



FROM
THE
RIVER
FLOWS
THE
POWER

FINANCIAL HIGHLIGHTS

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30

(Millions of dollars)	1992	1991	Percent Change
Operating Revenues	5,065	5,136	(1.4)
Operating Expenses	3,198	3,047	5.0
Operating Income	1,867	2,089	(10.6)
Interest Expense, exclusive of AFUDC	1,695	1,677	1.1
Net Income	120	286	(58.0)
Total Assets	30,487	29,314	4.0
Capitalization			
Proprietary Capital	4,743	4,811	(1.4)
Long-Term Debt	19,204	18,374	4.5
Total Capitalization	23,947	23,185	3.3

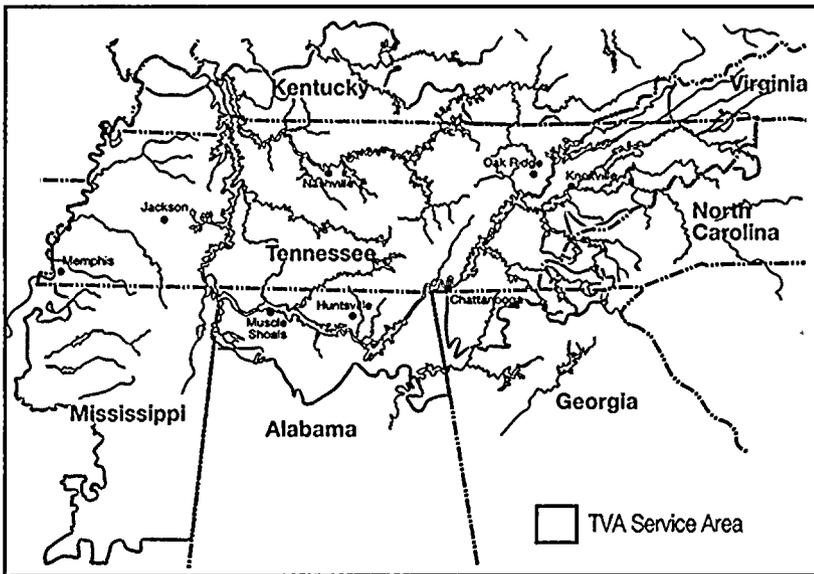
SYSTEM STATISTICS

(Millions of kilowatt-hours)	1992	1991	Percent Change
System Input			
System Generation			
Hydro, including Pumped Storage	16,165	18,264	(11.5)
Coal	83,531	79,504	5.1
Nuclear	21,977	18,634	17.9
Combustion Turbine	71	34	108.8
Total Net Generation	121,744	116,436	4.6
Purchased	508	1,077	(52.8)
Net Interchange and Wheeling	(2,103)	2,893	(172.7)
Total System Input	120,149	120,406	(2)
System Output			
Sales			
Municipalities and Cooperatives	93,622	92,848	.8
Federal Agencies	2,204	2,173	1.4
Industries	16,576	17,437	(4.9)
Electric Utilities	-	49	(100.0)
Total Sales	112,402	112,507	(1)
Losses	7,747	7,899	(1.9)
Total System Output	120,149	120,406	(2)
Dependable Capacity in Service (megawatts)	25,618	25,779	(6)
Percent of Average Gross Generation to Dependable Capacity in Service	57.88	55.30	4.7
System Peak Load (megawatts)	21,980	22,081	(5)
Annual Load Factor	63.06	60.20	4.8
Percent Dependable Capacity by Fuel Source			
Coal	59%	59%	
Hydro	19%	19%	
Combustion Turbine	9%	9%	
Nuclear in Service	13%	13%	

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TVA SERVICE AREA



The Tennessee Valley Authority is a unique federal corporation that supplies electricity and develops resources in a service area that covers Tennessee and parts of Alabama, Georgia, Kentucky, Mississippi, North Carolina, and Virginia. TVA is one of America's largest producers of electric power. Through its 160 municipal and cooperative power distributors, TVA serves more than 7 million people in an 80,000-square-mile region. The TVA power system consists of three nuclear generating units, 11 coal-fired plants, and 29 hydroelectric dams. TVA also manages the Tennessee River, the nation's fifth largest river system. Congress established TVA in 1933.

Director John B. Waters was selected by President George Bush to be TVA's 10th Chairman, following the resignation of Marvin Runyon, who became U.S. Postmaster General. As Chairman, Waters has pledged continued emphasis on a competitive energy supply and a sharper focus on the agency's environmental and economic-development efforts.

The Tennessee Valley Authority continues to operate successfully in a changing electric utility industry. We experienced a successful year in electricity sales despite a slow national economy and milder-than-expected weather. In fiscal year 1992, revenues were \$5.1 billion on sales of 112.4 billion kilowatt-hours. Net income was \$120 million.

Congress continued its support of TVA's resource development programs by appropriating \$135 million in fiscal year 1992. This allows us to meet our responsibilities of navigation and flood control on the Tennessee River and environmental, economic, and educational development in the Tennessee Valley.

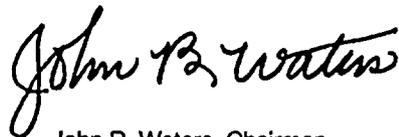
The TVA-wide quality initiative that began last year continues to enhance our business operations as we work to meet our customers' needs. A number of process improvements based on the quality program have made TVA more responsive to customers.

A major accomplishment by TVA in fiscal year 1992 was the development of our Strategic Plan, which sets the broad direction for our future. The Strategic Plan supports TVA's vision to become the best electric utility in North America and the most productive and effective agency in federal government.

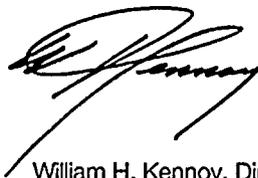
Our strategy has three fundamental themes: Competitiveness, Customer Focus, and Innovation. We are confident that these three themes, when executed with quality and dedication, will position us well to respond to the dramatic changes occurring in the utility industry and in the world, as well as empower us to meet competitive challenges.

TVA's accomplishments during 1992 demonstrate that we are already building a successful future. Even a casual tour through the world's history books shows that TVA has made contributions well beyond the boundaries of traditional utilities and federal agencies. We have been partners in every sense of the word with the citizens of the nation and the Valley.

TVA has its origins in managing the Tennessee River, and from that river flows the power for TVA to serve the people of the Tennessee Valley. With the development of our Strategic Plan, we are ready to move ahead with what TVA does best—improving the quality of life here and helping others do the same across the nation and the world.



John B. Waters, Chairman



William H. Kennoy, Director



"If we are not competitive, our customers who use our services cannot be competitive."—TVA Strategic Plan

TVA renewed its commitment to competitive performance and economic development by setting a new goal for maintaining costs at their current level during the next three years.

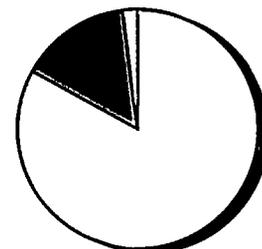
Generating Group employees began work on a new program to improve the efficiency and reliability of TVA's 59 coal-fired units. Plant availabilities are expected to improve by 10 percent by 1996.

TVA's hydroelectric facilities began a \$100 million, long-term improvement effort to increase their efficiency. The program is expected to add 240 megawatts of hydro power by the year 2005.

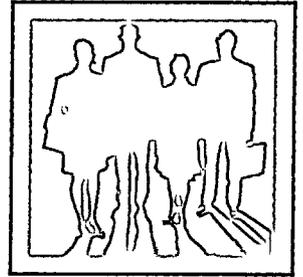
The dedication and hard work of employees at TVA's nuclear plants earned recognition from the Nuclear Regulatory Commission. Watts Bar Nuclear Plant received permission to resume full construction activities on its Unit 1 reactor. The NRC gave Browns Ferry Nuclear Plant the plant's highest ratings ever on its annual Systematic Assessment of Licensee Performance and removed Browns Ferry from the NRC's "watch list."

Refinancing an additional \$5.45 billion in bonds increased TVA's annual interest savings to \$202 million. TVA also sold \$1 billion in 50-year bonds for new capital needs in the agency public debt market. These bonds were so successful that one national business publication called them "TVA's fabulous 50s." Since 1989 TVA has refinanced \$13.5 billion and reduced its average interest rate from 10.1 percent to 7.9 percent.

To comply with the Clean Air Act requirements, TVA developed a plan that calls for adding scrubbers and switching to low-sulfur fuel.



1992 Power Sales
Sales totaled 112,402 million kilowatt-hours.



"We recognize that our customers ultimately define what the right things are."—TVA Strategic Plan

TVA's Customer Group changed its power rate structure to respond to customers' needs for simpler and more equitable rates. Under the new rate structure, distributors of TVA electricity have the flexibility to tailor their retail rates to their special needs.

A new loan program began providing \$200 million for low-cost financing to the 160 distributors of TVA power. Mayfield Electric & Water Systems in Kentucky received the first loan.

An initiative to boost the economy and support education was launched by providing credits on the electric bills of manufacturers and public schools in the Tennessee Valley this year. The School and Job Credits Program gave qualifying industries a 5 percent credit on firm power bills. Public schools received a 10 percent credit.

The TVA Board of Directors adopted a resolution recognizing 1992 as "The Year of Clean Water" in conjunction with America's Clean Water Foundation. Programs to demonstrate TVA's commitment to water quality include a comprehensive river monitoring system.

Outages caused by TVA averaged only 8.2 minutes per customer this year—down by about 20 percent from last year and less than half the number of 1986.

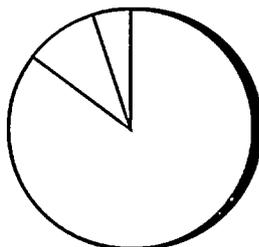
As a result of TVA's quality initiatives, the distributors of TVA power have joined

together in the Quality Alliance to learn more about world-class standards. The distributors are working with the Customer Group to find out what their customers think of them, what their customers' needs are, and how they can best address those needs.

1992 Operating

Revenues

Sales of electric energy and other miscellaneous revenue provided \$5.1 billion.



- Municipalities & cooperatives 84%
- Industries 10%
- Federal agencies 5%
- Other (not shown) 1%



"The unique challenges we face will require that we combine the best of our past practices, the current practices of other businesses and agencies, and new approaches yet to be created."—TVA Strategic Plan

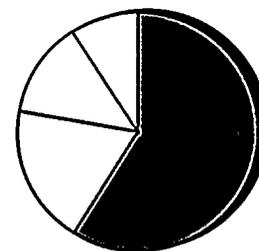
Actions to implement quality in everything we do included conducting TVA's first employee opinion survey, eliminating policies and procedures, identifying quality suppliers, and establishing customer focus groups in a number of organizations.

Employee workgroups came together to address critical employee-related issues, including career development and long-term workforce planning.

The Resource Group employees in Muscle Shoals, Alabama, opened a constructed wetlands research and development facility. TVA scientists and engineers are working at one of the nation's largest facilities to research, develop, and demonstrate how effective constructed wetlands can be in treating water pollution problems.

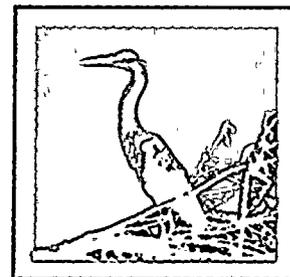
TVA is burning shredded tires mixed with coal at Allen Fossil Plant, near Memphis, Tennessee, to test a potential solution to the problem of scrap tires. If the project leads to full-scale application, using tire-derived fuel in power plants could reduce by one-third the some 240 million tires discarded in landfills each year.

TVA foresters in the Resource Group are among those spearheading a demonstration of new ways to gauge the health of the nation's forests. The multiagency data-gathering effort, which will cover 33 million acres of land in the southeastern United States, uses monitoring techniques that go far beyond traditional measures of timber volume and growth. Forest health will be evaluated by such measures as soil and leaf chemistries, root disease, and wildlife habitat structure.



1992 Dependable Generating Capacity
Dependable generating capacity of 25,618 megawatts reflects winter ratings.

- Coal 59%
- Hydro 19%
- Nuclear units in service 13%
- Combustion Turbine 9%



The Tennessee Valley Authority is a unique federal corporation that carries out regional and national responsibilities in a service area that covers Tennessee and parts of Alabama, Georgia, Kentucky, Mississippi, North Carolina, and Virginia. TVA manages the Tennessee River, the nation's fifth largest river system, and works with state and local governments in resource development programs.

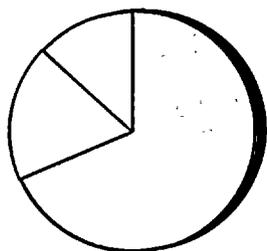
TVA is best known, however, as one of America's largest producers of electric power. TVA supplies electricity through its 160 municipal and cooperative power distributors to more than 7 million people in an 80,000-square-mile region. TVA's Generating Group and Customer Group, together with their distributor partners, are responsible for seeing that the Valley's residents have electricity. The TVA power system consists of three nuclear generating units, 11 coal-fired plants, and 29 hydroelectric dams. The power system is self-supporting out of revenues from power sales.

In addition to improving the quality of life for the people of the Tennessee Valley region, TVA has a mission of national importance. Conceived as a "living laboratory" for developing and demonstrating new ideas of regional and national significance, TVA, through its Resource Group, continues to serve as a testing ground for agricultural, environmental, educational, economic, and industrial programs. These regional development activities are funded primarily by appropriations from Congress.

Congress established TVA in 1933. A three-member Board of Directors, appointed by the President and confirmed by the Senate, heads TVA. Directors are appointed for overlapping, nine-year terms and one Director is named Chairman by the President. The Board position, formerly held by Chairman Marvin Runyon, was vacant at the end of fiscal year 1992.

1992 Generation Mix

Total net generation of 121,744 million kilowatt-hours was about 5% above 1991.

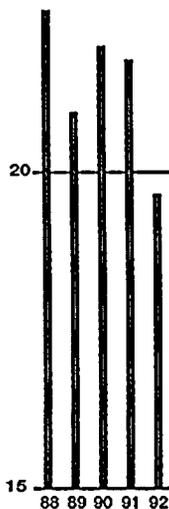


- Coal 69%
- Nuclear 18%
- Hydro, including Pumped Storage 13%
- Combustion Turbine (not shown) less than 0.1%

Number of employees as of September 30, 1992: 19,493

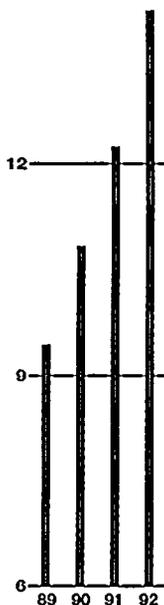
MANAGEMENT'S DISCUSSION AND ANALYSIS
RESULTS OF OPERATIONS
Power Program

Weather Impact
(In Thousands)



Heating and cooling degree days weighted by sales impact for 1992 were 12% lower than the 15-year average of 22,315 days.

Economy and Interruptible Power Sales
(kWh In Billions)



Marketing efforts to meet the needs of the customer have resulted in a steady growth of economy and interruptible power sales.

EARNINGS

Net income for 1992 was \$120 million compared with \$286 million for 1991 and a \$387 million net loss for 1990. Net income for each of these years was affected by one-time charges: in 1992, \$109 million for certain nuclear fuel assets; in 1991, \$223 million for the cumulative effect of postretirement benefits change; and in 1990, \$1,118 million for canceled nuclear generating units and other deferred costs.

Earnings for 1992 were affected by lower revenues, \$71 million, and increased operating expenses, \$151 million, when compared to 1991. When compared with 1990, revenues were lower by \$274 million, and operating expenses were lower by \$23 million.

REVENUES

The decrease in 1992 revenues was primarily due to milder weather conditions, sales of non-firm industrial power, and sluggish economic conditions. A reduction of \$151 million from 1990 to 1991 was related to a contract settlement with the Department of Energy.

As a result of the milder weather conditions, sales to municipalities and cooperatives were \$86 million lower than 1991 and \$99 million lower than 1990. An all-time summer peak of 22,081 megawatts was reached in 1991 with an all-time winter peak of 24,627 megawatts occurring in 1990.

Non-firm (economy surplus and limited interruptible) power sales volume increased 16 percent and 31 percent, respectively, when compared to 1991 and 1990. However, because the rates for non-firm power are lower than rates for firm power, 1992 revenues are \$42 million less when compared to 1991 and \$72 million less when compared to 1990 than they would have been at firm power rates.

Other factors reducing 1992 revenues include approximately \$21 million in reductions under TVA's School and Jobs Credit Program. This initiative began in May 1992 and gives certain industrial customers a 5-percent reduction and schools a 10-percent reduction on firm power bills. The yearlong program will reduce revenues while providing an estimated \$75 million to boost the economy and support education in the TVA service region.

Fiscal year kWh sales were essentially the same when compared to 1991 and 1990. Declines due to weather and economic slowdowns in a few segments were offset by continued overall sales growth in the region.

MANAGEMENT'S DISCUSSION AND ANALYSIS
RESULTS OF OPERATIONS
Power Program

OPERATING EXPENSES

Fuel expenses of \$1,360 million increased in 1992 by \$97 million and \$127 million when compared to 1991 and 1990, respectively. Decreased hydro generation resulted in higher fuel expenses of approximately \$25 million and \$70 million when compared to 1991 and 1990, respectively. Increased total generation also added to fuel expenses by approximately \$60 million and \$70 million when compared to 1991 and 1990, respectively. These higher fuel expenses were offset somewhat by lower purchased and interchange power expenses. Net settlements for interchange transactions in 1992 decreased \$97 million compared to 1991 and \$134 million compared to 1990.

Other production expense of \$603 million increased by \$66 million when compared to 1991 and \$92 million when compared to 1990. These increases are primarily due to scheduled refueling outages at Sequoyah 1 and 2 nuclear units, and the return to service of Browns Ferry 2 nuclear unit in August 1991.

General and administrative costs in 1992 decreased by \$1 million when compared to 1991 and increased \$49 million when compared to 1990. The \$49 million increase is primarily due to costs associated with TVA's employee transition program, postretirement benefits, and certain automated data processing and telecommunications expenses.

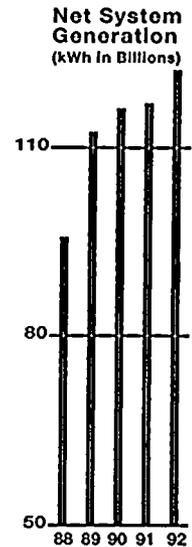
The amortization of deferred nuclear costs and depreciation expense in 1992 increased by \$106 million and \$151 million, respectively, when compared to 1991 and 1990. The increase is primarily due to the return to service of Browns Ferry 2 in 1991.

OTHER INCOME AND DEDUCTIONS

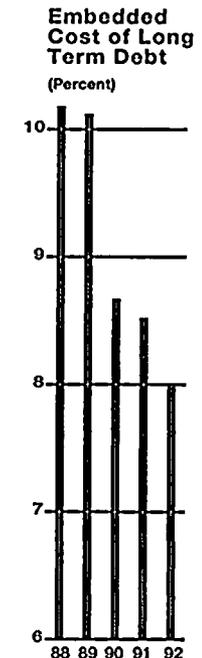
Interest income was \$22 million in 1992, \$24 million in 1991, and \$38 million in 1990. Write-offs related to certain nuclear fuel assets were \$109 million in 1992 and write-offs related to canceled nuclear plants and other deferred costs were \$1,118 million in 1990.

INTEREST EXPENSE

Net interest expense for 1992 was \$1,695 million compared with \$1,677 million in 1991 and \$1,670 million in 1990. The increase is primarily due to the issuance of new debt. This increase has been partially offset by refinancing efforts that were begun in 1989. More than \$200 million has been saved in annual interest expense since 1989.

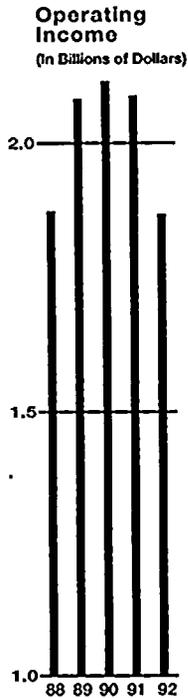


Generation has continued to increase due to growth in the region.

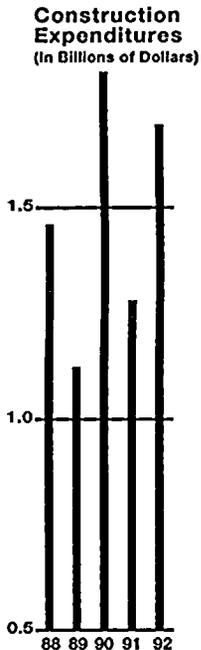


Refinancing long-term debt has reduced the average interest rate resulting in an annual savings of more than \$200 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL CONDITION
Power Program



Operating income was affected by lower revenues in 1992.



Construction expenditures have been needed to complete nuclear plants currently under construction and for improvements at existing facilities.

OVERVIEW

The principal changes in TVA's financial condition in 1992 were the addition of \$1.14 billion in construction work in progress and \$830 million in long-term debt. Future earnings will depend upon growth in energy sales which is subject to a number of factors. These factors include weather, economic conditions, growth, competition, and open transmission access.

LIQUIDITY

TVA's liquidity is primarily affected by the ability to access capital markets through the issuance of debt securities. Capital resources include cash provided by operations and external financings. New borrowings for projected capital facilities are currently estimated to be between \$1 billion and \$1.3 billion for each of the next four years.

FINANCING ACTIVITIES

Long-term debt along with cash from operations is used to finance capital expenditures. Short-term debt and cash from operations are used to manage daily cash needs. In 1992, TVA issued \$6.45 billion in long-term debt to refinance existing long-term debt and to finance capital expenditures.

CAPITAL EXPENDITURES

Capital expenditures are needed for the completion of one nuclear unit under construction, three nuclear units currently in deferral, two nuclear units currently out of service for regulatory improvements, improvements at existing facilities, transmission lines, and environmental compliance. Capital expenditures including capitalized interest are budgeted at \$6 billion for the three-year period 1993 through 1995. Actual capital expenditures may vary from this estimate because of factors such as load forecasts, environmental regulations, changes in existing nuclear plants to meet new regulations, the cost and efficiency of construction labor, equipment, and materials, and the cost of capital. The Clean Air Act Amendments of 1990 will have a significant impact on TVA's fossil generation. Specific reductions in sulfur dioxide and nitrogen oxide emissions from fossil-fired generating plants will be required in two phases. Phase 1 compliance must be implemented by January 1, 1995, and will require \$750 million to \$850 million in capital expenditures. Phase 2 compliance is required by January 1, 2000 with the cost of compliance not known at this time.

TENNESSEE VALLEY AUTHORITY

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Power Program

For the Years Ended September 30, 1992, 1991, and 1990

(Millions)	1992	1991	1990
OPERATING REVENUES	\$5,065	\$5,136	\$5,339
OPERATING EXPENSES			
Production			
Fuel and purchased power, net	1,354	1,379	1,381
Other	603	537	511
Provision for depreciation	390	350	341
Amortization of canceled nuclear units and deferred nuclear costs	115	49	315
Tax-equivalent payments	241	243	233
General and administrative	362	363	313
Other operating expenses	133	126	127
Total operating expenses	3,198	3,047	3,221
Operating income	1,867	2,089	2,118
OTHER INCOME AND DEDUCTIONS			
Interest income	22	24	38
Charges related to:			
Nuclear fuel	(109)	-	-
Canceled nuclear generating units and other deferred costs	-	-	(1,118)
Other	-	-	(58)
Total other income and deductions	(87)	24	(1,138)
Income before interest charges	1,780	2,113	980
INTEREST CHARGES			
Interest expense	1,695	1,677	1,670
Allowance for funds used during construction	(35)	(73)	(303)
Net interest charges	1,660	1,604	1,367
Income (loss) before cumulative effect of accounting change	120	509	(387)
CUMULATIVE EFFECT OF POSTRETIREMENT BENEFITS CHANGE	-	(223)	-
NET INCOME (LOSS)	120	286	(387)
Return on appropriation investment	57	64	68
Increase (decrease) in retained earnings reinvested	63	222	(455)
Retained earnings reinvested at beginning of period	2,999	2,777	3,232
Retained earnings reinvested at end of period	\$3,062	\$2,999	\$2,777

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
RESULTS OF OPERATIONS
Nonpower Programs

FUNDING

Congressional appropriations are the primary funding source for the nonpower programs. Appropriations were \$135 million in 1992 and 1991 and \$119 million in 1990. Other funding for the nonpower program is provided through nonpower proceeds, which include user fees, fertilizer sales, timber and land sales, and sales of nonpower assets. Nonpower proceeds for 1992 were \$10 million compared with \$13 million in 1991 and \$16 million in 1990. The decrease in nonpower proceeds is primarily due to TVA's decision to focus on fertilizer research and development and to decrease fertilizer production.

TVA's nonpower program is identified by five primary categories. These categories are based on the appropriations budget, and expenditures will vary from year to year based on special projects and allocations. A review of the North Alabama coal gasification project, which has been in a Defense energy reserve status since 1986, revealed no likely use for the project and the cost was charged to nonpower net expense in 1992.

SUMMARY

TVA's nonpower programs focused on three key areas in 1992—the environment, the river, and community partnerships. In cooperation with state and other federal agencies, TVA established research plots in a seven-state area to monitor the health of 33 million acres of forest lands. This research effort will provide the most extensive information ever collected on a major region of the country. TVA released its first annual report on water quality in 1992 and collected data on the suitability of water for swimming, fishing, and the general health of lakes and streams in the Tennessee Valley. TVA made improvements in education and job opportunities through the development of a telecommunications network that provides classroom instruction to rural schools in upper East Tennessee. The network links these schools with larger schools for classroom instruction in state-required courses that are not otherwise available.

TENNESSEE VALLEY AUTHORITY

STATEMENTS OF NET EXPENSE AND ACCUMULATED NET EXPENSE

Nonpower Programs

For the Years Ended September 30, 1992, 1991, and 1990

(Millions)	1992	1991	1990
STEWARDSHIP	\$ 71	\$ 63	\$ 58
WATER AND LAND	9	8	14
LAND BETWEEN THE LAKES	4	4	4
RURAL DEVELOPMENT	22	14	30
NATIONAL FERTILIZER AND ENVIRONMENTAL RESEARCH CENTER	36	37	40
COAL GASIFICATION	113	-	-
OTHER EXPENSE, NET	(4)	(1)	1
NET EXPENSE	251	125	147
Accumulated net expense at beginning of period	2,424	2,299	2,152
Accumulated net expense at end of period	\$2,675	\$2,424	\$2,299

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

TENNESSEE VALLEY AUTHORITY

(A corporation wholly owned by the United States of America)

BALANCE SHEETS

At September 30, 1992 and 1991

(Millions)	Power program		All programs	
	1992	1991	1992	1991
ASSETS				
PROPERTY, PLANT, AND EQUIPMENT				
Completed plant	\$14,075	\$13,822	\$15,125	\$14,982
Less accumulated depreciation and depletion	4,935	4,612	5,188	4,853
Completed plant, net	9,140	9,210	9,937	10,129
Construction in progress	7,228	6,091	7,341	6,195
Deferred nuclear generating units	6,037	5,928	6,037	5,928
Capital lease assets	2,488	2,642	2,488	2,642
Total	24,893	23,871	25,803	24,894
INVESTMENT FUNDS, at accreted cost	188	170	188	170
CURRENT ASSETS				
Cash	157	186	342	328
Short-term investments	453	459	453	459
Accounts receivable	693	697	717	776
Inventories, at average cost	421	474	421	474
Total	1,724	1,816	1,933	2,037
DEFERRED CHARGES AND OTHER ASSETS				
Loans and other long-term receivables	291	295	340	344
Deferred charges – nuclear recovery and other	1,161	1,006	1,161	1,006
Unamortized debt issue and reacquisition costs	1,062	863	1,062	863
Total	2,514	2,164	2,563	2,213
Total assets	\$29,319	\$28,021	\$30,487	\$29,314

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

TENNESSEE VALLEY AUTHORITY

(A corporation wholly owned by the United States of America)

BALANCE SHEETS

At September 30, 1992 and 1991

(Millions)	Power program		All programs	
	1992	1991	1992	1991
CAPITALIZATION AND LIABILITIES				
CAPITALIZATION				
Proprietary capital				
Appropriation investment, net	\$ 688	\$ 708	\$ 4,356	\$ 4,236
Retained earnings reinvested in the power program	3,062	2,999	3,062	2,999
Accumulated net expense of nonpower programs	-	-	(2,675)	(2,424)
Total	3,750	3,707	4,743	4,811
Long-term debt	19,204	18,374	19,204	18,374
Total	22,954	22,081	23,947	23,185
OTHER LIABILITIES				
Capital lease obligations	2,268	2,397	2,268	2,397
Decommissioning of nuclear plant	264	264	264	264
Other accrued liabilities	461	466	461	466
Total	2,993	3,127	2,993	3,127
CURRENT LIABILITIES				
Short-term debt	1,707	1,264	1,707	1,264
Current maturities of long-term debt	-	70	-	70
Current portion of capital lease obligations	220	245	220	245
Accounts payable	884	645	1,033	808
Payrolls and other accrued costs	82	72	108	98
Interest accrued	479	517	479	517
Total	3,372	2,813	3,547	3,002
COMMITMENTS AND CONTINGENCIES (Note 9)				
Total capitalization and liabilities	\$29,319	\$28,021	\$30,487	\$29,314

TENNESSEE VALLEY AUTHORITY

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 1992, 1991, and 1990

(Millions)	Power program			All programs		
	1992	1991	1990	1992	1991	1990
CASH FLOWS FROM OPERATING ACTIVITIES						
Net power income (loss)	\$ 120	\$ 286	\$ (387)	\$ 120	\$ 286	\$ (387)
Net expense of nonpower programs	-	-	-	(251)	(125)	(147)
Items not requiring (providing) cash						
Provision for depreciation	390	350	341	400	361	350
Amortization of canceled nuclear units and deferred nuclear costs	115	49	315	115	49	315
Allowance for funds used during construction	(35)	(73)	(303)	(35)	(73)	(303)
Charges related to losses on canceled nuclear generating units, other deferred costs, and coal gasification	109	-	1,118	222	-	1,118
Cumulative effect of postretirement benefits	-	223	-	-	223	-
Other, net	82	69	111	82	69	111
Changes in current assets and liabilities						
Accounts receivable, net	4	34	(25)	60	(29)	(28)
Inventories	53	24	(31)	53	27	(24)
Accounts payable and accrued liabilities	249	70	76	235	153	94
Interest payable	(38)	-	135	(38)	-	135
Other	(1)	-	12	(1)	-	12
Net cash provided by operating activities	1,048	1,032	1,362	962	941	1,246
CASH FLOWS FROM INVESTING ACTIVITIES						
Construction expenditures	(1,689)	(1,271)	(1,814)	(1,700)	(1,282)	(1,830)
Allowance for funds used during construction	35	73	303	35	73	303
Transfer of certain costs of canceled nuclear generating units	-	-	410	-	-	410
Other, net	(288)	(173)	(27)	(287)	(178)	5
Cash construction expenditures	(1,942)	(1,371)	(1,128)	(1,952)	(1,387)	(1,112)
Investments	10	(306)	2	10	(306)	2
Net cash used in investing activities	(1,932)	(1,677)	(1,126)	(1,942)	(1,693)	(1,110)
CASH FLOWS FROM FINANCING ACTIVITIES						
Long-term debt						
Issues	6,450	-	8,000	6,450	-	8,000
Redemptions	(3,980)	(150)	(400)	(3,980)	(150)	(400)
Debt defeased	(1,596)	-	(6,100)	(1,596)	-	(6,100)
Short-term borrowings, net	443	1,057	(685)	443	1,057	(685)
Borrowing expenses, net	(385)	3	(1,120)	(385)	3	(1,120)
Congressional appropriations and transfers	-	-	-	139	135	120
Payments to U.S. Treasury	(77)	(84)	(88)	(77)	(84)	(88)
Net cash provided by (used in) financing activities	855	826	(393)	994	961	(273)
Net change in cash and cash equivalents	(29)	181	(157)	14	209	(137)
Cash and cash equivalents at beginning of year	186	5	162	328	119	256
Cash and cash equivalents at end of year	\$ 157	\$ 186	\$ 5	\$ 342	\$ 328	\$ 119

TENNESSEE VALLEY AUTHORITY
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1. Summary of significant accounting policies—

General—The Tennessee Valley Authority (TVA) is a wholly owned corporate agency and instrumentality of the United States established by the TVA 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 by providing: (1) an ample supply of power within the region; (2) navigable channels and flood control for the Tennessee River System; and (3) agricultural and industrial development and improved forestry in the region.

TVA's programs fall into two types of activities—the power program and the nonpower programs. Substantially all TVA revenues and assets are attributable to the power program. Most of the funding for TVA's nonpower programs, like similar services provided by the federal government in other regions of the country, is provided by Congressional appropriations. Certain nonpower activities are also funded by various revenues and user fees. The power program is required to be self-supporting from power revenues.

Power rates are established by the TVA Board of Directors as authorized by the Act. The Act requires TVA 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 in lieu of taxes; debt service on outstanding indebtedness, and annual payments to the U.S. Treasury in repayment of and as a return on the Government's appropriation investment in TVA power facilities.

Financial accounts for the two types of TVA activities—power and nonpower—are kept separately. Power accounts are generally 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. Prior year data presented in the financial statements reflect certain reclassifications to conform with current year presentations.

Property, plant, and equipment and depreciation—Additions to plant are recorded at cost, which include direct and indirect costs such as general engineering, a portion of corporate overhead, and an allowance for funds used during construction. The cost of betterments is capitalized and the cost of current repairs and minor replacements is charged to operating expense. The TVA Act requires TVA's Board of Directors to allocate between the power and nonpower programs, subject to the approval of the President of the United States, the cost of completed multipurpose projects. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation. Straight-line depreciation is provided for substantially on a composite basis. Rates of depreciation are derived from engineering studies of useful life. The average of the composite rates that were applied individually to each major class of plant for fiscal years 1992, 1991, and 1990 was 2.97 percent, 2.75 percent, and 2.78 percent, respectively.

Provision for decommissioning costs of nuclear generating units is based on a 1990 engineering study of useful life and estimated costs based on the dismantling/removal method. The amount stated in 1990 dollars for each of the Browns Ferry units is \$190 million, and \$150 million for each of the Sequoyah units. The excess of the annual decommissioning provision over earnings from the investments designated for funding decommission costs is recovered in rates through charges to depreciation expense. Effective for fiscal year 1991, the decommissioning accruals were adjusted to reflect revised estimated useful lives for the completed units. This resulted in an estimated five year deferral to the existing policy which reduced decommissioning expense by \$42 million in 1992 and \$40 million in 1991.

The practice of capitalizing an allowance for funds used during construction is followed in the power program. The allowance is applicable to construction in progress excluding deferred nuclear generating units and at Watts Bar 1, 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.

Nuclear fuel—The cost of nuclear fuel including disposal, is amortized on the basis of generation and charged to fuel expense. During 1992 TVA began converting fuel originally fabricated for use at the Bellefonte Nuclear Plant to a form which can be used at the Browns Ferry and Sequoyah nuclear plants. In conjunction with this conversion, TVA has determined the costs of original fabrication and subsequent defabrication provide no future benefit. Accordingly the \$91 million aggregate cost will not be recovered from future customers and has been recognized as a charge in the 1992 statement of operations. TVA has also determined that certain failed fuel at Browns Ferry 2 has no recoverable value, and the \$18 million cost has been charged to the 1992 statement of operations.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Investment funds—Certain power funds have been invested in order to provide 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, repurchase agreements, 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.

Deferred nuclear recovery costs—The costs incurred by TVA at nonoperating completed nuclear production plants to accomplish 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.

Other deferred charges—Certain costs associated with uranium and coal mine and mill development activities, canceled nuclear plants and annual aggregate depreciation and fuel interest charges for Browns Ferry 1 and 2 had been deferred prior to fiscal year 1990. In August 1990 the Board elected not to recover these deferred amounts from future customers. Accordingly, the respective unamortized balances were charged to the 1990 statement of operations.

Debt Issuance Costs—Issue and reacquisition expenses, call premiums and other related costs, and discounts on power borrowings are amortized and accreted, respectively, on a straight-line basis over the term of the related outstanding securities.

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—Cash equivalents include the cash available in commercial bank accounts and U.S. Treasury accounts. During fiscal years 1992, 1991, and 1990, interest paid (net of amount capitalized) was \$1,625 million, \$1,546 million, and \$1,179 million, respectively. Capital lease additions including capitalized interest were \$156 million, \$206 million and \$194 million in fiscal years 1992, 1991 and 1990, respectively.

2. Nuclear power program—The nuclear power program at September 30, 1992 consists of nine generating units at four locations with investments as follows and in the status indicated:

	Capacity (Megawatts)	Completed Plant, Net	Construction in Progress	Deferred	Fuel Investment
			(Millions)		
Sequoyah	2,442	\$1,691	\$ 127	\$ -	\$ 267
Browns Ferry	3,456	1,619	335	-	380
Watts Bar	2,540	-	5,553	1,623	320
Bellefonte	2,664	-	-	4,414	330
Raw Materials		-	-	-	964
Total	11,102	\$3,310	\$6,015	\$6,037	\$2,261

The completed units at Browns Ferry were taken off-line in March 1985 for plant modifications and regulatory improvements. Browns Ferry 2 returned to commercial operation during August 1991. TVA plans to return Browns Ferry 3 and 1 to commercial operation in 1994 and 1996, respectively.

Construction of Watts Bar 1 is substantially complete. In December 1990, TVA halted construction-related work to correct deficiencies found in work control processes. Construction-related work was resumed in November 1991 and TVA plans to bring Watts Bar 1 into commercial operation during 1994. While construction work has resumed, no assurance can be given that further delays in bringing the unit into operation will not occur. Interest capitalization for Watts Bar 1 was suspended in October 1990 since the unit is substantially complete. Capitalized interest was \$244 million in fiscal year 1990.

On October 1, 1988 TVA suspended construction activities at Watts Bar 2 because of a reduction in the forecasted load growth, and the unit is currently in layup. Bellefonte 1 and 2 were deferred in 1988 and 1985, respectively. Although no formal action has been taken to resume construction of these units, TVA has developed a systematic approach to coordinate placing

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

these three units in service to meet forecasted generation capacity requirements. TVA plans to place Watts Bar 2 in service in 1999 and Bellefonte 1 and 2 in service in 1998 and 2002, respectively. Budgeted 1993 expenditures for these three units, which are \$134 million, are limited to certain licensing, design, layout, and maintenance activities. Reactivation of Bellefonte 1 as an active construction project is planned for fiscal year 1993. For financial reporting purposes, the cost of these three units is presented as deferred nuclear generating units. Interest capitalization for Watts Bar 2 and Bellefonte 1 and 2 was suspended in 1988. The total project costs to complete these suspended construction and deferred units are under review and cannot be estimated with certainty until firm completion dates are established.

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 fuel disposal—TVA has contracted 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, 1992, 1991, and 1990 were \$19 million, \$19 million, and \$15 million, respectively.

3. Completed plant—Completed plant for the Power Program and All Programs stated at gross cost consists of the following at September 30, 1992 and 1991:

(Millions)	<u>1992</u>		<u>1991</u>	
	<u>Power Program</u>	<u>All Programs</u>	<u>Power Program</u>	<u>All Programs</u>
Stream production plants	\$ 4,822	\$ 4,822	\$ 4,651	\$ 4,651
Nuclear production plants	4,389	4,389	4,348	4,348
Transmission plants	2,119	2,119	2,082	2,082
Multipurpose dams	628	1,527	614	1,512
Single-purpose dams	466	466	459	459
Other	1,651	1,802	1,668	1,930
Total	\$14,075	\$15,125	\$13,822	\$14,982

4. Leases—Under an agreement entered into in fiscal year 1980, TVA sells and leases back nuclear fuel. TVA also leases property, plant, and equipment under lease agreements with terms ranging from one to thirty years. 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, 1992 and 1991:

CAPITAL LEASES (Millions)	<u>1992</u>	<u>1991</u>
Nuclear fuel		
Assets under capital lease	\$3,475	\$3,433
Accumulated provision for amortization	1,218	1,027
Net nuclear fuel	2,257	2,406
General plant		
Assets under capital lease	255	257
Accumulated provision for amortization	24	21
Net general plant	231	236
Total net properties	\$2,488	\$2,642
Obligations under capital leases	\$2,488	\$2,642

Financing costs on nuclear fuel are capitalized until the fuel is placed into production. Net nuclear fuel includes capitalized interest of \$944 million and \$948 million as of September 30, 1992 and 1991, respectively.

TENNESSEE VALLEY AUTHORITY
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FUTURE MINIMUM LEASE PAYMENTS
(Millions)

Fiscal Period	General Plant Capital Leases	Noncancelable Operating Leases
1993	\$ 39	\$ 6
1994	39	6
1995	40	5
1996	40	4
1997	37	2
Thereafter	480	9
Total future minimum lease payments	675	\$32
Less interest element included	444	
Present value of future minimum lease payments	\$231	

Payments under nuclear fuel lease, which are based on fuel burns, are estimated to be (in millions) \$215, \$305, \$323, \$369, and \$500 including financing charges, for fiscal years 1993-1997, respectively.

Amortization of capital leases, including nuclear fuel, for the years ended September 30, 1992, 1991, and 1990 was (in millions) \$193, \$140, and \$110, respectively. Operating expenses for the same respective periods included finance charges for capital leases in the amounts of (in millions) \$67, \$70, and \$65.

Annual rents under one capital lease range from \$2.7 million to \$51.9 million under the lease terms now in effect. Operating expenses include annual provisions for the levelization of these rentals over the twenty-five year term of the lease which expires in 2011. The accrued liability for future lease payments is \$152 million at September 30, 1992.

5. Appropriation investment—Changes in the appropriation investment during the years ended September 30, 1992, 1991, and 1990 were:

(Millions)	1992	September 30 1991	1990
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	(755)	(735)	(715)
Net Appropriation Investment	\$ 688	\$ 708	\$ 728
All Programs			
Congressional Appropriations	\$5,090	\$4,951	\$4,816
Transfers of Property from Other Federal Agencies	63	62	62
Repayments to General Fund of the U.S. Treasury	(797)	(777)	(757)
Net Appropriation Investment	\$4,356	\$4,236	\$4,121

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 repayment of such investment with annual payments of \$20 million until a total of \$1 billion has been repaid. The amount of return paid in 1992 was \$57 million and is based on the appropriation investment as of the beginning of the year and the computed average interest rate payable by the U.S. Treasury on its total marketable public obligations as of the same date. The payments required by the TVA Act may be deferred under certain circumstances for not

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

more than two years. Repayments toward the \$1 billion total \$570 million at September 30, 1992. Return on investment payments total \$2,090 million as of September 30, 1992. Congressional appropriations for nonpower programs for fiscal year 1993 are \$135 million.

6. 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 to the U.S. Treasury described in Note 5. Issues outstanding (excluding defeased debt) at September 30, 1992 and 1991, consist of the following:

(Millions)	1992	1991
LONG-TERM DEBT		
Held by the public		
Maturing in 1992 – 6.375%	\$ -	\$ 60
Maturing in 1994 – 8.25%	-	1,000
Maturing in 1995 – 4.75%	1,000	-
Maturing in 1997 – 8.25%	1,500	1,500
Maturing in 1997 – 6.00%	1,000	-
Maturing in 1999 through 2042 – 6.25% to 8.75%	9,950	6,750
	<u>13,450</u>	<u>9,310</u>
Federal Financing Bank		
Maturing in 2003 through 2017 – 7.285% to 11.695%	6,075	9,275
Total long-term debt	19,525	18,585
Less unamortized discount	321	211
Net long-term debt	<u>\$19,204</u>	<u>\$18,374</u>
SHORT-TERM DEBT		
Held by public		
Discount notes (net of discount)	\$ 1,557	\$ 1,114
Current portion of long-term debt	-	70
U.S. Treasury	150	150
Total short-term debt	<u>\$ 1,707</u>	<u>\$ 1,334</u>
Total debt	<u>\$20,911</u>	<u>\$19,708</u>

Between October 1989 and September 1992, TVA sold \$13.45 billion in Power Bonds to the public, using the proceeds to advance refund \$11.75 billion in previously issued long-term debt. \$10.95 billion of the bond issues held by the public are redeemable in whole or in part at TVA's option on call dates ranging from September 1993 to April 2012 at call premiums ranging from 100% to 106.2% of the principal amount. TVA incurred premiums totaling \$1.0 billion to effect these advance refundings, which are being deferred and recognized as an expense ratably through the maturity dates of the new debt issues. \$7.7 billion of these advance refundings were effected through insubstance defeasance transactions, 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. Defeased debt outstanding at September 30, 1992 and 1991 was \$2.1 billion and \$2.6 billion, respectively.

The borrowings from the public represented a departure from the practice since 1974 of borrowing only from 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 freely access FFB financing. FFB will continue to make available up to \$2.5 billion in financing until October 1993 for TVA's nuclear fuel lease arrangement. Outstanding long-term debt held by FFB is not affected by this change.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

The interest rate on short-term debt owed to the U. S. Treasury as of September 30, 1992, was 3.71 percent and the weighted average rate on short-term debt outstanding in the public market as of September 30, 1992, was 3.41 percent.

During fiscal years 1992, 1991, and 1990, the maximum amounts of short-term borrowings outstanding (in millions) were \$1,826, \$1,372 and \$680, respectively, and the average amounts (and weighted average interest rates) of such borrowings were approximately (in millions) \$1,458 (5.1 percent), \$555 (6.17 percent), and \$290 (8.033 percent), respectively.

7. Retirement Plans—

Pension Plan-TVA has a contributory, defined benefit plan covering most full-time employees. Plan assets are primarily stocks and bonds. TVA contributes to the plan such amounts as are necessary on an actuarial basis to provide assets sufficient to meet the obligations for benefits. The pension amount is based on the member's years 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.

The components of pension expense for fiscal years 1992, 1991, and 1990 were:

(Millions)	1992	1991	1990
Service cost	\$ 72	\$ 71	\$ 68
Interest cost on projected benefit obligation	237	214	204
Actual return on assets	(355)	(565)	224
Net amortization and deferral	71	346	(430)
Net pension costs	\$ 25	\$ 66	\$ 66

The plan's funded status was:

(Millions)	1992	1991	1990
Actuarial present value of benefit obligations:			
Vested benefit obligation	\$(2,492)	\$(2,304)	\$(2,134)
Nonvested benefits	(61)	(61)	(59)
Accumulated benefit obligation	(2,553)	(2,365)	(2,193)
Effects of projected future compensation	(397)	(367)	(358)
Projected benefit obligation	(2,950)	(2,732)	(2,551)
Plan assets at fair value	3,286	3,016	2,451
Excess (deficit) of plan assets over projected benefit obligation	336	284	(100)
Unrecognized net loss (gain)	(341)	(315)	88
Unrecognized net obligation being amortized over 15 years beginning October 1, 1987	3	4	4
Accrued pension cost	\$ (2)	\$ (27)	\$ (8)

For determining the actuarial present value of the projected benefit obligation in fiscal years 1992, 1991, and 1990, the discount rate of 8.5 percent was used, and the assumed annual rates of increase in future compensation levels for 1992, 1991, and 1990 ranged from 4.8 percent to 9.8 percent. The expected long-term rate of return on plan assets was 11 percent for 1992 and 9 percent for 1991 and 1990.

TENNESSEE VALLEY AUTHORITY
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Other Postretirement Benefits—TVA sponsors a contributory unfunded defined benefit postretirement medical plan that covers substantially all of its employees. TVA's contributions are a flat dollar amount based upon the participants' ages and years of service and certain payments toward the plan costs. In 1991, TVA adopted a new accounting standard for postretirement benefits other than pensions that requires the recognition of these benefits as earned by employees rather than recognized as paid. The provision necessary to establish the liability as of October 1, 1990 amounted to approximately \$243 million of which \$223 million was reflected as a cumulative effect of adopting the new standard and charged to the Power Program. The remaining \$20 million is associated with the Nonpower Program and was recorded by Power as an other long-term receivable to be recovered from future available nonpower funds.

The following sets forth the plan's funded status at September 30:

(Millions)	1992	1991
Accumulated Postretirement Benefit Obligation (APBO):		
Retirees	\$124	\$158
Fully eligible active plan participants	28	30
Other active plan participants	97	76
	249	264
Unrecognized net gain	20	-
Accrued postretirement benefit cost	\$269	\$264
Net Periodic Postretirement Benefit Cost for these fiscal years included the following components:		
Service cost	\$ 7	\$ 6
Interest cost	20	21
Amortization of gain	(7)	-
Net periodic postretirement benefit cost	\$ 20	\$ 27

The annual assumed cost trend for covered benefits is 14% in fiscal year 1992, decreasing by one-half percent per year reaching seven percent in 2006 and thereafter. For fiscal year 1991 a fixed annual trend rate of 8% was assumed. The effect in the change of assumptions on a cost basis was not significant. Increasing the assumed health care cost trend rates by one percentage point in each year will increase the APBO as of September 30, 1992 by \$13 million and the aggregated service and interest cost components of net periodic postretirement benefit cost for 1992 by \$2 million. The weighted average discount rate used in determining the APBO was 8.5 percent. Gains and losses resulting from experience different from that assumed or from changes in assumptions are amortized using a straight-line method over four years.

8. Major customers—A Federal agency, in accordance with contract provisions, exercised its right prior to fiscal year 1987 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. Scheduled payments included in revenues are \$311 million in fiscal year 1990 and \$160 million each year from 1991 through 1994.

One municipal customer accounts for approximately 10 percent of total power sales and four other municipal customers account for an additional 20 percent of total power sales. All five of these municipal customers have contracts without stated expiration dates, and in no event would the remaining contract term be less than ten years.

TENNESSEE VALLEY AUTHORITY
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9. Construction Expenditures and Commitments and Contingencies—Construction expenditures, including capitalized interest, are estimated to be \$2.2 billion, \$2.0 billion, and \$1.8 billion for fiscal years 1993, 1994, and 1995, respectively. These estimates are revised periodically to reflect changes in economic conditions and other factors considered in their determination. Substantial commitments have been incurred for these projects. Approximately \$2.9 billion in long-term commitments, ranging in terms of up to seven years, have been entered into for the purchase of coal. In addition, \$188 million is committed under contracts expiring no later than 2014 for nuclear fuel enrichment and fabrication services.

Nuclear insurance—The Price-Anderson Act sets forth an indemnification and limitation of liability plan for the U.S. nuclear industry. All NRC licensees, including TVA, maintain nuclear liability insurance in the amount of \$200 million for each plant with an operating license. The second level of financial protection required is the industry's retrospective assessment plan, using deferred premium charges. The maximum amount of the deferred premium for each nuclear incident is \$63 million per reactor, but not more than \$10 million per reactor may be charged in any one year for each incident. TVA could be required to pay a maximum of \$331 million per nuclear incident on the basis of its five licensed units but it would have to pay no more than \$50 million per incident in any one year. Such amounts include a 5% surcharge if additional funds are needed to satisfy public liability claims and are subject to adjustment for inflation.

In accordance with NRC regulations, TVA carries, at each licensed nuclear plant, property and decontamination insurance of \$1.06 billion for the cost of stabilizing or shutting down a reactor after an accident. Some of this insurance may require the payment of retrospective premiums of up to a maximum of approximately \$31 million.

Acid rain legislation—The Clean Air Act Amendments of 1990 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 plants. TVA's present compliance strategy to reduce sulfur dioxide includes adding scrubbers to two coal fired units and switching to low-sulfur coal at four units by January 1, 1995. TVA plans to achieve nitrogen oxide emission reductions required before January 1, 1995 by installing low-nitrogen oxide burners at certain units. Annual operating and fuel expenses (excluding depreciation) could increase \$33 to \$49 million over current fossil operating expenses for the years 1995 and thereafter. Phase 2 requirements become effective in the year 2000 and the cost of compliance cannot reasonably be determined at this time due to the uncertainties surrounding final EPA regulations, resultant compliance strategy, potential for development of new emission control technologies, and future amendments to the legislation. Requirements for toxic emissions have not been determined by the EPA.

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.

10. Certain nonpower projects—A recent review of the North Alabama coal gasification project status revealed no likely use for the project. The \$113 million cost, exclusive of \$2 million land cost, was retired and charged to the nonpower statement of net expense during 1992.

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.

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, 1992 and 1991 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, 1992. 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, 1992 and 1991, 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, 1992 in conformity with generally accepted accounting principles.

Coopers & Lybrand

Coopers & Lybrand
Knoxville, Tennessee
October 16, 1992

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

William F. Malec
Executive Vice President and Chief Financial Officer

TENNESSEE VALLEY AUTHORITY

COMPARATIVE STATISTICAL AND FINANCIAL DATA

For the Years Ended September 30

	1992	1991	1990	1989	1988
Sales (millions of kilowatt-hours)^a					
Municipalities and cooperatives	93,622	92,848	91,636	87,860	86,570
Federal agencies	2,204	2,173	2,335	2,337	2,270
Industries	16,576	17,437	17,121	16,261	15,120
Electric utilities	-	49	265	453	517
	<u>112,402</u>	<u>112,507</u>	<u>111,357</u>	<u>106,911</u>	<u>104,477</u>
Operating Revenues (millions of dollars)					
Electric					
Municipalities and cooperatives	4,266	4,272	4,292	4,109	4,100
Federal agencies	255	257	413	569	623
Industries	472	531	548	526	513
Electric utilities	1	8	17	21	26
Other	71	68	69	62	60
	<u>5,065</u>	<u>5,136</u>	<u>5,339</u>	<u>5,287</u>	<u>5,322</u>
Dependable Generating Capacity (megawatts)^b					
Hydro ^c	4,885 ^d	4,885 ^d	4,885 ^d	5,201	5,201
Coal	15,088	15,249	15,249	15,249	15,249
Nuclear units in service	3,361	3,361	2,296	2,296	1,148
Combustion turbine	2,284	2,284	2,284	2,284	2,284
	<u>25,618</u>	<u>25,779</u>	<u>24,714</u>	<u>25,030</u>	<u>23,882</u>
System Peak Load (megawatts)					
	<u>21,980</u>	<u>22,081</u>	<u>24,627</u>	<u>20,638</u>	<u>21,343</u>
Percent Gross Generation					
Coal	69%	68%	68%	71%	86%
Hydro	14%	16%	19%	18%	11%
Nuclear	17%	16%	13%	11%	3%
Fuel Cost Per Kilowatt-hour (mills)					
Coal	13.3	13.5	13.7	14.1	14.3
Nuclear	11.0	10.2	10.0	10.8	13.6
Aggregate Fuel Cost Per kWh Net Thermal Generation					
	<u>12.9</u>	<u>12.9</u>	<u>13.2</u>	<u>13.7</u>	<u>14.4</u>
Revenue Per Kilowatt-hour (mills)^e					
	<u>43.0</u>	<u>43.6</u>	<u>44.5</u>	<u>44.5</u>	<u>46.8</u>
Fuel Data					
Net Thermal Generation					
(millions of kilowatt-hours)	105,577	98,153	93,595	92,106	86,278
Billion Btu	1,069,725	998,934	946,113	925,455	865,876
Fuel expense (millions of dollars)	1,360	1,263	1,233	1,261	1,240
Cost Per Million Btu (cents)	127.16	126.48	130.36	136.26	143.22
Net Heat Rate	10,132	10,177	10,109	10,048	10,036

^a TVA converted to an end-use wholesale rate structure in May 1992. kWh sales have been adjusted to reflect this change.

^b Winter net dependable capacity.

^c Includes 405 megawatts of dependable capacity from the Corps of Engineers projects on the Cumberland River system.

^d Reflects expiration of TAPOCO exchange agreement.

^e Excludes DOE settlement payment.

TVA LEADERSHIP
BOARD OF DIRECTORS



William H. Kennoy, Director

John B. Waters, Chairman

BOARD ADVISORY GROUP

W.F. Willis
Senior Executive Officer and
President, Board Advisory Group

Mary Cartwright
Executive Vice President

Edward S. Christenbury
Senior Vice President and
General Counsel

Oliver D. Kingsley Jr.
President, Generating Group

William F. Malec
Executive Vice President and
Chief Financial Officer

Mary Sharpe Hayes
President, Customer Group

Norman A. Zigrossi
President, Resource Group

TVA is an equal opportunity and affirmative action employer. TVA also ensures that the benefits of programs receiving TVA financial assistance are available to all eligible persons, regardless of race, color, sex, national origin, religion, disability, or age.

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