989 were \$19 million, \$15 million, and \$13 million, respectively.

3. Completed plant

Completed plant for All Programs stated at gross cost consists of the following at September 30, 1991 and 1990:

	1991	1990
	(Millions)	
Steam production plants	\$ 4,651	\$ 4,537
Nuclear production plants	4,348	3,503
Transmission plants	2,082	2,064
Multipurpose dams		
System allocation	1,099	1,091
Project allocation	413	413
Single-purpose dams	459	431
Other	1,930	1,950
Total	\$14,982	\$13,989

4. Allocation of cost of multipurpose projects

The TVA Act requires TVA's Board of Directors to allocate, subject to the approval of the President of the United States, the cost of completed multipurpose projects. The cost of facilities installed exclusively for a single purpose is assigned directly to that purpose; the cost of multiple-use facilities is allocated among the various purposes served.

The total investment in completed multipurpose dams at September 30, 1991 and 1990 is:

	Investment					
	Direct		Multiple-use		Total	
	1991	1990	1991	1990	1991	1990
	(Millions)					
Power	\$391	\$387	\$223	\$222	\$ 614	\$ 609
Navigation	295	295	173	172	468	467
Flood control	65	65	197	195	262	260
Recreation	6	6	116	116	122	122
Local economic development	—	—	46	46	46	46
Total	\$757	\$753	\$755	\$751	\$1,512	\$1,504

5. Expenditures for completed plant

Projected expenditures, including capitalized interest, are estimated to amount to \$1.9 billion, \$2.3 billion, and \$2.4 billion for fiscal years 1992, 1993 and 1994, respectively. These estimates are reviewed and revised periodically to reflect changes in economic conditions and other factors considered in their determination. Substantial commitments have been incurred for these projects.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

6. Certain nonpower projects

The \$115 million cost of the North Alabama coal gasification project, which was financed by congressional appropriations, is carried in completed plant. The project is in a defense energy reserve status subject to periodic evaluations of the project's viability.

The construction required to complete the Columbia Dam and Reservoir, a multipurpose project financed by congressional appropriations, has been suspended due to budget restrictions and environmental concerns. The total cost of the project, \$82 million, is carried in construction in progress. Studies are being conducted to consider alternative uses of the land and facilities should the project not be completed.

7. Leases

Nuclear fuel is obtained directly from vendors and through contractual arrangements providing for mining, milling, and fabrication of raw materials obtained from land leased by TVA. Under an agreement entered into in fiscal year 1980, TVA sells and leases back nuclear fuel on hand. TVA leases property, plant, and equipment under lease agreements with terms ranging from one to thirty years. Under most of the agreements, TVA pays the property taxes, maintenance costs, and other costs of operation. Many of the agreements are the result of sale-leaseback arrangements. Most of the agreements include purchase options and/or renewal options which cover substantially all the economic lives of the properties.

The following is a summary of obligations under capital and noncancelable operating lease agreements in effect at September 30, 1991 and 1990:

CAPITAL LEASES

	1991	1990
	(Millions)	
Nuclear fuel		
Assets under capital lease	\$3,433	\$3,233
Accumulated provision for amortization	1,027	889
Net nuclear fuel	2,406	2,344
General plant		
Assets under capital lease	257	258
Accumulated provision for amortization	21	18
Net general plant	236	240
Total net properties	\$2,642	\$2,584
Obligations under capital leases	\$2,642	\$2,584

Nuclear fuel includes capitalized interest in the amount of \$948 million for 1991 and \$941 million for 1990.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

FUTURE MINIMUM LEASE PAYMENTS

<u>Fiscal Period</u>	<u>General Plant Capital Leases</u>	<u>Noncancelable Operating Leases</u>
	(Millions)	
1992	\$ 39	\$ 5
1993	39	4
1994	39	4
1995	40	4
1996	40	3
Thereafter	<u>517</u>	<u>7</u>
Total future minimum lease payments	714	<u>\$27</u>
Less interest element included	<u>478</u>	
Present value of future minimum lease payments	<u>\$236</u>	

Payments under nuclear fuel lease, which are based on fuel burns, are estimated to be (in millions) \$241, \$244, \$365, \$395, and \$541 including financing charges, for fiscal years 1992-1996, respectively.

Amortization of capital leases, including nuclear fuel, for the years ended September 30, 1991, 1990, and 1989 was (in millions) \$140, \$110, and \$95, respectively. Operating expenses for the same respective periods included finance charges for capital leases in the amounts of (in millions) \$70, \$65, and \$69.

Annual rents for one capital lease range from \$2.7 million to \$51.9 million under the lease terms now in effect. TVA is providing for the levelization of these rentals in its operating expenses over the twenty-five year term of the lease which expires in 2011. The accrued liability for future lease payments is \$142 million at September 30, 1991.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

8. Appropriation investment

Changes in the appropriation investment during the years ended September 30, 1991, 1990, and 1989 were as follows:

	<u>September 30</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
	(Millions)		
Power Program			
Congressional Appropriations	\$1,419	\$1,419	\$1,419
Transfers of Property from other Federal agencies	24	24	24
Repayments to General Fund of the U.S. Treasury			
Beginning of year	(715)	(695)	(675)
For the year	(20)	(20)	(20)
	<u>(735)</u>	<u>(715)</u>	<u>(695)</u>
Net Appropriation Investment	<u>\$ 708</u>	<u>\$ 728</u>	<u>\$ 748</u>
All Programs			
Congressional Appropriations			
Beginning of year	\$4,816	\$4,697	\$4,594
For the year	135	119	103
	<u>4,951</u>	<u>4,816</u>	<u>4,697</u>
Transfers of Property from other Federal agencies			
Beginning of year	62	62	61
For the year	—	—	1
	<u>62</u>	<u>62</u>	<u>62</u>
Repayments to General Fund of the U.S. Treasury			
Beginning of year	(757)	(737)	(717)
For the year	(20)	(20)	(20)
	<u>(777)</u>	<u>(757)</u>	<u>(737)</u>
Net Appropriation Investment	<u>\$4,236</u>	<u>\$4,121</u>	<u>\$4,022</u>

Congressional appropriations for fiscal year 1992 in the amount of \$135 million have been approved.

The TVA Act requires the payment to the U.S. Treasury from net power proceeds of a return on the net appropriation investment in power facilities plus repayments of such investment. The amount of return payable during each year is based on the appropriation investment as of the beginning of that year and the computed average interest rate payable by the U.S. Treasury on its total marketable public obligations as of the same date. Under the terms of the repayment schedule, TVA is required to make annual payments of \$20 million until a total of \$1 billion has been repaid. The payments required by the TVA Act may be deferred under certain circumstances for not more than two years.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Required payments have been made as follows:

	<u>Return</u>	<u>Repayment</u>	<u>Total</u>
		(Millions)	
Payments prior to 1961		<u>\$185</u>	\$ 185
1961 to September 30, 1990	\$1,969	530	2,499
Year ended September 30, 1991	<u>64</u>	<u>20</u>	<u>84</u>
Repayments toward \$1 billion		<u>550</u>	
	<u>\$2,033</u>	<u>\$735</u>	<u>\$2,768</u>

For fiscal year 1992 the total required payments will be \$77 million: \$57 million as a return on the appropriation investment at the computed average interest rate of 8.0575 percent, and \$20 million as a repayment.

In addition to the payments from net power proceeds, certain nonpower proceeds are paid to the U.S. Treasury under the provisions of the TVA Act. The total payments from nonpower proceeds through fiscal year 1991 amounted to \$43 million.

The TVA Act provides for annual payments to the Treasury of any power or nonpower proceeds not needed for the operation of dams and reservoirs, the conduct of the power program, and the manufacture and distribution of fertilizers, as determined by the TVA Board of Directors.

9. Fuel contract commitments

Approximately \$3.6 billion in long-term commitments, ranging in terms of up to eight years, have been entered into for the purchase of coal to provide for the fuel requirements of the steam generating plants. In addition, \$261 million is committed under contracts expiring no later than 2014 for uranium and enrichment services.

10. Borrowing authority

The TVA Act authorizes TVA to issue bonds, notes, and other evidences of indebtedness up to a total of \$30 billion outstanding at any one time (including defeased debt). TVA must meet certain cash flow and earnings tests that are contained in the TVA Act and the Basic TVA Power Bond Resolution. Debt service on these obligations, which is payable solely from TVA's net power proceeds, has precedence over the payment

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

to the U.S. Treasury described in Note 8. Defeased debt outstanding at September 30, 1991 and 1990 was \$2.6 billion and \$4.9 billion, respectively. Issues outstanding (excluding defeased debt) at September 30, 1991 and 1990, consist of the following:

	1991	1990
	(Millions)	
Long-term debt		
Held by the public		
Maturing in 1992 — 5.70% and 6.375%	\$ 60	\$ 130
Maturing in 1994 — 8.25%	1,000	1,000
Maturing 1996 through 1999 — 7.00% to 8.375%	3,750	3,750
Maturing 2019 through 2029 — 8.625% to 8.75%	4,500	4,500
	9,310	9,380
Federal Financing Bank		
Maturing 2001 through 2004 — 7.625% to 9.565%	4,700	4,700
Maturing 2012 through 2017 — 7.285% to 12.095%	4,575	4,725
	9,275	9,425
Total long-term debt	18,585	18,805
Less unamortized discount	211	222
Net long-term debt	\$18,374	\$18,583
Short-term debt		
Held by public		
Discount notes (net of discount)	\$ 1,114	\$ —
Current portion of long-term debt	70	—
U. S. Treasury	150	150
Federal Financing Bank	—	57
Total short-term debt	\$ 1,334	\$ 207
Total debt	\$19,708	\$18,790

The interest rate on short-term debt owed to the U. S. Treasury as of September 30, 1991, was 6.00 percent, the weighted average rate on short-term debt outstanding in the public market as of September 30, 1991, was 5.65 percent.

During fiscal years 1991, 1990, and 1989, the maximum amounts of short-term borrowings outstanding (in millions) were \$1,372, \$680, and \$1,165, respectively, and the average amounts (and weighted average interest rates) of such borrowings were approximately (in millions) \$555 (6.17 percent), \$290 (8.033 percent), and \$678 (8.48 percent), respectively.

In October and November 1989, TVA issued \$8 billion in bonds to the public, using most of the proceeds to advance refund \$6.5 billion of long-term debt. These advance refundings were effected through the redemption of a \$400 million debt issue and through insubstance defeasance transactions totaling \$6.1 billion, wherein TVA transferred sufficient funds to establish irrevocable trusts to hold securities which are scheduled to earn interest and mature in amounts sufficient to meet debt service requirements for the aforementioned debt issues. TVA incurred a premium of \$892 million to effect the \$6.5 billion advance refunding, which is being deferred and recognized as an expense ratably through the maturity dates of the new debt issues.

The borrowings from the public by TVA in 1989 represented a departure from its practice since 1974 of borrowing only from the Federal Financing Bank (FFB), excluding advances from the U.S. Treasury. FFB advised TVA that FFB policy does not permit Federal agencies which access public markets financing also to

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

freely access FFB financing. However, FFB entered into an agreement, which expired in October 1991, under which TVA made short-term borrowings (maturities of 180 days or less) from the FFB of up to \$2 billion outstanding at any one time. In August 1991, TVA began selling discount notes to meet short-term financing needs. FFB will continue to make available up to \$2.5 billion in financing until October 1993 for Seven States Energy Corporation, from which TVA leases nuclear fuel under TVA's nuclear fuel lease arrangement (note 7). Presently outstanding long-term debt held by FFB is not affected by this change.

In October 1991 TVA issued \$500 million in 7.45% Power Bonds due October 15, 2001. The net proceeds from the sale of bonds will be used together with internal funds to refund \$500 million aggregate principal amount of TVA's 9.195% Power Bonds 1979 Series C due August 31, 2004 held by the Federal Financing Bank.

11. Retirement plans

Pension Plan | TVA's retirement plan is a contributory, defined benefit plan covering most full-time employees. The plan is comprised of two funds: Fixed Benefit Fund and Variable Annuity Fund. Plan assets are primarily stocks and bonds. TVA contributes to the Fixed Benefit Fund such amounts as are necessary on an actuarial basis to provide assets sufficient to meet the obligations for benefits to be paid to members. A member elects to have the member's current contributions credited to the Fixed Benefit Fund or the Variable Annuity Fund or a portion to each. The pension is based on the member's years (to the nearest month) of creditable service, average base pay for the highest three consecutive years, and the pension rate for the member's age, less a Social Security offset.

Net pension costs for fiscal years 1991, 1990, and 1989 include the following components:

	<u>1991</u>	<u>1990</u> (Millions)	<u>1989</u>
Service cost.....	\$ 71	\$ 68	\$ 69
Interest cost on projected benefit obligation	214	204	194
Actual return on assets	(565)	224	(414)
Net amortization and deferral	346	(430)	225
Net pension costs	<u>\$ 66</u>	<u>\$ 66</u>	<u>\$ 74</u>

The plan's funded status at September 30 is as follows:

	<u>1991</u>	<u>1990</u> (Millions)
Actuarial present value of benefit obligations:		
Vested benefit obligation	\$(2,304)	\$(2,134)
Nonvested benefits.....	(61)	(59)
Accumulated benefit obligation.....	(2,365)	(2,193)
Effects of projected future compensation levels	(367)	(358)
Projected benefit obligation	<u>(2,732)</u>	<u>(2,551)</u>
Plan assets at fair value	3,016	2,451
Excess (deficit) of plan assets over projected benefit obligation	284	(100)
Unrecognized net loss (gain)	(315)	88
Unrecognized net obligation being amortized over 15 years beginning October 1, 1987.....	4	4
Prepaid (accrued) pension cost.....	<u>\$ (27)</u>	<u>\$ (8)</u>

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

For determining the actuarial present value of the projected benefit obligation in fiscal years 1991 and 1990, the discount rate of 8.5 percent was used, and the assumed annual rates of increase in future compensation levels for 1991 and 1990 ranged from 4.8 percent to 9.8 percent. The expected long-term rate of return on plan assets for 1991 and 1990 was 9 percent.

Other Postretirement Benefits | TVA sponsors an unfunded defined benefit postretirement medical plan that covers substantially all of its employees. The plan is contributory, and TVA's contributions are established as a flat dollar amount based upon the participant's age and years of service. In December 1990, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions". SFAS No. 106 requires accrual of postretirement benefits. The costs of these benefits were previously recognized on a pay-as-you-go (cash) basis. While SFAS No. 106 is effective for fiscal years beginning after December 15, 1992, TVA has elected to accrue these benefits in the fiscal year commencing October 1, 1990. The estimated provision necessary to establish the liability as of October 1, 1990 amounted to approximately \$243 million of which \$223 million is reflected as a cumulative effect of adopting SFAS No. 106 and charged to the Power Program. The remaining \$20 million is associated with the Nonpower Program and has been recorded by Power as a long-term receivable to be recovered from future available Nonpower funds. The effect of retroactive application of the accounting change on 1990 and 1989 results of operations is not considered significant.

The following sets forth the plan's funded status reconciled with amounts reported in the balance sheet at September 30, 1991:

	(Millions)
Accumulated Postretirement Benefit Obligation (APBO):	
Retirees.....	\$(158)
Fully eligible active plan participants.....	(30)
Other active plan participants.....	(76)
	(264)
Plan assets at fair value.....	—
Accrued postretirement benefit cost.....	\$(264)
Net Periodic Postretirement Benefit Cost (NPPBC) for fiscal year 1991 included the following components:	
Service cost.....	\$ 6
Interest cost.....	21
Net periodic postretirement benefit cost.....	\$ 27

The annual assumed rate of increase in the per capita cost of covered benefits is 8 percent. Increasing the assumed health care cost trend rates by one percentage point in each year will increase the APBO as of September 30, 1991 by \$24 million and the aggregated service and interest cost components of net periodic postretirement benefit cost for 1991 by \$3 million. The weighted average discount rate used in determining the APBO was 8.5 percent.

12. Nuclear insurance

The Price-Anderson Act sets forth an indemnification and limitation of liability plan for the U.S. commercial nuclear industry. Recent amendments to this Act substantially increased the limit of liability from an accident at a U.S. Nuclear Regulatory Commission-licensed reactor to approximately \$7.4 billion.

All NRC licensees (including TVA) are required to maintain nuclear liability insurance in the amount of \$200 million for each plant site with units licensed to operate. Should the damages from a nuclear accident exceed this liability insurance coverage, each NRC licensee could be retrospectively assessed for each of its units licensed to operate, an amount not to exceed \$63 million per nuclear accident, subject to a maximum

TENNESSEE VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS — (Continued)

annual assessment of \$10 million per unit per accident. In the event the liability from a nuclear accident exceeds the liability limit, the reactor licensee can be assessed an additional 5 percent of the \$63 million assessment per unit. TVA maintains nuclear liability insurance in the amount of \$200 million for each of its two nuclear plant sites with units licensed to operate. In the event of a nuclear accident, TVA's financial responsibility is limited to \$50 million per year per accident.

In accordance with NRC regulations, TVA carries, at each licensed nuclear plant, insurance of \$1.06 billion for the cost of stabilizing or shutting down a reactor after an accident, decontamination, and property damage. Some of this insurance may require the payment of retrospective premiums of up to a maximum of approximately \$32 million.

13. Major customers

Sales of electric power to one Federal agency — principally in the form of demand charges — amounted to 10 percent of power sales in fiscal years 1989, 6.5 percent in 1990, and 3.5 percent in 1991. This customer, in accordance with contract provisions, had exercised its right prior to fiscal year 1987, through notices eight years in advance, to reduce the amount of electric power to be purchased. An agreement between TVA and the customer was reached in December 1987 whereby the customer's payment obligations are being satisfied through a series of payments to TVA totaling over \$1.8 billion. The scheduled payments are \$465 million in fiscal year 1989, \$311 million in fiscal year 1990, and \$160 million each year from 1991 through 1994, the end of the contract term. TVA will also receive payment for its obligation under the agreement to deliver up to 125 megawatts of power. The reductions in demand have been taken into account in TVA's future supply plans.

One municipal customer accounts for approximately 10 percent of total power sales revenues, and four other municipal customers account for an additional 20 percent of total power sales revenues. Four out of the five distributors, including the largest customer, have contracts without stated expiration dates, and in no event would the contract term be less than ten years. The other distributor has a contract which extends until January 2009 and which cannot be terminated prior to January 1999.

14. Acid rain legislation

Amendments to the Clean Air Act will result in substantial expenditures for the reduction of sulfur dioxide, nitrogen oxide, and possible toxic emissions at several of TVA's coal fired generating stations. A management team that is evaluating options for complying with this legislation has recommended adding scrubbers to two coal fired units and switching to low-sulfur coal at four units to comply with the initial requirements of the statute (Phase I). This recommendation is cost-effective based on TVA receiving an adequate number of bonus allowances from the Environmental Protection Agency for the scrubbers to be installed in Phase I. This recommendation is to be considered by the TVA Board of Directors on November 20, 1991. Compliance with Phase I must be completed by January 1, 1995 with aggregate capital expenditures expected to range from \$750-\$850 million between fiscal years 1992 and 1995. Increases to the operating and fuel expenses (excluding depreciation) could increase \$33 to \$49 million over current fossil operating expenses for the years 1995 — 1999 due to this legislation. Phase II compliance must be provided by January 1, 2000, and the cost of compliance cannot reasonably be estimated at this time due to the uncertainties surrounding final compliance strategy, development of new emission technologies and future amendments to the legislation. TVA expects to recover compliance cost from the ratepayers.

15. Litigation

TVA is a party to various civil lawsuits and claims which have arisen in the ordinary course of its business. It is the opinion of TVA counsel that although the outcome of pending litigation cannot be predicted with any certainty, the ultimate outcome should not have a material adverse effect on TVA's financial position or results of operations.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of Tennessee Valley Authority

We have audited the accompanying balance sheets (power program and all programs) of Tennessee Valley Authority as of September 30, 1991 and 1990 and the related statements of operations and retained earnings (power program), net expense and accumulated net expense (nonpower programs) and cash flows (power program and all programs) for each of the three years in the period ended September 30, 1991. These financial statements are the responsibility of Tennessee Valley Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the power program and all programs of Tennessee Valley Authority as of September 30, 1991 and 1990, and the results of operations of the power program and nonpower programs and cash flows of the power program and all programs for each of the three years in the period ended September 30, 1991 in conformity with generally accepted accounting principles.

As discussed in Note 11 to the financial statements, in 1991 Tennessee Valley Authority adopted the accrual method of accounting for certain postretirement benefits.

COOPERS & LYBRAND

Knoxville, Tennessee
November 8, 1991

REPORT OF MANAGEMENT

Management is responsible for the preparation, integrity and objectivity of the financial statements of Tennessee Valley Authority as well as all other information contained in the annual report. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained in the annual report is consistent with that in the financial statements.

Tennessee Valley Authority maintains an adequate system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with generally accepted accounting principles and that the assets of the corporation are properly safeguarded. The system of internal controls is documented, evaluated and tested on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such a system should not exceed the benefits derived. No material internal control weaknesses have been reported to management.

Coopers & Lybrand was engaged to audit the financial statements of Tennessee Valley Authority and issue reports thereon. Their audits were conducted in accordance with generally accepted auditing standards. Such standards require a review of internal controls, examination of selected transactions and other procedures sufficient to provide reasonable assurance that the financial statements neither are misleading nor contain material errors. The Report of Independent Accountants does not limit the responsibility of management for information contained in the financial statements and elsewhere in the annual report.

William F. Malec
*Senior Vice President and
Chief Financial Officer*

TENNESSEE VALLEY AUTHORITY
COMPARATIVE STATISTICAL AND FINANCIAL STATEMENT DATA
FOR THE YEARS ENDED SEPTEMBER 30

	<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>
Sales (millions of kilowatt-hours)					
Municipalities and cooperatives	97,299	96,748	92,538	91,392	90,813
Federal agencies	2,148	2,336	2,341	2,277	2,270
Industries	17,422	17,134	16,260	15,141	14,530
Electric utilities	48	265	453	517	439
	<u>116,917</u>	<u>116,483</u>	<u>111,592</u>	<u>109,327</u>	<u>108,052</u>
Operating Revenues (millions of dollars)					
Electric					
Municipalities and cooperatives	4,272	4,292	4,109	4,100	3,974
Federal agencies	257	413	569	623	608
Industries	531	548	526	513	502
Electric utilities	8	17	21	26	20
Other	68	69	62	60	52
	<u>5,136</u>	<u>5,339</u>	<u>5,287</u>	<u>5,322</u>	<u>5,156</u>
Installed Generating Capacity (megawatts)					
Hydro	5,747(a)	5,730(a)	6,056	6,054	6,054
Coal	17,647	17,647	17,647	17,647	17,647
Nuclear units in service	3,593	2,441	2,441	1,221	—
Gas turbine	2,510	2,510	2,510	2,510	2,510
	<u>29,497</u>	<u>28,328</u>	<u>28,654</u>	<u>27,432</u>	<u>26,211</u>
System Peak Load (megawatts)	<u>22,081</u>	<u>24,627</u>	<u>20,638</u>	<u>21,343</u>	<u>19,772</u>
Percent Gross Generation					
Coal	68%	68%	71%	86%	82%
Hydro	16%	19%	18%	11%	18%
Nuclear	16%	13%	11%	3%	—
Fuel Cost Per Kilowatt-hour (mills)					
Coal	13.5	13.7	14.1	14.3	14.6
Nuclear	10.2	10.0	10.8	13.6	—
Aggregate Fuel Cost Per kWh Net Commercial Generation	<u>12.9</u>	<u>13.2</u>	<u>13.7</u>	<u>14.4</u>	<u>14.8</u>
Revenue Per Kilowatt-hour (mills)(b)	<u>42.0</u>	<u>42.6</u>	<u>42.7</u>	<u>44.7</u>	<u>47.2</u>
Fuel Data					
Net Commercial Generation (millions of kilowatt- hours)	98,153	93,595	92,106	86,278	78,449
Billion Btu	998,934	946,113	925,455	865,876	786,608
Fuel expense (millions of dollars)	1,263	1,233	1,261	1,240	1,163
Cost Per Million Btu (cents)	126.48	130.36	136.26	143.22	147.83
Net Heat Rate	10,177	10,109	10,048	10,036	10,030

- a. Reflects expiration of TAPOCO cogeneration agreement.
b. Excludes DOE settlement payment.

No dealer, salesperson or any other person has been authorized by TVA to give any information or to make any representations on behalf of TVA other than those contained in this Offering Circular, the current Information Statement, or any supplement to any of the foregoing prepared by TVA for use in connection with the offer made by this Offering Circular and, if given or made, such information or representations must not be relied upon as having been authorized by TVA. Neither the delivery of this Offering Circular or the current Information Statement nor any sale of Bonds described herein shall under any circumstances create an implication that the information provided herein is correct at any time subsequent to its date. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy the Bonds described herein in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

\$1,000,000,000

Tennessee Valley Authority

**8 1/4 % Power Bonds 1992 Series D,
Due April 15, 2042**

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OFFERING CIRCULAR

Goldman, Sachs & Co.

The First Boston Corporation

Lehman Brothers

Merrill Lynch & Co.

**Morgan Stanley & Co.
Incorporated**

Salomon Brothers Inc