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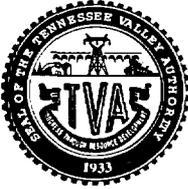
AUTHOR: Glenn Mccullough
AFFILIATION: TN
ADDRESSEE: Nils Diaz
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3276

CHAIRMAN REC'D
03 JUL 14 AM 9:30

Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401

Board of Directors

June 30, 2003

Dear Stakeholder:

The people of the Tennessee Valley Authority (TVA) are proud to provide reliable and affordable electricity, effective environmental stewardship and leadership for sustainable economic development throughout our seven-state service area. As a TVA stakeholder, we know you have an especially keen interest in how TVA is doing, and we are writing to inform you of our financial performance and business achievements during the second quarter of our 2003 fiscal year that began in October.

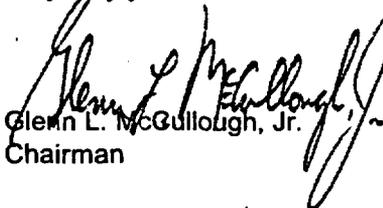
During this period, TVA earned more revenue, recorded higher net income, and paid less in interest costs as compared to the same period a year earlier when these indicators were lower than projected. Increased demand for electricity, as a result of a colder than normal winter, pushed TVA's revenues 9 percent higher for an increase of \$150 million over the second quarter of last year. TVA's operating income for the period increased from \$413 million to \$422 million and interest expense for the period declined to \$335 million, \$22 million less than last year. Net income in the second quarter was \$90 million compared to a net loss of \$89 million a year earlier, which included a \$150 million loss on a plant cancellation.

These accomplishments show that, despite the challenges of higher operating and construction costs and unexpected outages at several generating plants, TVA's financial position is stronger as we work to provide affordable, reliable power to the people of the Tennessee Valley.

To assure full and accurate disclosure of our financial condition, TVA has adopted a financial code of ethics and financial reporting practices that are consistent with the goals of the Sarbanes-Oxley Act of 2002. Complete financial statements and related disclosure information are available on our web site at <http://www.tva.com> or by calling TVA Investor Relations at 888-882-4975.

For additional information on TVA's recent performance, we invite you to read the enclosed summary that illustrates our commitment to providing you and all TVA stakeholders with the greatest possible value in energy, the environment, and economic development.

Very truly yours,


Glenn L. McGullough, Jr.
Chairman


Skila Harris
Director


Bill Baxter
Director

Enclosure

TVA Highlights



Second Quarter Fiscal Year 2003

Energy

- TVA and distributors of TVA power met an all-time record power demand of 29,866 megawatts on January 24. During the highest demand period, some industrial customers with contracts for interruptible power suspended operations, helping TVA reduce demand quickly in return for lower rates.
- TVA Nuclear received the Tennessee Quality Excellence Award for practices and achievements consistent with being a world-class role model for others.
- After completing its first-ever continuous run from one refueling to the next, Sequoyah Unit 1 entered a refueling outage during which its four steam generators are being replaced.
- For only the second time in 16 years, TVA proposed a rate increase and rate adjustment. If approved, the change would help cover TVA's higher costs for clean air improvements and more equitably distribute the costs of serving different customer groups.

Environment

- TVA's river system operations earned the highest-possible rating for effectiveness from the Office of Management and Budget.
- TVA broke ground for the construction and installation of a scrubber to reduce sulfur dioxide emissions from Paradise Fossil Plant. The scrubber, which will create 300 construction jobs and 40 full-time positions, is part of TVA's \$5 billion commitment to reduce TVA's emissions of sulfur dioxide by 85 percent from 1977 levels and reduce nitrogen oxide emissions during the summer ozone season by 75 percent compared to 1995 levels.
- Green Power Switch® earned two top-10 national rankings from the U.S. Department of Energy for the second year in a row. TVA inaugurated Green Power Switch Generation Partners, a program to support the development of consumer-owned solar and wind generating facilities from which TVA could buy power. The program is being made available to residential and small commercial consumers through participating power distributors.
- TVA continued to evaluate alternatives for the Reservoir Operations Study, including analyses to determine the potential impacts of different operating scenarios on economic development, commercial shipping, and water temperature and dissolved oxygen levels.

Economy

- TVA approved \$3.6 million in economic development loans for business growth in the Tennessee Valley. These loans are expected to leverage an additional \$15.6 million in capital investment and help create or retain 1,028 jobs. TVA also loaned \$855,000 to minority businesses in the Valley and completed 108 technical services projects for Valley communities and industries.
- During the eighth-wettest February since 1890, TVA flood control operations helped reduce flood damage by an estimated \$37 million.

Financial and Statistical Highlights

Financial Highlights (millions)

	Three Months Ended March 31		Six Months Ended March 31	
	2003	2002	2003	2002
Operating revenues	\$ 1,803	\$ 1,653	\$ 3,496	\$ 3,174
Operating expenses	(1,381)	(1,240)	(2,634)	(2,401)
Operating income	422	413	862	773
Other income, net	3	5	6	8
Loss on plant cancellation	-	(150)	-	(150)
Interest expense, net	(335)	(357)	(681)	(717)
Income before cumulative effects of accounting changes	90	(89)	187	(86)
Cumulative effects of accounting changes	-	-	234	-
Net income (loss)	\$ 90	\$ (89)	\$ 421	\$ (86)

Sales of Electricity (millions – kWh)

	Three Months Ended March 31		Six Months Ended March 31	
	2003	2002	2003	2002
Municipalities and cooperatives	33,051	30,991	63,935	59,633
Industries directly served	7,933	7,427	15,176	13,548
Federal agencies and other utilities	844	1,337	2,250	2,648
Total sales of electricity	41,828	39,755	81,361	75,829

This fact sheet includes limited financial and operational data about TVA. The information in this fact sheet should be read in conjunction with TVA's report for the second quarter of fiscal year 2003, its annual information statement for fiscal year 2002, and a description of current events that may be of importance to TVA's stakeholders. This information is available on TVA's web site at www.tva.com and is incorporated herein by reference.