



Report of the Finance, Strategy, Rates, and Administration Committee



Fiscal Year 2009 Budget



Links to TVA's Strategic Plan

Strategic
Dimensions

2009 Budget Initiatives

Customers



- Increase energy efficiency and demand response while maintaining reliability

People



- Emphasize safety, skills development and information technology systems

Financial



- Align with guiding financial principles

Assets



- Invest in assets, both existing and new, and reduce environmental footprint

Operations



- Implement initiatives to achieve top-quartile performance in all aspects of operations



FY 2009—What We See

Continuing effects of the drought

Economic slowdown and energy efficiency contributing to flat energy demand

Major rise in fuel costs driving higher prices

Steady performance by fossil and nuclear plants

Continuing need for investment:

- Generation and transmission
- Clean air
- Energy efficiency and peak reduction initiatives
- IT Systems

Continuing to pay down debt on existing assets

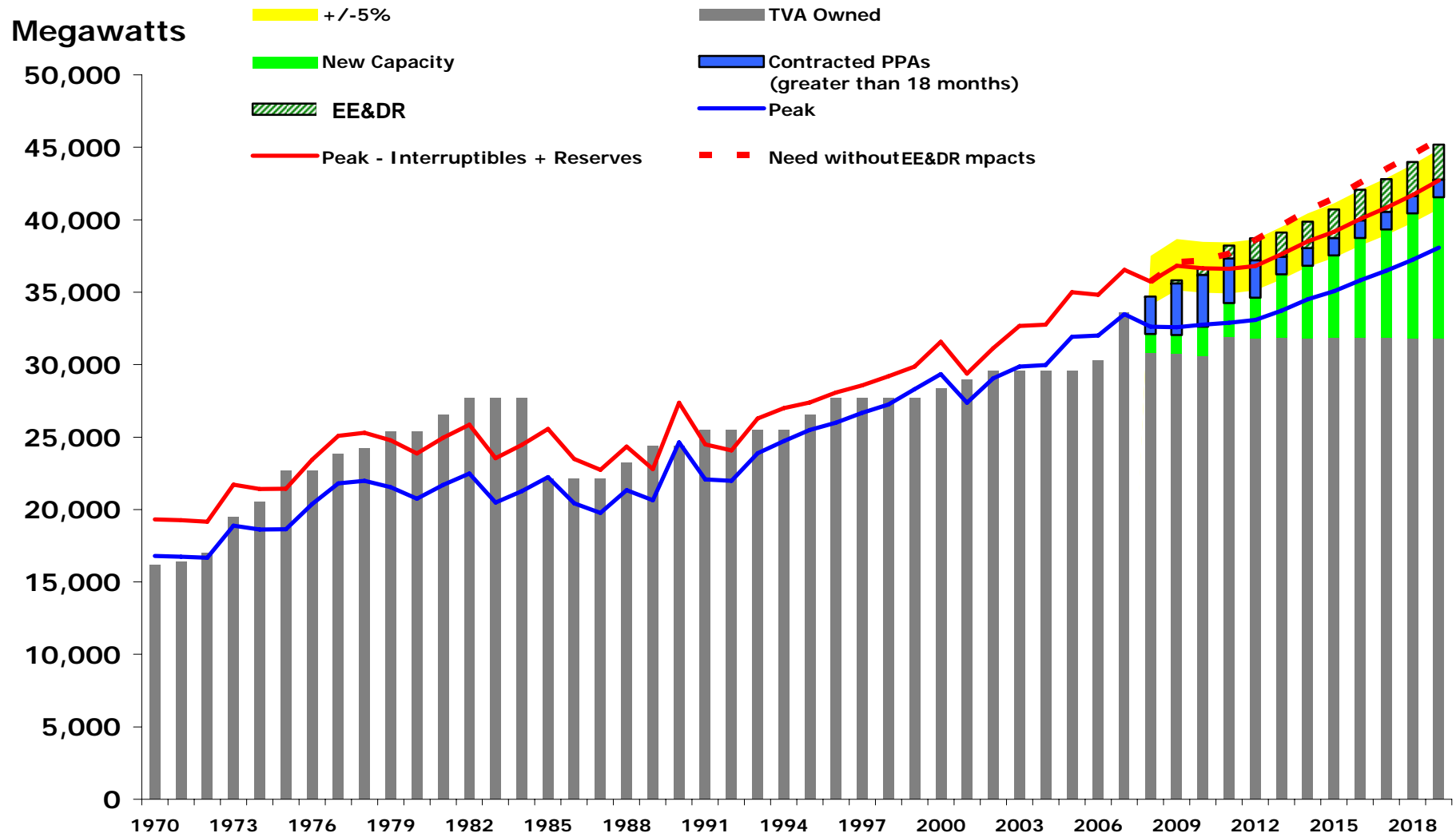
Higher productivity from TVA workforce



Demand



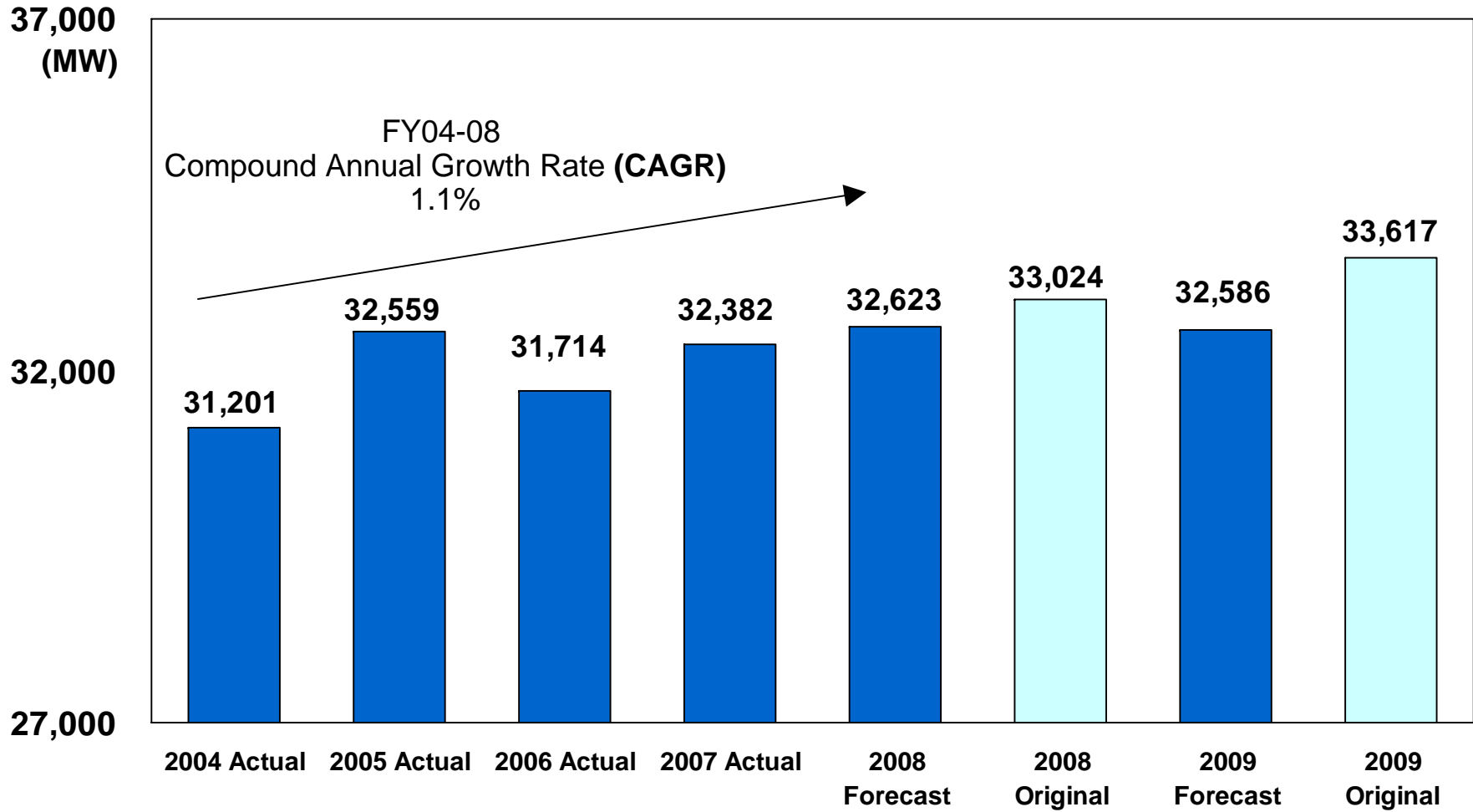
Projected Peak Demand Growth





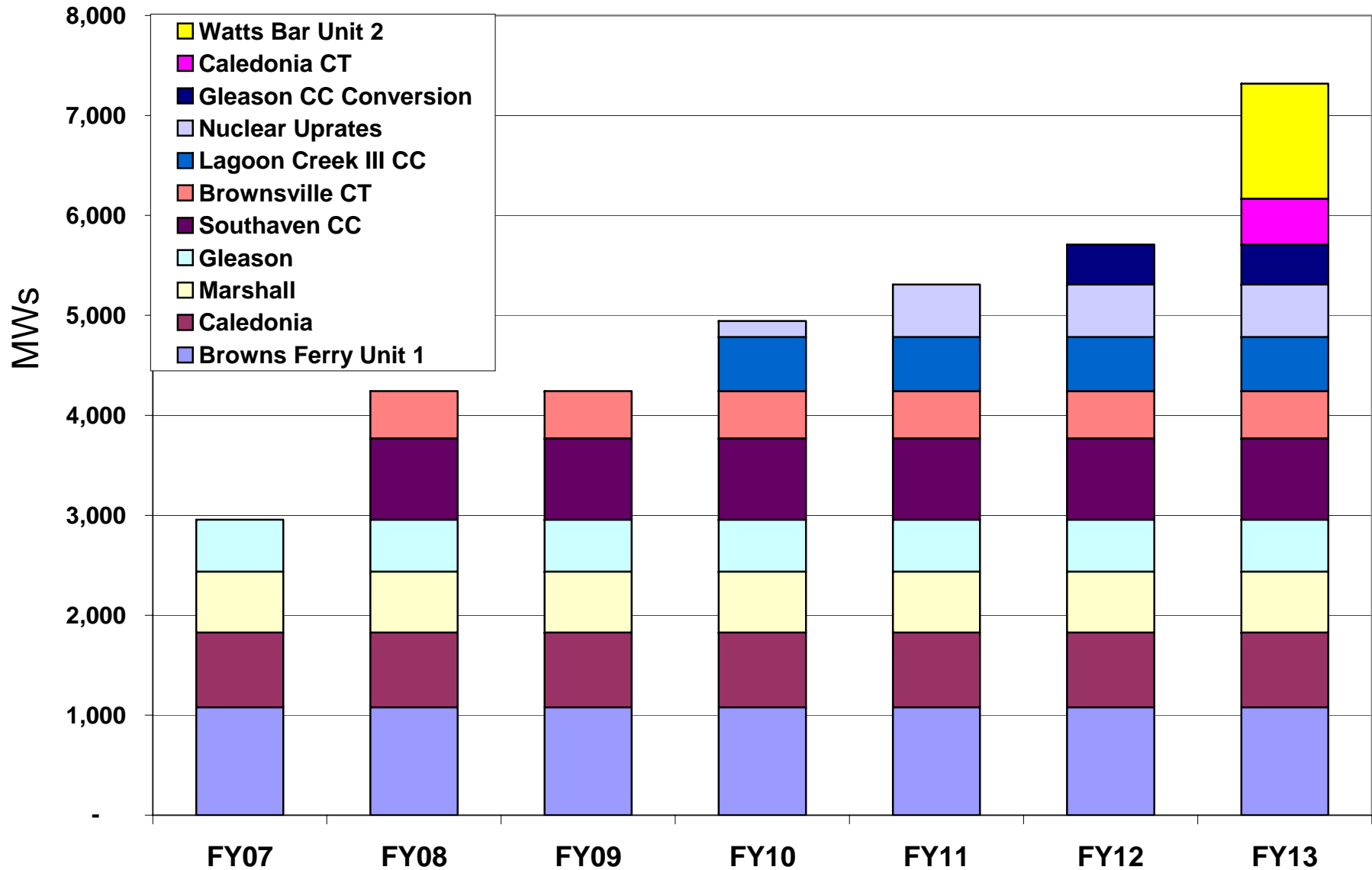
Trend of Peak Demand

(weather normalized)





Capacity Additions

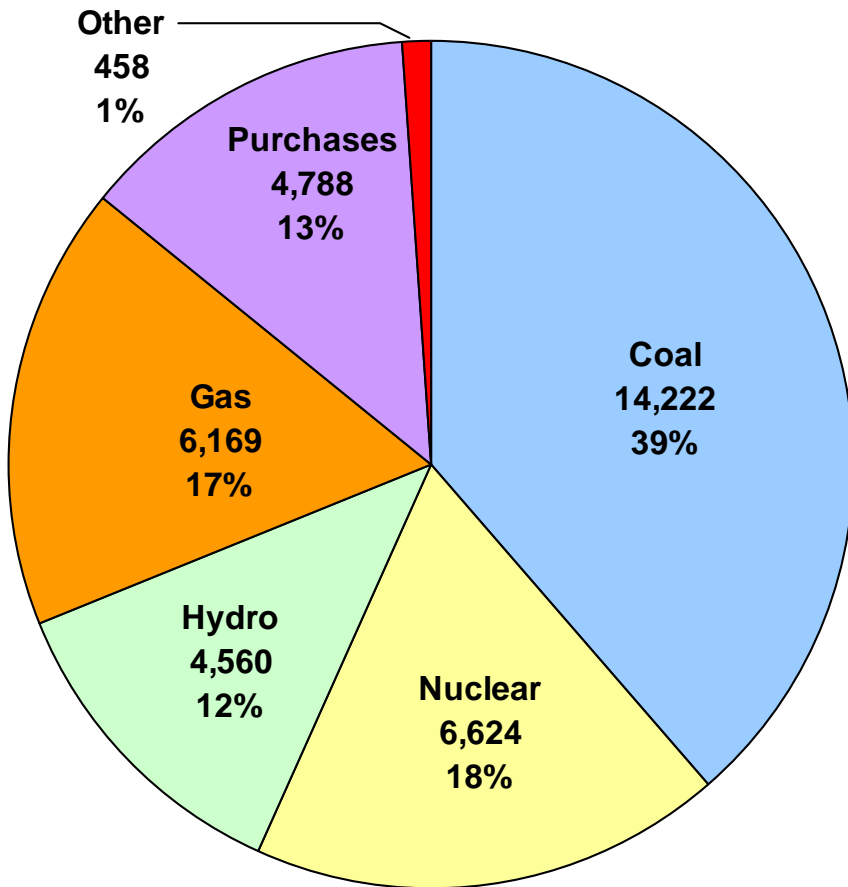




Capacity and Peak Demand Balance

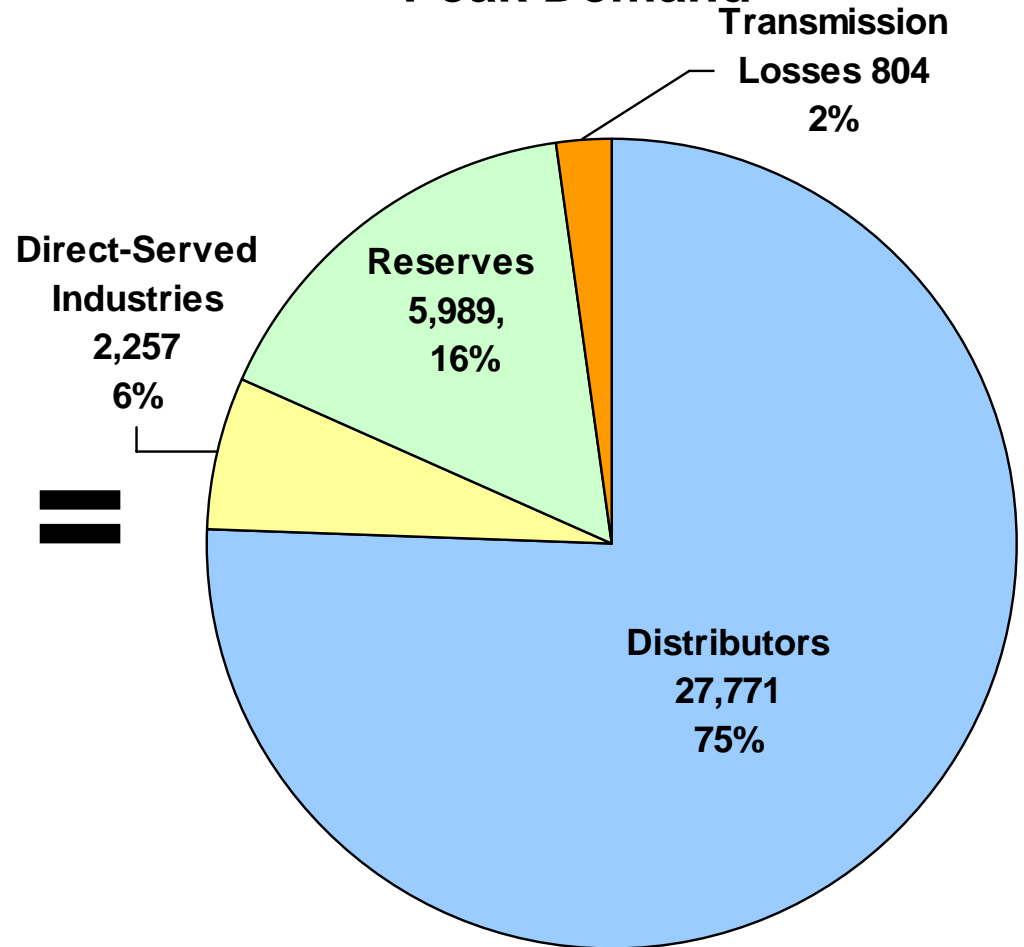
FY 2009

Capacity



36,821 MW

Peak Demand



36,821 MW

=

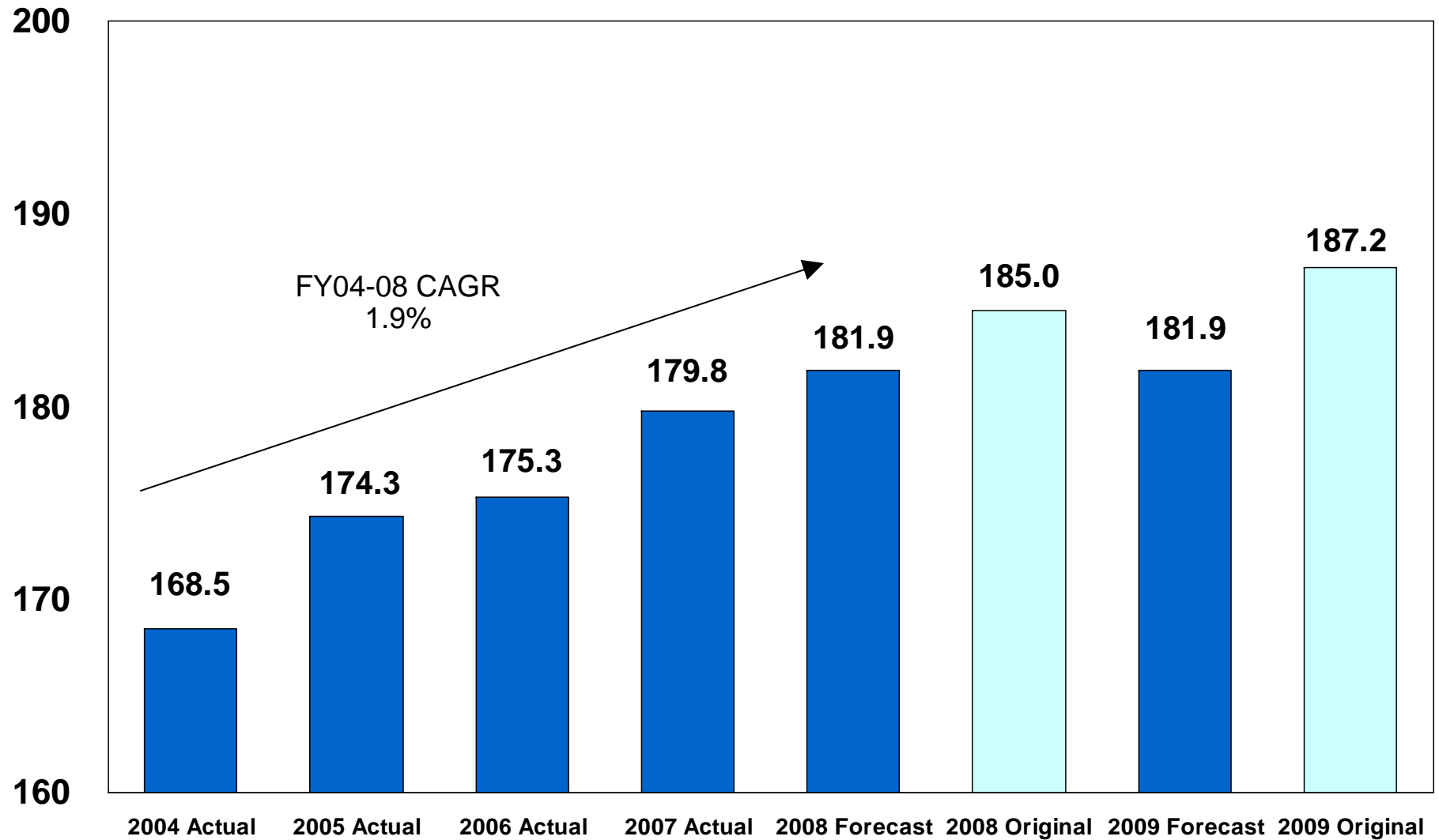


Energy



Trend of Energy Requirements

(billion kWh)



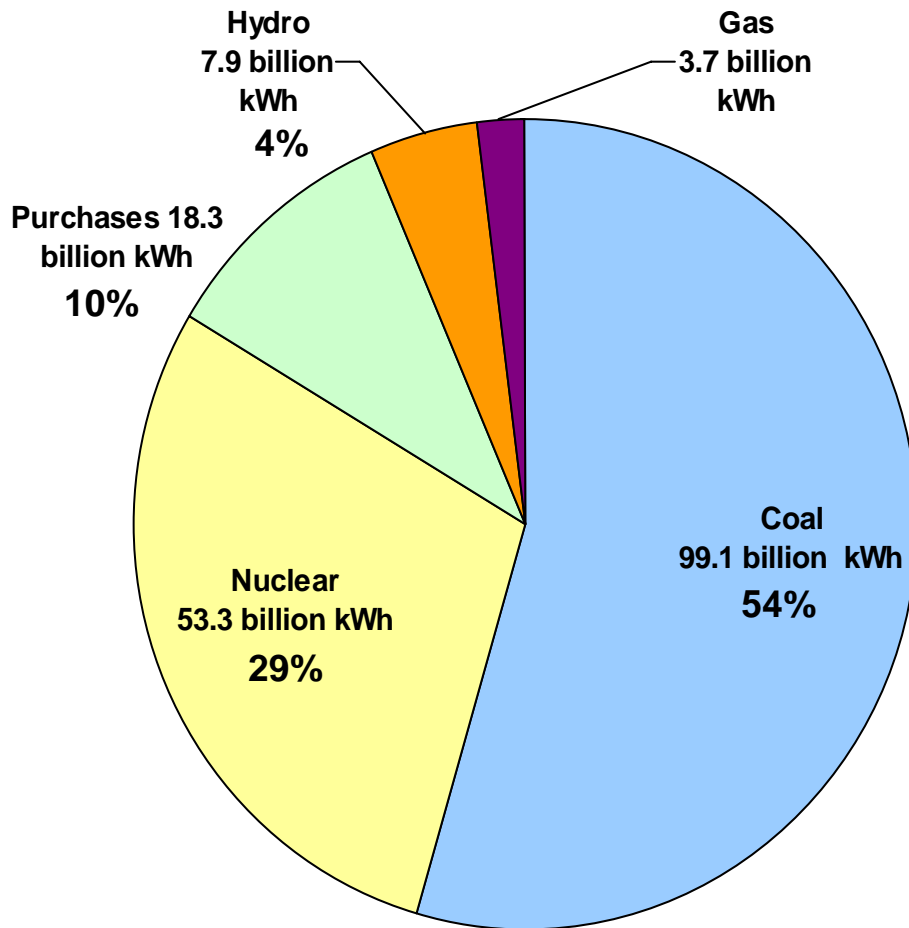
Excludes off-system sales



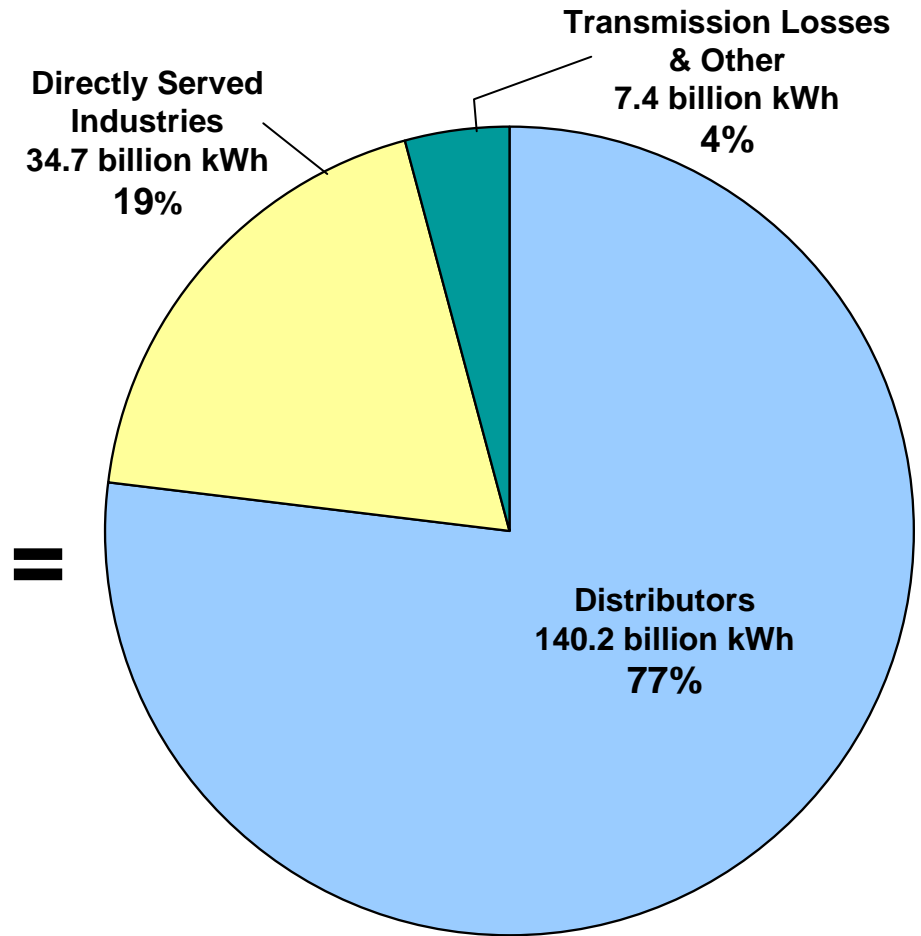
Energy Supply and Sales Balance

FY 2009

Supply



Sales



=



Financial



Financial Guiding Principles

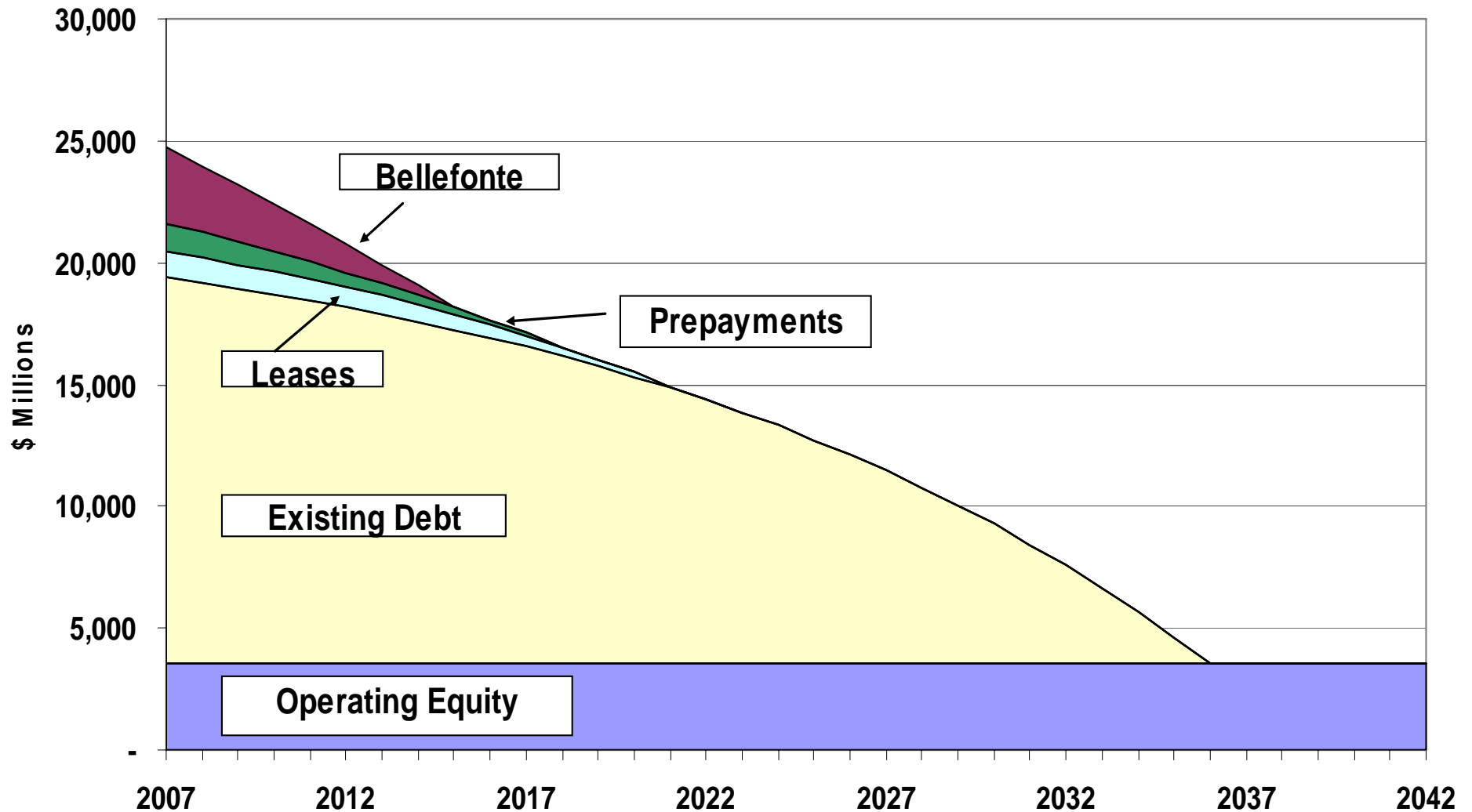
Pay debt-like obligations before assets are fully depreciated

New capacity will support new debt

Operating and Maintenance costs are targeted to be top quartile

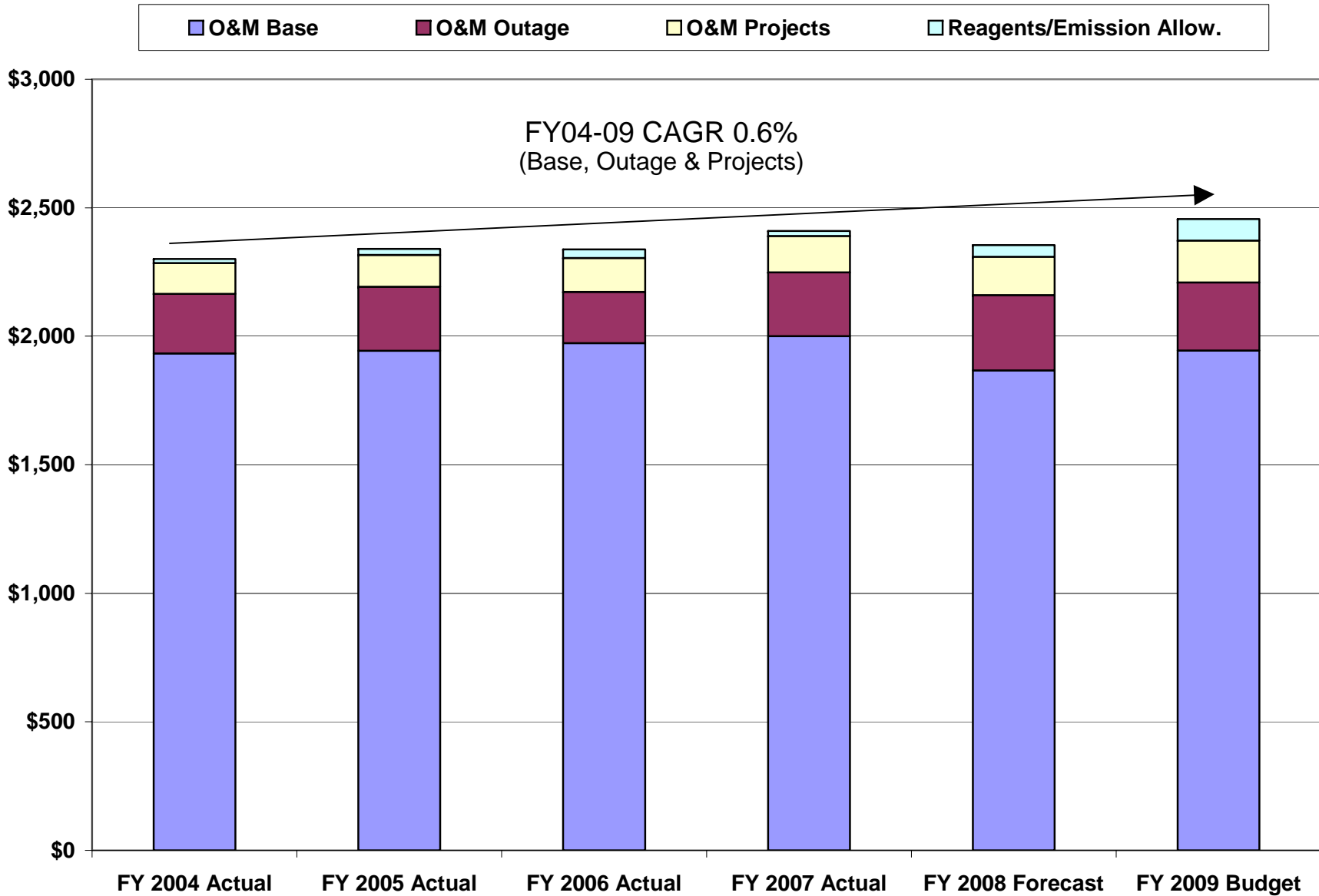


Paydown of Debt-Like Obligations





Operations & Maintenance Expense



Excludes EE&DR expenses



2009 Capital Budget - \$2.088 billion

Generation Capacity

Expansion

Watts Bar Unit 2
Lagoon Creek CC
Gleason CC
Caledonia CT
Brownsville CT
Nuclear/Hydro Uprates

\$1,056 million

Clean Air

Bull Run FGD
John Sevier FGD
Kingston FGD
Colbert Units 1-4 SCR
Gallatin Low Cost Nox Control
Shawnee SCR

\$232 million

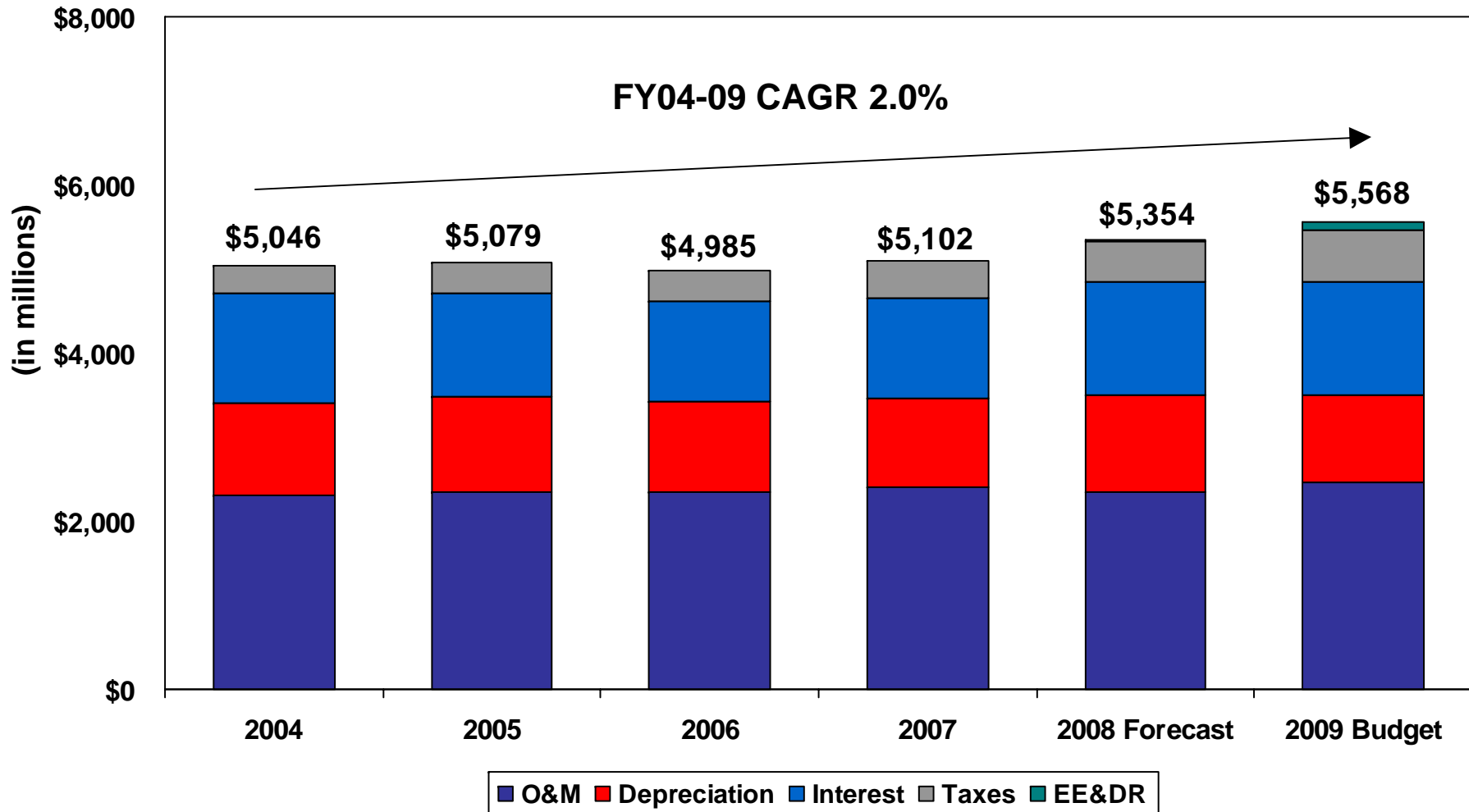
Asset Preservation - \$402 million

Transmission - \$325 million

Other - \$73 million

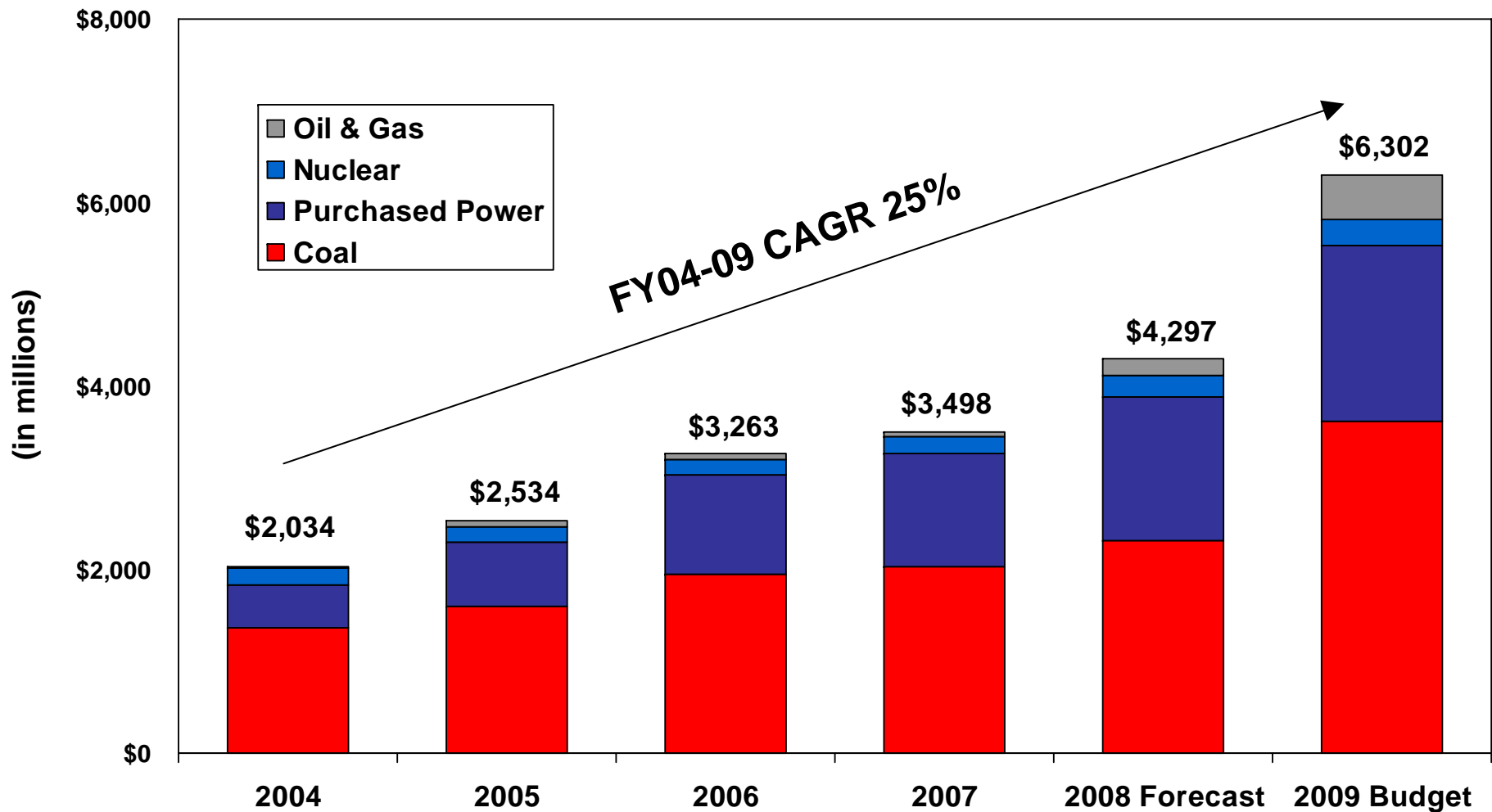


Fixed Cost Trends





Fuel and Purchased Power Expense





Financial Statements



Summary Statements of Cash Flows

(in millions)	2008 Forecast	2009 Budget
Cash from Operations	\$ 1,879	\$ 2,399
Base Capital Projects	(609)	(542)
Clean Air Capital	(314)	(232)
Capacity Expansion	(1,109)	(1,314)
Nuclear Fuel Capital	(256)	(410)
AFUDC	(19)	(56)
Other Investing Activities	28	(8)
Total Investing Activities	(2,279)	(2,563)
Existing Debt-Like Obligation Reduction	(648)	(685)
Capacity Expansion Financing	761	907
Other Cash (Uses)/Sources	(54)	(57)
Total Financing Activities	59	164
Net Change in Cash	(341)	0
Beginning Cash Balance	165	(175)
Ending Cash Balance	\$ (175)	\$ (175)
Gap to \$200M target cash balance	\$ (375)	\$ (375)



Drivers of Cash Flow Shortfall

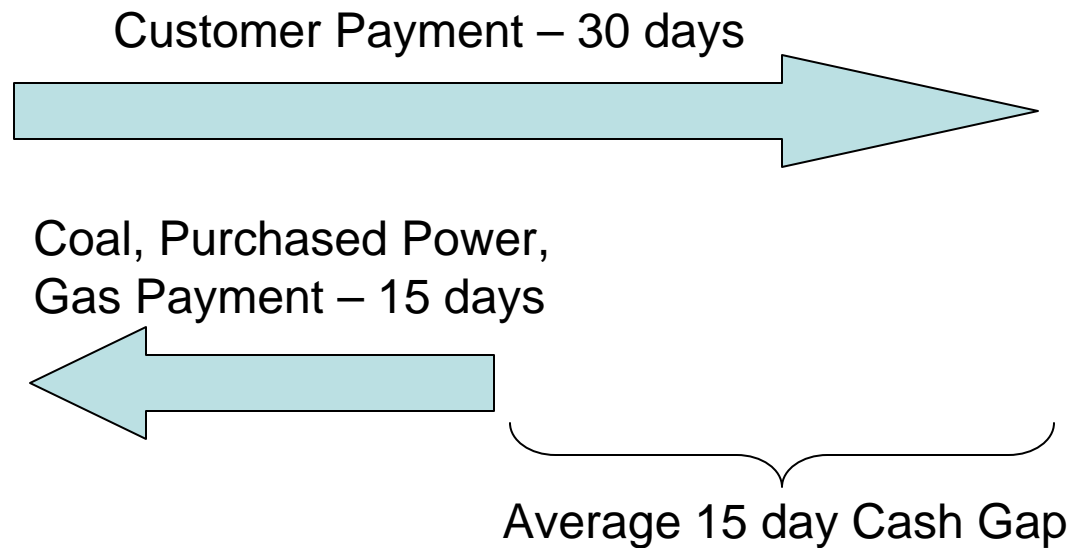
(in millions)

	<u>FY08/09</u>
Working Capital/Inventory	(260)
Purchased Power Agreements	(50)
EE&DR	(65)
Total Cash Shortfall	\$ (375)



Working Capital / Inventory

Working Capital



Inventory

Average delivered coal price up 58% over FY08

Average 25 days of coal inventory



Cash Shortfall Recommendation

Short-term borrowing of \$375 million in 2008 to cover cash shortfall

Base rate increase in 2009 expected to recover \$275 million of cash shortfall

Remaining \$100 million of 2008-09 cash shortfall will be managed through short-term borrowing in 2009 and recovered in rates in 2010



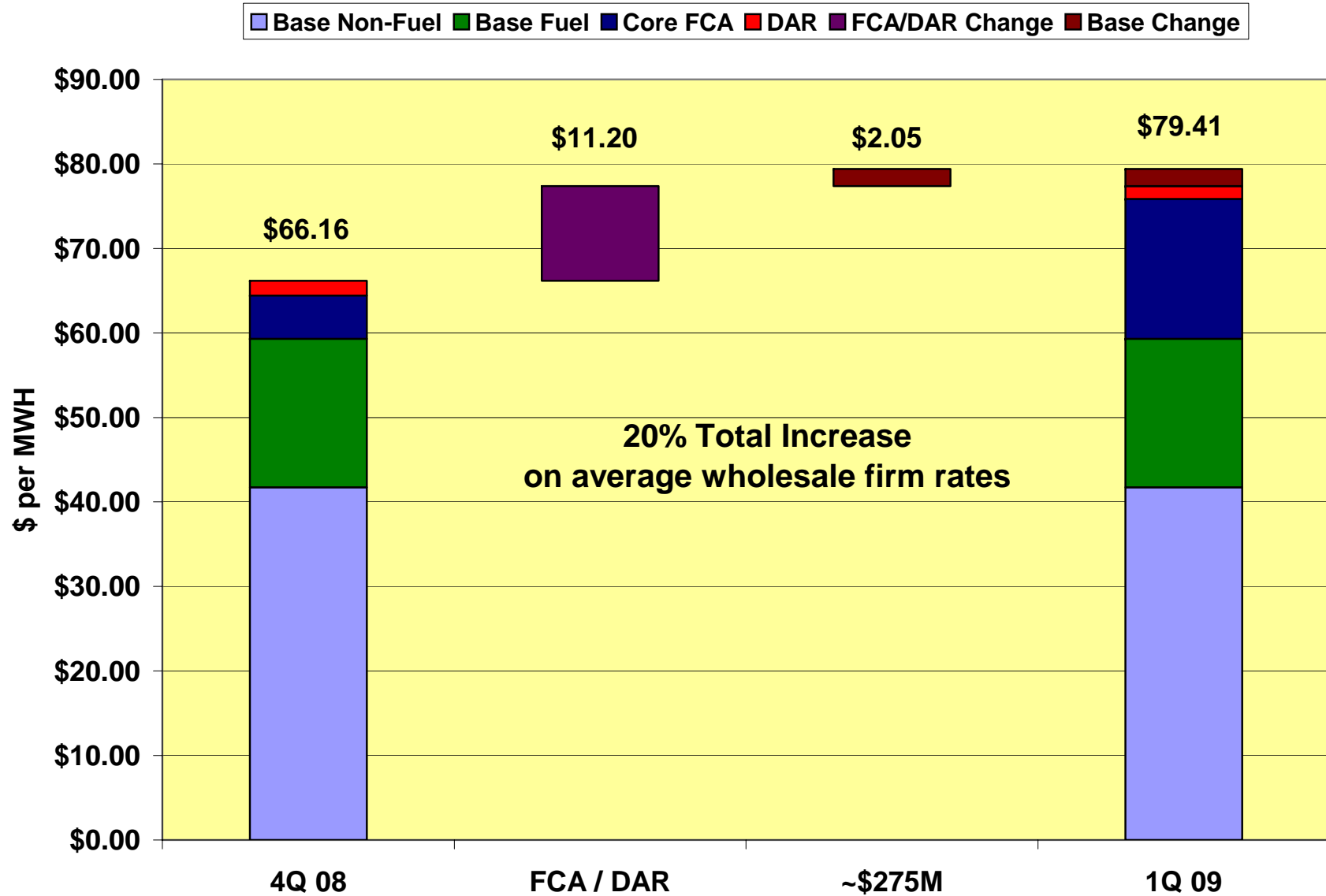
Summary Statements of Cash Flows

including rate adjustment

(in millions)	2008 Forecast	2009 Budget
Cash from Operations	\$ 1,879	\$ 2,674
Base Capital Projects	\$ (609)	\$ (542)
Clean Air Capital	\$ (314)	\$ (232)
Capacity Expansion	\$ (1,109)	\$ (1,314)
Nuclear Fuel Capital	\$ (256)	\$ (410)
AFUDC	\$ (19)	\$ (56)
Other Investing Activities	\$ 28	\$ (8)
Total Investing Activities	\$ (2,279)	\$ (2,563)
Existing Debt-Like Obligation Reduction	\$ (648)	\$ (685)
Additional short-term borrowing	\$ 375	\$ (275)
Capacity Expansion Financing	\$ 761	\$ 907
Other Cash (Uses)/Sources	\$ (54)	\$ (57)
Total Financing Activities	\$ 434	\$ (111)
Net Change in Cash	\$ 35	\$ 0
Beginning Cash Balance	\$ 165	\$ 200
Ending Cash Balance	\$ 200	\$ 200



Rate Adjustment





National Rate Pressures

THE WALL STREET JOURNAL. - *May 7, 2008*
Expect a jolt when opening the electric bill

THE WALL STREET JOURNAL. - *June 24, 2008*
Coal producers struggle to meet demand



- *June 16, 2008*
Price jolt: Electricity bills going up, up, up

San Francisco Chronicle - *May 27, 2008*
Supply-demand imbalance boosts oil prices

The Virginian-Pilot - *June 25, 2008*
Dominion's 18 percent increase likely only the beginning

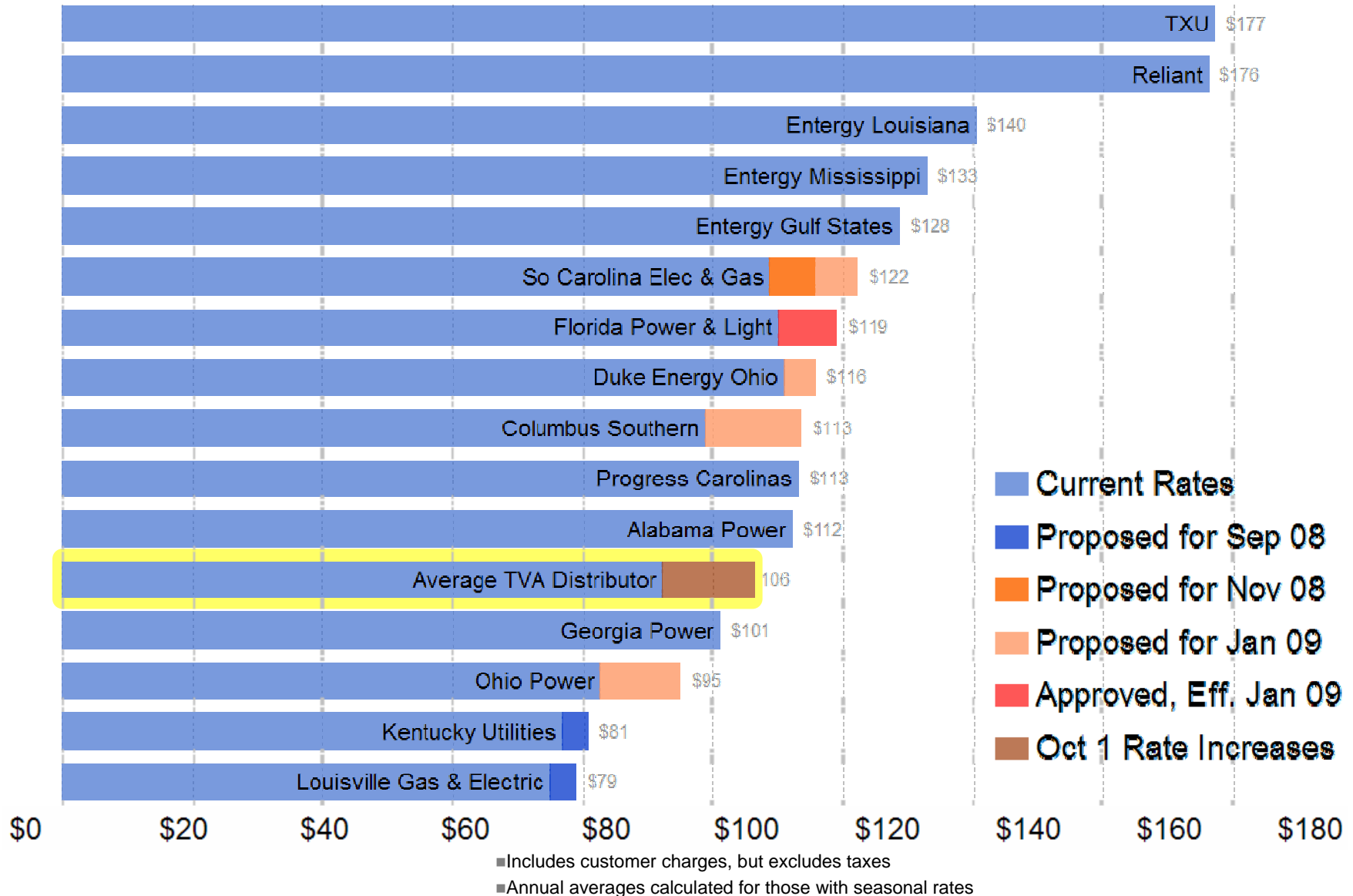
The
COMMERCIAL APPEAL - *July 28, 2008*
Entergy Urges Electricity Conservation in Passing Along 28 Percent Rate Increase

U.S. electric utilities are seeing rate increases up to 30%



Monthly Bill Comparisons

1,000 kWh per Month Residential Service





2009 Budget Summary



Operating Budget Expenses

(millions of dollars)

Operating Expenses

Fuel & Purchased Power	(6,650)
Operation, Maintenance, & Other	(2,555)
Interest and Other	(1,306)
Tax Equivalents	<u>(627)</u>
Subtotal	<u>(11,138)</u>



2009 Operating Budget Summary

Total Operating Budget expenses of \$12.613 billion (fuel, purchased power, O&M, interest and other expenses of \$11,138 billion)

Fuel and purchased power increasing \$2.380 billion due to price increases for coal, natural gas and power purchases

Productivity improvements of \$95 million to hold non-fuel O&M costs essentially level from 2008 to 2009

Cash shortfall of \$375M in 2008-09 primarily due to working capital, non-FCA purchased power expense and EE/DR program



Recommendation

Request the TVA Board approve the 2009 budget including:

2009 Operating Budget of \$12.613 billion including the contracting plans for fossil fuel, purchased power and nuclear fuel

2009 Capital Budget of \$2.088 billion (Base, Capacity Expansion and Clean Air) including those projects requiring land acquisition

Projects greater than \$50 million will be reviewed by the FSRA Committee

A rate adjustment of \$2.05/MWh on the average wholesale firm base rate

