

U.S. \$1,600,000,000

TENNESSEE VALLEY AUTHORITY

U.S. \$1,000,000,000 6% Global Power Bonds 1995 Series D Due November 1, 2000

U.S. \$ 600,000,000 6¾% Global Power Bonds 1995 Series E Due November 1, 2025

Interest Payable May 1 and November 1

The 6% Global Power Bonds 1995 Series D Due November 1, 2000 (the "1995 Series D Bonds") and the 6¾% Global Power Bonds 1995 Series E Due November 1, 2025 (the "1995 Series E Bonds" and together with the 1995 Series D Bonds, hereinafter collectively referred to as the "Bonds") of the Tennessee Valley Authority ("TVA") will not be subject to redemption prior to maturity. The Bonds will be issued in minimum denominations of U.S. \$1,000 and integral multiples thereof.

The Bonds will be issued, maintained and transferred only on the book-entry system of the U.S. Federal Reserve Banks, as described herein. Transactions in the Bonds will be cleared and settled in book-entry form by Euromarket participants through the facilities of Cedel (as defined herein) and Euroclear (as defined herein). See "Clearance and Settlement". The Bonds will not be exchangeable for definitive securities.

The Bonds may be separated ("stripped") into their separate Interest and Principal Components (as defined herein) and maintained as such on the book-entry records of the U.S. Federal Reserve Banks. The components of each stripped Bond are: each future interest payment (each an "Interest Component") and the principal payment (the "Principal Component" and together with the Interest Components hereinafter collectively referred to as the "Strips"). See "Description of Bonds" — "Stripping" and "United States Tax Matters".

Application has been made to list the Bonds on the Luxembourg Stock Exchange, The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), the Stock Exchange of Singapore Limited (the "Singapore Stock Exchange") and the New York Stock Exchange (collectively, the "Stock Exchanges"). It is expected that dealings in the Bonds on the Hong Kong Stock Exchange will commence on or about November 7, 1995.

The Bonds and Strips are considered to be obligations in registered form for U.S. tax purposes. Beneficial owners of the Bonds or Strips that are not United States persons must certify that they are non-United States persons in order to receive payments on those Bonds or Strips free of United States withholding tax. See "United States Tax Matters". TVA will not pay additional interest or other amounts in respect of any withholding or other tax that may be imposed by any jurisdiction on payments on the Bonds or Strips as a result of a change in law or otherwise.

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

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

	Price to Public (1)	Discount to Managers	Proceeds to TVA (2)
Per 1995 Series D Bond	99.939%	0.25%	99.689%
Total	U.S. \$999,390,000	U.S. \$2,500,000	U.S. \$996,890,000
Per 1995 Series E Bond	99.401%	0.55%	98.851%
Total	U.S. \$596,406,000	U.S. \$3,300,000	U.S. \$593,106,000

(1) Plus accrued interest from November 1, 1995 to date of delivery.

(2) Before deducting expenses payable by TVA estimated at U.S.\$450,000.

The Bonds offered by this Offering Circular are offered by the several Managers subject to prior sale, withdrawal, cancellation or modification of the offer without notice, to delivery to and acceptance by the Managers and to certain further conditions. It is expected that delivery of the Bonds, in book-entry form, will be made through the book-entry system of the U.S. Federal Reserve Banks on or about November 3, 1995, against payment therefor in immediately available funds.

LEHMAN BROTHERS
Deutsche Morgan Grenfell
Mitsui Trust International Limited
Salomon Brothers Inc

MERRILL LYNCH & Co.
Goldman Sachs International
Nomura Securities

October 31, 1995

G L O B A L I M P A C T

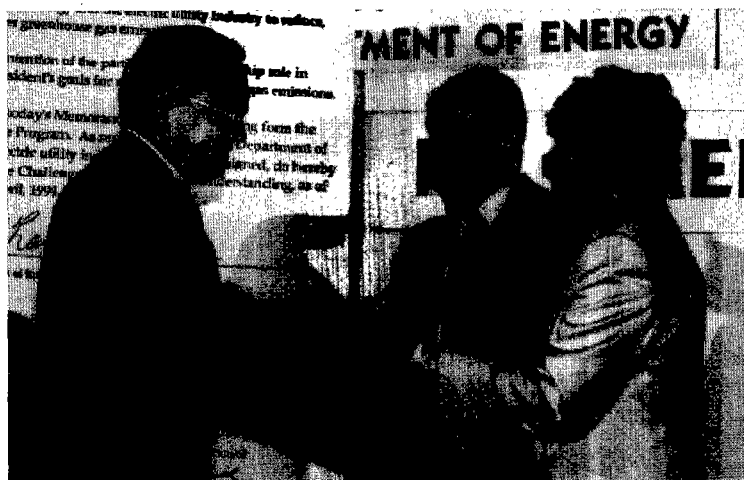
Countries around the globe have come to depend on TVA's knowledge and experience in the utility industry and in resource management. For example:

- The Republic of Georgia is receiving assistance from TVA in analyzing its energy needs. Georgia's Energy Department is a sister utility to TVA as part of a program funded by the United States Agency for International Development.
- The People's Republic of China is using TVA's expertise in developing the Yellow and Yalong rivers for flood control, hydroelectric power, industrial development, and farming. In fact, China is using TVA as a model.
- TVA has been involved in the study phases of river development programs in Lesotho, South Africa, the Nile in Sudan, Lake Titicaca located between Bolivia and Peru, and Zimbabwe.

These are just a few of the reasons why TVA has an international reputation for teamwork, innovation, and dependability.



Southeastern Region Served by the Tennessee Valley Authority



TVA Chairman Craven Crowell (left) received special recognition from Vice President Al Gore and U.S. Secretary of Energy Hazel O'Leary at a ceremony in Washington, D.C., where TVA was recognized for its plan to reduce greenhouse gases. TVA was one of the first U.S. utilities to announce such a plan.

IN CONNECTION WITH THIS OFFERING, LEHMAN BROTHERS INTERNATIONAL (EUROPE) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE LUXEMBOURG STOCK EXCHANGE AND/OR THE NEW YORK STOCK EXCHANGE, IN AN OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

None of the Stock Exchanges takes any responsibility for the correctness of any statements made or opinions expressed in this Offering Circular or any other document incorporated by reference herein or makes any representation as to its accuracy or completeness. Each of the Stock Exchanges expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of this Offering Circular or any other document incorporated by reference herein. Neither an admission to the official lists of, or quotation of, or permission to deal in, the Bonds on, any of the Stock Exchanges is to be taken as an indication of the merits of TVA or the Bonds.

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

The distribution of this Offering Circular and the offering of the Bonds may, in certain jurisdictions, be restricted by law. Persons into whose possession this Offering Circular comes are required by TVA and the Managers (as defined herein) to inform themselves of and observe all such restrictions.

This Offering Circular should be read in conjunction with TVA's current Information Statement, dated March 30, 1995 (the "current Information Statement"), which is attached hereto and incorporated herein. Any statement contained in the current Information Statement shall be deemed to be modified or superseded for all purposes of the current Information Statement and this Offering Circular to the extent that a statement contained in this Offering Circular modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified, to constitute a part of the current Information Statement. Additional copies of this Offering Circular and of the current Information Statement may be obtained (free of charge) upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (423) 632-3366 in the United States. Copies may also be obtained (free of charge) from Kredietbank S.A. Luxembourgeoise (the "Special Agent" or "Listing Agent"), 43 Boulevard Royal L-2955, Luxembourg, R.C. Luxembourg B6395. Copies may be inspected upon request during normal business hours (Saturdays, Sundays and public holidays excepted) for a period of fourteen days from the date hereof at the offices of Allen & Overy, 9th floor, Three Exchange Square, 8 Connaught Place, Hong Kong and at the offices of Allen & Gledhill, 36 Robinson Road, #18-01, City House, Singapore. The then current Information Statement and other information concerning TVA may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

This Offering Circular has been prepared by TVA solely for use in connection with the offering of the Bonds described herein and for purposes of listing the Bonds on the Stock Exchanges. TVA has taken reasonable care to ensure that the information contained in this Offering Circular is true and accurate in all material respects and that there are no material facts the omission of which would make misleading any statement herein, in light of the circumstances under which such statements are made. TVA accepts responsibility accordingly.

In this Offering Circular and the current Information Statement, references to "U.S. dollars", "U.S. \$", "dollars" and "\$" are to United States dollars.

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SUMMARY OF OFFERING

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

Issuer	TVA is a wholly owned corporate agency and instrumentality of the United States of America established by the Tennessee Valley Authority Act of 1933, as amended.
Capitalization	Total capitalization of TVA at August 31, 1995, as adjusted for the Bonds offered hereby, would have been \$30,922 million. In addition, since August 31, 1995 and through the date of this Offering Circular, TVA has issued \$200 million of long-term debt. Except as set forth above, there has been no material change in TVA's capitalization since August 31, 1995.
Securities Offered	\$1,000,000,000 aggregate principal amount of 6% Global Power Bonds 1995 Series D Due November 1, 2000. \$600,000,000 aggregate principal amount of 6¾% Global Power Bonds 1995 Series E Due November 1, 2025.
Interest	The Bonds will bear interest from November 1, 1995, at the annual rates set forth on the cover page hereof, payable semi-annually in arrear on each May 1 and November 1, commencing May 1, 1996.
Redemption	The Bonds will not be subject to redemption prior to maturity.
Fiscal Agent	U.S. Federal Reserve Banks.
Listings	Application has been made to list the Bonds on the Luxembourg Stock Exchange, the Hong Kong Stock Exchange, the Singapore Stock Exchange and the New York Stock Exchange.
Use of Proceeds	The net proceeds received by TVA from the sale of the Bonds will be used to retire existing debt.
Source of Payment	The interest and principal on the Bonds are payable solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" in the current Information Statement.
Form and Denomination of Bonds ..	The Bonds will be issued and maintained and may be transferred by Holders only on the book-entry system of the U.S. Federal Reserve Banks. See "Description of Bonds" — "Book-Entry System". The Bonds will not be exchangeable for definitive securities. The Bonds will be issued and must be maintained and transferred in minimum denominations of \$1,000 and integral multiples thereof.
Stripping	The Bonds may be stripped into their separate Interest and Principal Components and maintained as such on the book-entry records of the U.S. Federal Reserve Banks. The components of each stripped Bond are: each future interest payment and the principal payment. Each Interest Component and the Principal Component will have an identifying designation and CUSIP number. See "Description of Bonds" — "Stripping" and "United States Tax Matters", and see "The Basic Resolution; Power Bonds, Discount Notes and

	Other Indebtedness” — “Stripping” in the current Information Statement.
Delivery of Strips	The Managers immediately upon their acceptance of the Bonds may, but are not obligated to, strip some or all of the Bonds and deliver Strips rather than Bonds to investors purchasing Strips. Sales of any such Strips would be at negotiated prices. See “Subscription and Selling”.
Clearance and Settlement	The Bonds may be held in accounts with institutions having access in the United States to the book-entry system of the U.S. Federal Reserve Banks. Transactions in the Bonds will be cleared and settled by Euromarket participants through the facilities of Cedel and Euroclear. See “Clearance and Settlement”.
Legality of Investment in the United States	The stripped Interest and Principal Components of the Bonds could be subject to restrictions or requirements which do not apply to Bonds held in their fully constituted form. See “Description of Bonds” — “Stripping”. Thus, each person or entity is advised to consult with its own counsel with respect to the legality of investment of such Interest and Principal Components. The following generally describes the legality of investment in the United States in TVA Power Bonds in their fully constituted form. Power Bonds: • are acceptable as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America; • are eligible as collateral for U.S. Treasury tax and loan accounts; • are among those obligations which U.S. national banks may deal in, underwrite and purchase for their own accounts up to ten percent of unimpaired capital and surplus; • are eligible as collateral for advances by U.S. Federal Reserve Banks to depository institutions; • are legal investments for U.S. federal savings associations and U.S. federal savings banks to the extent specified in applicable regulations; • are eligible as collateral for advances by U.S. Federal Home Loan Banks for which Power Bonds are legal investments; and • are legal investments for U.S. federal credit unions. See “Legality of Investment”.
No Acceleration Rights	The Bonds will not contain any provisions permitting the Holders to accelerate the maturity thereof on the occurrence of any default or other event.
Taxation	United States federal income tax generally will not be withheld from payments on Bonds or Strips that are beneficially owned by U.S. Alien Holders (as defined under “United States Tax Matters”), provided that an appropriate United States Internal Revenue Service Form W-8 (or successor form) is provided. See “United States Tax Matters”. The Bonds are not subject to redemption by reason of the imposition of withholding or other tax by any jurisdiction, and TVA will have no obligation to pay additional

interest or other amounts in respect of any such tax that may be imposed on payments on the Bonds or Strips as a result of a change in law or otherwise, including any withholding tax that may be imposed as a result of a failure to provide an applicable United States Internal Revenue Service form.

For further discussion of United States tax consequences with respect to the purchase, ownership or disposition of the Bonds and Strips, see "United States Tax Matters".

1995 Series D Bonds Common Code6151485
 ISIN US880591CH33
 CUSIP Number 880591CH3

If the 1995 Series D Bonds are stripped into their separate Interest and Principal Components, the following CUSIP numbers will apply:

Interest Components

May 1, 199688059E FD1
 November 1, 199688059E FE9
 May 1, 199788059E FF6
 November 1, 199788059E FG4
 May 1, 199888059E FH2
 November 1, 199888059E FJ8
 May 1, 199988059E FK5
 November 1, 199988059E FL3
 May 1, 200088059E FM1
 November 1, 200088059E FN9
 Principal Component88059F AU5

1995 Series E Bonds Common Code6151531
 ISIN US880591CJ98
 CUSIP Number 880591CJ9

If the 1995 Series E Bonds are stripped into their separate Interest and Principal Components, the following CUSIP numbers will apply:

Interest Components

May 1, 199688059E FD1
 November 1, 199688059E FE9
 May 1, 199788059E FF6
 November 1, 199788059E FG4
 May 1, 199888059E FH2
 November 1, 199888059E FJ8
 May 1, 199988059E FK5
 November 1, 199988059E FL3
 May 1, 200088059E FM1
 November 1, 200088059E FN9
 May 1, 200188059E FP4
 November 1, 200188059E FQ2
 May 1, 200288059E FR0
 November 1, 200288059E FS8
 May 1, 200388059E FT6
 November 1, 200388059E FU3

May 1, 2004	88059E	FV1
November 1, 2004	88059E	FW9
May 1, 2005	88059E	FX7
November 1, 2005	88059E	FY5
May 1, 2006	88059E	FZ2
November 1, 2006	88059E	GA6
May 1, 2007	88059E	GB4
November 1, 2007	88059E	GC2
May 1, 2008	88059E	GD0
November 1, 2008	88059E	GE8
May 1, 2009	88059E	GF5
November 1, 2009	88059E	GG3
May 1, 2010	88059E	GH1
November 1, 2010	88059E	GJ7
May 1, 2011	88059E	GK4
November 1, 2011	88059E	GL2
May 1, 2012	88059E	GM0
November 1, 2012	88059E	GN8
May 1, 2013	88059E	GP3
November 1, 2013	88059E	GQ1
May 1, 2014	88059E	GR9
November 1, 2014	88059E	GS7
May 1, 2015	88059E	GT5
November 1, 2015	88059E	GU2
May 1, 2016	88059E	GV0
November 1, 2016	88059E	GW8
May 1, 2017	88059E	GX6
November 1, 2017	88059E	GY4
May 1, 2018	88059E	GZ1
November 1, 2018	88059E	HA5
May 1, 2019	88059E	HB3
November 1, 2019	88059E	HC1
May 1, 2020	88059E	HD9
November 1, 2020	88059E	HE7
May 1, 2021	88059E	HF4
November 1, 2021	88059E	HG2
May 1, 2022	88059E	HH0
November 1, 2022	88059E	HJ6
May 1, 2023	88059E	HK3
November 1, 2023	88059E	HL1
May 1, 2024	88059E	HM9
November 1, 2024	88059E	HN7
May 1, 2025	88059E	HP2
November 1, 2025	88059E	HQ0
Principal Component	88059F	AV3

TENNESSEE VALLEY AUTHORITY

The Tennessee Valley Authority is the largest public electric power system in the United States of America, producing more than 130 billion kilowatthours of electricity in fiscal year 1994. The TVA system is the supplier of electric power to a region containing 7.3 million people located in parts of seven states: Tennessee, Kentucky, Mississippi, Alabama, Georgia, North Carolina and Virginia.

TVA is a wholly owned corporate agency and instrumentality of the United States established pursuant to the Tennessee Valley Authority Act of 1933, as amended (the "Act"), primarily to develop and manage the resources of the Tennessee Valley region. The programs at TVA consist of power and nonpower programs. TVA's electric system operations are required to be self-supporting from power system revenues, which were about \$5.4 billion in fiscal year 1994. No tax dollars go into the operation of TVA's power program. The Act authorizes TVA to issue Evidences of Indebtedness (as such term is defined under "Description of Bonds") that may only be used to finance its power program. TVA's nonpower activities include responsibilities associated with operation of the Tennessee River system, land management, economic development and the environment. Congress appropriated \$143 million for TVA's nonpower programs in fiscal year 1995, which was reduced by a \$5 million rescission by action of Congress in July 1995.

For 63 years, TVA has been associated with bringing prosperity to a significant region of the United States. Its dams have averted an estimated \$4 billion in flood damage; its mosquito control efforts eradicated malaria in an area where at one time about 30% of the population suffered from the disease; the fertilizers and soil conservation techniques it developed improved farming immensely in the Tennessee Valley and throughout the world; and its power program brought electricity to a large area of the country where the convenience of electric power was relatively unknown.

TVA's mission has changed over the years as the needs of its customers have changed. Today, for example, TVA's river operations result in power production, improved water quality, and maintenance of water levels for environmental purposes and recreational use. Resources once used to develop fertilizers today help solve environmental problems. Now that the entire Tennessee Valley can enjoy affordable electricity, TVA has turned its attention toward becoming a national and global competitor. TVA is controlling costs, improving customer service, diversifying its products, and developing a 25-year plan for meeting future energy needs.

USE OF PROCEEDS

The net proceeds received by TVA from the sale of the Bonds will be used to retire existing debt.

RECENT DEVELOPMENTS

Recognition Award

United States Vice President Albert Gore, Jr. on April 29, 1995 presented the Hammer Award to TVA employees. The Hammer Award is an award given to federal employees who exemplify the principles of making government work better and cost less. Vice President Gore had asked TVA to be a laboratory demonstrating the principles of reinventing government and praised TVA as one of the "premiere examples" of the program.

Financial Results

The condensed financial statements for the fiscal years ended September 30, 1994 and 1993 have been derived from TVA's audited financial statements. The condensed financial statements for TVA's power program for the eleven months ended August 31, 1995 and 1994 are unaudited but in the opinion of management of TVA include all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of results for such periods. The following information should be read in conjunction with the audited financial statements and notes thereto presented in the current Information Statement. Results for the eleven months ended August 31, 1995 are not necessarily indicative of results for fiscal year 1995.

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM
CONDENSED BALANCE SHEETS
At August 31, 1995 and September 30, 1994**

	August 31, 1995	September 30, 1994
	(Millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 163	\$ 2
Accounts receivable	781	676
Inventories	341	347
Total current assets	1,285	1,025
INVESTMENT FUNDS	170	150
DEFERRED CHARGES AND OTHER ASSETS	2,693	2,596
PROPERTY, PLANT, AND EQUIPMENT		
Completed plant	17,912	16,700
Less accumulated depreciation	6,025	5,584
Net completed plant	11,887	11,116
Construction in progress	9,825	9,520
Deferred nuclear generating units	6,224	6,206
Nuclear fuel and capital lease assets	1,183	1,229
Total property, plant, and equipment	29,119	28,071
Total assets	<u>\$33,267</u>	<u>\$31,842</u>
LIABILITIES AND PROPRIETARY CAPITAL		
CURRENT LIABILITIES		
Short-term notes		
U.S. Treasury	\$ 150	\$ 150
Discount notes	2,615	2,459
Total short-term notes	2,765	2,609
Accounts payable	565	646
Accrued liabilities	92	196
Accrued interest	422	424
Current maturities of long-term debt	558	716
Total current liabilities	4,402	4,591
OTHER LIABILITIES	1,266	963
LONG-TERM DEBT		
Senior Debt:		
Public bonds	20,028	19,146
Federal Financing Bank	3,200	3,400
Subordinated Debt:		
Public bonds	600	—
Less unamortized discount	370	340
Total long-term debt	23,458	22,206
PROPRIETARY CAPITAL		
Appropriation investment	648	648
Less requirement for repayment of appropriation investment	18	—
Retained earnings reinvested in power program	3,511	3,434
Total proprietary capital	4,141	4,082
Total liabilities and proprietary capital	<u>\$33,267</u>	<u>\$31,842</u>

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM**

**CONDENSED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
For the Eleven Months Ended August 31, 1995 and 1994
and for the Years Ended September 30, 1994 and 1993**

	<u>Eleven Months Ended August 31,</u>		<u>Fiscal Year Ended September 30,</u>	
	<u>1995</u>	<u>1994(1)</u>	<u>1994</u>	<u>1993</u>
	(Millions)			
OPERATING REVENUES				
Sales of electric energy				
Municipalities and cooperatives	\$4,274	\$4,229	\$4,582	\$4,479
Federal agencies	165	269	296	254
Industries	424	418	452	472
Other	65	64	71	71
Total operating revenues	<u>4,928</u>	<u>4,980</u>	<u>5,401</u>	<u>5,276</u>
OPERATING EXPENSES				
Fuel and purchased power, net	1,310	1,380	1,493	1,401
Operating and maintenance	899	947	1,081	1,174
Depreciation and amortization	648	573	639	457
Tax-equivalent payments	230	223	248	237
Total operating expenses	<u>3,087</u>	<u>3,123</u>	<u>3,461</u>	<u>3,269</u>
OPERATING INCOME	<u>1,841</u>	<u>1,857</u>	<u>1,940</u>	<u>2,007</u>
OTHER INCOME AND DEDUCTIONS, NET	<u>(59)</u>	<u>9</u>	<u>(59)</u>	<u>23</u>
Income before interest charges	<u>1,782</u>	<u>1,866</u>	<u>1,881</u>	<u>2,030</u>
INTEREST CHARGES				
Interest on debt	1,852	1,691	1,853	1,777
Allowance for funds used during construction(2)	<u>(186)</u>	<u>(119)</u>	<u>(123)</u>	<u>(58)</u>
Net interest charges	<u>1,666</u>	<u>1,572</u>	<u>1,730</u>	<u>1,719</u>
NET INCOME	<u>116</u>	<u>294</u>	<u>151</u>	<u>311</u>
Return on appropriation investment	<u>39</u>	<u>38</u>	<u>42</u>	<u>48</u>
Increase (decrease) in retained earnings	<u>77</u>	<u>256</u>	<u>109</u>	<u>263</u>
Retained earnings reinvested at beginning of period	<u>3,434</u>	<u>3,325</u>	<u>3,325</u>	<u>3,062</u>
Retained earnings reinvested at end of period	<u>\$3,511</u>	<u>\$3,581</u>	<u>\$3,434</u>	<u>\$3,325</u>

- (1) The Condensed Statements of Operations and Retained Earnings and Condensed Statements of Cash Flows for the eleven months ended August 31, 1994 have been restated to give retroactive effect to amortization of TVA's 1994 reclassification of a \$1,009 million capitalized interest component of nuclear fuel to other deferred charges. (See Note 1 of "Notes to Financial Statements" in the Financial Statements in the current Information Statement.) The effect of the restatement was to increase depreciation and amortization expense, and decrease operating and net income by \$116 million.
- (2) Effective October 1, 1994, TVA changed its method of determining the weighted average interest rate used to calculate the allowance for funds used during construction. The change, which is intended to better reflect the nature of debt issues used to finance construction, gives greater effect to TVA's most recent long-term bond issuances. The effect of the change was to increase the allowance by \$52.1 million for the eleven months ended August 31, 1995. TVA discontinued the policy of limiting capitalized interest to the sum of items not requiring cash less the annual repayment of the appropriation investment to the U.S. Treasury.

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM**

**CONDENSED STATEMENTS OF CASH FLOWS
For the Eleven Months Ended August 31, 1995 and 1994
and for the Years Ended September 30, 1994 and 1993**

	Eleven Months Ended August 31,		Fiscal Year Ended September 30,	
	1995	1994	1994	1993
	(Millions)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	\$ 116	\$ 410	\$ 151	\$ 311
Items not requiring cash	622	636	909	519
Other changes, net	(204)	(142)	84	(327)
Net cash provided by operating activities	<u>534</u>	<u>904</u>	<u>1,144</u>	<u>503</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Construction expenditures	(1,468)	(1,553)	(2,015)	(2,311)
Other, net	(91)	(36)	87	(1,539)
Net cash used in investing activities	<u>(1,559)</u>	<u>(1,589)</u>	<u>(1,928)</u>	<u>(3,850)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings, net	1,243	624	735	3,371
Other	(57)	(57)	(62)	(68)
Net cash provided by financing activities	<u>1,186</u>	<u>567</u>	<u>673</u>	<u>3,303</u>
Net change in cash and cash equivalents	161	(118)	(111)	(44)
Cash and cash equivalents at beginning of period	<u>2</u>	<u>113</u>	<u>113</u>	<u>157</u>
Cash and cash equivalents at end of period	<u>\$ 163</u>	<u>\$ (5)</u>	<u>\$ 2</u>	<u>\$ 113</u>

Results of Operations for the Eleven Months Ended August 31, 1995

TVA recognized net power income of \$116 million during the eleven months ended August 31, 1995, which compares to net power income of \$294 million for the same period of 1994. The 1995 decrease reflects a one-time charge of \$137 million for a voluntary early-out package offered to all TVA employees during the first quarter of 1995. Operating revenues for the eleven months ended August 31, 1995 decreased \$52 million from \$4,980 million to \$4,928 million when compared to the same period of 1994. This decrease in revenue of \$52 million was primarily due to the absence of a \$147 million contract settlement payment which was included in operating revenue for the eleven months ended August 31, 1994, offset by an increase of \$94 million resulting from a 5% increase in kilowatthour sales during 1995.

Operating expenses for the eleven months ended August 31, 1995 decreased \$36 million from \$3,123 million in the same period of 1994. This difference resulted principally from a change in nuclear fuel amortization and favorable coal prices. Net interest expense increased \$94 million from \$1,572 million in the eleven months ended August 31, 1994 to \$1,666 million for the same period of 1995. Interest on indebtedness increased due to added borrowings for TVA's power operations and higher short-term interest rates.

Recent Results

As budgeted, preliminary financial results indicate TVA will have a net operating loss for September, due to normal seasonal variations, which will result in net income for fiscal year 1995 of approximately \$10 million.

Liquidity and Capital Resources

In October 1994, TVA issued in the public market \$200 million in Power Bonds to refinance \$200 million of existing debt owed to the U.S. Federal Financing Bank.

In April 1995, TVA issued in the public market \$600 million in subordinated Quarterly Income Debt Securities (due 2045) to retire short-term debt.

In June 1995, TVA issued in the public market \$2,000 million in Global Power Bonds (due 2005) to retire existing debt.

In July 1995, TVA issued in the public market \$500 million in Power Bonds (due 2045) to retire existing debt.

In September 1995, TVA issued in the public market \$200 million in Power Bonds (due 1998) to retire existing debt.

Other Matters

In fiscal year 1995, TVA has made significant decisions designed to sharpen its competitive edge in a deregulated business environment. Early in fiscal year 1995, TVA Chairman Craven Crowell announced that TVA will not, by itself, complete Bellefonte Units One and Two and Watts Bar Unit Two as nuclear units. See "Nuclear Power Program" — "Nuclear Completion Schedules and General Needs" in the current Information Statement. The Chairman has also indicated that TVA intends to cap its debt at a level below its \$30 billion statutory ceiling. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Issuance of Additional Bonds and Other Evidences of Indebtedness" in the current Information Statement. TVA also completed a successful voluntary early-out program that offered incentives to employees who resigned or retired, thus assisting TVA in reducing employment costs in future years.

The U.S. Nuclear Regulatory Commission (the "NRC") completed a Systematic Assessment of Licensee Performance ("SALP") for Browns Ferry Unit Two for the period September 19, 1993 through March 18, 1995. Under this process, performance is rated in four functional areas: Operations, Maintenance, Engineering and Plant Support. The area of Plant Support includes radiological controls, security, emergency preparedness, fire protection, chemistry and housekeeping controls. The rating system assigns a category rating of 1, 2 or 3 to each functional area. Summarized definitions for each rating are as follows: Category 1 — Performance substantially exceeds regulatory requirements; reduced NRC attention may be appropriate. Category 2 — Performance above that needed to meet regulatory requirements; NRC attention may be maintained at normal levels. Category 3 — Performance does not significantly exceed that needed to meet minimal regulatory requirements; NRC attention should be increased above normal levels. Browns Ferry Unit Two received a rating of "1" in the area of Plant Support and a rating of "2" in the other three functional areas. See "Nuclear Power Program" — "Browns Ferry" in the current Information Statement.

TVA plans to seek NRC approval to bring Watts Bar Unit One into commercial operation during the first quarter of calendar year 1996. See "Nuclear Power Program" — "Watts Bar" in the current Information Statement.

In April 1995, Palmer Bellevue, a consultant serving the electric utility industry, issued a report on TVA's competitive position. This report concludes that TVA is well positioned to meet competitive challenges as the electric utility industry prepares for future deregulation and that TVA's capital structure supports a comparable level of generating assets compared to investor-owned utility competitors. On August 18, 1995, the U.S. General Accounting Office ("GAO") issued a report which, among other things, focused on TVA's level of debt, rates, competitive position and deferred nuclear assets. The report raises the issue of whether TVA will be able to recover all the costs of its deferred nuclear assets and the financial and competitive impact this would have. While the GAO is authorized to assist the Congress by evaluating government programs and activities and may make recommendations in this regard, it has no authority to order or direct that any action be taken. The report relating to TVA does not make any specific recommendations. TVA furnished to GAO a detailed response as to why the report is flawed in its analysis. GAO included TVA's response in the report appendix.

On July 26, 1995, TVA issued a draft of its Integrated Resource Plan which identifies as one of the most viable options for the units at Bellefonte the conversion of those units to a combined cycle plant utilizing natural gas or gasified coal as the primary fuel. The report, called Energy Vision 2020, calls for an 18- to 24-

month study to determine the details and merits of conversion. The draft plan also concludes that Watts Bar Unit Two will remain in deferred status until the Bellefonte study is complete. The Integrated Resource Plan is scheduled to be finished in December 1995, and the Board is expected to act on it early in 1996.

The Board recently determined that, as recommended by TVA's Chief Financial Officer, there would be no rate increase for fiscal year 1996. This will result in the ninth year of stable electric rates for TVA customers.

DESCRIPTION OF BONDS

General

The Bonds are to be issued pursuant to authority vested in TVA by the Act and pursuant to the Basic Tennessee Valley Authority Power Bond Resolution adopted on October 6, 1960, as amended on September 28, 1976, October 17, 1989 and March 25, 1992 (the "Basic Resolution"), and the Supplemental Resolution authorizing the Bonds adopted on October 24, 1995 (the "Supplemental Resolution" and together with the Basic Resolution, the "Resolutions"). TVA has entered into a Fiscal Agency Agreement dated as of October 17, 1989 (the "Fiscal Agency Agreement") with the U.S. Federal Reserve Banks, as fiscal agents (together, the "Fiscal Agent"). The U.S. Secretary of the Treasury has approved the time of issuance of, and the maximum rate of interest to be borne by, the Bonds in compliance with Section 15d(c) of the Act. The Bonds represent obligations of TVA payable solely from TVA's Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America.

The Act authorizes TVA to issue and sell bonds, notes and other evidences of indebtedness (hereinafter collectively referred to as "Evidences of Indebtedness") to assist in financing its power program and to refund such Evidences of Indebtedness. Evidences of Indebtedness issued pursuant to Section 2.2 of the Basic Resolution designated as Tennessee Valley Authority Power Bonds are herein referred to as "Power Bonds". The aggregate amount of Evidences of Indebtedness at any one time outstanding is limited to \$30 billion. As of September 30, 1995, TVA had approximately \$27.1 billion of Evidences of Indebtedness outstanding. There are \$1.2 billion of Power Bonds that are being redeemed under in-substance defeasance arrangements and are not considered by TVA to be debt that is subject to the \$30 billion limit. For information with respect to TVA's Power Bonds and the Basic Resolution, see "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Issuance of Additional Bonds and Other Evidences of Indebtedness" in the current Information Statement.

The summaries herein of certain provisions of the Act, the Resolutions and the Fiscal Agency Agreement do not purport to be complete and are qualified in their entirety by reference to all the provisions of the Act, the Resolutions and the Fiscal Agency Agreement, copies of which may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (423) 632-3366 in the United States.

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

The Bonds rank equally as to the application of Net Power Proceeds with all other Power Bonds. As to the application of Net Power Proceeds, Power Bonds presently rank senior to other Evidences of Indebtedness as to principal and on a parity with or senior to other Evidences of Indebtedness as to interest. At some future

date prior to maturity of the Bonds, Evidences of Indebtedness other than Power Bonds may also rank on parity with Bonds as to principal. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Amendments to the Basic Resolution to Become Effective in the Future" in the current Information Statement. For a further discussion of the application of Net Power Proceeds, see "Certain Provisions of the Tennessee Valley Authority Act" and "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Application of Net Power Proceeds" in the current Information Statement.

There is no limit on other indebtedness or securities which may be issued by TVA and no financial or similar restrictions on TVA, except as provided under the Act, the Basic Resolution and the Supplemental Resolution. TVA issues its Discount Notes pursuant to Section 15d of the Act and in accordance with Section 2.5 of the Basic Resolution. TVA may also issue Other Indebtedness in addition to Power Bonds and Discount Notes. Other Indebtedness, such as TVA's Quarterly Income Debt Securities, are issued pursuant to Section 15d of the Act and under appropriate authorizing resolutions. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" in the current Information Statement.

Possible Future Issuances

The Supplemental Resolution provides that, at the option of TVA, additional Bonds may be issued in one or more future installments pursuant to an amendment to the Supplemental Resolution not requiring the consent of holders of Bonds. Additional Bonds so issued shall be identical in all respects to the Bonds offered hereby (with any related changes in the issue date, issue price, and interest commencement date).

Payment of Principal and Interest

The Bonds will consist of \$1,000,000,000 aggregate principal amount of 6% Global Power Bonds 1995 Series D Due November 1, 2000 and \$600,000,000 aggregate principal amount of 6¾% Global Power Bonds 1995 Series E Due November 1, 2025 (each such maturity date being hereinafter referred to as a "Maturity Date"). The Bonds will be issued in minimum denominations of \$1,000 and integral multiples thereof in book-entry form only through the U.S. Federal Reserve Banks as described below under "Book-Entry System". Interest will be payable semi-annually in arrears on May 1 and November 1 (each an "Interest Payment Date") commencing May 1, 1996. Such interest payments will include any interest accrued from and including November 1, 1995 or the preceding Interest Payment Date, as the case may be, to but excluding the relevant Interest Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months. The Bonds will be repaid at 100% of the principal amount thereof, together with the interest accrued and unpaid thereon, on the applicable Maturity Date. Payments of principal and interest on the Bonds will be made on the applicable payment dates to Holders (as such term is defined under "Book-Entry System") of the Bonds which are Holders as of the close of business on the Business Day preceding such payment dates, by credit of the payment amount to the Holders' accounts at the U.S. Federal Reserve Banks. The Holder and each other financial intermediary in the chain to the beneficial owner will have the responsibility of remitting payments for the accounts of their customers.

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

Certain certification requirements are applicable to payments of interest on the Bonds and Strips. The Holder or other persons otherwise required to withhold tax may require the beneficial owner of a Bond or Strip, as a condition of payment of amounts due with respect to such Bond or Strip, to present on a timely basis an appropriate United States Internal Revenue Service Form W-8 (or successor form) or other appropriate form to enable such person to determine its duties and liabilities with respect to any taxes or other charges that may be required to be deducted or withheld under U.S. law or any reporting or other requirements thereunder. See "United States Tax Matters". In the event that any withholding or other tax or information reporting requirements should be imposed by any jurisdiction, TVA has no obligation to pay additional interest or other amounts as a consequence thereof or to redeem the Bonds prior to their stated maturity.

Redemption

The Bonds will not be subject to redemption prior to maturity.

Book-Entry System

The Bonds will be issued and maintained and may be transferred only on the book-entry system of the U.S. Federal Reserve Banks in minimum principal amounts of \$1,000 and additional integral multiples thereof. The U.S. Federal Reserve Banks will maintain book-entry accounts with respect to the Bonds and will make payments, on behalf of TVA, of interest on and principal of the Bonds on the applicable payment dates by crediting Holders' accounts at the U.S. Federal Reserve Banks. The Bonds will not be exchangeable for definitive securities.

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

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

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

Stripping

At the request of a Holder, a Bond may be separated ("stripped") into its Interest and Principal Components and maintained as such on the book-entry records of the U.S. Federal Reserve Banks. The components of each stripped Bond are: each future interest payment (each an "Interest Component") and the

principal payment (the "Principal Component"). Each Interest Component and the Principal Component will have an identifying designation and CUSIP number as listed in the "Summary of Offering" above.

A 1995 Series D Bond may be separated into its Interest and Principal Components at any time from the issue date to but not including November 1, 2000 at the option of the Holder. A 1995 Series E Bond may be separated into its Interest and Principal Components at any time from the issue date to but not including November 1, 2025 at the option of the Holder. A request for separation must be made to the Federal Reserve Bank of New York ("FRBNY"). Currently the FRBNY does not charge a fee for such services. Requests for separation from Euromarket participants must be directed through Euroclear or Cedel to the FRBNY. See "Clearance and Settlement" — "The Clearing Systems".

For a Bond to be stripped into its Interest and Principal Components as described above, the principal amount of the Bond must be in a minimum principal amount of \$100,000 for the 1995 Series D Bonds and \$800,000 for the 1995 Series E Bonds or integral multiples thereof. These minimum principal amounts are the amounts, based on the stated interest rates of the Bonds, that will produce a semi-annual interest payment of \$1,000 or multiples thereof. Interest and Principal Components will be obligations of TVA payable solely from TVA's Net Power Proceeds.

Once a Bond has been stripped into its Interest and Principal Components, the Interest and Principal Components may be maintained and transferred on the book-entry system of the U.S. Federal Reserve Banks in integral multiples of \$1,000. Payments on the Interest and Principal Components will be made on the applicable payment dates on the related Bonds by crediting Holders' accounts at the FRBNY. At the request of a Holder and on the Holder's payment of a fee (currently the FRBNY's fee applicable to on-line book-entry securities transfers), the FRBNY will restore ("reconstitute") the unmatured Interest and Principal Components of a stripped Bond to their fully constituted form. Holders wishing to reconstitute the unmatured Interest and Principal Components of a stripped Bond to their fully constituted form must (i) produce all outstanding Interest and Principal Components for a Bond, and (ii) comply with all applicable requirements of the FRBNY governing the stripping and reconstitution of securities. Only stripped Bonds with a minimum original principal amount of \$100,000 for the 1995 Series D Bonds and \$800,000 for the 1995 Series E Bonds or integral multiples thereof may be reconstituted. Reconstitution requests from Euromarket participants must be directed through Euroclear or Cedel to the FRBNY.

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

Agents

TVA has agreed, in each case subject to applicable laws and regulations and the provisions of the Fiscal Agency Agreement, the Bonds and the Resolutions, so long as the Bonds are outstanding, to maintain a Fiscal Agent and, so long as the Bonds are listed on the Luxembourg Stock Exchange, a Special Agent in Luxembourg who will act as an intermediary between TVA and investors in the Bonds. The Fiscal Agent will be the U.S. Federal Reserve Banks. The Special Agent initially will be Kredietbank S.A. Luxembourgeoise. TVA and the Fiscal Agent may amend, modify or supplement, in any respect, or may terminate, substitute or replace, the Fiscal Agency Agreement without the consent of any Holder. In acting under the Fiscal Agency Agreement, the Fiscal Agent acts solely as a fiscal agent of TVA and does not assume any obligation or relationship of agency or trust for or with any Holder of the Bonds except as set forth in applicable operating circulars and letters of the U.S. Federal Reserve Banks. The addresses of the Fiscal Agent and the Special Agent for the Bonds are set forth on the back cover page hereof.

Governing Law

The Fiscal Agency Agreement and the Bonds shall be governed by and construed in accordance with the laws of the State of New York, to the extent such law is not inconsistent with U.S. federal law.

Listings

Application has been made to list the Bonds on the Luxembourg Stock Exchange, the Hong Kong Stock Exchange, the Singapore Stock Exchange and the New York Stock Exchange.

Notices

Notices and other communications may be given by transmission to a Holder through the communication system linking the U.S. Federal Reserve Banks. Notices will be deemed to have been sufficiently given or made, for all purposes, upon such transmission.

Copies of notices by TVA regarding the Bonds will also be published (a) in a leading daily newspaper in the English language and of general circulation in New York, (b) in a leading daily newspaper in the English language and of general circulation in London, (c) so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of such Stock Exchange require, in a leading daily newspaper of general circulation in Luxembourg, (d) so long as the Bonds are listed on the Hong Kong Stock Exchange and such Stock Exchange requires, in a leading daily newspaper of general circulation in Hong Kong and (e) so long as the Bonds are listed on the Singapore Stock Exchange and such Stock Exchange requires, in a leading daily newspaper in the English language of general circulation in Singapore. It is expected that copies of such notices will normally be published in *The Wall Street Journal* in New York, *The Financial Times* in London, the *Luxemburger Wort* in Luxembourg, the *South China Morning Post* in Hong Kong and the *Business Times* in Singapore.

CLEARANCE AND SETTLEMENT

The Clearing Systems

Euroclear

The Euroclear System ("Euroclear") is operated by Morgan Guaranty Trust Company of New York, Brussels office. Euroclear holds securities for participating organizations and facilitates multicurrency clearance and settlement of securities transactions between its and Cedel's accountholders through electronic book-entry changes in accounts of its accountholders.

Cedel

Cedel Bank, société anonyme ("Cedel") is incorporated under the laws of Luxembourg as a professional depository. Cedel holds securities for its participating organizations and facilitates multicurrency clearance and settlement of securities transactions between its and Euroclear's accountholders through electronic book-entry changes in accounts of its accountholders.

Initial Settlement

On initial issue, all Bonds will be issued and settled through the U.S. Federal Reserve Banks book-entry system and held by Holders designated by the Managers. After initial issue, all Bonds will continue to be held by such Holders in the U.S. Federal Reserve Banks book-entry system unless an investor arranges for the transfer of its Bonds to another Holder.

TVA understands that investors electing to hold their Bonds through Euroclear or Cedel accounts will follow the settlement procedures applicable to conventional Eurobonds. Bonds will be credited to the securities clearance accounts of Euroclear and Cedel participants on the business day following the settlement date against payment on the settlement date.

Secondary Market Trading

With respect to secondary market trading in the Bonds, TVA understands the following procedures will apply. Transactions in the Bonds will be cleared and settled by Euromarket participants through the facilities

of Euroclear and Cedel, the principal Euromarket securities clearance and settlement organizations. The Bonds may be held of record only by entities eligible to maintain book-entry accounts with the U.S. Federal Reserve Banks. Select entities will hold the Bonds in their book-entry accounts with the FRBNY, as the depositaries for Cedel and Euroclear. The identity of and certain information about the Cedel or Euroclear depositaries may be obtained by contacting Cedel or Euroclear. Transfers of the Bonds between Cedel or Euroclear participants and investors holding directly or indirectly through the U.S. Federal Reserve Banks book-entry system ("Fed Users") will be effected through the book-entry accounts of such depositaries as Holders with the FRBNY, thereby increasing or decreasing their respective holdings of the Bonds on behalf of Cedel or Euroclear.

Transfers between Fed Users will occur in accordance with applicable Book-Entry Regulations promulgated by the U.S. Department of the Treasury. Transfers between Cedel participants and Euroclear participants will occur in the ordinary way in accordance with their applicable rules and operating procedures.

Cross-market transfers between Fed Users, on the one hand, and persons holding Bonds directly or indirectly through Cedel or Euroclear, on the other, will be effected on behalf of the relevant international clearing system by its U.S. depositary; however, such cross-market transactions will require delivery of instructions to the relevant international clearing system by the system participant in accordance with the system's rules and procedures and within its established deadlines (European time). The relevant international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depositary to take action to effect final settlement on its behalf by delivering or receiving Bonds through its U.S. Federal Reserve account, and making or receiving payment in accordance with normal procedures for immediately available funds settlement. Instructions of Cedel and Euroclear participants with respect to such transfers must be delivered to Cedel or Euroclear, as the case may be, and not to their U.S. depositaries.

Because of time-zone differences, credits of Bonds received in Cedel or Euroclear as a result of a transaction with a Fed User will be made during the securities settlement processing for the business day following the U.S. Federal Reserve Banks book-entry system settlement date. Such securities credits will be reported to the relevant Cedel or Euroclear participant on such following business day with the cash debt back-valued to, and the interest accruing from, the U.S. Federal Reserve Banks book-entry system settlement date. Cash received in Cedel or Euroclear as a result of sales of Bonds by or through a Cedel participant or a Euroclear participant to a Fed User will be received with value on the U.S. Federal Reserve Banks book-entry system settlement date but will be available in the relevant Cedel or Euroclear cash account only as of the business day following settlement on the U.S. Federal Reserve Banks book-entry system.

From a Fed User's standpoint, a cross-market transaction will settle no differently from a trade between two Fed Users.

Distributions of interest and principal with respect to the Bonds held through Cedel or Euroclear will be credited to the cash accounts of Cedel participants or Euroclear participants on the same date (European time) as payment is made to Fed Users, subject to the relevant system's rules and procedures, to the extent received and applied by its U.S. depositary. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. See "United States Tax Matters".

Although Cedel and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the Bonds among Fed Users, Cedel and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

LEGALITY OF INVESTMENT IN THE UNITED STATES

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

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

Power Bonds are acceptable as collateral for U.S. Treasury tax and loan accounts pursuant to 31 C.F.R. § 203.14(d)(1).

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

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

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

Power Bonds are eligible as collateral for advances by U.S. Federal Home Loan Banks to U.S. federal savings and loan associations, U.S. federal savings banks and other members for which Power Bonds are legal investments. 12 U.S.C. § 1430(a) and 12 C.F.R. § 935.9(a)(2).

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

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

UNITED STATES TAX MATTERS

The following discussion describes certain United States federal (and state and local, where specifically noted) income and estate tax consequences of the purchase, ownership, and disposition of the Bonds or Strips and is based upon the opinion of Sullivan & Cromwell. This discussion deals only with Bonds or Strips held as capital assets and not with special classes of beneficial owners, such as securities dealers, banks, tax-exempt organizations, life insurance companies, persons that hold Bonds or Strips that are part of a hedge, straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar. This summary is based upon the Act, the United States Internal Revenue Code of 1986, as amended (the "Code"), legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, perhaps with retroactive effect. Both Sullivan and Cromwell's opinion and this tax discussion are based in part upon representations received from TVA. Each prospective purchaser of a Bond or Strip may neither construe as legal advice nor rely on the following discussion but rather should consult its own tax advisor with respect to the United States federal, state and local tax consequences associated with ownership of a Bond or Strip in such prospective purchaser's particular circumstances, as well as any consequences arising under the laws of any other taxing jurisdiction.

For purposes of this discussion, "U.S. Beneficial Owner" means any beneficial owner of a Bond or Strip who or which is (i) a citizen or resident of the United States, (ii) a corporation organized in or under the laws of the United States or any political subdivision thereof or (iii) otherwise subject to United States federal income taxation on a net income basis in respect of the Bond or Strip; "U.S. Alien Holder" means any holder of a Bond or Strip who or which is (i) a nonresident alien individual or (ii) a foreign corporation, partnership or estate or trust which is not subject to United States federal income taxation on a net income basis in respect of the Bond or Strip; and "United States person" means a person that is (i) a citizen or resident of the United States, (ii) a corporation or partnership organized in or under the laws of the United States or any political subdivision thereof, or (iii) an estate or trust the income of which is includible in gross income for United States federal income tax purposes regardless of its source.

U.S. Beneficial Owners

Tax Considerations Applicable to Unstripped Bonds

The Act provides that the Bonds are exempt both as to principal and interest from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes. This

exemption might not extend to franchise or other non-property taxes in lieu thereof imposed on corporations or to gain or loss realized on the sale or exchange of a Bond notwithstanding that such gain might in some cases be treated as interest income for U.S. federal income tax purposes.

Interest on a Bond will be taxable to a U.S. Beneficial Owner at the time that it is received or accrued, depending upon the U.S. Beneficial Owner's method of accounting for U.S. federal income tax purposes. There is no special exemption for a Bond from United States federal estate and gift tax.

Upon a sale or exchange of a Bond, a U.S. Beneficial Owner generally will recognize gain or loss equal to the difference between the amount realized on the sale or exchange and the U.S. Beneficial Owner's adjusted basis for the Bond. Except to the extent attributable to accrued market discount or accrued but unpaid interest, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the Bond was held for more than one year.

If a U.S. Beneficial Owner purchases a Bond for less than its stated redemption price at maturity, in general, that difference will be market discount (unless the discount is less than $\frac{1}{4}$ of 1% of the stated redemption price at maturity of the Bond multiplied by the number of complete years remaining to maturity). In general, under the market discount rules, unless the U.S. Beneficial Owner elects to accrue market discount in income currently, any gain on a disposition of a market discount Bond will be ordinary income to the extent of accrued market discount, and deductions for a portion of the interest on any indebtedness incurred or continued to purchase or carry the Bond may be deferred. An election to include market discount in income currently applies to all debt instruments acquired by the electing U.S. Beneficial Owner on or after the first day of the first taxable year to which the election applies and is irrevocable without the consent of the Internal Revenue Service.

A U.S. Beneficial Owner who purchases a Bond for an amount greater than the amount payable at maturity of the Bonds may elect to amortize the bond premium. In the case of a U.S. Beneficial Owner that makes an election to amortize bond premium or has previously made an election that remains in effect, amortizable bond premium on a Bond generally will be treated as a reduction of the interest income on a Bond on a constant-yield basis (except to the extent regulations may provide otherwise) over the term of the Bond. The basis of a debt instrument purchased at a premium is reduced by the amount of amortized bond premium. An election to amortize bond premium will apply to all debt instruments (other than debt instruments the interest on which is excludible from gross income) held by the U.S. Beneficial Owner at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Beneficial Owner and is irrevocable without the consent of the Internal Revenue Service. A U.S. Beneficial Owner should consult a tax advisor before making that election.

A U.S. Beneficial Owner which elects to strip a Bond into its Interest and Principal Components and to dispose of one or more of such Strips will be required to include in income all interest and market discount accrued on the Bond to the date of disposition (to the extent that such income has not previously been included in income), and the owner's basis in the Bond will be increased, immediately prior to effecting the strip, by the amount so included in income. Upon the disposition of a Strip, the U.S. Beneficial Owner will be required to recognize gain or loss equal to the difference between the amount realized on the disposition of the Strip and the owner's basis in the Strip immediately prior to the sale. For purposes of determining that basis, the owner will be required to allocate its tax basis in the Bond immediately prior to the sale (as adjusted in the manner detailed above) among each of the Interest and Principal Components based on their respective fair market values on the date of the sale. For additional tax considerations applicable to a U.S. Beneficial Owner which elects to strip a Bond into its Interest and Principal Components and to dispose of one or more of such Strips, see the discussion below under the heading "Tax Considerations Applicable to Strips" — "Strips Resulting From Stripping After Original Issuance".

Tax Considerations Applicable to Strips

Strips Resulting From Stripping at Original Issuance. TVA is selling the Bonds in unstripped form to the several Managers; it is possible, however, that the Managers may elect to strip the Bonds and sell Interest and Principal Components (as well as Bonds) immediately upon their acceptance of the Bonds. Such Interest

and Principal Components are referred to herein as "Original Strips". Sullivan & Cromwell believes it would be reasonable and appropriate to treat the Act as exempting the income derived by original purchasers from Original Strips (other than any income resulting from a sale by the Managers of such Strips for an amount that is less than their original purchase price) from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes. There is no express authority on this point, however, and the matter is therefore not free from doubt. As noted above under the heading "Tax Considerations Applicable to Unstripped Bonds", the exemption from state and local taxes might not extend to franchise or other non-property taxes in lieu thereof imposed on corporations or to gain or loss realized upon the sale or exchange of an Original Strip that is treated as interest income for U.S. federal income tax purposes.

The original issue discount ("OID") rules described below will apply to all Strips. Unless an Interest Component or Principal Component of an Original Strip is part of an issue a substantial portion of which is either (i) traded on an established market or (ii) issued for money to persons unrelated to TVA who do not purchase other Strips in connection with the issuance of the Bonds, it is possible that the rules set forth below will be applied as a whole to the Interest Components and Principal Component of the Original Strip, rather than separately to its Interest Components and Principal Component.

The OID rules of the Code provide that a debt instrument, other than a debt instrument all of the payments on which are due not later than one year from the date of issuance, will be treated as issued with OID if the debt instrument's "stated redemption price at maturity" exceeds its issue price. Generally, the issue price of a debt instrument will be the first price at which a substantial amount of the debt instruments included in the issue of which the debt instrument is a part is sold to other than bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The stated redemption price at maturity of a debt instrument is the total of all payments provided by the debt instrument that are not payments of "qualified stated interest". A qualified stated interest payment is generally any one of a series of stated interest payments on a debt instrument that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods) applied to the outstanding principal amount of the debt instrument.

U.S. Beneficial Owners of debt instruments with OID (an "OID debt instrument") having a maturity of more than one year from their date of issue must, generally, include such OID in income on a constant-yield basis. This can result in the inclusion of amounts in income before the receipt of cash attributable to such income. The amount of OID includible in income by a U.S. Beneficial Owner of an OID debt instrument is the sum of the daily portions of OID with respect to the debt instrument for each day during the taxable year or portion of the taxable year on which the U.S. Beneficial Owner holds such debt instrument ("accrued OID"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a debt instrument may be of any length selected by the U.S. Beneficial Owner and may vary in length over the term of the debt instrument as long as (i) no accrual period is longer than one year and (ii) each scheduled payment on the debt instrument occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the debt instrument's adjusted issue price at the beginning of the accrual period and such debt instrument's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the debt instrument allocable to the accrual period. The "adjusted issue price" of an OID debt instrument at the beginning of any accrual period is the issue price of the debt instrument increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the debt instrument that were not qualified stated interest payments. For purposes of determining the amount of OID allocable to an accrual period, if an interval between payments of qualified stated interest on the debt instrument contains more than one accrual period, the amount of qualified stated interest payable at the end of the interval (including any qualified stated interest that is payable on the first day of the accrual period immediately following the interval) is allocated pro rata on the basis of relative lengths to each accrual period in the interval, and the adjusted issue price at the beginning of each accrual period in the interval must be increased by the amount of any qualified stated interest that has accrued prior to the first day of the accrual period but that is not payable until the end of the interval. The

amount of OID allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of OID allocable to the final accrual period is the difference between (x) the amount payable at the maturity of the debt instrument (other than any payment of qualified stated interest) and (y) the debt instrument's adjusted issue price as of the beginning of the final accrual period.

A U.S. Beneficial Owner that purchases a debt instrument for an amount less than or equal to the sum of all amounts payable on the debt instrument (other than payments of qualified stated interest) but in excess of its adjusted issue price (any such excess being "acquisition premium") and that does not make the election described below to treat all interest as OID is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Beneficial Owner's adjusted basis in the debt instrument immediately after its purchase over the adjusted issue price of the debt instrument, and the denominator of which is the excess of the sum of all amounts payable on the debt instrument after the purchase date, other than payments of qualified stated interest, over the debt instrument's adjusted issue price.

A U.S. Beneficial Owner may elect to include in gross income all interest that accrues on a debt instrument using the constant-yield method described above in connection with OID. For purposes of this election, interest includes OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. If this election is made with respect to a debt instrument with amortizable bond premium, then the electing U.S. Beneficial Owner will be deemed to have elected to apply amortizable bond premium against interest with respect to all debt instruments with amortizable bond premium (other than debt instruments the interest on which is excludible from gross income) held by the electing U.S. Beneficial Owner as of the beginning of the taxable year in which the debt instrument with respect to which the election is made is acquired or thereafter acquired. The deemed election with respect to amortizable bond premium may not be revoked without the consent of the Internal Revenue Service. If the election to apply the constant-yield method is made with respect to a debt instrument with market discount, the electing U.S. Beneficial Owner will be treated as having elected to include market discount in income currently (as discussed under the heading "Tax Considerations Applicable to Unstripped Bonds") with respect to all debt instruments held or thereafter acquired by such U.S. Beneficial Owner.

In general, an individual or other cash basis U.S. Beneficial Owner of a debt instrument all of the payments with respect to which are due not later than one year from the date of issuance ("short-term debt instruments") is not required to accrue OID (as determined under the special rule described below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Beneficial Owners and certain other U.S. Beneficial Owners, including banks, regulated investment companies, dealers in securities, common trust funds, U.S. Beneficial Owners who hold the debt instruments as part of certain identified hedging transactions, certain pass-thru entities and cash basis U.S. Beneficial Owners who so elect, are required to accrue OID on short-term debt instruments on either a straight-line basis or under the constant-yield method (based on daily compounding), at the election of the U.S. Beneficial Owner. In the case of a U.S. Beneficial Owner not required and not electing to include OID in income currently, any gain realized on the sale or retirement of the short-term debt instrument will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Beneficial Owners who are not required and do not elect to accrue OID on short-term debt instruments will be required to defer deductions for interest on borrowings allocable to short-term debt instruments in an amount not exceeding the deferred income until the deferred income is realized.

For purposes of determining the amount of OID subject to the rules of the foregoing paragraph, all interest payments on a short-term debt instrument are included in the short-term debt instrument's stated redemption price at maturity.

Upon the sale or exchange of an Original Strip, a U.S. Beneficial Owner generally will recognize gain or loss equal to the difference between the amount realized on the sale or exchange and the U.S. Beneficial Owner's adjusted basis in the Original Strip. A U.S. Beneficial Owner's tax basis in an Original Strip will

generally be its cost, increased by the amount of any OID or market discount included in the U.S. Beneficial Owner's income with respect to the Original Strip and the amount, if any, of income attributable to de minimis market discount included in the U.S. Beneficial Owner's income with respect to the Original Strip, and reduced by (i) the amount of any payments that are not qualified stated interest payments and (ii) the amount of any amortizable bond premium applied to reduce interest on the Original Strip.

U.S. Beneficial Owners of Original Strips are also subject to rules similar to the market discount and premium rules described above with respect to Bonds under the heading "Tax Considerations Applicable to Unstripped Bonds".

Strips Resulting From Stripping After Original Issuance. Although the Act provides that bonds issued by TVA are exempt both as to principal and interest from all state and local taxation (except estate, inheritance and gift taxes), it is unclear whether this exemption applies to Strips resulting from stripping transactions (including the stripping of an Original Strip) occurring after original issuance. If all of the income on such a Strip were to be exempt from state and local taxation, the amount of income exempted from such taxation could be in excess of the amount that would have been exempted had the Bonds not been separated into their Interest and Principal Components. It is unclear whether or not this was intended. Therefore, while it is believed that the income on such a Strip should qualify for the exemption provided in the Act at least to the extent of the rate of interest payable on the Bonds, there is no controlling precedential authority and there thus can be no assurance that the income on a Strip will qualify in whole or in part for the exemption provided in the Act.

A U.S. Beneficial Owner of a Strip resulting from a stripping transaction occurring after original issuance will accrue income on a Strip in accordance with the OID rules set forth in the Code as if the Strip were originally issued on the date that the strip was effected, or if later, the date of purchase by the U.S. Beneficial Owner. In this regard, the application of the OID rules to such Strips is subject to significant uncertainty. Generally, however, it is anticipated that each U.S. Beneficial Owner of a Strip will be required to include in income, as OID, the difference between (i) the stated redemption price at maturity of the Interest or Principal Component owned by such person (generally, the payment to be made on the Strip) and (ii) the owner's purchase price for the Strip (or, in the case of a person who effects a strip but retains one or more Strips, the portion of the person's basis in the Bond which is allocable to the retained Strips, as determined pursuant to the rules set forth in the last paragraph under the heading "Tax Considerations Applicable to Unstripped Bonds").

The amount of OID on a Strip (determined as set forth above) will be includible on a constant-yield basis in the income of a U.S. Beneficial Owner of a Strip over the life of the Strip (excluding, with respect to certain owners, Strips having a maturity of one year or less from the date of purchase — which Strips would be subject to the special rules described above under the heading "Strips Resulting From Stripping at Original Issuance" with respect to short-term debt instruments) in accordance with the OID rules described above under the heading "Strips Resulting From Stripping at Original Issuance", except that the date of the Strip's purchase will be treated as its date of issuance and the adjusted issue price of a Strip will be the owner's purchase price for the Strip (or, in the case of a person who effects a strip but retains one or more of the Strips, the portion of the person's basis in the Bond which is allocable to the retained Strips, as determined pursuant to the rules set forth above), increased by the OID accrued by the owner in previous accrual periods. The foregoing rules will be applied to each Strip separately.

Gain or loss recognized by a U.S. Beneficial Owner on a sale, redemption or other disposition of a Strip will be capital gain or loss if the Strip is held as a capital asset by the U.S. Beneficial Owner and will be long-term gain or loss if the Strip has been held for more than one year. (Such holding period will include, in the case of a U.S. Beneficial Owner that strips a Bond, the period during which the Bond was held by that U.S. Beneficial Owner.)

Recombinations. The OID rules are also unclear as to the treatment of a U.S. Beneficial Owner who acquires, other than at original issuance, a Principal Component and some or all of the associated Interest Components. It is believed, however, that such a person would not treat the Strips as a Bond but would instead recognize income on each of the Strips in the manner detailed above. However, if such a person requests the

FRBNY to reconstitute the Strips into a Bond and that Bond is then sold to another person, it is believed that the new purchaser would be treated as having acquired a Bond (rather than Interest and Principal Components) with the result that the rules set forth above under "Tax Considerations Applicable to Unstripped Bonds" would apply.

U.S. Alien Holders

Generally, a U.S. Alien Holder will not be subject to United States federal withholding tax on interest on a Bond or Strip; provided, that (i) the beneficial owner of the Bond or Strip is not a controlled foreign corporation that is related to TVA through stock ownership (TVA states that under current circumstances there are no controlled foreign corporations that are so related to TVA), and (ii) either (a) the beneficial owner of the Bond or Strip certifies, under penalties of perjury, to TVA's withholding agent that it is not a United States person and provides its name and address or (b) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business and holds the Bond or Strip certifies to TVA's withholding agent under penalties of perjury that such statement has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner and furnishes the payor with a copy thereof. The certification may be made on an Internal Revenue Service Form W-8 or substantially similar substitute form, and the beneficial owner must inform the payor of any change in the information on the statement within 30 days of such change.

Generally, any amount which constitutes capital gain to a U.S. Alien Holder upon retirement or disposition of a Bond or Strip will not be subject to federal withholding tax. Certain exceptions may be applicable and an individual U.S. Alien Holder should consult a tax advisor.

Except as described in the following sentence, a Bond or Strip held by an individual who at death is not a citizen or resident of the United States will not be includible in the individual's gross estate for purposes of the United States federal estate tax as a result of the individual's death if the income on the Bond or Strip would not have been effectively connected with a United States trade or business of the individual at the individual's death. An individual who at death is not a citizen or resident of the United States and who holds an Interest Component maturing May 1, 1996 may be required to include that Interest Component in his or her gross estate for purposes of the United States federal estate tax without regard to whether income on the Interest Component would have been effectively connected with a United States trade or business of the individual at the time of the individual's death.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to payments of principal and interest on a Bond or Strip and the proceeds of the sale of a Bond or Strip before maturity within the United States to non-corporate U.S. Beneficial Owners, and "backup withholding" at a rate of 31% will apply to such payments if the U.S. Beneficial Owner fails to provide an accurate taxpayer identification number or to report all interest and dividends required to be shown on its federal income tax returns.

Information reporting and backup withholding will not apply to payments of principal and interest made by TVA or a paying agent on a Bond or Strip if the certification as to foreign status described above in clause (ii) under "U.S. Alien Holders" is received, provided that the payor does not have actual knowledge that the holder is a United States person.

Payments of the proceeds from the sale by a U.S. Alien Holder of a Bond or Strip made to or through a foreign office of a broker will not be subject to information reporting or backup withholding, except that if the broker is a United States person, a controlled foreign corporation for United States tax purposes or a foreign person 50% or more of whose gross income is effectively connected with a United States trade or business for a specified three-year period, information reporting may apply to such payments. Payment of the proceeds from the sale of a Bond or Strip to or through the United States office of a broker is subject to information reporting and backup withholding unless the holder or beneficial owner certifies as to its non-United States status or otherwise establishes an exemption from information reporting and backup withholding.

SUBSCRIPTION AND SELLING

Subject to the terms and conditions set forth in the Subscription Agreement relating to the Bonds, TVA has agreed to sell to each of the Managers named below (the "Managers") and each of the Managers, for whom Lehman Brothers International (Europe) and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as Joint Lead Managers, has severally agreed to purchase the principal amount of Bonds set forth opposite its name below.

Manager	Principal Amounts	
	1995 Series D Bonds	1995 Series E Bonds
Lehman Brothers International (Europe)	\$ 350,000,000	\$240,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	350,000,000	240,000,000
Deutsche Bank AG London	60,000,000	24,000,000
Goldman Sachs International	60,000,000	24,000,000
Mitsui Trust International Limited	60,000,000	24,000,000
Nomura International plc	60,000,000	24,000,000
Salomon Brothers Inc	60,000,000	24,000,000
Total	<u>\$1,000,000,000</u>	<u>\$600,000,000</u>

The Managers have advised TVA that they propose to offer all or part of the Bonds directly to the public initially at the offering prices set forth on the cover page of this Offering Circular and to dealers at such prices less a concession not in excess of 0.15% of the principal amount of the 1995 Series D Bonds and 0.35% of the principal amount of 1995 Series E Bonds. The Managers may allow and such dealers may reallow discounts not in excess of 0.10% of the principal amount of the 1995 Series D Bonds and 0.20% of the principal amount of the 1995 Series E Bonds to certain other dealers. After the initial offering, the public offering prices and concessions may be changed.

The Managers immediately upon their acceptance of the Bonds may, but are not obligated to, strip some or all of the Bonds and deliver Interest and/or Principal Components rather than Bonds to investors purchasing Strips. Sales of any such Strips would be at negotiated prices.

Each Manager has represented and agreed that it (i) has not offered or sold and, prior to the expiry of the period of six months from the closing date with respect to the Bonds, will not offer or sell any Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and (iii) has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Bonds to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995 or is a person to whom such document may otherwise lawfully be issued or passed on.

In addition, each Manager has represented and agreed that it (i) has not offered or sold and will not offer or sell Bonds in Hong Kong by means of any document otherwise than to persons whose ordinary business it is to buy shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and (ii) will not issue, or have in its possession for the purposes of issue, unless permitted to do so under the securities laws of Hong Kong, any advertisement, invitation or document relating to the Bonds in Hong Kong other than in respect of Bonds intended to be disposed of to persons outside Hong Kong or to be disposed of in Hong Kong only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

The Managers have acknowledged that this Offering Circular has not been registered with the Registrar of Companies in Singapore. Accordingly, each Manager has represented and agreed that it has not offered or

sold, and will not offer or sell, any Bonds, nor will it circulate or distribute this Offering Circular or any other offering document or material relating to the Bonds, directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 106C of the Companies Act, Chapter 50 of Singapore (the "Singapore Companies Act"), (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 106D of the Singapore Companies Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Singapore Companies Act.

Purchasers of Bonds may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price set forth above.

All secondary trading in Bonds will settle in immediately available funds. See "Clearance and Settlement" — "Secondary Market Trading".

TVA has agreed to indemnify the Managers against certain civil liabilities.

GENERAL INFORMATION

1. The issuance of the Bonds was authorized pursuant to the Resolutions. At the date of issue, all necessary legal authorizations for issuance of the Bonds will have been obtained by TVA.

2. The Bonds have been accepted for clearance by Euroclear and Cedel. The identifying numbers are as follows:

	<u>1995 Series D Bonds</u>	<u>1995 Series E Bonds</u>
CUSIP Number	880591CH3	880591CJ9
Common Code	6151485	6151531
ISIN	US880591CH33	US880591CJ98

3. There has been no material adverse change in the financial position of TVA since August 31, 1995.

4. There is no litigation, actual or threatened, which relates to TVA and to which TVA is a party or of which TVA has been notified that it will be made a party which is material in the context of the issuance of the Bonds.

5. In connection with the Luxembourg Stock Exchange listing application, copies of the Act, the Resolutions and Book-Entry Regulations of TVA and a legal notice relating to the issuance of the Bonds will be deposited prior to listing with the *Greffier en Chef du Tribunal D'Arrondissement de et à Luxembourg*, where copies thereof may be obtained upon request. Copies of the Act, the Resolutions, the Fiscal Agency Agreement, annual and quarterly financial reports, and Information Statements and supplements thereto of TVA will be available for inspection and may be obtained at the office of the Special Agent, free of charge, as long as the Bonds are listed on the Luxembourg Stock Exchange and at the offices of Allen & Overy, 9th floor, Three Exchange Square, 8 Connaught Place, Hong Kong and at the offices of Allen & Gledhill, 36 Robinson Road #18-01, City House, Singapore.

6. TVA has received from Coopers & Lybrand L.L.P., independent accountants, an acknowledgment dated October 27, 1995, that it agrees to the incorporation by reference in this document of its report, which is included in TVA's Information Statement, dated March 30, 1995, and which report includes an emphasis of a matter paragraph relating to TVA's reevaluation of the need to complete certain nuclear plants, dated November 15, 1994, on its audit of the financial statements of TVA at September 30, 1994 and 1993 and for each of the three years in the period ended September 30, 1994.

VALIDITY OF BONDS

The validity of the Bonds will be passed upon for TVA by Edward S. Christenbury, Esq., General Counsel of TVA, and for the Managers by Orrick, Herrington & Sutcliffe, 666 Fifth Avenue, New York, New York 10103.

* * * * *

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

TENNESSEE VALLEY AUTHORITY

By: /s/ DAVID N. SMITH

David N. Smith
Chief Financial Officer

Dated October 31, 1995

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INFORMATION STATEMENT

TENNESSEE VALLEY AUTHORITY

A Wholly Owned Corporate Agency
and Instrumentality of the

UNITED STATES OF AMERICA

The Tennessee Valley Authority ("TVA" or "Corporation") presents this Information Statement ("Statement") for the information of potential purchasers of its Power Bonds (the "New Power Bonds"), including its First Installment Series Bonds (the "Installment Bonds" — sometimes called "FISBS"), its Discount Notes and such other evidences of indebtedness ("Other Indebtedness") it may issue pursuant to the Act (as defined below). New Power Bonds are to be issued pursuant to authority vested in TVA by the Tennessee Valley Authority Act of 1933, as amended (the "Act") and the Basic Tennessee Valley Authority Power Bond Resolution adopted by the Board of Directors of TVA (the "Board") on October 6, 1960, as amended on September 28, 1976, October 17, 1989, and March 25, 1992 (the "Basic Resolution"). Discount Notes and Other Indebtedness are issued pursuant to the Act and their respective authorizing resolutions.

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

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

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

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

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

The date of this Information Statement is March 30, 1995.

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THE TENNESSEE VALLEY AUTHORITY

TVA is a wholly owned corporate agency and instrumentality of the United States established by the Act with the objective of developing the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense.

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 is provided by congressional appropriations. Additional funds are obtained for financing certain nonpower activities from various revenues and user fees associated with nonpower activities. For the fiscal year ended September 30, 1994, TVA received \$140 million in congressional appropriations from the federal government for the nonpower programs. TVA has received \$143 million in congressional appropriations for fiscal 1995. The power program is required to be self-supporting from revenues it produces. Financial accounts for the two types of TVA activities — power and nonpower — are kept separately. Proceeds from the sale of TVA's New Power Bonds, Discount Notes, and Other Indebtedness (collectively "Evidences of Indebtedness"), may be used only for the power program.

TVA is authorized by the Act to issue Evidences of Indebtedness to assist in financing its power program in an amount not exceeding \$30 billion outstanding at any one time. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Issuance of Additional Bonds and Other Evidences of Indebtedness".

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

TVA is administered by the Board, which is composed of three persons appointed by the President and confirmed by the Senate. Appointments are for nine-year staggered terms with one term expiring with each three-year interval. The Board has sole authority for determining the rates which TVA charges for power. The Act requires the Corporation to charge rates for power which, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states and counties in lieu of taxes; debt service on outstanding Evidences of Indebtedness, including provision and maintenance of reserve funds and other funds established in connection therewith; and annual payments to the U.S. Treasury (the "Treasury") in repayment of and as a return on the government's appropriation investment in TVA power facilities. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness". Such appropriation investment totaled \$648 million as of September 30, 1994. See "Certain Provisions of the Tennessee Valley Authority Act" — "Payments to the Treasury".

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

Under certain conditions, TVA may borrow from the Treasury up to \$150 million for a period of one year or less. Any issuance by TVA of Evidences of Indebtedness with a term of one year or longer is subject to the approval of the Secretary of the Treasury as to the issue date and maximum interest rate. The borrowing authority of TVA is treated as budget authority by the Office of Management and Budget for purposes of the budget of the United States.

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

SELECTED FINANCIAL DATA

The following selected financial data of TVA's power program for the fiscal years 1990 through 1994 have been summarized or derived from TVA's audited financial statements. These data should be read in conjunction with the audited financial statements and notes thereto presented elsewhere herein.

Condensed Statement of Earnings (Dollars in Millions)

	Fiscal Year Ended September 30				
	1994	1993	1992	1991	1990
Operating Revenues	\$ 5,401	\$ 5,276	\$ 5,065	\$ 5,136	\$ 5,339
Operating Expenses	3,461	3,269	3,198	3,047	3,221
Operating Income	1,940	2,007	1,867	2,089	2,118
Other Income and Deductions	(59)	23	(87)	24	(1,138) (1)
Income Before Interest Charges	1,881	2,030	1,780	2,113	980
Interest Expense	1,853	1,777	1,695	1,677	1,670
Allowance for Funds Used During Construction	(123)	(58)	(35)	(73)	(303)
Net Interest Charges	1,730	1,719	1,660	1,604	1,367
Income (Loss) before cumulative effect of accounting change	151	311	120	509	(387)
Cumulative effect of postretirement benefits change	—	—	—	(223)	—
Net Income (Loss)	\$ 151	\$ 311	\$ 120	\$ 286	\$ (387) (1)
Ratio of Earnings to Fixed Charges(2)	1.08	1.18	1.07	1.17	0.77

Condensed Balance Sheet (Dollars in Millions)

	September 30				
	1994	1993	1992	1991	1990
Assets					
Property, Plant, and Equipment	\$28,071	\$27,888	\$24,893	\$23,871	\$22,909
Investment Funds(3)	150	—	188	170	297
Current Assets	1,025	1,434	1,724	1,816	1,231
Deferred Charges and Other Assets	2,596	1,601	2,514	2,164	2,035
TOTAL ASSETS	\$31,842	\$30,923	\$29,319	\$28,021	\$26,472
Capitalization and Liabilities					
Current Liabilities	\$ 4,591	\$ 4,942	\$ 3,372	\$ 2,813	\$ 1,572
Other Liabilities	963	1,034	2,993	3,127	2,812
Long-Term Debt(4)	22,206	20,954	19,204	18,374	18,583
Proprietary Capital	4,082	3,993	3,750	3,707	3,505
TOTAL CAPITALIZATION AND LIABILITIES	\$31,842	\$30,923	\$29,319	\$28,021	\$26,472

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

(2) Ratio of Earnings to Fixed Charges (unaudited) is calculated by dividing Net Income plus Interest Expense by Interest Expense.

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

(4) Excludes defeased debt.

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

Cost Reduction Program

Since 1988 management actions taken by TVA to reduce cost and interest expense have allowed TVA to keep rates at the 1988 level. As recommended by the Chief Financial Officer, an eighth year of stable electric rates for TVA customers was approved by the Board on September 21, 1994, as TVA continues to control operating costs. Other measures are being studied to contribute to the overall efficiency of TVA and to maintain competitive rates in the future.

Results of Operations

Earnings

TVA's power program primarily consists of the generation, transmission, and sale of electricity. Net income for fiscal 1994 was \$151 million compared with \$311 million for 1993 and \$120 million for 1992. For 1994, TVA had a charge of \$140 million for the exchange of certain uranium assets. Amortization expense was increased by \$126 million due to a reclassification of a portion of the capitalized interest component of nuclear fuel to other deferred charges. TVA also recognized a gain of \$82 million from the sale of securities in September 1993. See Notes 1 and 2 of "Notes to Financial Statements" in the Financial Statements.

Operating Revenues

Operating revenues were \$5.4 billion for fiscal 1994 compared with \$5.3 billion for 1993 and \$5.1 billion for 1992. These increases occurred although there has not been an increase in power rates.

Total energy sales were 123 billion kilowatthours ("kWh") for fiscal 1994 compared with 119 billion kWh for 1993 and 112 billion for 1992. The impact of mild summer temperatures in 1994 was offset by overall sales growth of 3.4 percent. This growth was due to a contractual change with another federal agency and an overall growth in municipality and cooperative sales. A winter peak demand record of 24,723 megawatts ("MW") was set January 18, 1994, when temperatures were in single digits. Sales growth of 5.5 percent in 1993 resulted from system sales growth and temperature related differences. Sales in 1992 were impacted by mild summer temperatures and some decline in direct industrial sales due to slowdowns in a few segments of the economy.

Operating Expenses

Operating expenses for fiscal 1994 were \$3.5 billion, compared with \$3.3 billion for 1993 and \$3.2 billion for 1992. Fuel expenses were \$1.5 billion for 1994 compared with \$1.4 billion for 1993 and 1992.

Non-fuel operating expenses were \$2 billion for fiscal 1994 compared with \$1.9 billion for 1993 and \$1.8 billion for 1992. Operating and maintenance expenses were \$1.1 billion for 1994 compared with \$1.2 billion for 1993 and \$1.1 billion for 1992. The decrease in operating and maintenance expenses reflected continuing efforts to reduce costs and maintain competitive rates.

Depreciation and amortization costs increased \$182 million in fiscal 1994 compared with 1993. The increase was attributable to the amortization of deferred charges, additions to completed plant, and an increase in the composite depreciation rate.

Financial Condition

Liquidity and Capital Resources

TVA's liquidity is maintained by energy sales and access to capital markets through the issuance of debt securities. Capital resources include cash provided by operations and external financing. New borrowings are estimated to be \$1 billion for fiscal 1995 and \$550 million for 1996. Borrowings for subsequent years are

dependent upon the level of capital expenditures and are under review by the Board. For capital requirements met by internally generated funds, see "Statements of Cash Flows" in the Financial Statements.

Financing Activities

Long-term debt and cash from operations are used to finance capital expenditures. Short-term debt and cash from operations are used to manage daily cash needs. In 1994 TVA issued \$6.7 billion in long-term bonds to refinance existing long-term debt and to finance capital expenditures, including the retirement of short-term debt.

THE AREA SUPPLIED BY TVA

TVA supplies power in most of Tennessee, northern Alabama, northeastern Mississippi, and southwestern Kentucky, and in small portions of Georgia, North Carolina and Virginia. The population of the area served by TVA is over 7 million. Subject to certain minor exceptions, TVA may not without specific authorization by Act of Congress enter into contracts which would have the effect of making it or its distributors a source of power supply outside the area for which TVA or its distributors were the primary source of power supply on July 1, 1957.

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

RATES, CUSTOMERS AND MARKET

The Act delegates to the Board sole responsibility for establishing the rates which TVA charges and authorizes it to include in power contracts such terms and conditions as in its judgment may be necessary or desirable for carrying out the purposes of the Act. The Act requires the Corporation to charge rates for power which, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states and counties in lieu of taxes; debt service on outstanding Evidences of Indebtedness, including provision and maintenance of reserve funds and other funds established in connection therewith; and annual payments to the Treasury in repayment of and as a return on the Government's appropriation investment in TVA power facilities. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Rate Covenant". Rates set by the Board are not subject to review or approval by any state or federal regulatory body.

The revenue increase resulting from rate adjustments implemented by the Board in fiscal year 1988 was 1.8 percent. The Board determined that there was no need to adjust rates for additional revenue requirements for each of the fiscal years 1989 through 1995.

A summary of power program operating revenues by customer groups for each of the last five fiscal years ended September 30 is shown in the Comparative Statistical and Financial Data set out on page F-20.

Municipal and Cooperative Distributors

TVA has entered into wholesale power contracts with 160 municipal and cooperative distributors. Such contracts are for terms of 20 years, require distributors to purchase substantially all of their electric power and energy requirements from TVA, and (except for those with two small distributors, providing less than one percent of revenues) require 10 years' notice to terminate the contract and further provide that on each annual anniversary of the contract (beginning with the tenth anniversary) one additional year is automatically added to the term. The remaining two small distributors continue to operate under the original term provisions; however, it is anticipated that the revised provisions will be included in any replacements of their existing contracts. Municipal and cooperative distributors accounted for approximately 86 percent of total power revenues in fiscal 1994.

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

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

Industries and Federal Agencies Served Directly

Contracts with industries served directly by TVA normally are for terms of 10 years but are subject to termination by TVA or the customer upon a minimum notice period that varies according to the customer's contract demand and the period of time service has been provided at that location. Industries directly served accounted for approximately 8 percent of power revenues in fiscal 1994. The power sold directly to industries is delivered under contracts at rates established by TVA. Such rates are the same as those charged by distributors to large industries (those with demand greater than 25,000 kilowatts ("kW")) they serve. Power is sold to federal agencies under the same contract terms and rates as directly served industries. An agreement between TVA and the Department of Energy expired in 1994. The last four years of this agreement required payments to TVA of \$160 million each year.

COMPETITION

The electric utility industry has become increasingly competitive in the past decade. Competition is expected to intensify in the future as a result of federally encouraged deregulation of utilities affecting the wholesale power markets and various provisions of the Energy Policy Act of 1992 ("Energy Act"). Chief among the provisions of this act which will further intensify the competitive environment are amendments (1) to the Federal Power Act that will give the Federal Energy Regulatory Commission ("FERC") greater authority to order electric utilities with transmission lines to wheel (transmit) power over their systems for electric power generating entities; and (2) to the Public Utility Holding Company Act of 1935 that will allow the creation of certain kinds of power generating entities without the entities or their parent corporations being made subject to regulation by the Securities and Exchange Commission under that act.

Nevertheless, a special provision in the Energy Act prevents the new wheeling authority of the FERC from being used to provide municipal and cooperative distributors, that are served by TVA, with an alternative source of power supply. That provision excludes from the new wheeling authority the wheeling of electric energy that will be consumed within the area served by TVA and the distributors (except for Bristol, Virginia).

Although other power suppliers, under certain circumstances, may sell power in the area where TVA power is distributed, there are statutory provisions restricting TVA from expanding the area in which it is a source of power supply. It is important that TVA market power at rates competitive with other suppliers in the region. TVA believes that its eight years of stable rates have assisted distributors of TVA power in competing for new commercial and industrial loads.

In today's competitive environment, some of the municipal and cooperative distributors may consider alternative wholesale supply arrangements upon expiration or termination of their power contracts with TVA. Two distributors, representing one percent of TVA revenues, have provided TVA with notices of power contract termination to permit them to study alternative power supply arrangements.

Recently the Chairman of the Board publicly commented that, in view of the approaching deregulation of the electric power industry and an era of open-market competition, TVA is looking into the expansion of services offered and a broadening of the area it serves. He pointed out that careful consideration would be given before proposing any specific legislation for removing TVA's territorial limitations. In preparation for meeting competition in the changing electric utility industry, the Chairman also has called for an examination by the TVA staff of TVA's relationship with 160 distributors of TVA power. He has asked that a number of items be examined, including whether alternative contractual arrangements relating to services and pricing structures should be developed, in preparing for an entirely new operating environment.

POWER AND ENERGY REQUIREMENTS

TVA prepares annual forecasts of future power and energy requirements as part of its planning and budgeting process. TVA's forecast procedure involves producing a range of load forecasts for the explicit purpose of bounding the range of uncertainty associated with load growth. The load forecasts are produced probabilistically. TVA believes that the high load forecast has a 90 percent probability that actual load will be less than forecast, that the medium load forecast has a 50 percent probability that actual load will be less than forecast, and that the low load forecast has a 10 percent probability that actual load will be less than forecast. TVA's current load forecast through fiscal year 2000 reflects an average annual load growth rate of 4.0 percent, 2.7 percent, and 0.7 percent for the high, medium, and low load forecasts, respectively.

Various provisions in the Energy Act make changes in a wide range of laws affecting energy use and development in the United States. In addition to various other features, some of which are discussed herein, this act establishes a statutory framework for how TVA plans and selects methods for meeting future energy needs.

CAPITAL EXPENDITURES

Cash required by TVA for capital expenditures totaled \$2.0 billion, \$2.1 billion and \$1.9 billion for fiscal years 1994, 1993 and 1992, respectively. TVA's current forecast for capital expenditures for fiscal years 1995-1997 is for expenditures between \$1.1 billion and \$1.8 billion annually. TVA estimates that it will borrow between 40 and 60 percent of the funds needed for these expenditures.

TVA's construction program and related expenditures are continuously reviewed and periodically revised because of changes in estimated system load growth, rates of inflation, nuclear licensing requirements and schedules, the availability and timing of environmental, siting and other regulatory approvals, the scope of modifications required by regulatory agencies, including the Nuclear Regulatory Commission (the "NRC"), the availability and costs of external sources of capital and other factors beyond TVA's control. See "Nuclear Power Program" for assumed nuclear plant startup dates used for planning purposes.

POWER SYSTEM

TVA's power generating facilities at September 30, 1994, included 29 hydroelectric plants, 11 coal-fired plants, 2 nuclear plants, 1 pumped storage hydroelectric plant and 4 gas turbine plants. Power is delivered to TVA customers over a transmission system of approximately 16,800 miles of lines, including 2,400 miles of extra-high-voltage (500,000 volt) transmission lines. The system interconnects with neighboring power systems at numerous points, and TVA has various types of interchange arrangements with these systems. The extent and types of interchange transactions depend upon the characteristics of the systems' loads, the management policies of the systems and other factors. Interchange arrangements are an essential part of TVA's efforts to minimize investment in electrical facilities, increase the reliability of service, effect operating economies and minimize the cost of electric energy.

During the fiscal year ended September 30, 1994, 70 percent of the power generated by the TVA coordinated system was by fossil fired plants, 16 percent by hydro, and 14 percent by nuclear. Coal consumption during this time was 38.4 million tons. Coal is purchased under contracts ranging from a single

delivery to deliveries over several years. Management believes the sources and availability of fuel materials essential to its business should be adequate for the foreseeable future. TVA coal inventory levels vary from plant to plant based upon a simulated inventory model. As of September 30, 1994, TVA had approximately 17 days' coal supply in inventory at full burn.

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

A bill has been introduced in the Senate which would eliminate the permanent authorization of TVA's appropriations and would require the development of a plan describing which TVA programs should be continued, discontinued, or transferred. Another bill has been introduced in the House of Representatives which would direct the President to develop a plan for transferring all TVA property to public or private entities. This is the same bill which was introduced in the last Congress and died without any action. Neither bill has been scheduled for hearings or other congressional consideration; and enactment of either of these, or of similar bills, is considered highly unlikely. Although the President's proposed budget for fiscal year 1996 recommended the privatization of four Department of Energy power marketing administrations, it did not recommend any privatization actions for TVA.

Generating Resources

The following table summarizes the winter net dependable capacity ("NDC") on this coordinated system as of September 30, 1994:

	Generating Units	Winter NDC MW(1)
TVA Hydro Plants	109	3,305
Other Hydro Plants		
Corps of Engineers Plants	—	405 (2)
TVA Pumped Storage Plant		
Raccoon Mountain Pumped Storage Hydro	4	1,532
Total Hydro		5,242
Coal	59	15,032
Nuclear	3	3,375
Combustion Turbine	48	2,264
Total NDC		25,913

- (1) NDC as stated is the net power output which can be obtained for a period adequate to satisfy the daily load patterns under expected conditions of winter operation with equipment in an average state of maintenance. For planning purposes, TVA currently estimates summer dependable total hydro capacity of approximately 5,566 MW; coal-fired capacity of approximately 14,685 MW; nuclear power capacity of approximately 3,375 MW; and combustion turbine capacity of approximately 1,936 MW, for a total summer NDC of approximately 25,562 MW.
- (2) The Corps of Engineers' plants on the Cumberland River System have a total installed capacity of 853 MW, of which 405 MW of NDC is available to TVA under a marketing agreement with Southeastern Power Administration.

Under arrangements among TVA, the United States Corps of Engineers (the "CORPS") and the Southeastern Power Administration (the "SEPA"), 8 hydro plants of the CORPS comprising the Cumberland River system are operated in coordination with the TVA system. These arrangements further provide for

capacity (405 MW) and energy from the Cumberland River system to be supplied to TVA by SEPA at the points of generation, and the price paid for the power to be based on the operating and maintenance expenses and amortization of the power facilities. A portion of the output of the Cumberland River system is also made available to SEPA's customers outside the TVA region. The agreement with SEPA covering these arrangements for power from the Cumberland River system can be terminated upon three years' notice.

Integrated Resource Plan

In 1993 TVA began development of an Integrated Resource Plan ("IRP") to be utilized in determining its strategy for meeting future customer energy demands. TVA initiated the IRP process in February 1994 and expects to release a draft plan for public comment in July 1995. It is anticipated that the IRP will be completed in December 1995. It will identify a 25-year least-cost energy resource strategy for TVA's power system.

NUCLEAR POWER PROGRAM

Overview

TVA began an ambitious nuclear plant construction program in 1966 to meet projected system load growth. At the height of the construction program, TVA had 17 nuclear units either under construction or in commercial operation at seven plant sites. In August 1982, because of lower-than-expected load growth, TVA canceled construction of four nuclear units. In August 1984, four more units were canceled. Total investment in the eight units at the time of cancellation was \$4.6 billion. All of this amount had been written off by September 30, 1990.

By August 1985, TVA had delayed completion of two units each at Watts Bar and Bellefonte, and TVA had shut down its three units at Browns Ferry and its two units at Sequoyah because of an increasing number of technical and operational problems. In view of these problems and regulatory concerns expressed by the NRC, TVA conducted an extensive review of its nuclear program. TVA determined that the primary cause of the problems was the lack of a sufficient number of experienced nuclear managers who could provide leadership and proper direction for TVA's nuclear activities. In response to this situation, TVA restructured its organization and assigned responsibility for all of its nuclear power activities to a single organization based in large part on a new management team. To provide a comprehensive recovery plan from the problems with its nuclear program and to answer the questions raised by the NRC, TVA developed a Nuclear Performance Plan. The plan was reviewed by the NRC and served as a key reference in TVA's recovery efforts.

Nuclear Plant Regulation

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

Sequoyah

Sequoyah is a two-unit plant located approximately 7.5 miles northeast of the city limits of Chattanooga, Tennessee, with pressurized water reactors supplied by Westinghouse Electric Corporation. The units are rated at 1141 and 1136 MW net electrical output for Unit One and Unit Two, respectively. TVA received an Operating License for Unit One in 1980, and the unit began commercial operation in 1981. TVA received an

Operating License for Unit Two in 1981, and the unit began commercial operation in 1982. The Operating Licenses expire 40 years after issuance. The plant was designed, built and is operated by TVA. Because of regulatory concerns, as noted above, TVA voluntarily shut down both units in August 1985.

Prior to restarting the Sequoyah units, TVA extensively addressed organizational, programmatic and specific plant improvements. Unit Two was restarted in May 1988, and Unit One was restarted in November 1988. Because of improvement in the operation of Sequoyah, in May 1989 the NRC notified TVA that both Sequoyah units had improved sufficiently to be removed from the NRC's list of plants that required close monitoring. Since that time, NRC oversight of Sequoyah has been of the normal routine associated with any operating nuclear plant.

The NRC completed a Systematic Assessment of Licensee Performance ("SALP") for Sequoyah for the period October 10, 1993 to January 7, 1995. Under this process, performance is rated in four functional areas: Operations, Maintenance, Engineering and Plant Support. The area of Plant Support includes radiological controls, security, emergency preparedness, fire protection, chemistry and housekeeping controls. The rating system assigns a category rating of 1, 2 or 3 to each functional area. Summarized definitions for each rating are as follows: Category 1 — Performance substantially exceeds regulatory requirements; reduced NRC attention may be appropriate. Category 2 — Performance above that needed to meet regulatory requirements; NRC attention may be maintained at normal levels. Category 3 — Performance does not significantly exceed that needed to meet minimal regulatory requirements; NRC attention should be increased above normal levels. In each of the four functional areas, Sequoyah's performance was above that needed to meet NRC requirements, and consistent ratings of "2" were received.

Browns Ferry

Browns Ferry is a three-unit plant located approximately 10 miles southwest of Athens, Alabama, with boiling water reactors supplied by General Electric Company. Each unit is rated at 1065 MW net electrical output. The plant was designed, built and is operated by TVA. TVA received Operating Licenses for Units One, Two, and Three in 1973, 1974 and 1976, respectively. They began commercial operation in 1974, 1975 and 1977, respectively. The Operating Licenses for these units expire 40 years after issuance. Units One and Three were voluntarily shut down by TVA in March 1985 in response to technical and operational concerns. Unit Two was in a refueling outage at the time. Because of these and subsequently discovered concerns, TVA decided not to restart any Browns Ferry units until it was determined that the plant could be operated safely.

As with the Sequoyah units, TVA extensively addressed organizational, programmatic and specific plant improvements at Browns Ferry, including significant steps to improve management of the plant. Unit Two was restarted in May 1991 and was returned to commercial operation during August 1991. In June 1992, the NRC notified TVA that Unit Two was removed from the NRC's list of plants requiring continued close monitoring. In November 1993, TVA was notified that the NRC SALP for the period May 24, 1992 through September 18, 1993 had been completed for Browns Ferry Unit Two. This SALP was also conducted under the revised SALP process. In two of the four categories now rated by NRC, Operations and Plant Support, Unit Two substantially exceeded NRC requirements and received ratings of "1." In the remaining two categories, Maintenance and Engineering, plant performance was above that needed to meet NRC requirements, and ratings of "2" were received. No ratings of "3" were received. The NRC characterized Unit Two's performance as continuing to improve, and noted that management's attention to plant safety had resulted in excellent oversight and control of plant activities. Browns Ferry Units One and Three were not rated as part of this SALP, and NRC continues to retain those units in the category of plants which require NRC authorization to operate and to receive continued close monitoring.

TVA plans to return Browns Ferry Unit Three to commercial operation in late calendar year 1996. TVA is currently evaluating its alternatives for returning Browns Ferry Unit One to service. From March 1985 through September 1994, the capitalized costs for improvements to Browns Ferry were \$3.2 billion, including capitalized interest. The capitalized costs for returning Browns Ferry Unit Three to service, based on the inflation assumptions set forth in "Capital Expenditures", are anticipated to be in the range of \$500 to \$600 million, including capitalized interest. The estimate and schedule for Browns Ferry Unit One are being

evaluated through the IRP effort which will be complete in calendar year 1995. Preliminary cost estimates (utilized in the IRP) associated with the return to service of Unit One are \$1.2 billion to \$3.2 billion.

Watts Bar

Watts Bar is a two-unit power plant located approximately 50 miles northeast of Chattanooga, Tennessee, with pressurized water reactors supplied by Westinghouse Electric Corporation. Each unit is rated at 1160 MW net electrical output. The plant was designed and has been built to its present level of completion by TVA. Construction Permits for Units One and Two were extended through December 1995 and December 1999, respectively.

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

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

While undertaking modifications to address some of these issues in preparation for operation, TVA discovered problems in its work control processes which called into question the effectiveness of the work being performed. As a result, in December 1990, TVA halted construction-related work at the site until corrections to the work control processes were made to ensure the quality of the work. TVA revised and improved its work control practices. In November 1991, TVA obtained NRC concurrence to restart construction-related work on a limited basis, and in June 1992, concurrence to proceed with unrestricted construction work was received.

The NRC completed a SALP for the Watts Bar units for the period June 1993 through June 1994. Performance was evaluated in the functional areas: Construction, Licensing Readiness, Readiness to Support Plant Operations, Safety Assessment/Quality Verification and Preoperational Testing. Watts Bar received a rating of "2" in the five functional areas.

Hot functional testing began April 1, 1994, and as a result on May 15, 1994, the Unit One generator was synchronized to the power system and supplied five MW of power to TVA customers for a short period of time. TVA's plans are to seek NRC approval to bring Unit One into commercial operation in calendar year 1995. Total investment in Unit One at September 30, 1994, was \$6.4 billion, including capitalized interest. Anticipated cost to complete Unit One is currently estimated to be from \$350 million to \$400 million, excluding capitalized interest. Assurance cannot be given that these estimates will not be changed significantly.

On October 1, 1988, TVA suspended construction activities at Unit Two because of a reduction in the forecasted load growth, and the unit is currently in layup pending the completion of TVA's IRP efforts. As of September 30, 1994, construction of Unit Two was estimated to be approximately 60 percent complete. Total

investment in Unit Two at September 30, 1994, was \$1.7 billion, including capitalized interest. See "Nuclear Completion Schedules and General Needs" for discussion of Unit Two completion activities.

Bellefonte

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

TVA deferred construction activities on Unit Two at Bellefonte because of a reduction in forecasted load growth in October 1985. Construction activity was deferred on Unit One in July 1988. In July 1988, TVA notified the NRC of this action in accordance with the NRC's October 1987 Policy Statement on Deferred Nuclear Plants. On March 23, 1993, in accordance with guidance in the NRC's policy statement, TVA notified the NRC of its plans to resume completion activities at Bellefonte. Construction Permits for Unit One and Unit Two have been extended by the NRC to 2001 and 2004, respectively.

As of September 30, 1994, TVA had \$4.5 billion, including capitalized interest, invested in these units. See "Nuclear Completion Schedules and General Needs" for discussion of Bellefonte completion activities.

Nuclear Completion Schedules and General Needs

Recent preliminary cost estimates, utilizing the IRP (see "Power System" — "Integrated Resource Plan"), show that completing the units at Bellefonte and Watts Bar Unit Two could cost between \$3.3 billion and \$8.8 billion, which indicates that their completion may not be economically feasible. As a result, the Board in December 1994 announced a major change in policy declaring that TVA will not, by itself, complete Bellefonte Units One and Two and Watts Bar Unit Two as nuclear units. Consideration is being given to converting these units to another fuel source or entering into arrangements with an electric utility or major contractor to complete them as nuclear units. The economic feasibility of returning Browns Ferry Unit One to service is also being evaluated. The final decision regarding alternate completion arrangements or the conversion of these units will not be made until the TVA Board receives sufficient public input on TVA's long-term energy strategy.

At December 31, 1994, TVA's total investment in Bellefonte Units One and Two, Watts Bar Unit Two and Browns Ferry Unit One (including nuclear fuel) was \$6.3 billion. If any of these units are not completed or converted for use with another fuel source, or in the case of Browns Ferry Unit One, returned to service, TVA would determine, at that time, the method and time period for recovery of such costs. TVA has not, at this time, made such a determination.

Nuclear Fuel

TVA owns all nuclear fuel held for its nuclear units (operating, under construction, and deferred). The net book value of such fuel was \$1.0 billion as of September 30, 1994. See Notes 1 and 2 of "Notes to Financial Statements" in the Financial Statements.

TVA's investment in the fuel being used in the Sequoyah units and Browns Ferry Unit Two is being amortized and accounted for as a fuel expense. The Bellefonte initial cores have been defabricated. The uranium from these cores is being used in the Sequoyah and Browns Ferry units and will continue to be used in these units in the near future and the net book value will be assigned accordingly.

Nuclear Waste

Spent Nuclear Fuel

The Nuclear Waste Policy Act of 1982 (the "NWPA") provides that the federal government has the responsibility for the permanent disposal of spent nuclear fuel, but charges each nuclear power system with the

responsibility for the cost of such permanent disposal. The NWPA requires each nuclear power system to enter into a disposal contract with DOE for such material. The contract requires each nuclear power system to pay a fee which is currently one mill per kWh for the net electricity generated and sold by each of its reactors. TVA's spent fuel efforts will ensure that sufficient cost-effective at-reactor storage is available to meet all of TVA's spent fuel storage requirements until DOE is prepared to accept TVA's spent fuel.

TVA presently has the capability to store its spent fuel at Sequoyah and Browns Ferry through the years 1996 and 2007, respectively. TVA plans to extend storage capability through life-of-plant by using higher density racks in its existing storage pools, fuel rod consolidation or dry storage casks. A license amendment request to use high density racks at Sequoyah has been approved by the NRC, and the racks are scheduled for installation during 1995. After completion of the higher density racks, Sequoyah will have capability to store spent fuel until 2003.

Low-Level Radioactive Waste

Disposal costs for low-level radioactive waste that result from normal operation of nuclear units have increased significantly in recent years and are expected to continue to rise. Pursuant to the Low-Level Radioactive Waste Policy Act, each state is responsible for disposal of low-level waste generated in that state. States may form regional compacts to jointly fulfill their responsibilities. The States of Tennessee and Alabama (where TVA nuclear plants are located) have joined with six other southeastern states to form the Southeast Compact Commission for Low-Level Radioactive Waste Management. This commission regulates the siting of new disposal facilities and the disposal of low-level waste within the southeastern states.

Low-level waste generators (such as TVA) located in the eight southeastern states are required to dispose of such waste at an existing facility in South Carolina. This facility is scheduled to be closed by the State of South Carolina on December 31, 1995. The states participating in the Southeast Compact Commission have selected North Carolina as the host state for the next disposal site, and work is underway in that state to select, license, and construct a new disposal site to take the place of the South Carolina site. Under the current schedule for this work, the new North Carolina disposal facility is planned to be open in 1997. Sufficient storage capacity is available at TVA nuclear plant sites to meet anticipated needs until the scheduled opening of the new disposal facility. However, assurance cannot be given that the scheduled date will not change.

Nuclear Insurance

The indemnification and limitation of liability plan afforded the United States nuclear industry by the Price-Anderson Act was extended for an additional 15 years in 1988, with certain provisions of the Price-Anderson Act now due to expire on August 1, 2002. The 1988 amendments and the 1993 inflation adjustment to the Price-Anderson Act substantially increased the limit of liability from an accident at an NRC-licensed reactor, and this amount is now approximately \$8.8 billion, composed of primary and secondary layers of financial protection. For further information about this nuclear liability insurance and its deferred premium see Note 10 of "Notes to Financial Statements" in the Financial Statements.

NRC regulations require nuclear power plant licensees to obtain, and TVA has acquired, onsite property damage insurance coverage of \$1.06 billion per nuclear site. Some of the nuclear property insurance may require the payment of retrospective premiums of up to approximately \$32 million in the event that losses by another insured party or TVA exceed available funds. In accordance with NRC regulations, the proceeds of nuclear property insurance are used first to ensure that the reactor is in safe and stable condition and that it can be maintained in a condition that prevents significant risk to the public. Next, the proceeds go for decontamination or, if necessary, decommissioning the reactor. Any excess proceeds insure against casualties to property.

Decommissioning

Provision for decommissioning costs of nuclear generating units is based on the estimated cost using the dismantling/removal method. The amount stated in 1990 dollars for each of the Browns Ferry units is

\$190 million and for each of the Sequoyah units is \$150 million. The excess of the annual decommissioning provision over earnings from any investments designated for funding decommissioning costs is recovered in rates through charges to depreciation expense. The book value of TVA's decommissioning fund investments was \$152 million at December 31, 1994.

ENVIRONMENTAL MATTERS

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

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

Air Pollution

Under the Clean Air Act, the United States Environmental Protection Agency (the "EPA") has promulgated national ambient air quality standards for certain air pollutants, including sulfur dioxide, particulate matter and nitrogen oxides. Coal-fired generating units are major sources of these pollutants. TVA also operates other smaller sources. The States of Alabama and Tennessee and the Commonwealth of Kentucky have promulgated implementation plans which regulate sources within their boundaries, including TVA sources, in order to achieve and maintain the national ambient standards. TVA has installed control equipment and employs control strategies to comply with applicable state-established emission limitations. TVA estimates that it spent about \$1.4 billion in capital costs on air pollution control activities prior to the 1990 Clean Air Act Amendments and annual expenditures (operation, maintenance, amortization of control equipment and low sulfur coal premiums) range from \$400 million to \$450 million presently.

The acid rain control provisions of the Clean Air Act establish a number of new requirements for utilities. These requirements will be implemented by EPA and the states in two phases and will result in substantial capital expenditures and increases in operating costs. The total capital cost of the program (Phases I and II) is estimated to be in the range of \$1.5 billion to \$2.3 billion. Additional annual expenditures for compliance with Phase I (1999) are estimated to be in the \$150 million to \$240 million range.

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

Water Pollution

Under the Clean Water Act, every point source which discharges pollutants into navigable waters must obtain a National Pollutant Discharge Elimination System ("NPDES") permit specifying the allowable quantity and characteristics of the pollutants discharged. TVA's various point sources have received NPDES permits, including all of its major generating units. Compliance with NPDES requirements has necessitated substantial expenditures and may require additional, substantial expenditures in the future as NPDES permits come up for renewal and applicable requirements are made more stringent. State implementation of EPA's new stormwater regulations are resulting in revised monitoring requirements for TVA's NPDES permits and could eventually result in new discharge limits.

The Clean Water Act allows the permitting authority to establish thermal limits less stringent than the water quality criteria if the discharger can demonstrate that the alternate limit will assure protection and

propagation of a balanced, indigenous aquatic population. TVA has now been issued alternate limits at several of its facilities, and it is meeting these limits.

Solid and Hazardous Waste Management

Under the Resource Conservation and Recovery Act ("RCRA"), the storage, transportation, and disposal of hazardous wastes are regulated by EPA and the states. RCRA also allows EPA and the states to regulate solid wastes and the states have detailed permitting programs for this. TVA has detailed procedures in place that comply with all applicable requirements for the management of hazardous wastes. In addition, TVA has instituted an acceptable supplier list for hazardous waste disposal contractors under which such contractors' financial status, compliance history, and physical facilities and operations are reviewed before they are allowed to treat or dispose of any of the hazardous wastes generated by TVA facilities. TVA does not itself operate any hazardous waste disposal or treatment facilities but does operate one permitted hazardous waste storage facility in Muscle Shoals, Alabama. TVA has obtained or is in the process of obtaining solid waste disposal permits for the solid waste disposal areas (e.g. fly ash, scrubber sludge, demolition materials and asbestos) it operates at its plant sites. TVA's costs in this area have not been substantial but applicable requirements are constantly changing and are expected to become more stringent.

Under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), the release and cleanup of hazardous substances are regulated. Certain persons who are associated with the release of hazardous substances to the environment can be held responsible for their cleanup, regardless of when the substances were released or when the specific person may have been associated with the substance. This liability under CERCLA is generally viewed as joint and several. TVA, in a manner similar to other industries and power systems, has generated or used hazardous substances over the years. In connection with these activities, TVA has been identified as a potentially responsible party with respect to five non-TVA sites at which TVA hazardous substances were disposed. In addition, TVA is currently investigating two other sites at which TVA is a partial owner and for which TVA may have cleanup responsibilities by virtue of its control of the property. TVA's potential liabilities for its share of cleanup costs at these sites are uncertain but in total should be less than \$10 million.

Miscellaneous

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

Many of TVA's facilities were constructed at a time when asbestos was the insulation of choice by industry. Asbestos materials now require special handling and disposal when they are removed. Although not required, TVA is removing or encapsulating asbestos as appropriate.

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

As a federal agency, TVA is required to consider the potential environmental effects of major federal actions affecting the quality of the human environment under the National Environmental Policy Act (the "NEPA") and implementing regulations and to make these evaluations available to the public. TVA has incorporated the NEPA review process into its decision making process. NEPA-related costs are incurred continuously but not in substantial amounts.

INSURANCE

TVA does not generally carry disaster or public liability insurance except as may be required or appropriate with respect to nuclear facilities and except to the extent it may do so as part of an owner-controlled insurance program it has implemented for some large contracts requiring on-site labor. Liability for service-connected injuries to employees is governed by the Federal Employees' Compensation Act. See "Nuclear Power Program" — "Nuclear Insurance" herein and Note 10 of "Notes to Financial Statements" in the Financial Statements for additional information with respect to insurance.

MANAGEMENT

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

<u>Name and Title</u>	<u>Age</u>	<u>Year Commenced Employment</u>	<u>Year Term Expires</u>
Craven Crowell Chairman	51	1993	2002
Johnny H. Hayes Director	54	1993	1996
William H. Kennoy Director	58	1991	1999
Joseph W. Dickey Chief Operating Officer	50	1991	
Oliver D. Kingsley, Jr. President of TVA Nuclear and Chief Nuclear Officer	52	1988	
David N. Smith Chief Financial Officer	51	1995	
Norman A. Zigrossi Chief Administrative Officer	59	1986	
Edward S. Christenbury General Counsel and Secretary	53	1987	

Mr. Crowell was appointed to the Board in July 1993. Prior to his current position, he served as Chief of Staff for Jim Sasser, Tennessee's then senior U.S. Senator (1989-1993), as Vice President of TVA's Office of Governmental & Public Affairs (1988-1989), and as TVA's Director of Information (1980-1988).

Mr. Hayes was appointed to the Board in July 1993. Prior to his current position, he served as the State of Tennessee's Commissioner of Economic and Community Development (1992-1993) and as Tennessee's Commissioner of Employment Security (1991-1992).

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

Mr. Dickey was named Chief Operating Officer in February 1994. Prior to his current position, he served as TVA's Senior Vice President, Fossil and Hydro Power (1991-1994), Vice President of Power Resources (Florida Power & Light Co.) (1988-1991), and as Vice President, Nuclear Energy (Florida Power & Light Co.) (1985-1988).

Mr. Kingsley was named President of TVA Nuclear and Chief Nuclear Officer in February 1994. Prior to his current position, he served as TVA's President, Generating Group (1991-1994), as TVA's Senior Vice President of Nuclear Power (1988-1991), and as Vice President, Nuclear Operations for System Energy Resources, Inc. (Mississippi Power and Light Company) (1985-1988).

Mr. Smith was named Chief Financial Officer in January 1995. Prior to his current position, he served as Executive Director of Odyssey Financial (1993-1994), as Vice President of Finance of LTV Corporation (1991-1993), and as Assistant Treasurer and Director of Corporate Finance of LTV Corporation (1986-1991).

Mr. Zigrossi was named Chief Administrative Officer in February 1994. Prior to his current position, he served as TVA's President, Resource Group (1992-1994) and as TVA's Inspector General (1986-1992).

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

EMPLOYEES

On December 31, 1994, TVA had about 17,000 (19,000 as of September 30, 1994) employees, of which approximately 5,500 (6,200 as of September 30, 1994) were trades and labor employees. Neither the federal labor laws covering most private sector employers, nor those covering most federal agencies are applicable to TVA; however, the Board has a longstanding policy of recognizing and dealing with recognized representatives of its employees. TVA employees are prohibited by federal law from engaging in strikes against TVA. In 1992, TVA entered into separate long-term agreements with the Tennessee Valley Trades and Labor Council ("Council"), the Salary Policy Employee Panel ("Panel"), and the International Brotherhood of Teamsters ("Teamsters"). One agreement recognizes the Panel for collective bargaining purposes for 20 years. The other recognizes the Council and Teamsters for collective bargaining purposes for 15 years. About 80 percent of TVA's employees are in these bargaining units, all of which are covered by existing collective bargaining agreements. The collective bargaining agreements with the Council (which is comprised of six unions representing annual trades and labor employees, including those working inside the power plants) and the Teamsters (covering materials handling work) have no specific expiration date; however, each contains provisions for possible expiration of major parts of the agreement as early as 1997, upon six months' notice. The collective bargaining agreement with the Panel (comprised of five unions representing white collar employees) also has no expiration date; however, the agreement provides for possible expiration of major parts of the agreement in 1999, upon 12 months' notice. Each of these agreements provide for negotiation of most provisions except monetary matters about every 3 years; wage and salary and benefit negotiations or adjustments generally occur annually. Unresolved disputes over rates of pay for trades and labor employees are resolved by binding decisions of the Secretary of Labor, while pay and monetary benefits disputes for other represented employees are resolved through binding arbitration. TVA's hourly construction, modification and supplemental maintenance work is now performed by contractors primarily under project labor agreements negotiated by TVA and the Council. Permanent craft operating and regular maintenance work continues to be performed by annual TVA employees represented by the Council for operating and maintenance employees, and by the Teamsters for materials handling work.

Salaries of regular TVA employees are limited by a federal pay cap (Executive Level IV, currently \$115,700). This had led in the past to difficulties in the recruitment and retention of top management talent, and continues to be an issue which TVA must face in its recruitment and retention efforts. The impact of the pay cap has been alleviated somewhat by the increases in TVA's pay cap since January 1990 from \$80,700 to \$115,700. TVA has also addressed this issue by developing and implementing supplementary compensation arrangements, which have substantially reduced the impact of the pay cap. In TVA's opinion, the implementation of these arrangements is within TVA's legal authority. The General Accounting Office (the "GAO") has expressed the opinion that some of these arrangements are not within TVA's legal authority. However, GAO has no authority to issue binding legal opinions on this matter or to stop any TVA payments. Congress is aware of TVA's supplemental compensation arrangements and has not taken any action that would undermine TVA's position that the arrangements are within its legal authority.

CERTAIN PROVISIONS OF THE TENNESSEE VALLEY AUTHORITY ACT

The following summarizes certain provisions of the Act.

Payments in Lieu of Taxes

TVA is not subject to federal income taxes or to taxation by states or their subdivisions. However, the Act requires payments in lieu of taxes by TVA to states and counties in which it operates, in amounts equal to 5 percent of its gross revenues from the sale of power (exclusive of sales to federal agencies not for resale).

Payments to the Treasury

The Act requires TVA to make certain payments into the Treasury each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment. Net Power Proceeds are defined as the remainder of TVA's Gross Power Revenues after deducting the cost of

operating, maintaining and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and payments to states and counties in lieu of taxes, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds of the sale or other disposition of any power facility or interest therein.

Acquisition of Real Estate

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

THE BASIC RESOLUTION; POWER BONDS, DISCOUNT NOTES AND OTHER INDEBTEDNESS

TVA's Power Bonds are issued pursuant to Section 15d of the Act and pursuant to the Basic Resolution. At December 31, 1994, TVA had outstanding \$23.2 billion (\$23.3 billion at September 30, 1994) principal amount of Power Bonds and \$1.2 billion (\$3.8 billion at September 30, 1994) of Power Bonds that are being redeemed under in-substance defeasance arrangements, issued pursuant to the Basic Resolution and resolutions supplemental thereto.

Power Bonds may be issued only to provide capital for TVA's power program (including refunding any Evidences of Indebtedness issued for like purposes) and only as authorized by law at the time of issuance. Power Bonds are payable as to both principal and interest solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. Net Power Proceeds for 1994, 1993, and 1992 were \$2.6 billion, \$2.5 billion and \$2.5 billion, respectively. Power Bonds of each series must be further authorized by Supplemental Resolution.

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

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

New Power Bonds include TVA's FISBS that may be issued from time to time in installments with maturities of from one year to fifty years. TVA intends to offer FISBS for sale on a continuous basis to members of a group of securities dealers selected by TVA, who will resell such FISBS. The aggregate principal amount of all such Installment Bonds will not exceed \$4 billion at any one time outstanding and the maximum effective rate payable on any such Installment Bonds will not exceed 10 percent.

Information relating to FISBS will be set forth in an Installment Bonds offering circular and any appropriate amendment or supplement thereto. At the time of each sale TVA will determine if the FISBS then being sold will be subject to redemption prior to the maturity date and will establish the purchase price, principal amount, interest rate or interest rate formula, maturity date, and certain other terms of such sale.

TVA's Discount Notes are also issued pursuant to Section 15d of the Act and in accord with Section 2.5 of the Basic Resolution. As of December 31, 1994, TVA had outstanding approximately \$3.1 billion (\$2.5 billion at September 30, 1994) in Discount Notes. The net proceeds received by TVA from the sale of Discount Notes are used to assist in financing TVA's power program. The Discount Notes are payable solely from Net Power Proceeds (but may, at the option of TVA, be paid from the proceeds of refunding obligations or other funds legally available for such payment) and are not obligations of, or guaranteed by, the United States of America.

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

TVA from time to time may issue Other Indebtedness, in addition to New Power Bonds and Discount Notes, to assist in financing its Power Program. Other Indebtedness, such as Quarterly Income Debt Securities ("QIDS"), are issued pursuant to Section 15d of the Act and under appropriate authorizing resolutions.

QIDS will be issued from time to time with maturities and on terms determined in light of market conditions at the time of sale. The QIDS may be sold to dealers or underwriters, who may resell the QIDS in public offerings or otherwise. In addition, QIDS may be sold by TVA directly or through other entities. QIDS are payable as to both principal and interest solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America.

The specific aggregate principal amount, maturity, interest rate or method for determining such rate, interest payment dates, if any, purchase price to be paid to TVA, any terms for redemption or other special terms, form and denomination of Other Indebtedness, information as to any stock exchange listing, and the names of any dealers, underwriters or agents, will be set forth in an offering circular, and any appropriate supplement thereto, together with the terms of such Other Indebtedness.

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

Application of Net Power Proceeds

Section 2.3 of the Basic Resolution provides as follows:

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

(a) Required interest payments on any Evidences of Indebtedness issued pursuant to Section 2.5 which do not rank on a parity with Bonds as to interest.

(b) Required payments of or on account of principal of any Evidences of Indebtedness other than Bonds.

(c) Minimum payments into the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment.

(d) Investment in Power Assets, additional reductions of the Corporation's capital obligations, and other lawful purposes related to the Power Program; provided, however, that payments into the United States Treasury in any fiscal year in reduction of the Appropriation Investment in addition to the minimum amounts required for such purpose by the Act may be made only if there is a net reduction during such year in the dollar amount of outstanding Evidences of Indebtedness issued for capital

purposes, and only to such extent that the percentage of aggregate reduction in the Appropriation Investment during such year does not exceed the percentage of net reduction during the year in the dollar amount of outstanding Evidences of Indebtedness issued for capital purposes.

Section 2.4 of the Basic Resolution provides as follows:

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

Section 2.5 of the Basic Resolution provides as follows:

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

See "Amendments to the Basic Resolution to Become Effective in the Future" for a discussion of amendments that will affect the above provisions of Sections 2.3 and 2.5 of the Basic Resolution.

Rate Covenant

Section 3.2 of the Basic Resolution provides as follows:

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

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

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

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

Covenant for Protection of Bondholders' Investment

Under the Act and Section 3.3 of the Basic Resolution, TVA must, in each successive 5-year period beginning October 1, 1960, use either for the reduction of its capital obligations (including Evidences of Indebtedness and the Appropriation Investment) or for investment in Power Assets an amount of Net Power Proceeds at least equal to the sum of (1) depreciation accruals and other charges representing the amortization of capital expenditures and (2) the net proceeds from any disposition of power facilities.

Depreciation

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

Issuance of Additional Bonds and Other Evidences of Indebtedness

The Act presently limits the issuance of Evidences of Indebtedness by TVA to a total of \$30 billion outstanding at any one time to assist in financing TVA's power program (and for refunding). At December 31, 1994, TVA had approximately \$26.5 billion (\$25.9 billion at September 30, 1994) of outstanding Evidences of Indebtedness. This total does not include \$1.2 billion (\$3.8 billion at September 30, 1994) of Power Bonds that are being redeemed under in-substance defeasance arrangements and are not considered by TVA to be included in the amount of debt that is subject to the \$30 billion limit. (Irrevocable trusts, that hold U.S. Treasury obligations that will provide funds sufficient to pay all remaining amounts that will become due, have been established for each series of Power Bonds being defeased. See Note 6 to "Notes to Financial Statements" in the Financial Statements.) TVA has announced an intention to limit, by October 1997, total outstanding debt to a level \$2-3 billion below the \$30 billion ceiling. The Basic Resolution permits the issuance of Power Bonds only to provide capital for TVA's power program, including the refunding of any Evidences of Indebtedness issued for that purpose.

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

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

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

The amount of Power Bonds outstanding may not be increased unless net power income (after interest expense and depreciation charges but before payments as a return on or in reduction of the appropriation investment) for the latest five fiscal years has aggregated at least \$200 million. Moreover, that minimum requirement is increased by \$15 million for each ¼ percent (or major fraction thereof) by which the average for those five years of the October 1 average interest rate payable by the United States Treasury upon its total marketable public obligations exceeds ¾ percent. See Section 3.4 of the Basic Resolution.

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

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

Mortgaging and Disposal of Power Properties

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

Modifications of Resolutions and Outstanding Bonds

The Basic Resolution provides for amendments to it, to any Supplemental Resolution, and to any outstanding Power Bonds. In summary, amendments of the respective rights and obligations of TVA and the bondholders may be made with the written consent of the holders of at least 66⅔ percent in principal amount of the outstanding Power Bonds to which the amendment applies; but changes in the maturity, principal amount, redemption premium, or rate of interest or maturity of any interest installment, with respect to any Power Bond, or in the above percentage for any such consent, cannot be made without the consent of the holder of such Power Bonds.

In addition, TVA may amend the Basic Resolution or any Supplemental Resolution without the consent of the bondholders in order (1) to close the Basic Resolution against the issuance of additional Power Bonds or to restrict such issuance by imposing additional conditions or restrictions; (2) to add other covenants and agreements to be observed by TVA or to eliminate any right, power or privilege conferred upon TVA by the Basic Resolution; (3) to modify any provisions to release TVA from any of its obligations, covenants, agreements, limitations, conditions or restrictions, provided that such modification or release shall not become effective with respect to any Power Bonds issued prior to the adoption of such amendment; (4) to correct any defect, ambiguity or inconsistency in, or to make provisions in regard to matters or questions arising under, the Basic Resolution or any Supplemental Resolution, so long as such amendments are not contrary to, or inconsistent with, the Basic Resolution or such Supplemental Resolution; or (5) to make any other modification or amendment which the Board by resolution determines will not materially and adversely affect the interests of holders of the Power Bonds.

Events of Default

Any of the following shall be deemed an Event of Default under the Basic Resolution: (i) default in the payment of the principal or redemption price of any Power Bond when due and payable at maturity, by call for redemption, or otherwise; (ii) default in the payment of any installment of interest on any Power Bond when due and payable for more than 30 days; or (iii) failure of TVA to duly perform any other covenant, condition or agreement contained in the Power Bonds or in the Basic Resolution or any Supplemental Resolution for 90 days after written notice specifying such failure has been given to TVA by the holders of at least 5 percent in aggregate principal amount of the then outstanding Power Bonds.

Upon any such Event of Default, the holders of the Power Bonds may proceed to protect and enforce their respective rights, subject to the restrictions described below. The holders of at least 5 percent in aggregate principal amount of Power Bonds then outstanding shall, subject to certain restrictions, have the right and power to institute a proceeding (i) to enforce TVA's covenants and agreements, (ii) to enjoin any acts in violation of the rights of holders of Power Bonds, and (iii) to protect and enforce the rights of holders of Power Bonds. Power Bonds do not provide for acceleration upon an Event of Default.

Such holders have no right to bring any such action or proceeding against TVA unless they have given TVA written notice of an Event of Default, and TVA has had a reasonable opportunity to take appropriate corrective action with respect thereto and has failed or refused to do so.

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

Amendments to the Basic Resolution to Become Effective in the Future

On March 25, 1992, TVA adopted a resolution amending the Basic Resolution, entitled "Fourth Amending Resolution to Basic Tennessee Valley Authority Power Bond Resolution" (the "Fourth Amending Resolution"). The amendments to the Basic Resolution made by the Fourth Amending Resolution will become effective only at such time as either (a) all Power Bonds issued prior to the date of adoption of the Fourth Amending Resolution cease to be outstanding (which will occur not later than November 15, 2029) or (b) the holders of at least 66⅔ percent of the principal amount of all then outstanding Power Bonds issued prior to the adoption of the Fourth Amending Resolution consent in writing to such amendments. At such times as the amendments become effective, they shall apply to all Power Bonds. The holders of Power Bonds offered after March 25, 1992, shall be deemed to have given their consent to the effect that, at any time after the conditions set forth in (a) or (b) above have been met, the amendments to the Basic Resolution made by the Fourth Amending Resolution will become effective in the manner provided. No further vote or consent of the holders of Power Bonds offered after March 25, 1992, is required to permit such amendments to the Basic Resolution to become effective.

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

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

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

Stripping

Certain series of the Corporation's New Power Bonds (the "Eligible New Power Bonds") may be separated ("stripped") into their Interest and Principal Components (as hereinafter defined) and maintained as such on the book-entry records of the Federal Reserve Banks. The components of each Eligible New Power Bond are: each future interest payment due on or prior to the first date on which the Eligible New Power Bond is subject to redemption at the option of the Corporation (each an "Interest Component"); and the principal payment plus any interest payments after the first date on which the Eligible New Power Bond is subject to redemption at the option of the Corporation (the "Principal Component"). Each Interest Component and the Principal Component will receive an identifying designation and CUSIP number. A request for separation of an Eligible New Power Bond into its Interest and Principal Components must be made to the Federal Reserve Bank of New York ("FRBNY"). Currently the FRBNY does not charge a fee for stripping Eligible New Power Bonds. For an Eligible New Power Bond to be stripped into its Interest and Principal Components as

described above, the principal amount of the Eligible New Power Bond must be in an amount that, based on the stated interest rate of the Eligible New Power Bonds, will produce a semi-annual interest payment of \$1,000 or multiples thereof. The minimum principal amounts required to strip an Eligible New Power Bond at various interest rates, as well as the interest payments corresponding to those minimum principal amounts, may be obtained by calling the Corporation's Vice President and Treasurer at (615) 632-3366 and the minimum principal amount required to strip an Eligible New Power Bond will be disclosed in a related offering circular except for Installment Bonds. Interest and Principal Components will be obligations of TVA payable solely from TVA's Net Power Proceeds.

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

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

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

INDEPENDENT ACCOUNTANTS

The financial statements of TVA at September 30, 1994, and 1993 and for each of the three fiscal years in the period ended September 30, 1994, appended hereto as part of the Information Statement, have been audited by Coopers & Lybrand L.L.P., independent accountants, as set forth in their report, dated November 15, 1994, which report is also appended hereto.

* * * * *

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

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

Tennessee Valley Authority

By: /s/ JOHN M. HOSKINS

John M. Hoskins
*Vice President and
Treasurer (Acting)*

Dated March 30, 1995

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TENNESSEE VALLEY AUTHORITY
FINANCIAL STATEMENTS
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FINANCIAL HIGHLIGHTS — Power Program
As of and For the Years Ended September 30

	<u>1994</u>	<u>1993</u>	<u>Percent</u>
	(Millions of dollars)		Change
Operating Revenues	\$ 5,401	\$ 5,276	2
Operating Expenses	3,461	3,269	6
Operating Income	1,940	2,007	(3)
Interest Expense	1,853	1,777	4
Net Income	151	311	(51)
Total Assets	\$31,842	\$ 30,923	3
Capitalization			
Equity	\$ 4,082	\$ 3,993	2
Long-Term Debt	22,206	20,954	6
Total Capitalization	\$26,288	\$424,947	5

POWER SYSTEM STATISTICS

	<u>1994</u>	<u>1993</u>	<u>Percent</u>
	(Millions of kilowatt-hours)		Change
System Input			
System Generation			
Hydro, including Pumped Storage	20,193	17,987	12
Coal	92,058	97,202	(5)
Nuclear	18,359	12,323	49
Combustion Turbine	239	317	(25)
Total Net Generation	130,489	127,829	2
Purchased	75	98	(24)
Net Interchange and Wheeling	487	(460)	206
Total System Input	131,411	127,467	3
System Output			
Sales			
Municipalities and Cooperatives	102,375	99,982	2
Federal Agencies	4,407	2,382	85
Industries	15,792	16,196	(3)
Total Sales	122,574	118,560	3
Losses	8,837	8,907	(1)
Total System Output	131,411	127,467	3
Dependable Capacity in Service (megawatts)	25,913	25,622	1
Percent of Average Gross Generation to Dependable Capacity in			
Service	62.06	61.32	1
System Peak Load (megawatts)	24,723	23,878	4
Annual Load Factor	60.42	61.11	(1)
Percent Dependable Capacity by Fuel Source			
Coal	58%	59%	
Hydro	20%	19%	
Combustion Turbine	9%	9%	
Nuclear in Service	13%	13%	

TENNESSEE VALLEY AUTHORITY
STATEMENTS OF OPERATIONS AND RETAINED EARNINGS —
POWER PROGRAM
For the Years Ended September 30, 1994, 1993, and 1992

	<u>1994</u>	<u>1993</u> (Millions)	<u>1992</u>
OPERATING REVENUES.....	\$5,401	\$5,276	\$5,065
OPERATING EXPENSES			
Fuel and purchased power, net	1,493	1,401	1,354
Operating and maintenance	1,081	1,174	1,098
Depreciation and amortization of deferred nuclear costs	639	457	505
Tax-equivalent payments	248	237	241
Total operating expenses	<u>3,461</u>	<u>3,269</u>	<u>3,198</u>
Operating income	<u>1,940</u>	<u>2,007</u>	<u>1,867</u>
OTHER INCOME AND DEDUCTIONS, NET	<u>(59)</u>	<u>23</u>	<u>(87)</u>
Income before interest charges	<u>1,881</u>	<u>2,030</u>	<u>1,780</u>
INTEREST CHARGES			
Interest expense	1,853	1,777	1,695
Allowance for funds used during construction	<u>(123)</u>	<u>(58)</u>	<u>(35)</u>
Net interest charges	<u>1,730</u>	<u>1,719</u>	<u>1,660</u>
NET INCOME	<u>151</u>	<u>311</u>	<u>120</u>
Return on appropriation investment	<u>42</u>	<u>48</u>	<u>57</u>
Increase in retained earnings reinvested	109	263	63
Retained earnings reinvested at beginning of period	<u>3,325</u>	<u>3,062</u>	<u>2,999</u>
Retained earnings reinvested at end of period	<u>\$3,434</u>	<u>\$3,325</u>	<u>\$3,062</u>

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

TENNESSEE VALLEY AUTHORITY
STATEMENTS OF NET EXPENSE AND ACCUMULATED NET EXPENSE —
NONPOWER PROGRAMS
For the Years Ended September 30, 1994, 1993, and 1992

	<u>1994</u>	<u>1993</u>	<u>1992</u>
		(Millions)	
NET EXPENSE			
STEWARDSHIP	\$ 78	\$ 73	\$ 67
WATER AND LAND	8	(3)	9
LAND BETWEEN THE LAKES	4	5	4
RURAL DEVELOPMENT	20	23	22
ENVIRONMENTAL RESEARCH CENTER	26	30	36
COAL GASIFICATION	—	—	113
NET EXPENSE	<u>136</u>	<u>128</u>	<u>251</u>
Accumulated net expense at beginning of period	<u>2,803</u>	<u>2,675</u>	<u>2,424</u>
Accumulated net expense at end of period	<u>\$2,939</u>	<u>\$2,803</u>	<u>\$2,675</u>

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

TENNESSEE VALLEY AUTHORITY

BALANCE SHEETS

At September 30, 1994 and 1993

	Power program		All programs	
	1994	1993	1994	1993
	(Millions)			
ASSETS				
PROPERTY, PLANT AND EQUIPMENT				
Completed plant	\$16,700	\$15,764	\$17,845	\$16,815
Less accumulated depreciation and depletion	5,584	5,163	5,861	5,425
Completed plant, net	11,116	10,601	11,984	11,390
Construction in progress	9,520	8,675	9,558	8,794
Deferred nuclear generating units	6,206	6,125	6,206	6,125
Nuclear fuel	1,014	2,269	1,014	2,269
Capital lease assets	215	218	215	218
Total	28,071	27,888	28,977	28,796
INVESTMENT FUNDS, at accreted cost	150	—	150	—
CURRENT ASSETS				
Cash	2	113	152	290
Short-term investments	—	123	—	123
Accounts receivable	676	752	720	786
Inventories, at average cost				
Fuel	104	176	104	176
Other	243	270	243	270
Total	1,025	1,434	1,219	1,645
DEFERRED CHARGES AND OTHER ASSETS				
Loans and other long-term receivables and other	373	346	429	405
Unamortized debt issue and reacquisition costs	1,340	1,255	1,340	1,255
Other deferred charges	883	—	883	—
Total	2,596	1,601	2,652	1,660
Total assets	\$31,842	\$30,923	\$32,998	\$32,101
CAPITALIZATION AND LIABILITIES				
CAPITALIZATION				
Equity				
Appropriation investment, net	\$ 648	\$ 668	\$ 4,594	\$ 4,473
Retained earnings reinvested in the power program	3,434	3,325	3,434	3,325
Accumulated net expense of nonpower programs	—	—	(2,939)	(2,803)
Total	4,082	3,993	5,089	4,995
Long-term debt	22,206	20,954	22,206	20,954
Total	26,288	24,947	27,295	25,949
OTHER LIABILITIES				
Capital lease obligations	211	214	211	214
Decommissioning of nuclear plant	264	264	264	264
Other accrued liabilities	488	556	488	556
Total	963	1,034	963	1,034
CURRENT LIABILITIES				
Short-term debt	2,609	3,335	2,609	3,335
Current maturities of long-term debt	716	297	716	297
Accounts payable	646	656	770	810
Payrolls and other accrued costs	196	210	221	232
Interest accrued	424	444	424	444
Total	4,591	4,942	4,740	5,118
COMMITMENTS AND CONTINGENCIES (Note 10)				
Total capitalization and liabilities	\$31,842	\$30,923	\$32,998	\$32,101

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

TENNESSEE VALLEY AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 1994, 1993, and 1992

	Power program			All programs		
	1994	1993	1992	1994	1993	1992
	(Millions)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Net power income	\$ 151	\$ 311	\$ 120	\$ 151	\$ 311	\$ 120
Net expense of nonpower programs	—	—	—	(136)	(128)	(251)
Items not requiring (providing) cash						
Depreciation and amortization of						
deferred nuclear costs	639	457	505	651	467	515
Allowance for funds used during						
construction and nuclear fuel	(123)	(58)	(35)	(123)	(58)	(35)
Nuclear fuel amortization	176	—	—	176	—	—
Other, net	217	120	191	216	120	304
Changes in current assets and liabilities						
Accounts receivable, net	76	(59)	4	66	(68)	60
Inventories	99	(25)	53	99	(25)	53
Accounts payable and accrued						
liabilities	(23)	(186)	249	(51)	(185)	235
Interest payable	(21)	(35)	(38)	(21)	(35)	(38)
Other	(47)	(22)	(1)	(47)	(23)	(1)
Net cash provided by operating activities ...	<u>1,144</u>	<u>503</u>	<u>1,048</u>	<u>981</u>	<u>376</u>	<u>962</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Construction expenditures	(2,015)	(2,311)	(1,689)	(2,023)	(2,319)	(1,700)
Allowance for funds used during						
construction	123	58	35	123	58	35
Nuclear fuel	70	(2,275)	—	70	(2,275)	—
Investments	(26)	539	10	(26)	539	10
Other, net	(80)	139	(288)	(77)	130	(287)
Net cash used in investing activities	<u>(1,928)</u>	<u>(3,850)</u>	<u>(1,932)</u>	<u>(1,933)</u>	<u>(3,867)</u>	<u>(1,942)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Long-term debt						
Issues	6,381	4,669	6,450	6,381	4,669	6,450
Redemptions	(3,175)	(638)	(3,980)	(3,175)	(638)	(3,980)
Debt defeased	(1,493)	(1,929)	(1,596)	(1,493)	(1,929)	(1,596)
Short-term borrowings, net	(726)	1,628	443	(726)	1,628	443
Borrowing expenses, net	(252)	(359)	(385)	(252)	(359)	(385)
Congressional appropriations and						
transfers	—	—	—	141	136	139
Payments to U.S. Treasury	(62)	(68)	(77)	(62)	(68)	(77)
Net cash provided by financing activities ...	<u>673</u>	<u>3,303</u>	<u>855</u>	<u>814</u>	<u>3,439</u>	<u>994</u>
Net change in cash and cash equivalents ...	(111)	(44)	(29)	(138)	(52)	14
Cash and cash equivalents at beginning of						
year	113	157	186	290	342	328
Cash and cash equivalents at end of year ...	<u>\$ 2</u>	<u>\$ 113</u>	<u>\$ 157</u>	<u>\$ 152</u>	<u>\$ 290</u>	<u>\$ 342</u>

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 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, 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 1994, 1993, and 1992 was 3.14 percent, 3.06 percent, and 2.97 percent, respectively.

Provision for decommissioning costs of nuclear generating units is based on the estimated cost using 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 decommissioning costs is recovered in rates through charges to depreciation expense.

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.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Nuclear fuel

Prior to 1994, the cost of nuclear fuel, including disposal, was amortized on the basis of generation and charged to fuel expense. Effective for 1994, TVA elected to reclassify a \$1,009 million capitalized interest component of nuclear fuel to other deferred charges. This asset is being amortized on a straight-line basis and included in rates over an eight-year period. The effect of this change was to increase amortization expense by \$126 million for 1994. The remaining balance of nuclear fuel will continue to be amortized based on generation. Related financing costs are capitalized as a component of the nuclear fuel acquired.

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 was deferred and the unamortized balance is 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 such time as appropriate investment portfolios can be established. At September 30, 1994, a \$150 million investment portfolio had been 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.

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 deferred and 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.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Statements of cash flows

Cash equivalents include the cash available in commercial bank accounts and U.S. Treasury accounts. During fiscal years 1994, 1993, and 1992, interest paid (net of amount capitalized) was \$1,628 million, \$1,642 million, and \$1,625 million, respectively. Capital lease additions, including capitalized interest, were zero in 1994 and 1993 and \$156 million in 1992.

2. Nuclear power program

The nuclear power program at September 30, 1994, consists of nine generating units at four locations with investments as follows and in the status indicated:

	<u>Units</u>	<u>Capacity</u> (Megawatts)	<u>Completed</u> <u>Plant, Net</u>	<u>Construction</u> <u>in Progress</u>	<u>Deferred</u>	<u>Fuel</u> <u>Investment</u>
				(Millions)		
Sequoyah	2	2,442	\$1,956	\$ 147	\$ —	\$ 162
Browns Ferry	3	3,456	2,343	1,196	—	221
Watts Bar	2	2,540	—	6,444	1,657	90
Bellefonte	2	2,664	—	—	4,549	—
Raw Materials			—	—	—	541
Total		<u>11,102</u>	<u>\$4,299</u>	<u>\$7,787</u>	<u>\$6,206</u>	<u>\$1,014</u>

Sequoyah 2 was returned to service October 1993 following an extended outage for steam piping inspection and repair. Sequoyah 2 began a refueling outage in July 1994 and is expected to return to service during November 1994. Sequoyah 1 returned to service in April 1994 following a refueling outage and is currently operating at full power.

Browns Ferry 2 began a refueling outage in October 1994 and is expected to return to service during November 1994. Browns Ferry 1 and 3 were taken off-line in March 1985 for plant modifications and regulatory improvements. TVA plans to return Browns Ferry 3 to service in calendar year 1996. The return to service date for Browns Ferry 1 is currently under review in the Integrated Resource Planning effort as discussed below.

Construction of Watts Bar 1 is substantially complete. Hot functional testing began in April 1994 and, as a result, in May 1994 the Unit 1 generator was synchronized to the power system and supplied five megawatts of power to TVA customers for six minutes. TVA plans to bring Unit 1 into commercial operation in calendar year 1995.

In 1988, TVA suspended construction activities on 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. Budgeted 1995 expenditures for the three units total \$22 million and are limited to layup, maintenance, and ensuring options remain viable. For financial reporting purposes, the cost of the three units is presented as deferred nuclear generating units. Interest capitalization for Watts Bar 2 and Bellefonte 1 and 2 was suspended in 1988.

In 1993, TVA began an integrated resource planning process, from which information will be utilized to determine TVA's strategy for meeting future customer energy demands. As part of its long-term energy strategy, TVA is reevaluating the need for finishing Bellefonte 1 and 2 and Watts Bar 2. Recent preliminary cost estimates show that completing these units could cost between \$3.3 billion and \$8.8 billion, which indicates their completion may not be economically feasible. Serious consideration is being given to converting Bellefonte to another fuel source or entering into arrangements with an electric utility or major contractor to finish it as a nuclear plant. The economic feasibility of returning Browns Ferry 1 to service is also being evaluated.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

The final decision regarding these four nuclear units will not be made until the TVA Board receives sufficient public input on TVA's long-term energy strategy. TVA expects to complete this process by December 1995. If abandonment of any of these units should occur, TVA would recover these costs (including fuel) through rates charged to future customers.

Nuclear fuel

During fiscal 1994, TVA entered into a contract whereby TVA exchanged certain uranium assets with a book value of \$73 million and a current market value of \$8 million for \$8 million of enrichment services. The exchange resulted in a \$65 million loss, which is reflected in other deductions in the statement of operations for the year ended September 30, 1994. Also during 1994, TVA exchanged certain uranium assets with a book value of \$84 million and a current market value of \$9 million in lieu of cash to prepay a termination fee associated with a fuel fabrication contract. The exchange resulted in a \$75 million loss, which is also reflected in other deductions in the statement of operations for the year ended September 30, 1994. As of September 30, 1994, the natural uranium component of the total nuclear fuel asset exceeds current market value by an estimated \$400 million. However, TVA believes that the total nuclear fuel asset book value of \$1,014 million, and the resultant average nuclear fuel costs, are comparable to current market values.

In 1992, TVA began converting fuel originally fabricated for use at the Bellefonte plant to a form which is being 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. 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.

3. Completed plant

Completed plant stated at gross cost consists of the following at September 30, 1994 and 1993:

	1994		1993	
	Power Program	All Programs	Power Program	All Programs
	(Millions)			
Steam production plants	\$ 5,712	\$ 5,712	\$ 5,182	\$ 5,182
Nuclear production plants	5,664	5,664	5,351	5,351
Transmission plants	2,457	2,457	2,341	2,341
Multipurpose dams	680	1,593	640	1,541
Single-purpose dams	472	472	465	465
Other	1,715	1,947	1,785	1,935
Total	<u>\$16,700</u>	<u>\$17,845</u>	<u>\$15,764</u>	<u>\$16,815</u>

4. Leases

During 1993, TVA repurchased nuclear fuel that was previously under capital lease. 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.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

The following is a summary of obligations under capital and noncancelable operating lease agreements in effect at September 30, 1994 and 1993:

<u>Fiscal Period</u>	<u>General Plant Capital Leases</u>	<u>Noncancelable Operating Leases</u>
	(Millions)	
1995	\$ 36	\$ 5
1996	36	4
1997	36	2
1998	36	2
1999	36	2
Thereafter	409	9
Total future minimum lease payments	589	<u>\$24</u>
Less interest element included	374	
Present value of future minimum lease payments	<u>\$215</u>	

Amortization of capital leases, including nuclear fuel, for the years ended September 30, 1994, 1993, and 1992 was \$1 million, \$58 million, and \$193 million, respectively. Operating expenses for the same respective periods included finance charges for capital leases in the amounts of \$33 million, \$45 million, and \$67 million.

Annual rents under one capital lease range from \$3 million to \$52 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 \$171 million at September 30, 1994.

5. Appropriation investment

Changes in the appropriation investment during the fiscal years ended September 30, 1994, 1993, and 1992 were:

	<u>1994</u>	<u>1993</u>	<u>1992</u>
	(Millions)		
Power Program			
Congressional Appropriations	\$1,419	\$1,419	\$1,419
Transfers of Property from Other Federal Agencies	24	24	24
Repayments to General Fund of the U.S. Treasury	(795)	(775)	(755)
Net Appropriation Investment	<u>\$ 648</u>	<u>\$ 668</u>	<u>\$ 688</u>
All Programs			
Congressional Appropriations	\$5,366	\$5,225	\$5,090
Transfers of Property from Other Federal Agencies	65	65	63
Repayments to General Fund of the U.S. Treasury	(837)	(817)	(797)
Net Appropriation Investment	<u>\$4,594</u>	<u>\$4,473</u>	<u>\$4,356</u>

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 1994 was \$42 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 \$610 million at September 30, 1994. Return on investment payments total \$2,181 million as of September 30, 1994. Congressional appropriations for nonpower programs for fiscal year 1995 are \$142 million.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

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, 1994 and 1993 (excluding defeased debt of \$3.8 billion and \$3.25 billion, respectively, which is not considered by TVA to be debt that is subject to the \$30 billion bond limit) consist of the following:

	1994	1993
(Millions)		
LONG-TERM DEBT		
Held by the public		
Maturing in fiscal year 1995 — 3.85% to 4.25%	\$ —	\$ 566
Maturing in fiscal year 1996 — 3.81% to 5.94%	1,306	915
Maturing in fiscal year 1997 — 4.60% to 8.25%	3,137	2,500
Maturing in fiscal year 1998 — 5.07% to 6.98%	653	253
Maturing fiscal year 1999 through 2044 — 6.125% to 8.625%	14,050	10,950
	19,146	15,184
Federal Financing Bank		
Maturing 2003 through 2017 — 7.285% to 11.695%	3,400	6,075
Total long-term debt	22,546	21,259
Less unamortized discount	340	305
Net long-term debt	22,206	20,954
SHORT-TERM DEBT		
Held by public		
Discount notes (net of discount)	\$ 2,459	\$ 3,185
Current portion of long-term debt — 3.41% to 4.25%	716	297
U.S. Treasury	150	150
Total short-term debt	\$ 3,325	\$ 3,632
Total debt	25,531	24,586

Between October 1989 and September 1994, TVA sold \$21.1 billion in Power Bonds to the public, using the proceeds to advance refund \$19.4 billion in previously issued long-term debt. Bond issues of \$17.3 billion held by the public are redeemable in whole or in part at TVA's option on call dates ranging from the present to April 2012 at call prices ranging from 100% to 106.7% of the principal amount. TVA incurred premiums totaling \$1.4 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. Advanced refundings totaling \$11.2 billion 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, 1994, was 4.50 percent and the weighted average yield on short-term debt outstanding in the public market as of September 30, 1994, was 4.82 percent.

During fiscal years 1994, 1993, and 1992, the maximum outstanding balance of short-term borrowings held by the public was (in millions) \$4,062, \$3,302 and \$1,826, respectively, and the average amounts (and

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

weighted average interest rates) of such borrowings were approximately (in millions), \$3,163 (3.75 percent), \$2,117 (3.19 percent), and \$1,458 (5.1 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.

Decommissioning investment fund

The carrying amount approximates fair value because of the short-term maturity of the investments.

Loans and long-term receivables

Fair values for these homogeneous 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.

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

	1994		1993	
	Carrying Amount	Fair Amount	Carrying Amount	Fair Amount
	(Millions)			
Cash and short-term investments	\$ 152	\$ 152	\$ 413	\$ 413
Decommissioning investment fund	150	150	—	—
Loans and long-term receivables	355	345	379	372
Short-term debt	2,609	2,609	3,335	3,335
Long-term debt	23,262	22,590	21,556	23,884

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

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 and years of service, less a Social Security offset.

The components of pension expense for fiscal years 1994, 1993, and 1992 were:

	<u>1994</u>	<u>1993</u> (Millions)	<u>1992</u>
Service cost	\$ 76	\$ 77	\$ 72
Interest cost on projected benefit obligation	275	256	237
Actual return on assets	(32)	(512)	(355)
Net amortization and deferral	(307)	209	71
Net pension costs	<u>\$ 12</u>	<u>\$ 30</u>	<u>\$ 25</u>

The plan's funded status was:

Actuarial present value of benefit obligations:			
Vested benefit obligation	\$(2,839)	\$(2,844)	\$(2,492)
Nonvested benefits	(111)	(106)	(61)
Accumulated benefit obligation	(2,950)	(2,950)	(2,553)
Effects of projected future compensation	(389)	(409)	(397)
Projected benefit obligation	(3,339)	(3,359)	(2,950)
Plan assets at fair value	3,674	3,718	3,286
Excess of plan assets over projected benefit obligation	335	359	336
Unrecognized net (gain)	(280)	(343)	(341)
Unrecognized net obligation being amortized over 15 years beginning October 1, 1987	3	3	3
Prepaid pension cost (accrued liability)	<u>\$ 58</u>	<u>\$ 19</u>	<u>\$ (2)</u>

The discount rate used to determine the actuarial present value of the projected benefit obligation was 8.5 percent in fiscal years 1992 and 1994 and 8.0 percent in fiscal year 1993. The assumed annual rates of increase in future compensation levels for 1994 range from 4.3 to 9.3 percent, 1993 ranged from 3.5 to 9.3 percent, 1992 ranged from 4.8 to 9.8 percent. The expected long-term rate of return on plan assets was 11 percent for 1994, 1993 and 1992.

Other postretirement benefits

TVA sponsors an unfunded defined benefit postretirement plan which provides for contributions toward the cost of retirees' medical coverage. The plan covers employees whose age plus years of service at retirement equals 60 or more. TVA's contributions are a flat dollar amount based upon the participants' age and years of service and certain payments toward the plan costs.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

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

	<u>1994</u>	<u>1993</u> (Millions)	<u>1992</u>
Accumulated Postretirement Benefit Obligation (APBO):			
Retirees	\$166	\$144	\$124
Fully eligible active plan participants	1	1	28
Other active plan participants	<u>114</u>	<u>139</u>	<u>97</u>
	281	284	249
Unrecognized net gain (loss)	<u>6</u>	<u>(5)</u>	<u>20</u>
Accrued postretirement benefit cost	<u>\$287</u>	<u>\$279</u>	<u>\$269</u>
Net Periodic Postretirement Benefit Cost for these fiscal years included the following components:			
Service cost	\$ 10	\$ 9	\$ 7
Interest cost	22	22	20
Amortization of gain	<u>(5)</u>	<u>—</u>	<u>(7)</u>
Net periodic postretirement benefit cost	<u>\$ 27</u>	<u>\$ 31</u>	<u>\$ 20</u>

The annual assumed cost trend for covered benefits is 13.0 percent in fiscal year 1994, decreasing by one-half percent per year reaching 6 percent in 2009 and thereafter. For fiscal years 1993 and 1992 an annual trend rate of 13.5 percent and 14.0 percent respectively 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, 1994, by \$15 million and the aggregated service and interest cost components of net periodic postretirement benefit cost for 1994 by \$2 million. The weighted average discount rate used in determining the APBO was 8.5 percent for fiscal years 1992 and 1994 and 8.0 percent for fiscal year 1993. 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.

Other postemployment benefits

TVA adopted Statement of Financial Accounting Standards No. 112 "Employers Accounting for Postemployment Benefits" (SFAS No. 112) on October 1, 1994 (fiscal 1995). SFAS No. 112 applies to postemployment benefits including workers compensation provided to former or inactive employees, their beneficiaries, and covered dependents after employment, but before retirement. Adoption of SFAS No. 112 changed TVA's method of accounting from recognizing costs as benefits are paid to accruing the expected costs of providing these benefits, and resulted in recognition of a transition obligation of approximately \$280 million. The accounting for and impact on TVA's financial position and results of operations will depend on the future ratemaking treatment, which will be determined by December 1994.

Early-out termination package

During the fourth quarter of 1994, TVA offered a voluntary early-out package to all TVA employees. Employee elections were received on October 3, 1994 subject to approval by TVA. The cost associated with the termination package is estimated to be approximately \$90 to \$110 million, which will be recognized as a charge in the first quarter of fiscal 1995.

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

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

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 9 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 \$1.9 billion and \$1.4 billion for fiscal years 1995 and 1996, respectively. Estimates for capital expenditures beyond 1996 will be dependent upon the outcome of TVA's Integrated Resource Planning effort. 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 \$2.3 billion in long-term commitments, ranging in terms of up to 5 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 \$79.275 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. Some of the 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 \$32.1 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 thirteen units. Annual operating and fuel expenses (excluding capital recovery) could increase \$30 to \$70 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.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

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. In August, 1994, TVA and the Duck River Development Agency (DRDA) reached agreement on the future of the Columbia Dam portion of the Duck River Project. The agreement contemplates pursuing a protective river corridor concept in lieu of completing Columbia Dam. Under this concept the corridor would be developed and managed to protect existing endangered species and provide new recreational opportunities. The dam structure will be stabilized, and TVA will consider alternatives for final disposition. TVA will complete a new environmental impact statement by calendar year 1996. Final decisions related to the project will be made at that time. In 1994, the total cost of the project, \$82 million, was transferred from construction in progress to other completed plant.

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, 1994 and 1993 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, 1994. 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.

As discussed in Note 2 to the financial statements, TVA is reevaluating the need for completing certain nuclear units as part of its long-term energy strategy.

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, 1994 and 1993, 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, 1994 in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.
Knoxville, Tennessee
November 15, 1994

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

	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>
Sales (millions of kilowatt-hours) (a)					
Municipalities and cooperatives	102,375	99,982	93,622	92,848	91,636
Federal agencies	4,407(b)	2,382	2,204	2,173	2,335
Industries	15,792	16,196	16,576	17,437	17,121
Electric utilities	—	—	—	49	265
	<u>122,574</u>	<u>118,560</u>	<u>112,402</u>	<u>112,507</u>	<u>111,357</u>
Operating Revenues (millions of dollars)					
Electric					
Municipalities and cooperatives	\$4,582	\$4,479	\$4,266	\$4,272	\$4,292
Federal agencies	296	254	255	257	413
Industries	452	472	472	531	548
Electric utilities	—	—	1	8	17
Other	71	71	71	68	69
	<u>\$5,401</u>	<u>\$5,276</u>	<u>\$5,065</u>	<u>\$5,136</u>	<u>\$5,339</u>
Dependable Generating Capacity (megawatts) (c)					
Hydro(d)	5,242(e)	4,885	4,885	4,885	4,885
Coal	15,032	15,088	15,088	15,249	15,249
Nuclear units in service	3,375	3,365	3,361	3,361	2,296
Combustion turbine	2,264	2,284	2,284	2,284	2,284
	<u>25,913</u>	<u>25,622</u>	<u>25,618</u>	<u>25,779</u>	<u>24,714</u>
System Peak Load (megawatts)	<u>24,723</u>	<u>23,878</u>	<u>21,980</u>	<u>22,081</u>	<u>24,627</u>
Percent Gross Generation					
Coal	70%	76%	69%	68%	68%
Hydro	16%	15%	14%	16%	19%
Nuclear	14%	9%	17%	16%	13%
Fuel Cost Per Kilowatt-hour (mills)					
Coal	13.4	12.7	13.3	13.5	13.7
Nuclear	11.0	10.3	11.0	10.2	10.0
Aggregate fuel cost per kwh net thermal generation	<u>13.1</u>	<u>12.5</u>	<u>12.9</u>	<u>12.9</u>	<u>13.2</u>
Revenue Per Kilowatt-hour (mills) (f) ...	<u>42.2</u>	<u>42.6</u>	<u>43.0</u>	<u>43.6</u>	<u>44.5</u>
Fuel Data					
Net thermal generation (millions of kilowatt-hours)	110,643	109,968	105,577	98,153	93,595
Billion Btu	1,120,868	1,105,395	1,069,725	998,934	946,113
Fuel expense (millions of dollars)	1,450	1,375	1,360	1,263	1,233
Cost per million Btu (cents)	129.40	124.42	127.16	126.48	130.36
Net heat rate	10,131	10,052	10,132	10,177	10,109

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

(b) Increase due to contractual change with another federal agency.

(c) Winter net dependable capacity.

(d) Includes 405 megawatts of dependable capacity from the Corps of Engineers projects on the Cumberland River system.

(e) Reflects renewal of exchange agreement with TAPOCO.

(f) Excludes Department of Energy settlement payment.



*To be the recognized
world leader in
providing energy and
related services,
independently and in
alliances with others, for
society's global needs.*

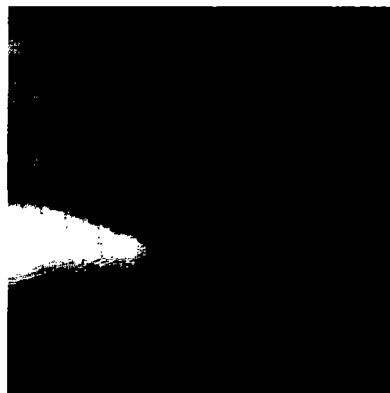


▲
*TVA's 16,800-mile system of
transmission lines through seven
states serves as a vital part of the
United States energy infrastructure.*



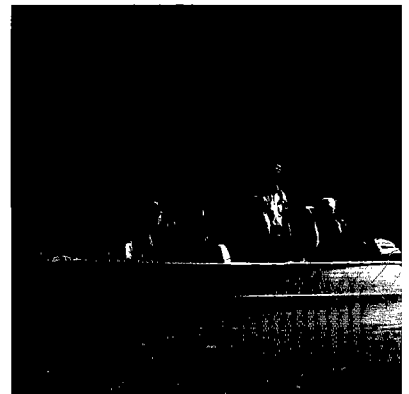
▲
*TVA's power system is one of
the largest in the United States
in both generating capacity
and energy production.*

*TVA is environmentally
sensitive in the management of
the thousands of acres it is
responsible for along the
Tennessee River system.*



▲
*TVA's electric generation
facilities are state of the art,
including computer
controlled production.*

*TVA manages over 600
miles of the Tennessee River
system for flood control,
navigation, power
production, and
recreation.*



PRINCIPAL EXECUTIVE OFFICE OF TVA

400 W. Summit Hill Drive
Knoxville, TN 37902
U.S.A.

FISCAL AGENT

U.S. Federal Reserve Banks
c/o Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045
U.S.A.

**U.S. TAX AND
LEGAL ADVISORS TO TVA**

Sullivan & Cromwell
1701 Pennsylvania Avenue, N.W.
Washington, DC 20006
U.S.A.

LEGAL COUNSEL FOR TVA

Edward S. Christenbury
General Counsel
Tennessee Valley Authority
400 W. Summit Hill Drive
Knoxville, TN 37902
U.S.A.

U.S. LEGAL ADVISORS TO THE MANAGERS

Orrick, Herrington & Sutcliffe
666 Fifth Avenue
New York, NY 10103
U.S.A.

LISTING AGENT AND SPECIAL AGENT

Kredietbank S.A. Luxembourgeoise
43 Boulevard Royal L-2955 Luxembourg
R.C. Luxembourg B6395

AUDITORS TO TVA

Coopers & Lybrand L.L.P.
800 South Gay Street
Suite 1600
Knoxville, TN 37929
U.S.A.