

TENNESSEE VALLEY AUTHORITY

# Strategic Plan

2007

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Serving the Valley



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# Message from the CEO

TVA's rapidly changing business environment presents many challenges, and one of the new TVA Board's first actions was to address the need for a new TVA Strategic Plan. The Board asked TVA's staff to help develop a policy-level plan for TVA through the next decade. The Board's input, experience, and perspective have guided TVA's work in developing the 2007 Strategic Plan, which the Board has approved and TVA's leadership will translate into action at all levels of the organization.



Tom D. Kilgore  
TVA President and CEO

We are grateful to those who took time to share extensive feedback on a draft version of the TVA Strategic Plan that was released for public comment. The quantity and quality of comments reflect the keen interest our stakeholders have in TVA's strategy for the future, and their suggestions helped make the final Strategic Plan even stronger.

The TVA Strategic Plan reflects a key theme we heard consistently from customers, stakeholders, and employees: that TVA's enduring strengths should be reinforced and built upon. Correspondingly, it became clear that TVA is facing an increasingly challenging marketplace. The Strategic Plan captures the opportunities to leverage and realign TVA's strengths and to address the customer, financial, operational, and organizational initiatives necessary for future growth and success. The plan will be updated as needed based on changing market conditions.

As TVA moves forward, we believe three issues will be critical to ensuring our sustained performance. The first is placing customer satisfaction at the heart of our business. We must continue to earn, and never take for granted, the respect of our customers. Next, TVA's performance must rise to the top quartile of performance in every aspect of our business. Finally, we must be resourceful and disciplined in financial performance so that we continue to achieve our three-part mission: to supply reliable and affordable power, manage the Tennessee River system and surrounding lands, and partner with Valley communities and states for economic success.

The challenges are many, the clock is ticking, and the targets keep moving. Our reward, however, is immeasurable, that of providing indispensable services to the people of the Tennessee Valley. With the continued commitment and hard work of TVA employees, we will improve TVA's performance and reputation and successfully implement the Board's direction through the 2007 Strategic Plan.

Sincerely,

A handwritten signature in black ink that reads "Tom Kilgore". The signature is written in a cursive, flowing style. Below the signature is a solid horizontal line.

Tom D. Kilgore  
TVA President and CEO

# The TVA Board

**CHAIRMAN WILLIAM B. SANSOM** of Knoxville, Tennessee is chairman and chief executive officer of The H.T. Hackney Co. and has held that position since 1983. Hackney is a diversified company involved in wholesale grocery, gas and oil, and furniture manufacturing. His term on the TVA Board expires in 2009. Committees: Finance, Strategy & Rates; Operations, Environment & Safety.

**DENNIS BOTTORFF** of Nashville, Tennessee serves as chairman and partner of Council Ventures, a venture capital firm. He was chairman of AmSouth Bancorporation until his retirement in 2001 and previously was chief executive officer of First American Bank. His term on the TVA Board expires in 2011. Committees: Corporate Governance; Finance, Strategy & Rates; Human Resources.

**DON DEPRIEST** of Columbus, Mississippi is chairman of a venture capital firm headquartered in Alexandria, Virginia. The firm has founded or invested in such companies as American Telecasting, now merged with Sprint, and his Charisma Communications Corp. was a pioneer in the cellular phone business. He previously chaired the Columbus, Mississippi Utilities Commission. His term on the TVA Board expires in 2009. Committees: Corporate Governance; Audit & Ethics; Community Relations.

**MIKE DUNCAN** of Inez, Kentucky is chairman, chief executive officer, and director of Community Holding Co.; chairman, CEO, and director of Inez Deposit Bank; and Chairman of the Republican National Committee. He is a director of the regional Center for Rural Development. His term on the TVA Board expires in 2011. Committees: Audit & Ethics; Community Relations.

**WILLIAM GRAVES** of Memphis, Tennessee is presiding bishop of the Christian Methodist Episcopal Church. He was previously pastor of the Phillips Temple CME Church in Los Angeles. He is immediate past president of the Board of the National Congress of Black Churches and a former member of the Board of Memphis Light, Gas & Water. His term on the TVA Board expires in 2007. Committees: Community Relations.

**SKILA HARRIS** of Washington, D.C. and a native of Bowling Green, Kentucky served as a full-time TVA Director from November 1999 through March 2006. She previously held positions in the U.S. Department of Energy, the White House, and energy-management and engineering-consulting firms. Her term on the TVA Board expires in 2008. Committees: Operations, Environment & Safety; Human Resources.

**HOWARD THRAILKILL** of Huntsville, Alabama recently retired as president and chief operating officer of Adtran, Inc., in Huntsville, which supplies equipment for telecommunications service providers and corporate end-users. Previously, he was president and chief executive officer of the firm Floating Point Systems. His term on the TVA Board expires in 2010. Committees: Operations, Environment & Safety; Human Resources.

**SUSAN RICHARDSON WILLIAMS** of Knoxville, Tennessee provides public relations consulting services through SRW & Associates for clients that range from major corporations to high-tech companies. She has served in the cabinets of two Tennessee governors, on the staff of a third, and on the staff of a U.S. senator. Her term on the TVA Board expires in 2007. Committees: Audit & Ethics; Human Resources; Community Relations.

# 2007 TVA Strategic Plan Fact Sheet

## **Why has TVA produced a new Strategic Plan?**

TVA's Board and executive leadership recognized the need to articulate TVA's overall strategic direction for the next decade as a result of market trends, a new national energy policy, rising fuel costs and other changes since the previously issued strategic plan. The Strategic Plan outlines actions TVA must accomplish to align with this direction. The Strategic Plan also identifies aspects of TVA's current business structure that must be fine-tuned for TVA to strengthen its ability to continue to serve the people of the Tennessee Valley region.

## **What market issues have changed since the 2004 Strategic Plan?**

Retail competition in the country as a whole has almost stalled, and wholesale competition is evolving slowly. The Energy Policy Act of 2005 has put more emphasis on reliability, renewable energy, low-emissions generation technologies, energy efficiency and conservation. At the same time, several related issues demand attention. These include escalating fuel prices, continuing growth in energy demand, and increasing momentum for improvements in environmental performance.

## **How does the new Strategic Plan address TVA's business structure and service area?**

The Tennessee Valley region and TVA are well served by TVA's current business structure that is based on bundled generation and transmission service and a three-part mission focused on energy, the environment, and economic development. Receiving no federal funding, TVA relies on revenues from its energy business to fund all components of its mission. Therefore, TVA must implement sustainable financial practices while adapting to today's competitive environment. Major changes in the business structure include providing TVA distributors with rates that better reflect costs, production assets that balance load, the opportunity to participate in power supply, and tighter integration of all aspects of the mission.

## **What are the key points in the Strategic Plan?**

The Strategic Plan focuses on leveraging and realigning TVA's strengths and addressing the customer, financial, operational, and organizational actions necessary for TVA to support the region's continuing growth and success. Specifically, TVA will do the following:

- **CUSTOMERS:** Maintain power reliability, provide competitive rates, and build trust with TVA's customers
- **PEOPLE:** Build pride in TVA's performance and reputation
- **FINANCIAL:** Adhere to a set of sound financial guiding principles to improve TVA's fiscal performance
- **ASSETS:** Use TVA's assets to meet market demand and deliver public value
- **OPERATIONS:** Improve performance to be recognized as an industry leader

## **How will the plan be implemented?**

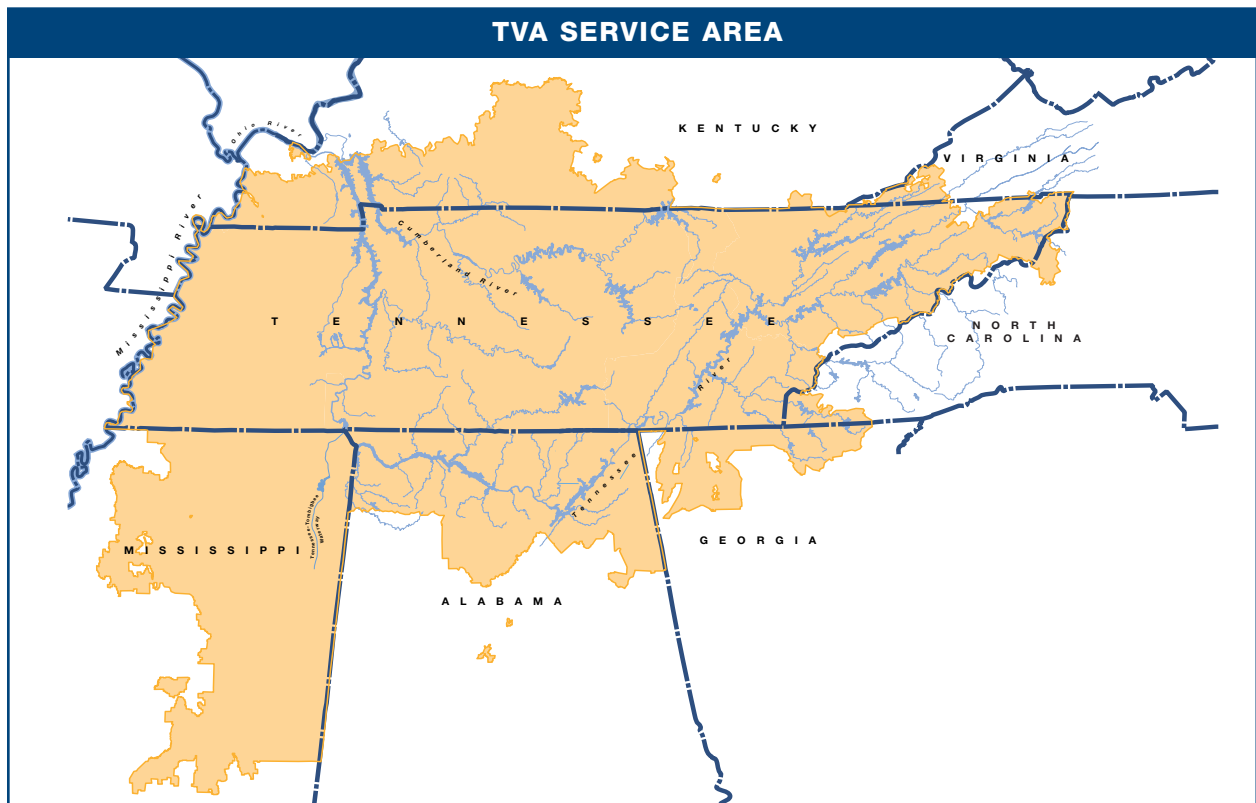
The purpose of TVA's Strategic Plan is to set high-level direction that will guide TVA. The Strategic Plan establishes the overall direction and framework for decision-making. Specific actions will be built into TVA's Business and Performance Plans. For implementation activities requiring environmental review, further opportunities for public input will be made available. The Board will ensure adherence to the strategy direction through the performance plans and by tracking performance against key metrics.

## **How can I receive a copy of TVA's Strategic Plan?**

The 2007 TVA Strategic Plan can be downloaded from our Web site [www.tva.com](http://www.tva.com). For a printed copy, please email [tvainfo@tva.com](mailto:tvainfo@tva.com) or contact Jean Friley, WT7D, Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee, 37902.

# Introduction to TVA

The Tennessee Valley Authority is the nation's largest public power provider and is wholly owned by the U.S. government. TVA was established by Congress in 1933 to provide for river navigation, flood control, and agricultural and industrial development, and to promote the use of electric power in the Tennessee Valley region. TVA's service territory includes most of Tennessee and parts of Alabama, Georgia, Kentucky, Mississippi, North Carolina, and Virginia. This area covers 80,000 square miles and has a population of more than 8.7 million. TVA sells electricity to 158 power distributor customers and 62 directly served industries and federal agencies.



Initially, all TVA operations were funded by federal appropriations. Appropriations for the TVA power program ended in 1959, and appropriations for TVA's environmental stewardship and economic development activities were phased out in 1999. TVA now funds all its operations entirely from the sale of electricity and power system financings.

# TVA's Mission

TVA's mission is to improve the quality of life in the Tennessee River Valley region through its work in three key areas: energy, the environment, and economic development. TVA provides reliable, competitive power; manages the Tennessee River system and associated lands to meet multiple needs; and partners with Valley communities and states for economic development. For nearly 75 years, TVA's unique mission has served as the foundation of its business endeavors, providing the context for TVA to establish its business objectives and internal processes.



## **Energy**

### ***Provide electric power to the Tennessee Valley***

TVA supplies reliable, affordable electricity to the Tennessee Valley region. It strives to meet the changing needs of power distributor customers and directly served industrial customers for electricity and related products and services in a dynamic marketplace.



## **Environment**

### ***Act as steward of the Valley's natural resources***

To fulfill its environmental stewardship mission, TVA manages the natural resources of the Valley for the benefit of the region and the nation. It manages the Tennessee River system and associated public lands to reduce flood damage, maintain navigation, support power production and recreational uses, improve water quality and supply, and protect shoreline resources.



## **Economic Development**

### ***Serve as a catalyst for sustainable economic development***

TVA works with its power distributor customers; state, regional, and local economic development organizations; and other federal agencies to build partnerships that help bring jobs to the Tennessee Valley and make the economy stronger to benefit the people of the region.

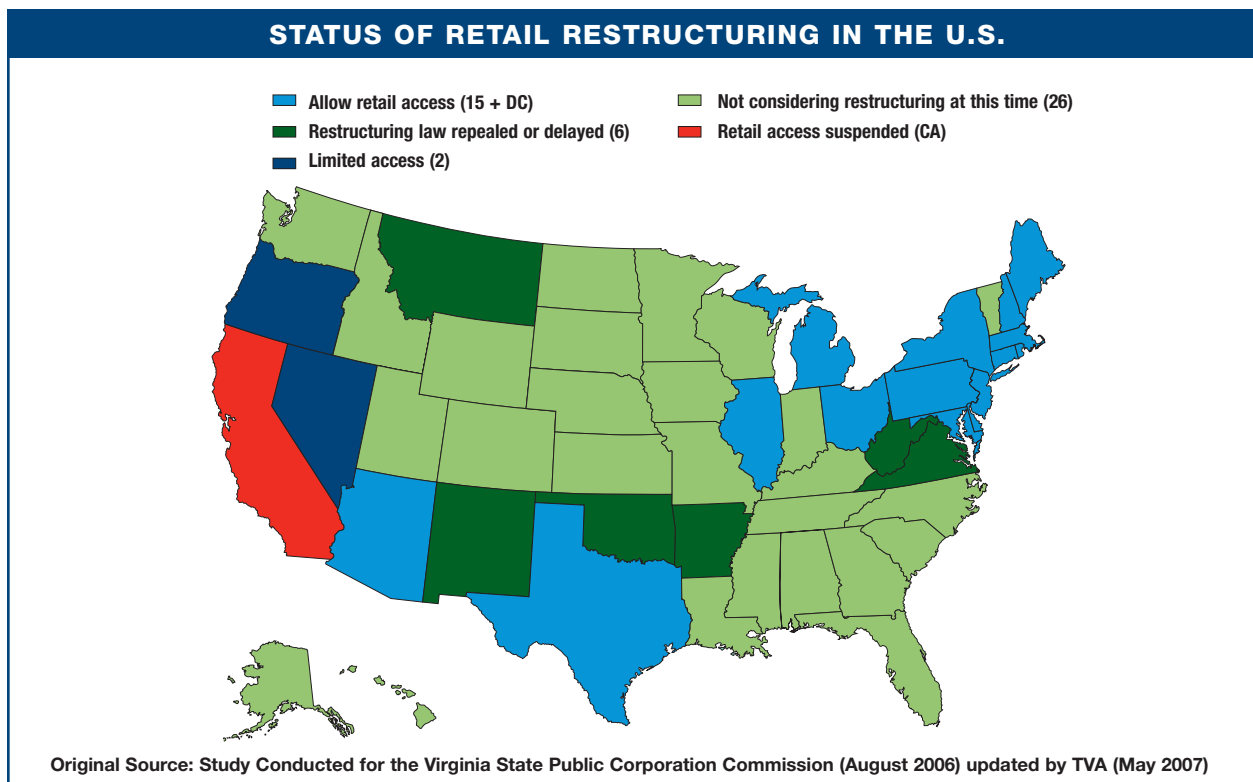
As part of the Consolidated Appropriations Act of 2005, Congress enacted amendments to the TVA Act that mandated fundamental changes in TVA's governance structure. In March 2006, TVA made the transition to a nine-member, part-time Board of Directors. In October 2006, the new Board appointed the federal corporation's first chief executive officer in its 74-year history. Under TVA's management structure, the Board is responsible for providing strategic guidance and policy direction, while the CEO is responsible for the day-to-day management of TVA's operations.

# The Changing Industry Landscape

The electric utility marketplace has experienced significant changes since the completion of TVA's 2004 Strategic Plan. At that time wholesale competitive market structures were still expanding and independent power producers were still completing a wave of new gas-fired generating capacity, creating a temporary surplus in the industry. Fallout from the market collapse in California in 2000-2001 was continuing, and new evidence of market manipulation was still being discovered. The Northeast Blackout of 2003 raised questions about the direction of the industry in the country, and electricity reliability became a national issue.

The industry landscape in the U.S. has changed since 2004. In response to energy concerns and reliability issues raised by the 2003 blackout, an Energy Policy Act was passed by Congress in 2005 and signed by the President, putting more emphasis on reliability, renewable energy, low-emission generation technologies, and energy efficiency and conservation. The Federal Energy Regulatory Commission (FERC) reviewed its efforts to create structured wholesale spot markets nationwide. Consequently, wholesale competition is now evolving more slowly, and much of the focus is on governing transmission access in bilateral markets. For example, FERC recently issued Order 890, further clarifying open-access transmission rules for bilateral markets.

The world energy landscape has also changed substantially since 2004, with profound impact on electricity prices in this country. The rapid growth of several international economies, including China and India, increased the demand for many fuels and raised energy prices worldwide. In the U.S., all fuels used for generating electricity, along with the cost of materials used for construction and maintenance, have increased in price substantially more than expected.





Electricity prices throughout the country have followed the trends in fuel prices to various extents. Especially hard hit were areas of the country where wholesale and retail electricity markets had been restructured. Price reductions anticipated from competitive markets were overshadowed by increases in underlying fuel materials and transportation costs, as well as tightening supply conditions. Additionally, the transition to competition delayed rate increases so long that rate shock resulted when price caps finally expired, spurring some state legislatures to enter the regulatory arena. These situations have yet to fully resolve, but some states have already formally reversed, suspended, or delayed retail restructuring.

Today, capacity reserve margins are shrinking following a rapid overbuild in 2000-2004, suggesting that the industry may enter another capacity-building stage. Expectations of sustained high prices in fuels and wholesale markets are encouraging utilities to invest in baseload technologies fired by lower-cost fuels such as coal, uranium, and renewables. A number of utilities have announced plans to consider new nuclear capacity. New coal plants are in the planning stages around the country, as well, but these are coming under increasing scrutiny because of environmental concerns. Energy costs are likely to remain high for some time.

Several issues demand immediate and sustained attention. These include the continuing increase in energy demand; escalating prices in coal, natural gas, and purchased power; and increasing momentum for more regulatory intervention on air emissions.

Today's priorities focus on improving reliability, managing demand, and reducing environmental impacts, including addressing the issue of global climate change. Public and governmental focus on these issues may lead the future electric utility industry to adopt new priorities.

As a result of changes in electricity markets, in laws and regulations, and in TVA's leadership, the Board directed TVA's management to produce an updated Strategic Plan to prepare TVA for success in the changing industry landscape.

# TVA's Business Structure

TVA was part of President Franklin Roosevelt's New Deal response to the challenges of the Great Depression. He asked Congress to create "a corporation clothed with the power of government but possessed of the flexibility and initiative of a private enterprise." On May 18, 1933, the TVA Act was enacted, which outlines TVA's three-part mission for energy, the environment, and economic development.

In 1954, President Eisenhower asked the TVA Board to propose alternative sources of financing to replace appropriations from Congress for construction of new power system projects. In 1959, Congress gave TVA the authority to self-finance its power system in exchange for placing a statutory "Fence," beyond which TVA was prohibited from selling power. There were a few exceptions, most notably the right to continue power exchange arrangements with certain specific neighboring electric companies. Since that time, TVA's power system has received no tax dollars and has been funded entirely by power revenues and financing.

By the early 1990s, TVA's competitive position had changed somewhat. Low gas prices, low interest rates, improvements in gas-fired generation technology and excess capacity led to low wholesale market prices, which in some regions increased the pressure to make electricity markets more competitive at both the wholesale and retail level. Congress began considering "open-access" legislation that would allow competitors to wheel power into other systems to increase wholesale competition. Because the Fence constrained TVA from seeking replacement customers outside its own region, Congress agreed that competitors should not be allowed to cherry-pick TVA's more financially attractive loads, leaving TVA to recover its fixed costs from a smaller customer base.

As a matter of fairness, Congress added a provision to its Energy Policy Act of 1992 to prohibit the Federal Energy Regulatory Commission (FERC) from requiring TVA to transmit electricity from suppliers outside the Fence for consumption inside the Fence. This established the existing statutory "two-way" Fence, which can only be changed by an Act of Congress. However, in circumstances where it deems appropriate, TVA has the right, but not the obligation, to voluntarily transmit the power of others to be consumed inside the Fence. The legislative two-way Fence is a key component supporting TVA's business structure, which continues to serve TVA and its customers well.

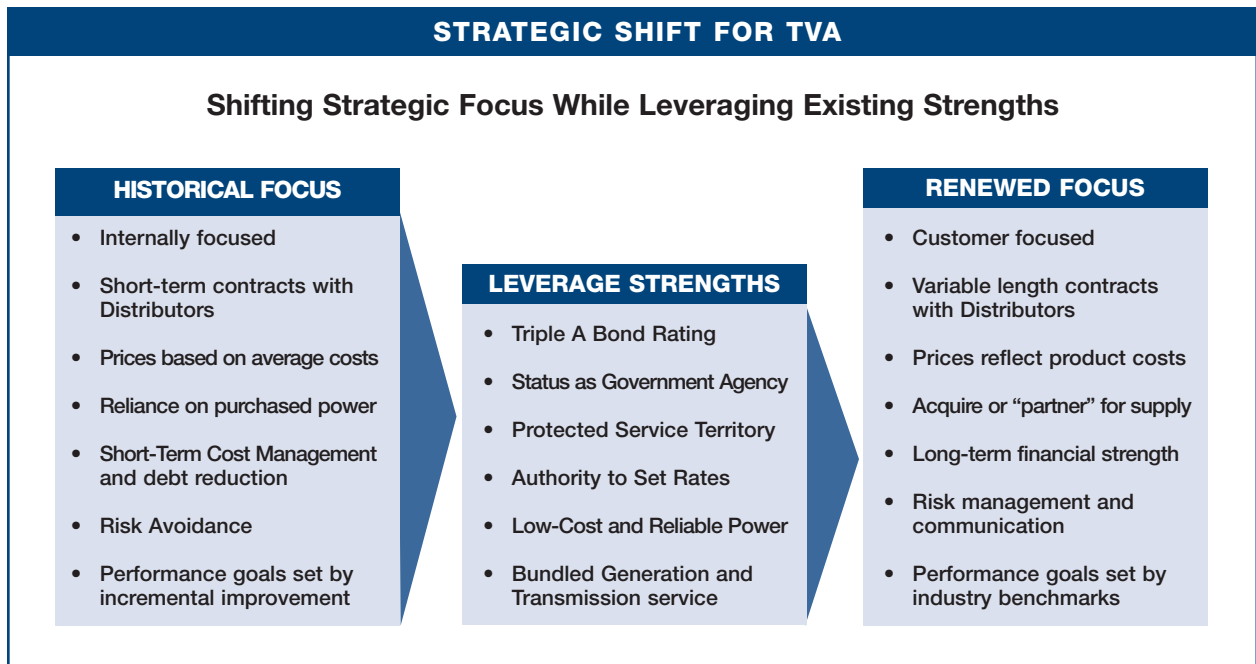
While TVA's electric power program has been self-funded for almost 50 years, it has not received congressionally appropriated funding for its other responsibilities since 1999. Yet, TVA was mandated to continue fulfilling its entire mission, including essential stewardship activities, and to ensure "that these programs continue to be funded and operated." TVA was authorized by Congress to use power funds to pay for the shortfall created by not receiving appropriated funding. Since fiscal year 2000, TVA has funded its mission entirely from power revenues and financings. The continued economic viability of TVA's power program is heavily dependent on this business structure.

In developing this new Strategic Plan, the Board determined that the TVA's current business structure best enables TVA to carry out its integrated mission. The Strategic Plan proposes to largely preserve the current structure but adapt it to today's competitive environment. Key components of the business structure are:

1. Continued focus on a three-part integrated mission in energy, the environment, and economic development.
2. All aspects of the business area will continue to be funded from power revenues and financings.

3. Generation and transmission services will continue to be provided as part of a “bundled” package.
4. Demand for power will be met through a careful balance of self-reliance and partnership with others, limiting dependence on the market to keep costs competitive and reduce risk associated with short-term market volatility.
5. Financing obligations will be appropriate to the value of the assets.

The Board will continually assess the business structure to ensure its viability in a changing environment.



# Planning Assessments

The development of the 2007 Strategic Plan was guided by an examination of TVA's current business environment and assessments of what TVA might expect in its future operational, economic, and regulatory climate. The findings from this process included the following:

## **Current conditions**

- Prices for all types of fuel have increased rapidly in the past several years, driving higher prices for electricity nationwide. In addition, the recent surplus in mostly gas-fired generation capacity is declining.
- Demand for power in TVA's service territory is growing steadily at about 2 percent per year. Forecasts indicate that the Tennessee Valley will need from 6 to 12 gigawatts of additional capacity over the next 10 to 15 years.
- Construction of baseload generation has been delayed across the country and transmission investments have lagged.
- Public sensitivity to environmental and climate-change issues has led to expectations of tightened regulations in the future, including, but not limited to mercury and carbon dioxide emissions. Some states have already passed mercury legislation that is more stringent than EPA's Clean Air Mercury Rule, and several states and groups of states have initiated regulatory programs aimed at addressing climate change.

## **Future assessments**

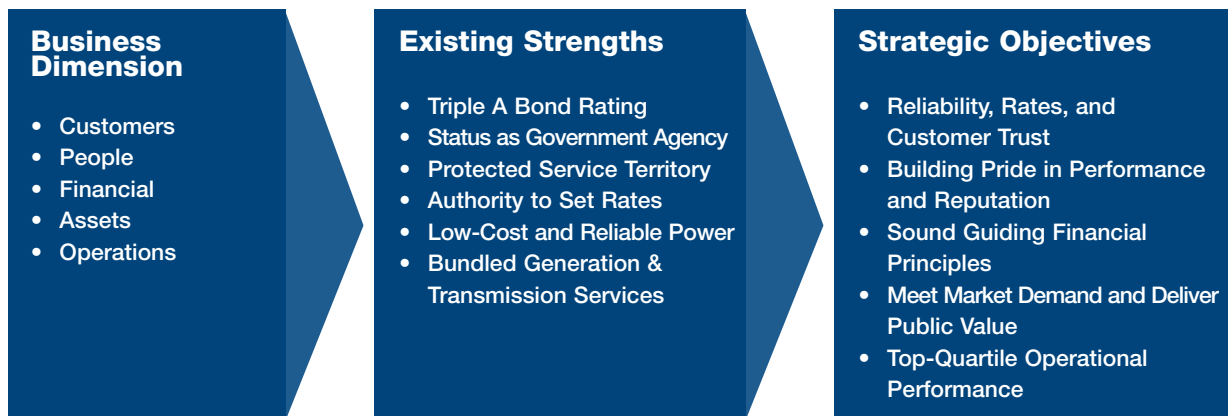
- Prices for fuel and construction materials are likely to stay high and volatile for at least the next three to five years.
- Additional environmental regulations will come into force. Carbon regulation will probably occur within the next 10 years through a cap-and-trade process, taxation, or some other constraint. A renewable portfolio standard is also likely within the next decade.
- Evolving environmental control technology will provide the ability to significantly reduce fossil plant emissions.
- Retirements among the industry's experienced employees will challenge the ability of utilities to build and operate power system assets. As members of an aging workforce retire, utilities will be challenged to create an employee base that has the skills and competencies needed to build, maintain, and operate their power assets.
- The market structures around TVA will likely remain stable for some time. Utilities in the region, including TVA, will continue to offer comparatively low wholesale rates to their customers. Regional load growth will likely remain strong. Regional utilities have announced plans to build baseload coal and nuclear generation. However, increasingly complex planning adds uncertainty to completion dates that is further complicated by emerging environmental concerns.
- Changes in the electricity market will be evolutionary, not revolutionary. Retail restructuring is expected to be modest in the regions adjacent to TVA. Wholesale markets will continue to evolve and additional regulations will be enacted.

# Process Overview

The strategic planning process began with a review of TVA’s mission followed by a situational assessment of current market forces and the future regulatory environment. To incorporate a broad range of perspectives, interviews were conducted with Board members, key TVA executives, and other key stakeholders across the Valley. As part of the strategy development process, TVA management evaluated the strengths, weaknesses, opportunities and threats affecting TVA today (commonly known as a SWOT analysis). Emerging themes of the analysis were that TVA’s current business structure is strong with opportunities for improvements in customer relationships and in financial, operations and environmental performance. Central to successful execution of the strategy is corporate alignment so that TVA’s workforce and resources are focused on the right outcomes. Board-level strategic objectives will be used to develop detailed performance plans. Through the Business Planning Process, TVA will use a balanced scorecard to quantify metrics that support the strategy and implement initiatives to close the gap between TVA’s current and desired states.

Following world-class practices for developing and executing strategy, the business was divided into five dimensions to provide a logical approach for moving the company to the desired future state. Strategies were developed for these dimensions to leverage TVA’s existing strengths and opportunities and address the risks associated with weaknesses and threats. Five strategic objectives and their corresponding critical success factors emerged from this analysis.

A draft of the Strategic Plan was made available for public comment. TVA hosted nine briefings on the plan for the general public throughout the Valley region and provided a briefing for TVA employees. These meetings provided the opportunity for face-to-face discussion of the draft document, and TVA encouraged input from customers, distributors, stakeholders, employees, and the public.



The Strategic Plan itself is not intended to address detailed resource planning issues such as forecasting future load requirements or assessing supply and demand alternatives for meeting those needs. Nor is it intended to address rate-setting or customer-specific issues. This Strategic Plan establishes strategic direction and a framework for implementation activities. The Board of Directors will periodically review and update the Strategic Plan.

# Strategic Objectives and Critical Success Factors

In this Strategic Plan, TVA identifies five broad Strategic Objectives on which it will focus as it moves forward, and several corresponding critical success factors that support those objectives. The five Strategic Objectives and critical success factors are outlined here; the Strategy Discussion on the following pages provides additional content.

- 1. CUSTOMER:** Maintain power reliability, provide competitive rates, and build trust with TVA's customers
  - Strengthen relationships and trust by being responsive to stakeholder needs
  - Develop a portfolio of product and pricing structures that more accurately reflect the costs of serving load at different times and levels of use.
  - Partner with distributors and directly served customers to encourage conservation, promote energy efficiency, and reduce peak demand
  - Partner with customers to limit volatility in rates and participate in power supply through shared generation ownership
  - Assist states, communities, and distributors in sustaining economic development programs
  
- 2. PEOPLE:** Build pride in TVA's performance and reputation
  - Safeguard the health and safety of employees and the public
  - Strengthen workforce knowledge and skills and management processes to motivate performance and successfully implement the strategic objectives
  - Treat employees, customers, and other stakeholders with integrity and respect
  - Communicate clearly and consistently
  
- 3. FINANCIAL:** Adhere to a set of sound guiding financial principles to improve TVA's fiscal performance
  - Apply sound economic and financing practices to new investments
  - Pay financing obligations before assets are fully depreciated
  - Strengthen TVA's balance sheet by improving the ratio of financing obligations to total assets
  - Improve TVA's cash return on total assets in order to service debt, preserve existing assets, reinvest in new assets, and improve environmental performance
  - Achieve top-quartile performance in non-fuel operation and maintenance (O&M) expenses and then hold increases to be less than unit sales growth (kWhs)
  
- 4. ASSETS:** Use TVA's assets to meet market demand and deliver public value
  - Balance TVA's production capabilities and load by adding assets (buy, build or through long-term contracts) and encouraging the use of energy in ways that reduce the need for new generation
  - Preserve, maintain, repower or retire existing assets where appropriate
  - Manage land and water resources to provide multiple benefits to the Valley
  - Reduce fuel supply risk with a diverse portfolio of generation assets
  
- 5. OPERATIONS:** Improve performance to be recognized as an industry leader
  - Deliver reliable electric power generation and transmissions products and services
  - Benchmark the industry's best performers to develop metrics for top-quartile performance
  - Make nuclear safety the overriding priority for each nuclear facility and for each individual associated with it
  - Continue to reduce the impacts of TVA's operations on the environment
  - Serve as a responsible steward of the Tennessee River system
  - Apply science and technological innovation to improve operational performance

# Strategy Discussion

The following Strategy Discussion describes each of the Strategic Objectives and provides some detail around the Critical Success Factors.

## Customers

TVA will strengthen relationships by providing reliable and competitively priced power to customers and partnering with them in energy efficiency, power supply and economic development. TVA will build trust by communicating openly and honoring commitments.

## ENERGY EFFICIENCY AND CONSERVATION

In partnership with others, TVA will strive to be a leader in energy-efficiency improvements and peak demand reduction over the next five years. Improving energy efficiency and reducing peak demand are significant actions that help slow demand growth in a cost-effective manner while addressing air pollution and global climate change. For the purposes of this discussion, energy efficiency includes conservation (using less), efficiency (using smarter) and peak shaving (avoiding use at the most expensive times). Encouraging energy efficiency in the Valley requires the cooperative effort of TVA, power distributors and end-use consumers of electricity. TVA will work with stakeholders at the national, regional, state and local levels to encourage effective conservation, efficiency, and peak reduction initiatives. Efficiency, conservation, and peak-shaving, along with on-site generation (such as photovoltaics), are key components of TVA's energy resource mix.

## PARTICIPATION IN POWER SUPPLY

TVA will continue to provide all of its customers' power needs. However, some customers are interested in acquiring generation assets. TVA will provide the opportunity for distributors to participate in shared generation ownership, as long as the average cost of service is not affected. This option provides a framework for distributors to access the market while allowing TVA to maintain industry reliability standards, provide sufficient power supply and keep rates low for consumers in the Tennessee Valley region. This also helps facilitate investment in generation supply for the region. This option would require a redesign of the TVA rate structure in order to provide appropriate price signals.

## ECONOMIC DEVELOPMENT

As part of its mission, TVA supports the creation of a vibrant regional economy for the benefit of the people of the Tennessee Valley region. TVA does this by working with economic development partners to efficiently and effectively support economic growth. Within this framework, TVA's economic development growth strategy will focus on the recruitment and retention of targeted businesses and industries that complement TVA's anticipated load shape, increase job creation and capital investment in the market sectors of women and minority-owned companies, and provide technical services and training needed to support community and regional development. Additionally, recruiting efforts will consider, among other things, the number and quality of jobs created, capital investment, environmental impact, load volatility, and capacity factor in order to adequately balance the needs of TVA, companies and communities involved.

## People

This dimension includes how TVA works with employees, customers, stakeholders and the public. TVA will continue to focus on safeguarding the health and safety of the public and employees and treating everyone with integrity and respect. TVA will strive to communicate clearly and consistently with all groups. These activities will help employees feel proud about working at TVA and help customers be proud of doing business with TVA.

## SAFETY

TVA stresses safety for all employees and also considers the public in all safety decisions. Concerns about safety move beyond the internal and extend to TVA's customers, their customers, and all other stakeholders. By creating a safe and positive environment for employees, fostering an environment of integrity and respect and providing proper tools and training, TVA will be better positioned to achieve its other strategic objectives.

## VALUES AND ETHICS

TVA's STAR7 Values — Integrity, Respect, Accountability, Teamwork, Continuous Improvement, Honest Communication, and Flexibility — are embedded in TVA's culture and are essential for improvement of both performance and reputation. Combined with ethical behavior, these values describe the professional principles that TVA will follow in its decisions, actions and interactions with employees, customers and stakeholders.

## COMMUNICATION

TVA will communicate clearly and consistently with power distributors, directly-served customers, and other stakeholders and will be responsive to their needs in order to build stronger partnerships, increase trust and develop long-term relationships. Carrying out TVA's mission to improve the quality of life requires a three-way partnership between TVA, TVA's customers, and the people of the Valley. This three-way partnership is vital as we work together to provide reliable, low-cost power; improve the environment; and support the economic vitality of the region.

## Financial

TVA is completely self-funded from the sale of electricity and financings that provide capital for the power program. Unlike investor-owned utilities that issue stock, TVA's sources of capital are more limited. Maintaining TVA's AAA credit rating is a key component of TVA's financial strategy. This strategy is centered on applying sound decision criteria to new investments; retiring debt before the associated assets are retired; improving the balance sheet to maintain credit worthiness; and improving cash return on total assets for the purpose of debt payment, asset investment and spending to improve environmental performance.

## INVESTMENT DECISIONS AND DEBT RETIREMENT

TVA will continue to make decisions necessary to ensure sound financial performance. TVA's investments in new capital projects and leases will be economically justified or needed to meet regulatory requirements, such as clean air compliance. New financial obligations will be paid down through revenue or savings generated from the investments they were used to fund. Financing obligations will be retired before the value of the associated assets in the portfolio is depleted. This ensures that financing obligations are manageable and commensurate with the associated assets. Specific debt will not be tied to specific assets, but the revenue stream provided by an asset must be sufficient to offset the additional debt service and pay-down requirements created by the new investment. TVA will be fiscally responsible, following sound economic and financing practices when incurring financial obligations. TVA will continue to manage its financial obligations and the associated interest, while still providing the financial resources to fund a thriving business.

## FINANCIAL TRANSPARENCY

TVA will adhere to strong internal controls and will demonstrate financial transparency through timely, meaningful and reliable disclosures about its financial performance consistent with Sarbanes-Oxley.

## CASH RETURN IMPROVEMENT

Improving non-fuel expenses is a central component of our operations strategy and a key aspect of achieving cash return on total assets. Meeting expense-reduction goals will significantly affect TVA's ability to achieve certain critical success factors in the Strategic Plan.



## NON-FUEL O&M EXPENSES

TVA intends to achieve top-quartile performance in non-fuel O&M expenses and limit the growth of these expenses to less than the growth in sales. Within three years, TVA should achieve top quartile in non-fuel O&M expenditure performance. Achieving this goal will require TVA to reduce non-fuel O&M expenses relative to total generating capacity, megawatt-hour produced, and rate of sales growth. Meeting these goals will significantly affect TVA's ability to achieve certain critical success factors identified in the Strategic Plan.

## Assets

The primary goal of TVA's strategy for assets is to balance production capabilities and load requirements by promoting the conservation (i.e., demand reduction) and efficient use of electricity and by adding assets, including renewables. TVA also will continue to manage land and water resources to provide multiple benefits to the Valley.

## BALANCE PRODUCTION AND LOAD

The primary goal of TVA's strategy for assets will be to balance production capabilities and load requirements by promoting the conservation and efficient use of electricity and, when necessary, buying, building, or leasing assets or entering into long-term purchased power agreements. Partnerships through distributor-owned generation are also part of balancing load with assets in the Valley. Production capabilities and load requirements will be balanced within 5 percent. TVA will maintain or retire existing assets as dictated by economic viability, load requirements, and environmental considerations. Fuel supply risks will be addressed by maintaining flexible fuel contracts and a portfolio of generation assets that use a diverse fuel mix.

## RENEWABLE PORTFOLIO

In the next few years, TVA and other utilities will be required to generate a greater portion of their electricity using renewable resources. TVA has been involved in several activities to prepare for such requirements. The Green Power Switch program has helped TVA learn more about the potential for solar, wind, and methane gas generation in the Valley. Pilot programs for biomass co-firing at fossil plants and our ongoing hydro modernization efforts have helped position TVA to access the region's most abundant renewable sources. Renewables will play an increasingly important role in TVA's future generation. TVA will strive to reduce the carbon intensity of its generation by increasing renewable generating capacity.

Solar, wind, incremental hydro, biomass, and landfill gas are among the renewable sources that would be considered eligible. Generation offsets also would be considered, including end-use customer installations of renewable generation resources that include programs to identify, track and quantify the resources.

## RESOURCE STEWARDSHIP

Management of the Tennessee Valley reservoirs and the lands adjacent to them, and the manner in which TVA complies with environmental laws and regulations, are integral parts of TVA's stewardship mission. Environmental stewardship is also a catalyst for economic development by making the Tennessee Valley an attractive place to live and work. The three components of TVA's mission — providing reliable and competitively priced electric power, economic development opportunities, and responsible environmental stewardship -- reinforce and complement each other. TVA will continue to promote balance in the use and conservation of water resources while managing the multiple demands on the reservoir system, including navigation, flood control, recreational use, water quality, water supply, and generation of electricity. It is TVA's policy to retain reservoir lands in public ownership except in rare instances where the public benefits will be so significant that transferring lands from TVA control to another entity is justified. The land and reservoirs that TVA stewards are some of the region's most important resources.

## Operations

The keys to successful implementation of the operations strategy are to reduce expenses and prevent non-fuel expenses from growing faster than sales, further reduce TVA's environmental impact (including its carbon footprint), serve as a responsible steward of the Tennessee River system, apply science and technology innovation to improve operational and environmental performance, and use benchmarked metrics to achieve top-quartile performance in key categories. Additionally, TVA must continue to make nuclear safety the overriding priority in operations at all nuclear facilities.

### FOSSIL EMISSIONS

TVA will continue to reduce emission levels from its fossil plants to comply with existing and future environmental regulations by using additional emission controls, cleaner coals, and more efficient plants. On occasion, TVA will make limited use of emissions allowances to meet compliance requirements. If load growth is less than expected, or if efficiency efforts are greater than forecasted, this will provide an opportunity to retire higher-emitting fossil plants sooner.

### GLOBAL CLIMATE CHANGE

TVA will be proactive in addressing environmental concerns, including those related to global climate change. TVA has taken significant voluntary steps to reduce the carbon intensity of its generation, including the recovery of Browns Ferry Unit 1, planned power uprates of Browns Ferry Units 2 and 3, and the hydro modernization program. Moving forward, TVA will make decisions that give strong consideration to fuel mix and generation assets that are low- or zero-carbon emitting resources. TVA will continue to invest in research and development on low-carbon generation options, carbon reduction, and carbon capture and sequestration technologies to ensure that coal remains a viable part of TVA's diverse generation portfolio. Carbon dioxide emission rates will be tracked as a component of the Strategic Plan's environmental metric.

# Strategy Implementation

This Strategic Plan outlines the Board of Directors' policy-level direction for TVA over the next decade and highlights several actions that are needed for successful implementation of the strategy. Corporate-level metrics are in place to monitor TVA's performance toward achieving successful implementation of its strategy. They will be reviewed and systematically updated to maintain alignment with the strategic focus.

## **Customers**

Competitive Performance will be measured by:

- Customer satisfaction index
- Participation in energy efficiency and peak-shaving initiatives
- Delivered cost of power (TVA and distributor)
- Connection point interruptions
- Economic development index

## **People**

Workforce performance will be measured by:

- Recordable-injury rate
- Cultural health index

## **Financial**

Fiscal health and performance will be measured by:

- Total financial obligations/asset value
- EBITDA\*/asset value

## **Assets and Operations**

Operational performance will be measured by:

- Megawatt demand reduction
- Productivity
- Environmental performance
- Equivalent availability generation assets

*\* Earnings Before Taxes, Interest, Depreciation & Amortization*

# Conclusion

## **The 2007 TVA Strategic Plan:**

- Reflects the Board's policy-level strategic direction to foster TVA's long-term health;
- Identifies a strong, sustainable business structure for providing reliable, competitively priced power to the Tennessee Valley;
- Reaffirms TVA's commitment to protecting the Tennessee Valley's environmental resources and integrated management of the Tennessee River system;
- Encourages smarter energy use, conservation and peak-shaving to help consumers manage their demand for electricity;
- Promotes reduction of TVA's environmental footprint, including a reduction in carbon intensity and an increase in renewables generation;
- Supports the economic vitality of people in the Tennessee Valley region through economic development;
- Identifies performance measures for assessing progress in meeting the strategic objectives.

TVA's 1995 Integrated Resource Plan (IRP, also referred to as Energy Vision 2020) continues to guide activities on the TVA system. TVA's strategic mission and goals in the Strategic Plan are consistent with those in the IRP. However, proposed actions for implementing the strategic objectives and critical success factors in the Strategic Plan could deviate from or be inconsistent with the 1995 IRP. When this is the case, environmental review of the proposed action will address the issue and provide the opportunity for appropriate public input. The IRP is considered modified through that review process. At this time, no change to the IRP is necessary as a result of the content or direction provided by the Strategic Plan.

This Strategic Plan provides a framework for leveraging TVA's considerable strengths and deploying them to maximum effectiveness in accomplishing TVA's comprehensive mission of service in energy, the environment, and economic development. The Strategic Plan positions TVA to leverage its resources and partner with others to continue to improve the quality of life in the Tennessee Valley region. It focuses our management team's attention on activities that are critical to TVA's success and essential to the region's ongoing growth and prosperity.

The Strategic Plan establishes concrete metrics for measuring milestones, documenting successes, and identifying improvement opportunities. It sets bold objectives toward which TVA will work cooperatively with the Administration, Congress, regulators, and others to help resolve many of the energy, environmental, and economic issues facing the region.

Most important, the Strategic Plan draws upon the continued commitment and unquestioned skills of TVA's most valuable asset: the thousands of TVA men and women who will execute this plan in accordance with TVA's values.

Those values — integrity, respect, accountability, teamwork, continuous improvement, honest communication, and flexibility — set the standard for how the people of TVA treat each other; they are a model for TVA's relationships with its stakeholders; and they are vital components of TVA's Strategic Plan.

# TVA's Mission and Values

## **TVA Mission**

Serving the Valley Through Energy, Environment, and Economic Development

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## **Our Values**

### **Integrity**

- We do what we say we will do.
- Our actions, our words are consistent, honest, ethical.
- We work to earn each other's trust.

### **Respect**

- We value everyone and everyone's work.
- We treat each other with respect and dignity.
- We assume innocence.

### **Accountability**

- We are serious about safety.
- We work on the right things. We are accountable for results.
- We follow the rules. We use TVA resources wisely.

### **Teamwork**

- We collaborate. We strive for engagement.
- We interact through rapport.
- We play on a bigger TVA team.

### **Continuous Improvement**

- We set high standards and goals based on external benchmarks.
- We are self-critical. We seek new ideas.
- We investigate and solve problems. We learn from our mistakes.

### **Honest Communication**

- We listen to understand. We speak to be understood
- We give and receive meaningful feedback.
- We seek other opinions. We value different perspectives.

### **Flexibility**

- We welcome and adapt to change.
- We respond quickly to customer needs.