

Tennessee Valley Authority
First Quarter Fiscal Year 2019 Conference
Call
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CORPORATE PARTICIPANTS

Bill Johnson, *President and Chief Executive Officer*

John Thomas, *Executive Vice President and Chief Financial Officer*

Tammy Wilson, *Vice President, Treasurer, and Chief Risk Officer*

PRESENTATION

Operator

Good morning, everyone, and welcome to the Tennessee Valley Authority's First Quarter Fiscal Year 2019 Conference Call. For your information, today's call is being recorded. If you should need assistance during today's conference, you may signal an operator by pressing star and then 0.

At this time, for opening remarks, I would like to turn the conference call over to Ms. Tammy Wilson, TVA Vice President, Treasurer, and Chief Risk Officer. Ms. Wilson, please go ahead.

Tammy Wilson

Thank you, Jamie. Good morning, everyone, and welcome to the Tennessee Valley Authority's First Quarter Fiscal Year 2019 Financial Review.

With me this morning, I have Bill Johnson, TVA's President and Chief Executive Officer, and John Thomas, TVA's Chief Financial Officer. Bill will lead the discussion with key results and events from the first quarter of fiscal year 2019. Following Bill's remarks, John will review TVA's financial performance during the same period. The call will then be opened up to give our participants the opportunity to ask questions.

Before we begin, I would like to point out that today's press release and TVA's Quarterly Report on Form 10-Q for the quarter ended December 31st of 2018, are available on TVA's website, and that's www.tva.com. A replay of this call will also be available on TVA's website for a period of one year.

And just a reminder, that today's discussion may include forward-looking statements that are subject to various risks and uncertainties, so please refer to TVA's Quarterly Report on Form 10-Q for the quarter ended December 31st of 2018, and TVA's Annual Report on Form 10-K for the fiscal year ended September 30th of 2018, for a discussion of these factors.

And with that, I will now turn the call over to TVA's President and Chief Executive Officer, Bill Johnson.

Bill Johnson

Thank you, Tammy, and good morning, everyone. Thanks for joining us on the call today. In case you're wondering, even those of us here in Tennessee and in the South in general are experiencing the impact of the Polar Vortex as are many of you, but our team was well prepared and is working hard, safely, and reliably generating nearly 28,000 megawatts of power for our local power companies to deliver to families and businesses across the Tennessee Valley. The weather has had a keen influence on results so far this fiscal year, which you'll hear more about in a bit from John. And you'll also hear how we're building on the momentum we've created to serve nearly 10 million people who count on us every day.

As our industry and our business continues to evolve, the compass guiding us through these changes is TVA's mission, the mission of delivering affordable, reliable power; caring for our region's natural resources; and creating sustainable economic growth. We carry out our mission through a focus on strategic imperatives by concentrating our people, performance, and excellence in maintaining rates as low as feasible, meeting the reliability expectations of our customers, living within our means on financial obligations, and being responsible stewards of the public lands and waters in our care.

The first quarter financial results that John will be sharing with you in a moment, directly reflect our employees' commitment to those strategic imperatives, even in the face of some unique challenges from Mother Nature. In moving forward into 2019 and beyond, the decisions we make must be consistent with our mission and imperatives and ultimately what is in the best interest of those we serve.

The steady execution of the long-range business plan approved by the TVA Board in 2013 has been paying off for our customers, both in the short and long runs. I was pleased to report during last quarter's call that fiscal year 2018 was one of the strongest in TVA's 85-year history. Our effective power rates remained flat for customers, continuing the trend we've held for the past five years. We realized a billion dollars in annual fuel savings and reduced yearly operating expenses by \$800 million, and we've reduced financing obligations by \$3 billion, which means that TVA's debt is now at the lowest level it's been in 25 years. These actions will allow us to maintain rates as low as feasible into the future.

And while doing those things, we also made significant investments to make the power system cleaner and more diverse. In fact, the majority of energy we're generating today comes from carbon-free sources. TVA also delivered power with five-nines of reliability for the 18th consecutive year, and each of these accomplishments was made possible because of steady progress and discipline in pursuing our strategic goals.

Now, while we're pleased with the results thus far, we're also thinking about the future. We've been updating our Integrated Resource Plan, which will help guide our future strategic direction around the resources needed to fulfill TVA's mission. We expect to release a draft of the IRP for public comment in the near future.

One of TVA's key priorities is pursuing operational excellence, and part of achieving operational excellence is maintaining reliability, even in the face of challenging operating conditions. Calendar year 2018, which includes the first quarter of our 2019 fiscal year, was the wettest year in the Tennessee Valley's 129 years of recordkeeping. The Valley average rainfall in 2018 was 67.1 inches, for more than 16 inches above normal. In dealing with all this water, the TVA team fulfilled both our energy and environmental stewardship missions. We managed the Tennessee River system to prevent flooding, while simultaneously generating more carbon-free hydropower. In fact, TVA's hydropower generation increased 42 percent over the first quarter of the prior fiscal year, creating more of our least expensive energy to help keep rates low.

TVA generated more power from hydro and renewables in the first quarter than from coal, probably for the first time since the early 1950s. The higher rainfall totals were a part of that, but this is also another example of how much cleaner and more diverse TVA's power fleet has become in recent years.

In addition to the record rainfall, a magnitude 4.4 earthquake rumbled across East Tennessee on December 12th. Now, our facilities are designed and constructed to withstand strong earthquakes, and inspections confirmed that there was no damage and no threat to public safety.

In addition to handling record rainfall and the earthquakes, our system also demonstrated its resiliency by handling large swings in power demand caused by temperature swings during an unusual fall cold spell. A colder-than-normal November caused TVA to record our second highest peak power demand for that month, ever, almost 27,000 megawatts of load on the system, at an average temperature of 24 degrees.

So our strategy of preparing for the worst and the unexpected keeps us performing at our best in terms of safety and reliability. Reliability and resilience are benefits directly related to how effectively and efficiently we manage our fleet operations, and in that regard, in December, TVA successfully completed a refueling outage at Sequoyah Nuclear Plant Unit 2. You know, nuclear refueling outages are complex and big. In total, the Sequoyah team completed about 12,300 separate activities during that outage, and the unit is now back online ready for another 18 months of providing enough reliable carbon-free electricity for more than 650,000 homes.

The second of three extended power uprates at Brown's Ferry was also completed, and just this week the upgraded unit reached its new full power level during testing, providing 155 additional megawatts of carbon-free energy. The final EPU upgrade will be made this spring, bringing the total additional output at Brown's Ferry to 465 megawatts, enough to power more than 200,000 homes.

And we're not just busy maintaining existing assets. We have a number of ongoing initiatives in addition to our asset portfolio which will help our system get even cleaner and more flexible, while maintaining reliability. Renewables are an increasingly important part of the resource mix here in the Valley. TVA is partnering with developers to build what will be the largest solar facilities in Tennessee and Alabama. In November, we announced that we are partnering with developers to build two solar facilities, totaling 377 megawatts as part of an agreement to support Facebook's Data Center in Huntsville, Alabama, with 100 percent renewable energy. And earlier this month, we announced a partnership to build two additional solar facilities to provide 297 megawatts of capacity for Google's Data Centers.

We're also continuing to partner with customers to support greater availability of renewable energy options throughout our service area. For example, we recently partnered with Nashville Electric Service to energize Nashville's first community solar park called Music City Solar. With the addition of the two megawatt Music City Solar project, the Tennessee Valley is now home to six community solar sites that offer residents a cost-effective renewable energy solution, and four more sites are under construction.

Investing in renewable energy, partnering with employers, and providing low-cost, reliable power are just a few of the ways that TVA supports economic development. The first quarter of fiscal year 2019 was another very solid quarter of economic development here in the Valley, with over 25,000 jobs created or retained and over \$4 billion of capital investments announced. These results included two major announcements from Amazon. In November, the company announced a new operations center in Nashville that will bring 5,000 new jobs. In December, Amazon announced plans to open its first fulfillment center in Mississippi in Marshall County, which is close to Memphis, creating 850 new full-time jobs. And Volkswagen recently announced that Chattanooga will be the home of the auto maker's first electric vehicle manufacturing facility in North America. So we're off to another great start in economic development this year.

So now I'll turn the call over to John to discuss the financials.

John Thomas

Thank you, Bill. I'll begin with the highlights. So operating revenue of \$2.7 billion for the first quarter. That's 7 percent higher than this time last year, driven predominantly by the volatility of weather that Bill had mentioned when he was speaking. Overall interest expense is 6 percent lower. We came into the year with a lower debt level than what we had in the previous period.

Overall net income, up \$135 million, and our total financing obligations, as you can see, down \$1.6 billion, so 6 percent lower.

In terms of the weather volatility, Bill mentioned this, but you can see the degree-day variation from normal and from last year. This was driven predominantly by a hot October and a cold November. December was relatively mild, but those two months starting the year really drove the degree days.

So with the higher degree days, you can see overall sales were up 2 percent. Our operating revenues were up 7 percent. That really is driven by two factors. One, the Board did approve a base rate increase that was enacted October 1st. As well, because of the volume, our overall fuel expense was up this year as well as some commodity prices I'll talk about in just a minute. Overall, the effective rate for our customers was 4 percent higher, at 7.04 versus 6.74, but one thing to note here is if you look at this fuel rate — I'll talk more about this in a minute, but the fuel rate only being up 3 percent, when we had really two predominant factors influencing the first quarter. One is that we had twice as many nuclear refueling outage days in the first quarter of this year as last year, and natural gas prices were essentially 30 percent higher. And so the ability of the balanced fleet that we have, our ability to use fuel switching as well as the benefits of the hydro system with all of that rainfall, allowed us to mitigate quite a bit of the financial impact that you would have seen in fuel.

You can see represented here the natural gas prices, and you can see how they're significantly higher in the first quarter of this year, and then if you move over to the generation, you can see the nuclear is actually 15 percent less. You can see the increase in hydro and then the reliance on economical purchased power, to be able to provide the lowest fuel rate feasible.

So in terms of the income statement, you can see revenue is up \$176 million. Overall fuel expense driven by the volume and the commodity prices and the mix at \$43 million. Operations and maintenance expenses up \$99 million, but that's really driven by two factors. One is we decided to accelerate the amortization of our Kingston regulatory asset. That's about \$55 million worth of incremental expense. In addition, the incremental nuclear refueling outages that I mentioned, were about \$45 million. So when you remove those two items, our kind of directly controllable O&M expense is pretty much flat with last year.

In terms of depreciation and amortization, last year we accelerated the amortization of the Bellefonte regulatory asset, and, as a result of that, we had favorability this year in terms of our depreciation and essentially amortization expense.

And then you can see interest expense, \$20 million favorable, and that gets you to a net income of \$423 million, or \$135 million higher than last year.

If you look at the statement of cash flow, the cash flow from operations was \$502 million. That's \$124 million less than last year. It's very typical to see swings of \$100 million plus or minus in operating cash flow in the first quarter, because it's heavily influenced by working capital changes coming out of the summer.

Overall investing activities are down slightly at \$27 million. You can see our overall financing activities at \$100 million. So relative to year-end, we're up about \$100 million in overall debt and total financing obligations, but significantly lower when you look at this period last year, and these are kind of typical first quarter results.

So overall higher sales volume due to the weather impacts. We were able to mitigate a fair amount of the fuel expense by the diversity of our fleet. Overall interest expense lower, higher net income, and our total financing obligations at \$24.4 billion.

So now I'll turn it over to Jamie to queue up the questions.

QUESTIONS AND ANSWERS

Operator

And, ladies and gentlemen, at this time, we will begin today's question-and-answer session. TVA would like to provide the financial community with the first opportunity to ask questions. To ask a question, you may press star and then 1, using a touchtone telephone. To withdraw your questions, you may press star and 2. If you are using a speakerphone, we do ask that you please pick up your handset before pressing the buttons to ensure the best sound quality. Once again, that is star and then 1 to ask a question. We'll pause momentarily to assemble the roster.

And our first question today comes from Kristi Swartz from E&E News. Please go ahead with your question.

Kristi Swartz

Hi, good morning.

Bill Johnson

Good morning, Kristi.

Kristi Swartz

Hi, there. Wanted to tap into the timing related around the study, the economic study of Bull Run and Paradise, and also I recall in the past, you had talked about kind of extending that throughout your fleet. Is that something that was — that's going to be released around the IRP, and, if not, when can we start to look for the results from that?

Bill Johnson

So there's a couple parts to this answer. We started this in August when I asked the Board for their approval for us to look at our fleet because of the change in the shape of demand and whether we had the right asset mix to make electricity as low as feasible. In doing that, we were going to look at pretty much everything over the course of time and in the IRP, but we were going to start with a focus on Bull Run, Paradise, and some of the CT fleet.

Our next step was to study this. We put out an environmental analysis on Bull Run and Paradise. I believe the final version of that out — that will come out sometime in the first part of February, first or second week of February. When that is out and complete, the Board will then have to make a decision about whether they want to retire these plants or not. So we have a couple of upcoming Board meetings. Even this close to retirement, Kristi, I'm trying not to get in front of the Board, so that's one of the keys to longevity. So we'll get the final EA document out and then this will be in front of the Board at some point.

Kristi Swartz

Okay. Thanks. Are you able to speak at all on the timing related to Bellefonte in that lawsuit? I mean, even broadly to just kind of catch me up on where that is and what happened to it.

Bill Johnson

Yeah. So, you know, we didn't go to the closing, because we didn't think they had the right permits from the NRC. They sued us the next day in federal court in Alabama, and that case is in front of the court, and I'm not sure what the schedule is, but it's proceeding at some pace, so we are all just sort of waiting for that process to conclude. But as for a schedule or timing, I don't think we have one yet.

Kristi Swartz

Thank you.

Bill Johnson

Thank you.

Operator

Once again, if you would like to ask a question, please press star and then 1. To remove yourself from the question queue, you may press star and 2.

And in showing no additional questions, I would like to turn the conference call back over to Mr. Bill Johnson for any closing remarks.

CONCLUSION**Bill Johnson**

Thank you, Jamie, and thanks to everybody who's on the call. You know, since I'm retiring from TVA, and I think it likely a new CEO will be in this seat before the next quarterly call, I wanted to take the opportunity to tell the financial community thank you for your support of our strategic initiatives during my time here.

Since 2012, it's been an honor for me — an honor to be a part of the Tennessee Valley Authority, which I truly consider to be one of our country's great success stories, and to be part of our dedicated workforce of 10,000. Together we've made significant progress to prepare TVA for continued success over the next 85 years and bringing greater prosperity to the 10 million people in the Tennessee Valley.

As we push further into 2019, it's important for TVA to continue to analyze both opportunities and challenges using the same framework that is anchored by our mission, strategic imperatives, and priorities. This framework guides TVA in how we do our work, and it will help ensure continuity of serving the people in the Valley. Thank you.

Operator

Ladies and gentlemen, that does conclude today's conference call. We do thank you for attending today's presentation. You may now disconnect your lines.