

Economy, Weather Influence TVA First Quarter 2010 Financial Results

In its report for the first quarter of fiscal year 2010, the Tennessee Valley Authority said reduced power sales and wetter-than-normal weather are key factors that influenced the agency's financial performance during the three-month period that ended December 31, 2009. TVA reported net income for re-investment of \$150 million in its quarterly report on Form 10-Q filed with the Securities and Exchange Commission. That's compared with a net loss of \$305 million for the first quarter of the previous fiscal year, which included \$525 million in expenses from the Kingston ash spill recovery effort. Those costs related to the ash spill have subsequently been reclassified by the TVA Board as a regulatory asset to be recovered in future rates over 15 years.

TVA, which does not make a profit, reinvests net income in its power business, specifically on projects that expand and improve TVA's infrastructure. These projects include new generation, environmental controls and transmission improvements. TVA receives no taxpayer money. Operating revenue for the first quarter was \$2.3 billion, a decrease of \$728 million, or about 24 percent for the quarter compared with the same period a year ago. These decreases were partially offset by an increase in TVA's base power rates of 8 percent, which provided \$165 million in revenue.

"Persistent economic weakness in the TVA service area meant reduced power sales, which we expect will continue throughout the year," said TVA's Interim Chief Financial Officer John Hoskins. "However, better availability of low-cost power from TVA dams and reduced fuel costs are resulting in lower prices for our customers." Operating expenses decreased \$1.2 billion from a year ago, primarily because of lower fuel and purchased power expenses as well as costs from the Kingston ash spill.

The weather had a positive impact on the quarterly results. Rainfall in the eastern Tennessee Valley was 134 percent of normal for the quarter. As a result, TVA was able to increase its low-cost hydroelectric generation by 161 percent compared with the first quarter a year ago. Having the lower-cost hydroelectric generation available was a contributing factor to a decline in TVA's fuel cost adjustment in October, November and December, resulting in lower power bills for TVA customers. Lower market prices for purchased power and natural gas, which ranged from 35 percent to 40 percent below prices for the first quarter a year ago, also contributed to the monthly fuel cost adjustment reductions.

"As sales have declined due to economic conditions, TVA's expenses have been reduced by a corresponding amount," said Hoskins. "Despite economic conditions, TVA needs to invest in system infrastructure and clean energy sources that will provide a long-term benefit to the Tennessee Valley."

TVA's capital budget for 2010 includes spending for construction of environmental controls, new generation sources and dry storage facilities for coal combustion products. Estimated expenses for cleanup costs related to the Kingston recovery effort range from \$933 million to \$1.2 billion. As ash removal continues, it is possible that additional remediation not included in the estimate may be required.