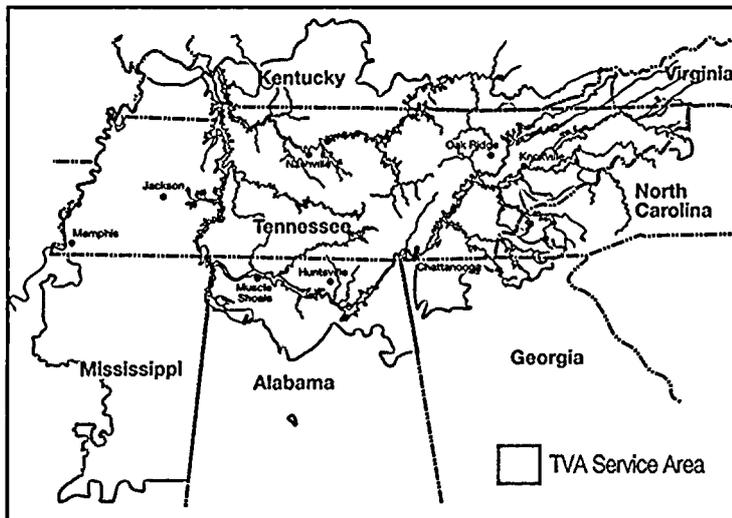


Letter from the Chairman3
 Competitive Rates5
 Environmental Leadership7
 TVA Employees9
 Economic Development11
 Management’s Discussion and Analysis.....12
 Notes to Financial Statements.....21
 Report of Independent Accountants and Report of Management.....33
 Comparative Statistical and Financial Data.....34
 TVA Leadership35

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 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. On September 30, 1993, TVA had 18,974 employees.



AMERICAN EXPRESS

The spirit of TVA is a spirit of leadership, a spirit of being first, a spirit of reaching beyond the horizon.

— *Chairman
Craven Crowell*

When I was named Chairman of TVA by President Clinton a few months ago, I made a commitment

to examine how TVA can best serve the Tennessee Valley region and the nation. In the following

weeks, I traveled thousands of miles and met with hundreds of our customers and employees. I am pleased to report that TVA is continuing to set performance records and that we are approaching the future with a renewed spirit of creativity and productivity.

During this fiscal year, our power system set records for the performance of our fossil and hydro plants and met record demands for electric power during the summer months. Revenues for the year were \$5.3 billion on sales of 119 billion kilowatt-hours, and we continued our commitment of not raising additional revenue through rate increases.

Congress again supported TVA's resource development programs by appropriating \$135 million in the fiscal year. This enables TVA to meet our responsibilities of navigation and flood control on the Tennessee River and environmental and economic development in the region.

Near the close of the fiscal year, my Board colleagues Johnny Hayes and William Kennoy and I met with a group of TVA senior managers to evaluate the agency's strategic direction. Through our discussions, we set three goals

that will guide TVA's success in the coming years:

- We reaffirmed our commitment to maintaining competitive rates by not raising additional revenue through rate increases for the next four years.
- We will establish TVA as an environmental leader because no major company in America will succeed in the years ahead without a high regard for the environment.
- We will draw upon TVA's core strength — its workforce — by putting employees first in trust, teamwork, diversity, and performance.

These goals will keep TVA focused on what we're already doing right, and they will challenge us to make innovative contributions to the economy and environment.

The people of TVA have never been content to perform at the same level as everyone else. The spirit of TVA is a spirit of leadership, a spirit of being first, a spirit of reaching beyond the horizon. You have our commitment that TVA will continue that spirit as we move toward the 21st century.



Craven Crowell
Chairman



We've become dedicated to quality customer service and reliable performance. That's one reason TVA has been able to keep rates stable, and that helps our customers keep their costs under control.

—Joe Dickey
Senior Vice President,
Fossil & Hydro Power

A TVA-wide focus on quality and customer service prompted welders at a coal-burning plant to do some soul-searching.

The welders at TVA's Cumberland Fossil Plant knew that X-rays showed that many of their welds were defective, but they didn't know how extensive the problem was until the plant's performance was analyzed. Nor had they realized how much the rework was costing TVA in replacement-power costs when Cumberland wasn't available to generate electricity.

"We decided to fix our own performance rather than blame equipment or other people," says Thomas Selph, a Cumberland boilermaker/welder. "So our quality improvement team — the Tube Menders — decided to evaluate our processes to find better ways of doing things and lay the groundwork for continuous improvement."

The results: Weld rejects decreased to less than 1 percent from 40 percent, and the savings in avoided replacement-power costs totaled more than \$1.7 million.

TVA has seen hundreds of success stories like the Tube Menders, and these successes have been paying big dividends. They are helping TVA keep its rates competitive; and as TVA's head of Fossil & Hydro Power, Joe Dickey, says, "That helps our customers keep their costs under control."

Tube Menders from left: Thomas Selph, Jim McGee, R.L. Thomas, Carter Cottrell, Keith Martin, Eddie Mullinax, Homer Williams

■ Through increased productivity and efficiency, TVA kept rates stable to help distributors and direct-served customers become more competitive within their own industries, and extended its rate-stability goal through fiscal year 1994. The agency's rate structure gives customers increased flexibility and an improved billing procedure.

■ TVA saved \$28 million in annual interest expense through the sale of \$2.5 billion of bonds. Since 1989, TVA has refinanced \$16 billion in debt and reduced its average annual interest rate from 10.1 percent to 7.7 percent.

■ TVA sold record amounts of power to its customers during a month-long heat wave in July. On 11 separate days, the demand for power exceeded TVA's previous all-time summer peak.

■ The modernization of TVA's power system continued, resulting in record-high efficiencies this fiscal year at hydroelectric and coal-fired generating units.

■ Besides having all 220 fossil, hydro and combustion-turbine units available for system load at the same time for the first time in TVA's history, Browns Ferry Nuclear Plant's Unit 2 was available throughout the summer following a major refueling outage that ended in June. This helped TVA meet the high loads of customers during the summer's heat wave.

■ Other unusual weather events — the "snow-storm of the century" in March and several tornadoes — brought TVA and its customers together to battle the elements and demonstrate the value of staying customer-focused at all times.



The economic vitality of the region is tied to its environmental quality, and we're demonstrating that at the grassroots level.

—Janice Cox
Environmental Scientist
with TVA's Hiwassee
River Action Team

Every time Lynn Waldroup sloshed out his milk barn, the wastewater used to end up in the creek that runs through his Hayesville, North Carolina, dairy farm. After a storm, runoff from his feedlot ended up

there, too. But now, thanks to help from TVA and the U.S. Department of Agriculture, Waldroup is building a wetland to trap and treat the wastewater so it won't pollute the Hiwassee River.

Waldroup's wetland is among hundreds of cooperative water quality projects TVA's River Action Team hopes to see in the Hiwassee River basin.

TVA is setting up River Action Teams in each of the 12 major watersheds that drain into the Tennessee River. The teams, made up of scientists and engineers, work together with government agencies, local officials, businesses, and landowners to identify water quality problems, devise solutions, and monitor the results.

"The Clean Water Act has taken care of most of the water quality problems that come out of the end of a pipe," says Frank Sagona, an environmental engineer working with the Hiwassee River Action Team. "But taking care of runoff like you find at Lynn Waldroup's farm and other farms in the Valley uses voluntary cooperation instead of regulation. And that's where we can be the most help — working with others to find solutions that make good environmental and economic sense."

■ TVA was one of two federal agencies to win the Federal Environmental Quality Award, presented by the Council on Environmental Quality, for its Lake Improvement Plan. The agency also won three awards from America's Clean Water Foundation for its work in water quality and cleaning up the Tennessee River.

■ TVA became a charter member of the Green Lights federal program, and began surveying lighting needs in all its facilities with the aim of maximizing use of energy-efficient lighting.

■ To help small manufacturing companies achieve their environmental objectives and comply with federal and state regulations, TVA developed and published a manual identifying environmental regulations businesses are required to address.

■ TVA dedicated its National Center for Emissions Research in October. The center provides high-quality, cost-effective test results for advanced technologies that will improve environmental performance of TVA facilities.

■ In a voluntary effort to eliminate PCBs, TVA has gotten rid of virtually all PCB capacitors and transformers from its transmission system and is reducing PCBs at all plant sites. TVA has also reduced the number of other chemicals at its nuclear plants from approximately 3,000 to less than 1,000.



I drove for miles on a snow-covered road with a fuel gauge pointing to empty. I worried about running out of gas in the middle of nowhere with the temperature below freezing, but I had no choice but to keep on driving, and I made it back.

—David Hawkins
TVA Lineman

A nightmarish scene greeted TVA Linemen David Hawkins, Ron Farley and Melvin Keylon as they eased their truck onto Highway 64 in East Tennessee around midnight on March 13 — the day the “storm of the century” paralyzed the nation’s eastern states. Ahead lay a gauntlet of downed trees, like piles of giant matchsticks in waist-deep snow.

The three men had already spent 12 hours repairing a downed transmission line and delivering a truck to a local power distributor. Now they would spend the next 27 hours clearing Highway 64 so emergency relief could reach the remote community of Ducktown, Tennessee.

After helping reopen Highway 64, Hawkins drove 80 miles out of his way over snow-covered roads to get a stranded motorist to his sick daughter. Just before arriving home, he got another call for help on his mobile phone and was gone again. By the time he got home for good, he had worked 58 straight hours in below-freezing conditions in three states.

Hawkins’ dedication is a hallmark of the commitment of TVA’s workforce. TVA values its employees’ commitment and has worked to nourish it this fiscal year with new initiatives, such as career development, flexible benefits, and recognition for productivity and high performance.

But the credit for “going the extra mile” belongs to the employees who, like David Hawkins, know just how far they’ll go to get the job done.

■ The Tennessee Valley Authority has new leadership. In July, Craven Crowell became TVA’s 11th Chairman and Johnny H. Hayes became its 23rd Director, joining Director William H. Kenroy on the three-member Board. Former Chairman John B. Waters retired in May at the end of his nine-year term.

■ TVA’s Success Sharing program completed its first year successfully. The agency paid cash incentives to more than 19,000 employees for helping TVA reach most of its financial, customer-service, safety, and worklife goals.

■ Nearly 1,500 TVA employees in the Generating Group alone used teamwork to solve problems and improve productivity and reliability at plants and other sites. Scores of other teams throughout TVA streamlined purchasing procedures, improved communication, and laid the groundwork to achieve continuous improvement for years to come.

■ During an extraordinary year for natural disasters, countless TVA employees provided their labor, food, money, emotional support, equipment, supplies, and children’s toys to victims of Hurricane Andrew, the Great Blizzard, the Midwest Flood, and Valley storms and tornadoes. Employees helped households and businesses, often working in partnership with distributors and other customers.



QUALITY COMMITMENT
INITIATIVE
TEAM WORKBOOK
DEACT

QUALITY COMMITMENT
INITIATIVE
TEAM WORKBOOK

QUALITY COMMITMENT
INITIATIVE
TEAM WORKBOOK
DEACT
JANISSE YULIY
ABERNETHY

QUALITY COMMITMENT
INITIATIVE
TEAM WORKBOOK

The idea is that as we have better education, a better quality of life, and better government, the county will be so attractive that industry will just naturally come here.

—Rex Buffington, Chairman, Oktibbeha County Quality Council, and Executive Director of the Stennis Center for Public Service

In a time of economic uncertainty, few things can galvanize a community like the chance to secure a better future.

Oktibbeha County — home of Starkville and the Mississippi State Bulldogs — is charting its own course toward the next century. Through a new TVA program, community leaders are learning how to resolve issues such as education, race relations, and transportation, using quality-management techniques.

“We formed a quality council of local leaders, and we’ve all been through quality-management training,” says Rex Buffington, chairman of the Oktibbeha Quality Council. “Now we’re creating teams within the community, training them, and putting them to work on community issues.”

TVA’s approach is unique among similar community-development programs, according to Bob Gonia, TVA’s project leader for quality communities. “We introduce quality management to the community as a whole, not just to individual businesses,” he says.

Although the program is still in its infancy, it’s already getting national attention, Gonia says. “Quality improvement is not just a tool for industries,” he says. “It’s going to be a very powerful way for communities to become competitive in the 21st century.”

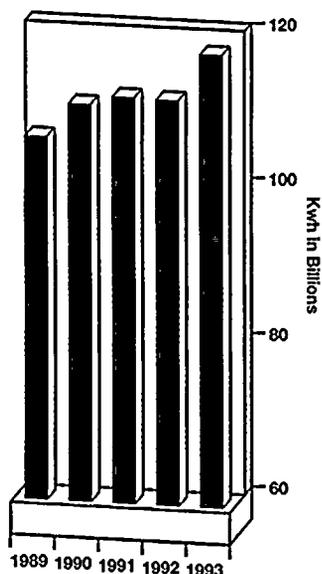
■ TVA reduced the power bills of participating manufacturing industries and schools by as much as \$76 million through its School and Job Credits Program, and has extended the credit up to June 1994. The program helps support public education and create jobs.

■ To increase opportunities to transfer new technologies developed by the Department of Energy to small manufacturing businesses in the area, TVA and DOE created the Manufacturing Competitiveness Alliance.

■ TVA reorganized and refocused its congressionally funded programs to minimize overhead and maximize resources for community and rural development and land stewardship. These programs balance environmental concerns with economic development for long-term growth in the Valley and the nation.

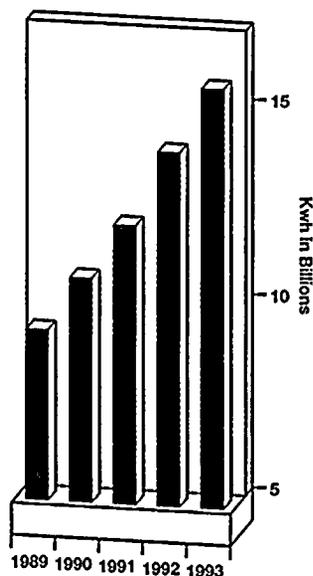
MANAGEMENT'S DISCUSSION AND ANALYSIS
RESULTS OF OPERATIONS
Power Program

Kilowatt-Hour Sales



Electric energy sales reached a record of 118.6 billion kilowatt-hours in 1993 reflecting record summer peak demand and continued growth in the TVA region.

Economy and Interruptible Power Sales



Non-firm power sales increased 12% in 1993 reflecting TVA's commitment to industrial customers in the region.

EARNINGS

The operation of TVA's Power Program primarily consists of the generation, transmission, and sale of electric energy.

Net income for 1993 was \$311 million compared with \$120 million for 1992 and \$286 million for 1991. As summarized below, net income for 1992 and 1991 was affected by one-time charges for certain nuclear fuel assets and for the cumulative effect of the postretirement benefits accounting change.

(Millions)	<u>1993</u>	<u>1992</u>	<u>1991</u>
Income before one-time charges	\$311	\$229	\$509
One-time charges	-	109	223
Net income	\$311	\$120	\$286

The changes in income reflect support of and continuing investment in the people and economy of the TVA service area through no rate increases, more economy power sales, School and Job Credits Program, increased generation at TVA plants, less power purchases outside the region, and investment in additional facilities.

REVENUES

Operating revenues increased 4 percent in 1993 when compared with 1992 and 3 percent compared with 1991. These increases occurred although there has not been an increase in power rates since 1987.

Higher revenues, resulting from system sales growth and temperature related differences, were reduced by \$76 million in school and job credits. Summer temperatures in 1993 set several consecutive peak demand records for the system, while 1992 summer temperatures were milder than normal. The School and Job Credits Program gives certain industries a 5 percent reduction and schools a 10 percent reduction on firm power bills. The program has provided \$98 million in power credits since it began in May 1992.

Total kilowatt-hour sales were 5 percent higher when compared with 1992 and 1991. Sales in 1992 were primarily impacted by unusually mild summer temperatures and some decline in direct industrial sales due to slowdowns in a few segments of the economy. These declines were offset by an overall sales growth of about 2.5 percent in 1992 and 1993.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
RESULTS OF OPERATIONS
Power Program**

OPERATING EXPENSES

Operating expenses for 1993 were \$3.3 billion, compared with \$3.2 billion for 1992 and \$3.0 billion for 1991. Fuel expenses of \$1.4 billion in 1993 increased by \$21 million and \$118 million when compared to 1992 and 1991, respectively. These increases resulted from 5 percent and 10 percent increases in generation for the same periods, which allowed the Agency to meet system power requirements and significantly reduce purchased power expense when compared with 1991.

Non-fuel operating expenses were \$1.9 billion for 1993 compared with \$1.8 billion in 1992 and 1991. The increase was affected by the shutdown of both units at the Sequoyah Nuclear Plant. The units were taken out of service in March 1993 due to a steam leak which occurred in a nonnuclear piping system on Unit 2. Both units are expected to return to service in early fiscal year 1994.

Increases in general and administrative costs for 1993 were primarily the result of the implementation of an employee bonus program and the development of an integrated business system to improve financial management.

Depreciation and amortization costs decreased \$48 million in 1993 when compared with 1992 as a result of an accounting change related to deferred nuclear recovery costs, net of increases associated with utility plant additions.

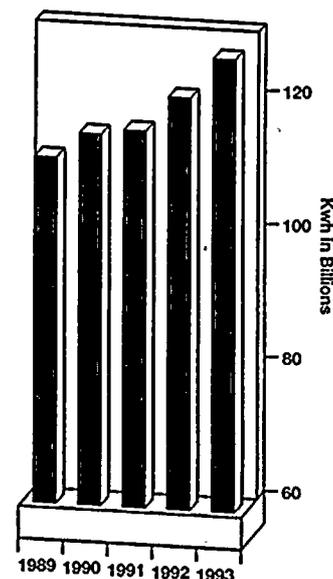
OTHER INCOME AND DEDUCTIONS

Interest income remained essentially unchanged in all three years, ranging from \$22 million to \$24 million. One-time charges of \$109 million related to certain nuclear fuel assets and \$223 million for postretirement benefits occurred in 1992 and 1991, respectively.

INTEREST EXPENSE

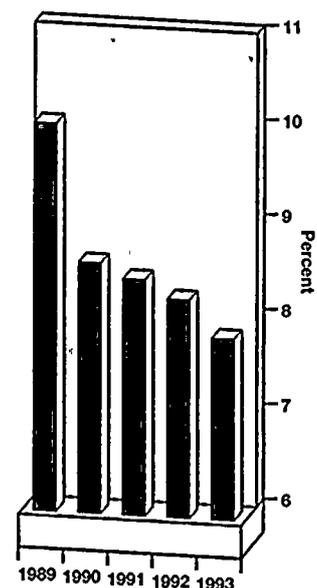
Net interest expense in 1993 increased \$59 million when compared with 1992 and \$115 million when compared with 1991. The increase is primarily due to the issuance of new debt to finance additional construction, facilities, and the repurchase of nuclear fuel. See Note 4 to the Financial Statements. This increase was partially offset by approximately \$232 million in annual interest expense savings that have resulted from continuing refinancing efforts.

Net System Generation



Generation continues to increase to meet demand.

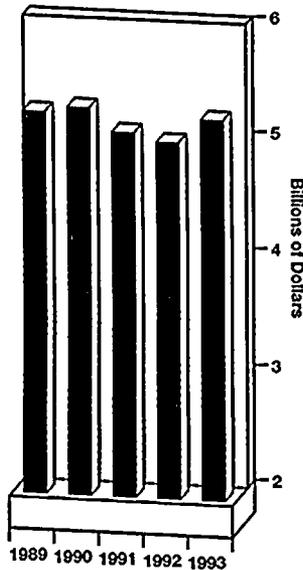
Embedded Cost of Long-Term Debt



Refinancing efforts which began in 1989 have resulted in annual interest expense savings of \$232 million in 1993.

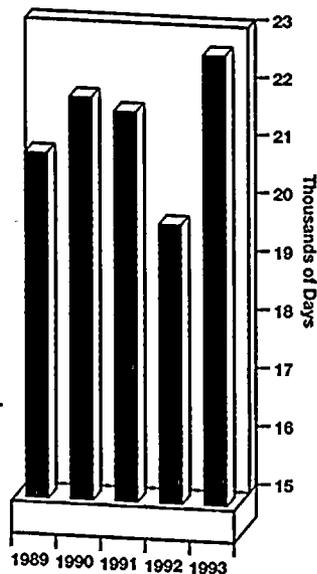
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL CONDITION
Power Program

Operating Revenue



TVA's School and Job Credits Program resulted in \$76 million in credits in 1993.

Weather Impact



Record peak demands in the summer of 1993 resulted in a 15% increase in the sales impact from heating and cooling degree days.

OVERVIEW

The principal changes in TVA's financial condition in 1993 were the addition of \$1.4 billion in construction work in progress and \$2.0 billion in long-term debt. The increase in long-term debt was principally used for capital expenditures and to repurchase nuclear fuel. Future earnings will depend upon an increase in energy sales which is subject to a number of factors including 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 \$500 million and \$750 million 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 1993, TVA issued \$4 billion in long-term bonds to refinance existing long-term debt, finance capital expenditures, and repurchase nuclear fuel.

CAPITAL REQUIREMENTS

Capital expenditures are needed for the completion of one nuclear unit under construction and 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 \$5.5 billion for the three year period 1994 through 1996. Actual 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 one compliance must be implemented by January 1, 1995, and requires \$650 million to \$750 million in capital expenditures. Approximately \$400 million in capital expenditures will be needed to complete phase one. Phase two compliance is required by January 1, 2000, and the cost is not certain at this time.

TENNESSEE VALLEY AUTHORITY
STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
Power Program

For the Years Ended September 30, 1993, 1992, and 1991

(Millions)	1993	1992	1991
OPERATING REVENUES	\$5,276	\$5,065	\$5,136
OPERATING EXPENSES			
Production			
Fuel and purchased power, net	1,401	1,354	1,379
Other	616	603	537
Depreciation and amortization of deferred nuclear costs	457	505	399
Tax-equivalent payments	237	241	243
General and administrative	407	362	363
Other operating expenses	151	133	126
Total operating expenses	3,269	3,198	3,047
Operating income	2,007	1,867	2,089
OTHER INCOME AND DEDUCTIONS			
Interest income	23	22	24
Nuclear fuel write-off	-	(109)	-
Total other income and deductions	23	(87)	24
Income before interest charges	2,030	1,780	2,113
INTEREST CHARGES			
Interest expense	1,777	1,695	1,677
Allowance for funds used during construction	(58)	(35)	(73)
Net interest charges	1,719	1,660	1,604
Income before cumulative effect of accounting change	311	120	509
CUMULATIVE EFFECT OF POSTRETIREMENT BENEFITS CHANGE	-	-	(223)
NET INCOME	311	120	286
Return on appropriation investment	48	57	64
Increase in retained earnings reinvested	263	63	222
Retained earnings reinvested at beginning of period	3,062	2,999	2,777
Retained earnings reinvested at end of period	\$3,325	\$3,062	\$2,999

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 1993 and 1992. Other funding for the nonpower programs is provided through proceeds from timber and land sales, user fees, and sales of nonpower assets. Nonpower proceeds for 1993 were \$11 million compared with \$10 million in 1992 and \$13 million in 1991.

TVA's nonpower programs are identified by five primary categories that are based on the appropriations budget. Expenditures may vary from year to year due to special projects and allocations.

SUMMARY

TVA's nonpower programs continued to focus on three key areas—the environment, the river, and community partnerships. TVA established three teams of scientists, engineers, and planners to work in watersheds to develop and implement water quality improvement projects. The projects will address water quality problems identified in the agency's comprehensive data collection in 1992. TVA's National Fertilizer and Environmental Research Center is conducting research on technologies that support national policies on atmospheric processes, environmentally sound agriculture, remediation and restoration of polluted sites, and conversion of waste into useful products. During the year, TVA's work with community partnerships gained national recognition for helping government agencies and communities with rural waste management.

TENNESSEE VALLEY AUTHORITY
STATEMENTS OF NET EXPENSE AND ACCUMULATED NET EXPENSE
Nonpower Programs

For the Years Ended September 30, 1993, 1992, and 1991

(Millions)	1993	1992	1991
STEWARDSHIP	\$ 76	\$ 71	\$ 63
WATER AND LAND	(3)	9	8
LAND BETWEEN THE LAKES	5	4	4
RURAL DEVELOPMENT	23	22	14
NATIONAL FERTILIZER AND ENVIRONMENTAL RESEARCH CENTER	30	36	37
COAL GASIFICATION	-	113	-
OTHER EXPENSE, NET	(3)	(4)	(1)
NET EXPENSE	128	251	125
Accumulated net expense at beginning of period	2,675	2,424	2,299
Accumulated net expense at end of period	\$2,803	\$2,675	\$2,424

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

**TENNESSEE VALLEY AUTHORITY
BALANCE SHEETS**

At September 30, 1993 and 1992

(Millions)	Power program		All programs	
	1993	1992	1993	1992
ASSETS				
PROPERTY, PLANT, AND EQUIPMENT				
Completed plant	\$15,764	\$14,075	\$16,815	\$15,125
Less accumulated depreciation and depletion	5,163	4,935	5,425	5,188
Completed plant, net	10,601	9,140	11,390	9,937
Construction in progress	8,675	7,228	8,794	7,341
Deferred nuclear generating units	6,125	6,037	6,125	6,037
Nuclear fuel	2,269	-	2,269	-
Capital lease assets	218	2,488	218	2,488
Total	27,888	24,893	28,796	25,803
INVESTMENT FUNDS, at accreted cost	-	188	-	188
CURRENT ASSETS				
Cash	113	157	290	342
Short-term investments	123	453	123	453
Accounts receivable	752	693	786	717
Inventories, at average cost	446	421	446	421
Total	1,434	1,724	1,645	1,933
DEFERRED CHARGES AND OTHER ASSETS				
Loans and other long-term receivables and other	346	1,452	405	1,501
Unamortized debt issue and reacquisition costs	1,255	1,062	1,255	1,062
Total	1,601	2,514	1,660	2,563
Total assets	\$30,923	\$29,319	\$32,101	\$30,487

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

**TENNESSEE VALLEY AUTHORITY
BALANCE SHEETS**

At September 30, 1993 and 1992

(Millions)	Power program		All programs	
	1993	1992	1993	1992
CAPITALIZATION AND LIABILITIES				
CAPITALIZATION				
Proprietary capital				
Appropriation investment, net	\$ 668	\$ 688	\$ 4,473	\$ 4,356
Retained earnings reinvested in the power program	3,325	3,062	3,325	3,062
Accumulated net expense of nonpower programs	-	-	(2,803)	(2,675)
Total	3,993	3,750	4,995	4,743
Long-term debt	20,954	19,204	20,954	19,204
Total	24,947	22,954	25,949	23,947
OTHER LIABILITIES				
Capital lease obligations	214	2,268	214	2,268
Decommissioning of nuclear plant	264	264	264	264
Other accrued liabilities	638	461	638	461
Total	1,116	2,993	1,116	2,993
CURRENT LIABILITIES				
Short-term debt	3,335	1,707	3,335	1,707
Current maturities of long-term debt	297	-	297	-
Current portion of capital lease obligations	4	220	4	220
Accounts payable	656	884	810	1,033
Payrolls and other accrued costs	124	82	146	108
Interest accrued	444	479	444	479
Total	4,860	3,372	5,036	3,547
COMMITMENTS AND CONTINGENCIES (Note 10)				
Total capitalization and liabilities	\$30,923	\$29,319	\$32,101	\$30,487

**TENNESSEE VALLEY AUTHORITY
STATEMENTS OF CASH FLOWS**

For the Years Ended September 30, 1993, 1992, and 1991

(Millions)	Power program			All programs		
	1993	1992	1991	1993	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES						
Net power income	\$ 311	\$ 120	\$ 286	\$ 311	\$ 120	\$ 286
Net expense of nonpower programs	-	-	-	(128)	(251)	(125)
Items not requiring (providing) cash						
Depreciation and amortization of deferred nuclear costs	457	505	399	467	515	410
Allowance for funds used during construction	(58)	(35)	(73)	(58)	(35)	(73)
Charges related to write-offs	-	109	-	-	222	-
Cumulative effect of postretirement benefits	-	-	223	-	-	223
Other, net	120	82	69	120	82	69
Changes in current assets and liabilities						
Accounts receivable, net	(59)	4	34	(68)	60	(29)
Inventories	(25)	53	24	(25)	53	27
Accounts payable and accrued liabilities	(186)	249	70	(185)	235	153
Interest payable	(35)	(38)	-	(35)	(38)	-
Other	(22)	(1)	-	(23)	(1)	-
Net cash provided by operating activities	503	1,048	1,032	376	962	941
CASH FLOWS FROM INVESTING ACTIVITIES						
Construction expenditures	(2,311)	(1,689)	(1,271)	(2,319)	(1,700)	(1,282)
Allowance for funds used during construction	58	35	73	58	35	73
Purchases of nuclear fuel	(2,275)	-	-	(2,275)	-	-
Investments	539	10	(306)	539	10	(306)
Other, net	139	(288)	(173)	130	(287)	(178)
Net cash used in investing activities	(3,850)	(1,932)	(1,677)	(3,867)	(1,942)	(1,693)
CASH FLOWS FROM FINANCING ACTIVITIES						
Long-term debt						
Issues	4,669	6,450	-	4,669	6,450	-
Redemptions	(638)	(3,980)	(150)	(638)	(3,980)	(150)
Debt defeased	(1,929)	(1,596)	-	(1,929)	(1,596)	-
Short-term borrowings, net	1,628	443	1,057	1,628	443	1,057
Borrowing expenses, net	(359)	(385)	3	(359)	(385)	3
Congressional appropriations and transfers	-	-	-	136	139	135
Payments to U.S. Treasury	(68)	(77)	(84)	(68)	(77)	(84)
Net cash provided by financing activities	3,303	855	826	3,439	994	961
Net change in cash and cash equivalents	(44)	(29)	181	(52)	14	209
Cash and cash equivalents at beginning of year	157	186	5	342	328	119
Cash and cash equivalents at end of year	\$ 113	\$ 157	\$ 186	\$ 290	\$ 342	\$ 328

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

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies

General—The Tennessee Valley Authority (TVA) is a wholly owned corporate agency and instrumentality of the United States. It was 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 are divided 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 TVA Act. The TVA 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 power and nonpower programs 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 1993, 1992, and 1991 was 3.06 percent, 2.97 percent, and 2.75 percent, respectively.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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 any 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 resulting in an estimated five-year deferral to the existing policy.

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 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. In 1992, TVA began converting fuel originally fabricated for use at the Bellefonte plant to a form that can be used at the Browns Ferry and Sequoyah plants. In conjunction with this conversion, TVA determined the costs of original fabrication and subsequent defabrication provide no future benefit. Accordingly, the \$91 million aggregate cost was recognized as a charge in the 1992 statement of operations and not recovered from future customers. TVA also determined that certain failed fuel at Browns Ferry 2 had no recoverable value, and the \$18 million cost was charged to the 1992 statement of operations. As described in Notes 2 and 4, during 1993 TVA began purchasing nuclear fuel that was previously under a capital lease.

Investment funds—Prior to September 1993, certain power funds were invested in zero coupon bonds in order to provide funding for decommissioning nuclear power plants. Investments were carried at cost, adjusted for amortization of premiums and accretion of discounts at the yield rate over the life of each instrument. In September 1993, TVA determined that the portfolio of investments designated for funding decommissioning could be sold and such proceeds reinvested in instruments that would yield greater proceeds over the remaining term to decommissioning dates. Accordingly, these investments were sold for \$373 million and TVA realized a gain of \$163 million. The gain has been deferred and the unamortized balance will be included in other liabilities until fully amortized into income over a twenty-four month period beginning in October 1993. Proceeds from the sale have been used to reduce short-term debt until appropriate investment portfolios can be established.

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.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Deferred nuclear recovery costs—Prior to 1993, TVA classified nuclear recovery costs as a deferred charge and amortized such costs over a ten-year period beginning with the restart of each idled unit. During the first quarter of 1993, TVA determined that the operation of nuclear units returned to service indicated that the recovery actions taken have effectively corrected previous deficiencies such that the units are presently expected to remain in service throughout the remainder of the estimated service lives. Accordingly, TVA reclassified the \$1,153 million unamortized balance of deferred nuclear recovery costs to completed plant (\$888 million) and construction in progress (\$265 million) and began depreciating such costs associated with units returned to service over the respective remaining service lives of the nuclear plants. The effect of the change for the year ended September 30, 1993, was to decrease depreciation and amortization expenses by \$86 million.

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 1993, 1992, and 1991, interest paid (net of amount capitalized) was \$1,642 million, \$1,625 million, and \$1,546 million, respectively. Capital lease additions, including capitalized interest, were zero in 1993 and \$156 million and \$206 million in fiscal years 1992 and 1991, respectively.

2. Nuclear power program—The nuclear power program at September 30, 1993, consists of nine generating units at four locations with investments as follows and in the status indicated:

	<u>Capacity</u>	<u>Completed Plant, Net</u>	<u>Construction in Progress</u>	<u>Deferred</u>	<u>Fuel Investment</u>
	(Megawatts)			(Millions)	
Sequoyah	2,442	\$1,905	\$ 178	\$ -	\$ 391
Browns Ferry	3,456	2,246	1,073	-	418
Watts Bar	2,540	-	6,060	1,623	267
Bellefonte	2,664	-	-	4,502	-
Raw Materials		-	-	-	1,192
Total	11,102	\$4,151	\$7,311	\$6,125	\$2,268

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

On March 1, 1993, Sequoyah 2 was shut down due to a steam leak which occurred in a nonnuclear piping system. As a precaution, Sequoyah 1 was also removed from service and transitioned into a scheduled spring 1993 outage. Sequoyah 2 is expected to return to service in the fall of 1993, Sequoyah 1 is expected to return to service in late fall 1993 or early winter 1994.

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 to commercial operation in late calendar year 1995. The commercial operation date for Browns Ferry 1 will be determined in calendar year 1996 after completion of a detailed return to service cost estimate based on Browns Ferry 3 experience.

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 the unit into commercial operation in early calendar year 1995.

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. On March 23, 1993, in accordance with guidance in the Nuclear Regulatory Commission's (NRC) policy statement on deferred plants, TVA notified the NRC of its plans to resume completion activities at Bellefonte. TVA currently plans to place Watts Bar 2 in service in 1999 and Bellefonte 1 and 2 in service in 2001 and 2004, respectively, to meet forecasted generation capacity requirements. Budgeted 1994 expenditures for these three units, which are \$65 million, are limited to certain licensing, design, layup, maintenance and engineering activities. 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.

All units not operating are expected to be completed as indicated. TVA recently began development of an integrated resource plan that will be utilized to determine the least cost method of meeting future customer energy demands. The results of this plan, as well as other circumstances, could alter the current planning dates for nuclear completions. If abandonment of any of these units should occur, TVA would recover these costs (including fuel) through rates charged to future customers.

Nuclear fuel—Prior to 1993, TVA sold and leased back nuclear fuel under a capital lease (Note 4). During 1993, TVA repurchased the nuclear fuel and terminated the leasing arrangement. Related financing costs are capitalized as a component of nuclear fuel.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

3. Completed plant—Completed plant for the Power Program and All Programs stated at gross cost consists of the following at September 30, 1993, and 1992:

(Millions)	<u>1993</u>		<u>1992</u>	
	<u>Power Program</u>	<u>All Programs</u>	<u>Power Program</u>	<u>All Programs</u>
Stream production plants	\$ 5,182	\$ 5,182	\$ 4,822	\$ 4,822
Nuclear production plants	5,351	5,351	4,389	4,389
Transmission plants	2,341	2,341	2,119	2,119
Multipurpose dams	640	1,541	628	1,527
Single-purpose dams	465	465	466	466
Other	1,785	1,935	1,651	1,802
Total	\$15,764	\$16,815	\$14,075	\$15,125

4. Leases—TVA presently 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 that cover substantially all the economic lives of the properties. As described in Note 2, prior to 1993 TVA sold and leased back nuclear fuel.

The following is a summary of obligations under capital and noncancelable operating lease agreements in effect at September 30, 1993, and 1992:

CAPITAL LEASES (Millions)	<u>1993</u>	<u>1992</u>
Nuclear fuel		
Assets under capital lease	\$ -	\$3,475
Accumulated provision for amortization	-	1,218
Net nuclear fuel	-	2,257
General plant		
Assets under capital lease	225	255
Accumulated provision for amortization	7	24
Net general plant	218	231
Total net properties	\$218	\$2,488
Obligations under capital leases	\$218	\$2,488

Financing costs on leased nuclear fuel were capitalized until the fuel was placed into production. Net nuclear fuel included capitalized interest of \$944 million as of September 30, 1992.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

FUTURE MINIMUM LEASE PAYMENTS

(Millions)

<u>Fiscal Period</u>	<u>General Plant Capital Leases</u>	<u>Noncancelable Operating Leases</u>
1994	\$ 37	\$ 6
1995	37	6
1996	37	5
1997	37	3
1998	36	3
Thereafter	443	14
<u>Total future minimum lease payments</u>	<u>627</u>	<u>\$37</u>
Less interest element included	409	
<u>Present value of future minimum lease payments</u>	<u>\$218</u>	

Amortization of capital leases, including nuclear fuel, for the years ended September 30, 1993, 1992, and 1991 was (in millions) \$58, \$193, and \$140, respectively. Operating expenses for the same respective periods included finance charges for capital leases in the amounts of (in millions) \$45, \$67, and \$70.

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 \$161 million at September 30, 1993.

5. Appropriation investment—Changes in the appropriation investment during the fiscal years ended September 30, 1993, 1992, and 1991, were:

(Millions)	<u>1993</u>	<u>1992</u>	<u>1991</u>
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	(775)	(755)	(735)
<u>Net Appropriation Investment</u>	<u>\$ 668</u>	<u>\$ 688</u>	<u>\$ 708</u>
All Programs			
Congressional Appropriations	\$5,225	\$5,090	\$4,951
Transfers of Property from Other Federal Agencies	65	63	62
Repayments to General Fund of the U.S. Treasury	(817)	(797)	(777)
<u>Net Appropriation Investment</u>	<u>\$4,473</u>	<u>\$4,356</u>	<u>\$4,236</u>

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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 1993 was \$48 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 more than two years. Repayments toward the \$1 billion total \$590 million at September 30, 1993. Return on investment payments total \$2,138 million as of September 30, 1993. Congressional appropriations for nonpower programs for fiscal year 1994 are \$139 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. 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 at September 30, 1993, and 1992 (excluding defeased debt of \$3.25 billion and \$2.1 billion, respectively) consist of the following:

(Millions)	<u>1993</u>	<u>1992</u>
LONG-TERM DEBT		
Held by the public		
Maturing in 1995 - 3.85% to 4.25%	\$ 566	\$ 1,000
Maturing in 1996 - 4.19% to 4.52%	915	-
Maturing in 1997 - 6.00% to 8.25%	2,500	2,500
Maturing in 1998 through 2043 - 5.07% to 8.75%	11,203	9,950
	<u>15,184</u>	<u>13,450</u>
Federal Financing Bank		
Maturing in 2003 through 2017 - 7.285% to 11.695%	6,075	6,075
Total long-term debt	<u>21,259</u>	<u>19,525</u>
Less unamortized discount	305	321
Net long-term debt	<u>\$20,954</u>	<u>\$19,204</u>
SHORT-TERM DEBT		
Held by public		
Discount notes (net of discount)	\$ 3,185	\$ 1,557
Current portion of long-term debt - 3.44% to 3.56%	297	-
U.S. Treasury	150	150
Total short-term debt	<u>\$ 3,632</u>	<u>\$ 1,707</u>
Total debt	<u>\$24,586</u>	<u>\$20,911</u>

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Between October 1989 and September 1993, TVA sold \$16.45 billion in Power Bonds to the public, using the proceeds to advance refund \$14.75 billion in previously issued long-term debt. \$11.95 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 January 1994 to April 2012 at call prices ranging from 100% to 106.2% of the principal amount. TVA incurred premiums totaling \$1.3 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. \$9.7 billion of these advance refundings were effected through insubstance defeasance transactions, wherein TVA transferred sufficient funds to establish irrevocable trusts to hold securities that are scheduled to earn interest and mature in amounts sufficient to meet debt service requirements.

The interest rate on short-term debt owed to the U. S. Treasury as of September 30, 1993, was 3.26 percent and the weighted average yield on short-term debt outstanding in the public market as of September 30, 1993, was 3.19 percent.

During fiscal years 1993, 1992, and 1991, the maximum outstanding balance of short-term borrowings held by the public was (in millions) \$3,302, \$1,826 and \$1,372, respectively, and the average amounts (and weighted average interest rates) of such borrowings were approximately (in millions), \$2,117 (3.19 percent), \$1,458 (5.1 percent), and \$555 (6.17 percent), respectively.

7. Fair value of financial instruments—The methods and assumptions used to estimate the fair values of each class of financial instruments are as follows:

Cash and short-term investments—The carrying amount approximates fair value because of the short-term maturity of those investments.

Loans and long-term receivables—Fair values for these homogenous categories of loans and receivables are estimated by determining the present value of future cash flows using the current rates at which similar loans are presently made to borrowers with similar credit ratings and for the same remaining maturities.

Short-term debt—For short-term debt instruments such as discount notes, the carrying amount approximates fair value because of the short-term maturity of those instruments.

Bonds—Fair value of long-term debt traded in the public market is determined by multiplying the par value of the bonds by the quoted market price (asked price) nearest the balance sheet date. The fair value of other long-term debt and long-term debt held by the Federal Financing Bank is estimated by determining the present value of future cash flows using rates of financial instruments with quoted market prices of similar characteristics of the same remaining maturities.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

The estimated values of TVA's financial instruments are as follows:

(Millions)	<u>Carrying Amount</u>	<u>Fair Amount</u>
Cash and short-term investments	\$ 413	\$ 413
Loans and long-term receivables	379	372
Short-term debt	3,335	3,335
Long-term debt	21,556	23,884

8. 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 1993, 1992, and 1991 were:

(Millions)	<u>1993</u>	<u>1992</u>	<u>1991</u>
Service cost	\$ 77	\$ 72	\$ 71
Interest cost on projected benefit obligation	256	237	214
Actual return on assets	(512)	(355)	(565)
Net amortization and deferral	209	71	346
Net pension costs	\$ 30	\$ 25	\$ 66

The plan's actual funded status was:

Actual present value of benefit obligations			
Vested benefit obligation	\$(2,844)	\$(2,492)	\$(2,304)
Nonvested benefits	(106)	(61)	(61)
Accumulated benefit obligation	(2,950)	(2,553)	(2,365)
Effects of projected future compensation	(409)	(397)	(367)
Projected benefit obligation	(3,359)	(2,950)	(2,732)
Plan assets at fair value	3,718	3,286	3,016
Excess (deficit) of plan assets over projected benefit obligation	359	336	284
Unrecognized net loss (gain)	(343)	(341)	(315)
Unrecognized net obligation being amortized over 15 years beginning October 1, 1987	3	3	4
Prepaid pension cost (accrued liability)	\$ 19	\$ (2)	\$ (27)

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

The discount rate used to determine the actuarial present value of the projected benefit obligation was 8.0 percent in fiscal year 1993 and 8.5 percent in fiscal years 1992 and 1991. The assumed annual rates of increase in future compensation levels for 1993 range from 3.5 to 9.3 percent and for 1992 and 1991 ranged from 4.8 percent to 9.8 percent. The expected long-term rate of return on plan assets was 11 percent for 1993 and 1992 and 9.0 percent for 1991.

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 a long-term receivable to be recovered from future available nonpower funds.

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

(Millions)	<u>1993</u>	<u>1992</u>	<u>1991</u>
Accumulated Postretirement Benefit Obligation (APBO):			
Retirees	\$144	\$124	\$158
Fully eligible active plan participants	1	28	30
Other active plan participants	139	97	76
	<u>284</u>	<u>249</u>	<u>264</u>
Unrecognized net gain (loss)	(5)	20	-
Accrued postretirement benefit cost	<u>\$279</u>	<u>\$269</u>	<u>\$264</u>
Net Periodic Postretirement Benefit Cost for these fiscal years included the following components:			
Service cost	\$ 9	\$ 7	\$ 6
Interest cost	22	20	21
Amortization of gain	-	(7)	-
Net periodic postretirement benefit cost	<u>\$ 31</u>	<u>\$ 20</u>	<u>\$ 27</u>

The annual assumed cost trend for covered benefits is 13.5% in fiscal year 1993, decreasing by one-half percent per year reaching seven percent in 2005 and thereafter. For fiscal year 1992, an annual trend rate of 14% was assumed, and for fiscal year 1991, a fixed annual trend rate of 8% was used. 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

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

of September 30, 1993, by \$16 million and the aggregated service and interest cost components of net periodic postretirement benefit cost for 1993 by \$2 million. The weighted average discount rate used in determining the APBO was 8.0 percent for fiscal year 1993 and 8.5% for fiscal year 1992 and 1991. 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.

9. Major customers—Another 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 \$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.

10. Construction expenditures and commitments and contingencies—

Construction expenditures, including capitalized interest, are estimated to be \$2.0 billion, \$1.8 billion, and \$1.7 billion for fiscal years 1994, 1995, and 1996, 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 \$2.7 billion in long-term commitments, ranging in terms of up to seven years, have been entered into for the purchase of coal.

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 \$75 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 \$396 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

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

amounts include a 5% surcharge if additional funds are needed to satisfy public liability claims and legal costs 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 \$30 to \$50 million over current fossil operating expenses for the years 1995 through 1999. 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 that 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.

11. Certain nonpower projects—A 1992 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, 1993 and 1992 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, 1993. 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, 1993 and 1992, 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, 1993 in conformity with generally accepted accounting principles.



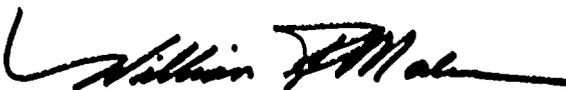
Coopers & Lybrand
Knoxville, Tennessee
October 15, 1993

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
Executive Vice President and Chief Financial Officer

TENNESSEE VALLEY AUTHORITY
COMPARATIVE STATISTICAL AND FINANCIAL DATA

For the Years Ended September 30

	1993	1992	1991	1990	1989
Sales (millions of kilowatt-hours) ^a					
Municipalities and cooperatives	99,982	93,622	92,848	91,636	87,860
Federal agencies	2,382	2,204	2,173	2,335	2,337
Industries	16,196	16,576	17,437	17,121	16,261
Electric utilities	-	-	49	265	453
	<u>118,560</u>	<u>112,402</u>	<u>112,507</u>	<u>111,357</u>	<u>106,911</u>
Operating Revenues (millions of dollars)					
Electric					
Municipalities and cooperatives	4,479	4,266	4,272	4,292	4,109
Federal agencies	254	255	257	413	569
Industries	472	472	531	548	526
Electric utilities	-	1	8	17	21
Other	71	71	68	69	62
	<u>5,276</u>	<u>5,065</u>	<u>5,136</u>	<u>5,339</u>	<u>5,287</u>
Dependable Generating Capacity (megawatts) ^b					
Hydro ^c	4,885 ^d	4,885 ^d	4,885 ^d	4,885 ^d	5,201
Coal	15,088	15,088	15,249	15,249	15,249
Nuclear units in service	3,365	3,361	3,361	2,296	2,296
Combustion turbine	2,284	2,284	2,284	2,284	2,284
	<u>25,622</u>	<u>25,618</u>	<u>25,779</u>	<u>24,714</u>	<u>25,030</u>
System Peak Load (megawatts)					
	<u>23,878</u>	<u>21,980</u>	<u>22,081</u>	<u>24,627</u>	<u>20,638</u>
Percent Gross Generation					
Coal	76%	69%	68%	68%	71%
Hydro	15%	14%	16%	19%	18%
Nuclear	9%	17%	16%	13%	11%
Fuel Cost Per Kilowatt-hour (mills)					
Coal	12.7	13.3	13.5	13.7	14.1
Nuclear	10.3	11.0	10.2	10.0	10.8
Aggregate fuel cost per kwh net thermal generation	<u>12.5</u>	<u>12.9</u>	<u>12.9</u>	<u>13.2</u>	<u>13.7</u>
Revenue Per Kilowatt-hour (mills) ^e					
	<u>42.6</u>	<u>43.0</u>	<u>43.6</u>	<u>44.5</u>	<u>44.5</u>
Fuel Data					
Net thermal generation					
(millions of kilowatt-hours)	109,968	105,577	98,153	93,595	92,106
Billion Btu	1,105,395	1,069,725	998,934	946,113	925,455
Fuel expense (millions of dollars)	1,375	1,360	1,263	1,233	1,261
Cost per million Btu (cents)	124.42	127.16	126.48	130.36	136.26
Net heat rate	<u>10,052</u>	<u>10,132</u>	<u>10,177</u>	<u>10,109</u>	<u>10,048</u>

^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 an exchange agreement with TAPOCO.

^e Excludes Department of Energy settlement payment.

TVA LEADERSHIP

BOARD OF DIRECTORS

Craven Crowell, Chairman
William H. Kennoy, Director
Johnny H. Hayes, Director

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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