

TENNESSEE VALLEY AUTHORITY

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ANNUAL REPORT 2006



*We accept the challenge*

Tennessee Valley Authority

Annual Report 2006



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**Financial Highlights**

For the years ended September 30 (in millions)

	2006	2005	PERCENT CHANGE
<b>Summary statements of income</b>			
Operating revenues	\$ 9,185	\$ 7,794	18
Operating expenses	(7,582)	(6,503)	17
Operating income	1,603	1,291	24
Other income and expense, net	65	52	25
Unrealized gains (losses) on derivative contracts, net	(15)	3	NM
Interest expense, net	(1,215)	(1,261)	(4)
Income before cumulative effects of accounting change	438	85	415
Cumulative effect of change in accounting for conditional asset retirement obligations	(109)	-	
<b>Net income</b>	<b>\$ 329</b>	<b>\$ 85</b>	287

*Unless otherwise indicated, years (2006, 2005, etc.) in this report refer to TVA's fiscal years ended September 30.*



We accept the challenge

# to guide

## A Letter from Chairman Bill Sansom

Last March, six new Board members, including myself, joined Directors Skila Harris and Bill Baxter to form TVA's newly expanded Board. In October, we were joined by the ninth member, Bishop William Graves of Memphis.

We are all proud to be a part of this historic change in TVA's governance.

We are enthusiastic in accepting the challenge of providing TVA with strategic guidance and policy direction in all its work, notably in the areas of energy, environment, and economic development, and we support the vision of President and Chief Executive Officer Tom Kilgore as he leads all the people at TVA.

For 73 years, TVA's mission has helped improve the quality of life and provided opportunities for the people of the Valley. Today, that mission is as vital as ever as TVA fuels our region's thriving economy, manages the Tennessee River system, serves as a catalyst for economic development, and works to protect the environment.

We are already learning that TVA people are experienced, dedicated, and productive, and we look forward to our new relationships with them. We all want to be proud to wear our TVA badges.

Building on the great tradition of accomplishment, the new TVA Board accepts the challenge of guiding TVA as it meets the challenges of the 21st Century.

I proudly accept

William B. Sansom  
Chairman

### From the TVA Act:

#### (a) MEMBERSHIP.—

(1) APPOINTMENT.—The Board of Directors of the Corporation (referred to in this Act as the "Board") shall be composed of 9 members appointed by the President by and with the advice and consent of the Senate, at least 7 of whom shall be a legal resident of the service area of the Corporation.

(2) CHAIRMAN.—The members of the Board shall select 1 of the members to act as chairman of the Board.

(b) QUALIFICATIONS.—To be eligible to be appointed as a member of the Board, an individual—

(1) shall be a citizen of the United States;

(2) shall have management expertise relative to a large for-profit or nonprofit corporate, government, or academic structure;

(3) shall not be an employee of the Corporation;

(4) shall make full disclosure to Congress of any investment or other financial interest that the individual holds in the energy industry; and

(5) shall affirm support for the objectives and missions of the Corporation,

including being a national leader in technological innovation, low-cost power, and environmental stewardship.

## TVA BOARD OF DIRECTORS



**CHAIRMAN WILLIAM B. SANSOM** of Knoxville 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 expires May 18, 2009. *Committees: Finance, Strategy & Rates; Operations, Environment & Safety*

**BILL BAXTER** of Knoxville is chairman of Holston Gases, Inc., a distributor of industrial, medical, and laboratory gases. He was named to the TVA Board as a full-time Director in 2001 and served as TVA Chairman from June 2005 through March 2006. His term expires May 18, 2011. *Committees: Corporate Governance; Finance, Strategy & Rates*

**DENNIS BOTTORFF** of Nashville 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 expires May 18, 2011. *Committees: Corporate Governance; Finance, Strategy & Rates\*; Human Resources*

**DON DEPRIEST** of Columbus, Miss., is chairman of a venture capital firm headquartered in Alexandria, Va. 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 expires May 18, 2009. *Committees: Corporate Governance\*; Audit & Ethics; Community Relations*

**MIKE DUNCAN** of Inez, Ky., is chairman, chief executive officer, and director of Community Holding Co.; chairman, CEO, and director of Inez Deposit Bank; and general counsel of the Republican National Committee. He is a director of the regional Center for Rural Development. His term expires May 18, 2011. *Committees: Audit & Ethics\*; Community Relations*

**WILLIAM GRAVES** of Memphis 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 expires May 18, 2007. *Committees: to be determined*

**SKILA HARRIS**, a native of Bowling Green, Ky., 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 expires May 18, 2008. *Committees: Operations, Environment & Safety; Human Resources\*; Community Relations*

**HOWARD THRILKILL** of Huntsville, Ala., 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 expires May 18, 2010. *Committees: Operations, Environment & Safety\*; Human Resources*

**SUSAN RICHARDSON WILLIAMS** of Knoxville 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 expires May 18, 2007. *Committees: Audit & Ethics; Human Resources; Community Relations\**

\*Indicates Committee Chairperson



*We accept the challenge*

## *to serve*

### **A Letter from Tom Kilgore**

I am proud to serve as President and Chief Executive Officer in an exciting period of challenge for TVA.

TVA has a legacy unlike that of any other organization. In its early years, it was synonymous with hope, opportunity, and progress. By bringing electricity to remote farms and towns, teaching modern farming methods, and reforesting the region, TVA enabled families to prosper, opened up the region to economic growth, and brought about a new way of life. Times change, and TVA's role today is different, but no less critical to the people of the Tennessee Valley.

Today TVA keeps pace with a vibrant Valley economy. Companies like Nissan North America are moving their headquarters here. Firms like Denso and Verizon Wireless are expanding their businesses in the Valley. Many people are moving here in pursuit not only of jobs but also of our desirable quality of life.

Overall, our region's demand for power is growing at about 2 percent a year. We at TVA are proud to accept the challenge to meet that ever-growing demand—a challenge that places TVA as a leader in our nation's nuclear renaissance.

In the year that Sequoyah Unit 1 and Watts Bar Unit 1 marked their respective 25th and 10th anniversaries, the restart work at Browns Ferry Nuclear Unit 1 is on budget and on schedule for that unit to return to service in spring 2007.

Looking ahead, we are conducting a detailed scoping, estimating, and planning study for the possible completion of Watts Bar Unit 2 and exploring the option of building a new nuclear plant at our Bellefonte site in North Alabama.

As we move forward, I have asked the men and women of TVA to focus on two key priorities: improving our performance and our reputation, which means improving our numbers—starting with those on the following pages—and renewing the respect for the TVA name.





## Highlights

In fiscal year 2006, the power system sold more than 176 billion kilowatt-hours of electricity to our customers, earning revenue totaling nearly \$9.2 billion.

For the seventh year in a row, TVA's transmission system delivered power to customers with 99.999 percent reliability. In July, TVA's power system was tested by four consecutive days of peak demands above 31,000 megawatts, including an all-time TVA record demand of 32,008 megawatts on July 18.

Our power system's performance throughout the year is a tribute to our employees' dedication and effort in fossil, nuclear, hydro, bulk power trading, transmission, and all parts of the TVA system.

## Environmental Stewardship and Economic Development

We invested \$182 million as part of our ongoing \$5.8 billion program to reduce emissions at our fossil plants. Weighing costs and benefits to properly address TVA's competing responsibilities and goals, TVA's emissions-reduction program seeks to meet and exceed all applicable legal requirements as cost-effectively as possible.

In response to requirements established by the Clean Air Act and its amendments, TVA has reduced sulfur dioxide emissions by 80 percent since 1977 and nitrogen oxide emissions during summer ozone seasons by 81 percent since 1995.

Today, our region's air is cleaner than it has been in our lifetimes.

As steward of the Tennessee River system, TVA effectively managed the demands of power production, navigation, flood control, recreation, water quality, water supply, and land use despite a year of low rainfall.

In fiscal year 2006, TVA and our state and local partners helped attract or retain some 53,000 jobs and leveraged investments of \$4.2 billion in our region.

## Financial Flexibility

TVA is committed to keeping rates as low as feasible. Sharp increases in the costs of coal, natural gas, and purchased power made it necessary for us to increase rates by 7.52 percent in October 2005 and another 9.95 percent in April 2006. In July, after prices had settled, the Board approved a 4.5-percent rate reduction, effective in October 2006. It also approved a fuel-cost-adjustment mechanism that will allow TVA to adjust rates as fuel and purchased-power costs rise and fall.

We reduced our total financing obligations by \$341 million. This brought our total reduction over the past decade to almost \$2.5 billion—from \$27.7 billion to \$25.2 billion. In that time, the amount of each revenue dollar used to pay interest and other financing expenses has declined from 34 cents to 14 cents.

## Strategic Plan

This year TVA made the transition to an expanded Board of Directors. With its depth and breadth of experience, the new Board is bringing new ideas and strategies to the challenges we face.

Among its top priorities, the Board requested an updated strategic plan to reflect new realities in our business marketplace, notably the need for 1) new generating plants, 2) solutions on financing those plants, and 3) viable long-term contracts with our distributor customers.

In September, William S. "Skip" Orser joined TVA as interim chief operating officer. Skip is a capable leader with three decades of industry knowledge and a proven track record of success.

In this time of positive change and ongoing improvement, I join with the men and women of TVA in accepting the challenge of improving our numbers and renewing TVA's reputation. That means changing the way customers think of us, the way our partners do business with us, and even the way our critics and competitors view us, making TVA synonymous with efficiency, sustained value, creativity, and innovation.

*I proudly accept*



Tom Kilgore  
President and CEO

**99.999%**  
transmission reliability  
to our customers

**\$5.8 billion**  
commitment  
to emissions reduction

**81% reduction**  
in ozone season  
nitrogen oxide  
emissions

**650,000 acres**  
of water for recreation

**53,000 jobs**  
for Valley  
communities

**No**  
taxpayer dollars  
used by TVA





32,008 megawatts record peak demand

OPERATIONAL EXCELLENCE

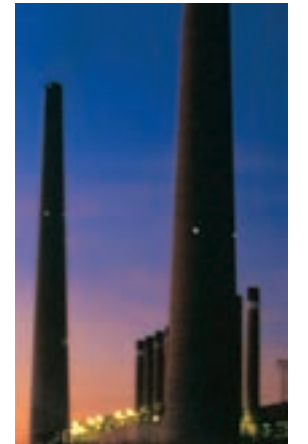
*We accept the challenge*

*to raise the bar*

**On the job, off the charts**

At left is Maintenance Coordinator Sam Hawkins of Shawnee Fossil Plant in Kentucky. In 2006, five units at Shawnee set continuous-run records, led by Unit 6, which set an all-time national record when it passed 1,017 days of continuous operation on November 30, 2006. In 2006, TVA's fossil system generated 100.2 million megawatt-hours of electricity, the second-highest amount in TVA's history.

Last summer, TVA's power system met 16 of its 20 all-time peaks, topped off by the peak of 32,008 megawatts on July 18, in a week that saw four consecutive peaks above 31,000 megawatts. All 59 fossil units were in service for three of the four peak days, and all 72 combustion turbines and five nuclear units were in service for the week. While facing one of the driest summers on record, TVA's hydro fleet was kept available to meet the higher-load evening hours. Despite the challenges of buying power during a widespread heat wave, TVA's Bulk Power Trading team not only purchased enough power to meet TVA's needs but also secured reliable natural gas supplies for TVA's combustion-turbine fleet and contracted combined-cycle facilities. TVA's transmission system experienced no significant reliability issues, despite the heavy loads.



Eleven combustion-turbine units—eight in Marshall County, Kentucky, and three in Gleason, Tennessee—are being purchased to further enhance TVA's flexibility in meeting future peak demands.

*I proudly accept*

**Sam Hawkins**  
Maintenance Coordinator



*We accept the challenge*

## *to be ready*

### **Energy to grow**

At right, Nuclear Unit Operator Michelle Conner and Manager of Shift Operations Jeff Reidy work their shift in the control room at Sequoyah Nuclear Plant, which generated a record 18,937 million kilowatt-hours of power, its most productive year ever, and celebrated its 25th anniversary. On May 27, Watts Bar Nuclear Plant marked its 10-year anniversary of safe, reliable operations.

With demand for power in the Tennessee Valley growing at about 2 percent a year, TVA Nuclear is a national leader in the effort to generate safe, emissions-free, competitively priced power now and in the future.

Watts Bar Unit 1 was the nation's last nuclear unit placed in operation in the 20th century, and Browns Ferry Unit 1, scheduled to be restarted in 2007, is expected to be the nation's first nuclear power unit to go online in the 21st century.

A detailed scoping, estimating, and planning study is underway for the possible completion of Watts Bar Unit 2, and TVA is continuing to explore the option of building a new nuclear plant at its Bellefonte site in North Alabama.

TVA Nuclear won two Top Industry Practice awards from the Nuclear Energy Institute—one for innovation in the area of generic design change and the other for using fuel made with surplus, highly enriched uranium.

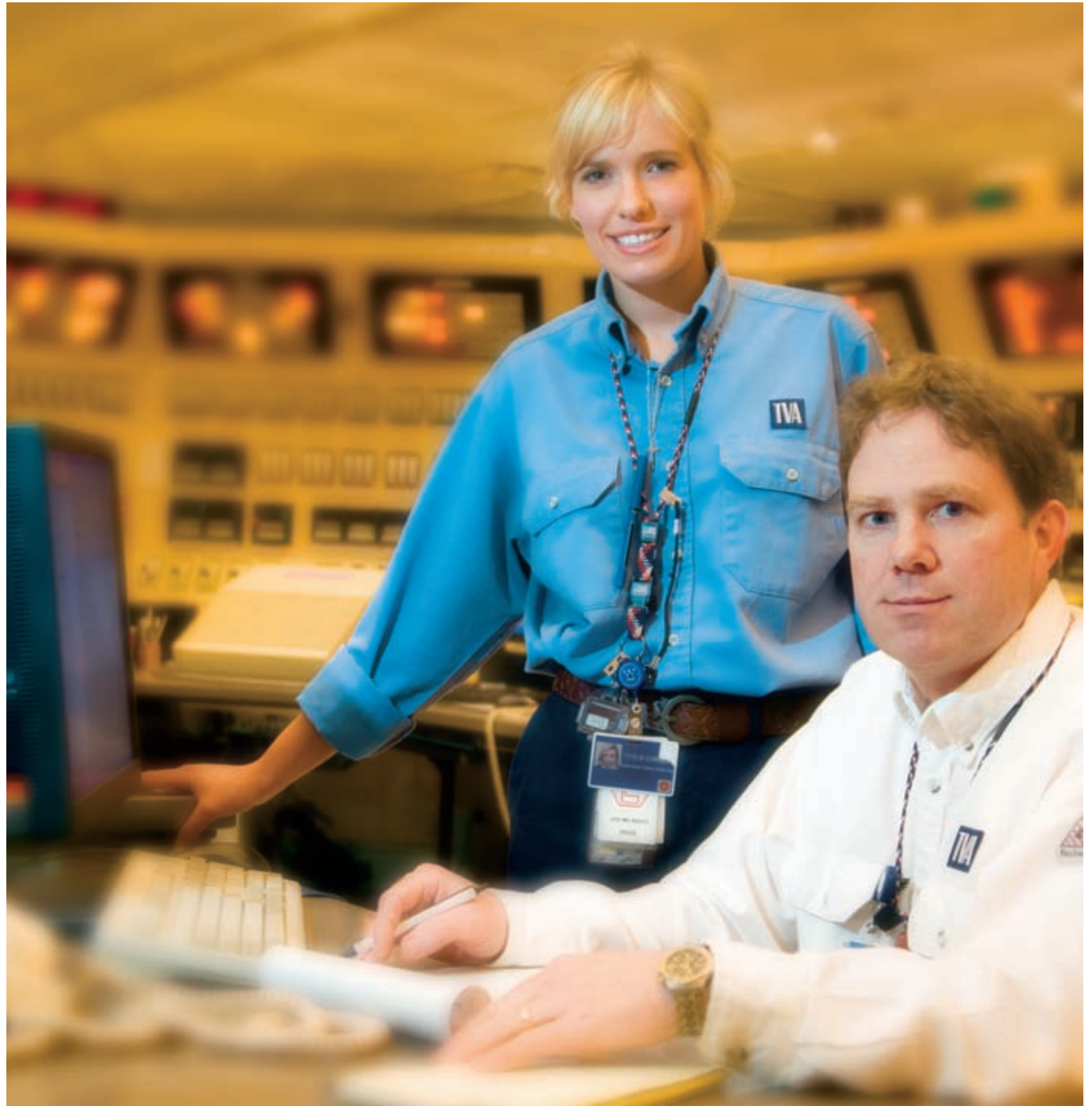
*We proudly accept*

*Michelle Conner*

**Michelle Conner**  
Nuclear Unit Operator, Sequoyah Nuclear Plant

*Jeffrey J. Reidy*

**Jeff Reidy**  
Shift Operations Manager, Sequoyah Nuclear Plant







*We accept the challenge*

*to innovate*

**A powerful idea**

"In today's digital economy, keeping voltage levels constant and stable is vital," says Mike Ingram (*left*), general manager of Research and Development with TVA's Research and Technology Applications. Starting two years ago, Ingram helped develop, design, and test an innovative machine to protect transmission systems from voltage fluctuations and help prevent power interruptions.

Based on an idea from TVA Executive Vice President of Power System Operations Terry Boston and developed and commercialized by American Superconductor Corp. of Westborough, Mass., that machine is called SuperVAR®. It's a dynamic synchronous condenser—a "shock absorber for the transmission grid"—that helps stabilize voltage by injecting or absorbing reactive power to minimize sudden large voltage fluctuations. (In electrical terms, "VAR" stands for volt-amperes reactive, the measure of reactive power.)

SuperVAR earned TVA and Superconductor a prestigious R&D 100 Award from *R&D Magazine* and the Technology in the Service of Society ACE (Annual Creativity in Electronics) Award from the Institute of Electrical and Electronics Engineers as "the technology having the greatest potential to provide the most overall benefit to humankind." SuperVAR® also helped Ingram garner his second TVA Engineer of the Year award in five years.

*I proudly accept*

**Mike Ingram**  
General Manager, Research and Development



*We accept the challenge*

## *to balance the flow*

### **A river of possibilities**

As a river scheduler, Annette Moore, shown at Fort Loudoun Reservoir (*right*), works to get the most out of every drop of water in the Tennessee River system as she manages the multiple uses of flood control, navigation, power production, water quality, water supply, and recreation.

In 2006, the hydro system contributed 6 percent of TVA's generation, down 4 percentage points from 2005 because of low rainfall.

TVA's series of locks and navigation channels enabled the low-cost barge transport of more than 50 million tons of cargo, saving shippers almost \$550 million over the next-cheapest alternative.

Seven watershed teams worked with partners and volunteers across the Valley to improve water quality through initiatives like the Clean Marina Program, which recognizes some 71 marinas that adhere to practices of responsible waste management and overall environmental compliance in their operations.

In 2006, members of TVA's watershed teams, working in partnership with 3,518 volunteers, collected almost 124 tons of trash and debris from area reservoirs and streams.

*I proudly accept*



**Annette L. Moore**  
Civil Engineer, River Operations







ENVIRONMENTAL LEADERSHIP

*We accept the challenge*

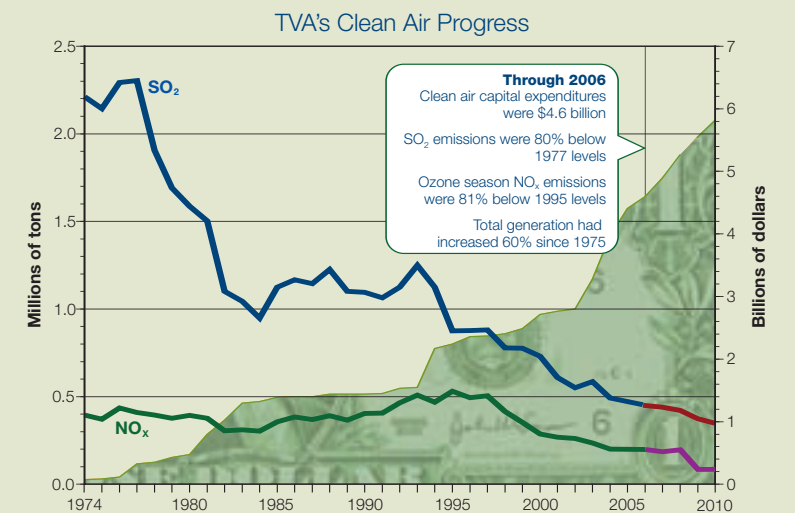
*to help clear the air*

**A better environment for future generations**

Atmospheric analyst Dr. Qi Mao is exploring and assessing the next-generation weather forecasting models for improving air quality simulation across the region. Dr. Mao (*left, with his sons Allen and Max*) earned his master's in meteorology at the Nanjing Institute of Meteorology and his Ph.D. in geophysical fluid dynamics at Florida State. Says Dr. Mao, "All my training comes into play as we assess complex atmospheric interactions at a regional level, which helps TVA's ongoing efforts to improve the air quality in the Valley."

Since 1977, TVA has reduced its sulfur dioxide (SO<sub>2</sub>) emissions by approximately 80 percent through clean-air technologies—including scrubbers at seven of its larger units, with three more under construction—and switching to lower-sulfur coals. When the last scrubbers are completed, TVA's SO<sub>2</sub> emissions should be reduced by as much as 85 percent from 1977 levels. Since 1995, TVA has reduced its nitrogen oxide (NO<sub>x</sub>) emissions during the summer (when ozone levels increase) by approximately 81 percent. It has done this by installing various combustion controls on all 59 coal-fired units and selective catalytic reduction technology on 21 of its units.

In 1995, TVA was the first energy provider to participate in the Climate Challenge, a voluntary government program for electric utilities to reduce greenhouse gas emissions. TVA now supports that program's successor, Climate Vision, which calls for an 18-percent reduction in greenhouse gas intensity by 2012. TVA is also a member of the Southeast Regional Carbon Sequestration Partnership and is working with the Electric Power Research Institute and others to investigate technologies for carbon dioxide capture and geologic storage.



*I proudly accept*

**Dr. Qi Mao**  
Atmospheric Analyst, Research & Technology Applications



*We accept the challenge*

## *to attract business*

### **Valley partnerships lead to better jobs**

When Nissan North America, then in California, was deciding where it wanted to relocate its corporate headquarters, TVA's Senior Vice President of Economic Development John Bradley and Manager of Regional Development Ray Knotts (*right*) worked with the State of Tennessee and many other economic development partners to create the package Nissan needed.

In November 2005, Nissan announced its decision to move its headquarters to the Cool Springs area of Franklin, Tennessee, about 15 miles south of Nashville. That's about 30 miles from its production facility in Smyrna and 80 miles from its engine and transmission plant in Decherd, Tennessee.

The 1,200 corporate jobs Nissan brought to Tennessee have an average salary of more than \$85,000 per year, and analysts estimate that the headquarters will have a yearly impact of more than \$500 million on the state's economy.

While its 10-story headquarters, expected to cost more than \$100 million, is being built, Nissan is occupying 13 stories of the BellSouth Tower in downtown Nashville.

"As we were talking with Nissan, we were focused on listening to their needs," says Knotts. "We were able to succeed by working closely with our economic development partners as a team to meet Nissan's needs and promote our assets, including reliable, affordable power."

*I proudly accept*



**Ray Knotts**  
Manager, Regional Development







THE VALLEY COMMUNITY

*We accept the challenge*

## *to give back*

### **A friend in TVA**

“It’s fun to help other people,” says Gil Francis (*left*) of TVA Communications. “You get a great sense of satisfaction working on a project where you can see the results of your work and know it’s going to be a home for a deserving family that’s working right alongside you.”

The people of TVA share a common determination to make life better in the Valley. TVA volunteers help build Habitat for Humanity houses to give Valley families a brighter future. They donate their time, money, supplies, and equipment to support 79 schools in the region that are members of TVA’s Partners in Education network. Overall, in 2006 TVA employees donated more than 26,000 hours of volunteer service and nearly \$4 million in cash and in-kind services.

TVA is more than the massive dams that harness the river and more than the soaring transmission lines that carry reliable and affordable power to the people of our region. TVA is a family of people who go to work every day helping to make a difference in our communities and the lives of others.

*I proudly accept*

**Gilbert Francis**  
Communications Specialist, News Bureau

SENIOR LEADERSHIP

*We accept the challenge*  
*to go from good to great*



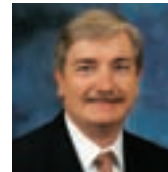
*Tom Kilgore*

**Tom Kilgore**  
President and CEO



*Terry Boston*

**Terry Boston**  
Executive Vice President, Power System Operations



*John J. Bradley*

**John J. Bradley**  
Senior Vice President, Economic Development



*K. R. Breeden*

**Kenneth R. Breeden**  
Executive Vice President, Customer Resources



*J.R. Bynum*

**Joseph R. Bynum**  
Executive Vice President, Fossil Power Group



*Maureen H. Dunn*

**Maureen H. Dunn**  
Executive Vice President and General Counsel



*Theresa A. Flaim*

**Theresa A. Flaim**  
Senior Vice President, Pricing and Strategic Planning



*Peyton T. Hairston, Jr.*

**Peyton T. Hairston, Jr.**  
Senior Vice President, Communications



*John M. Hoskins*

**John M. Hoskins**  
Interim Chief Financial Officer  
and Executive Vice President, Financial Services



*Kathryn J. Jackson*

**Kathryn J. Jackson**  
Executive Vice President, River System Operations  
& Environment, and Environmental Executive



*John E. Long, Jr.*

**John E. Long, Jr.**  
Chief Administrative Officer and Executive Vice President,  
Administrative Services



*William S. 'Skip' Orser*

**William S. "Skip" Orser**  
Interim Chief Operating Officer






*Karl W. Singer*

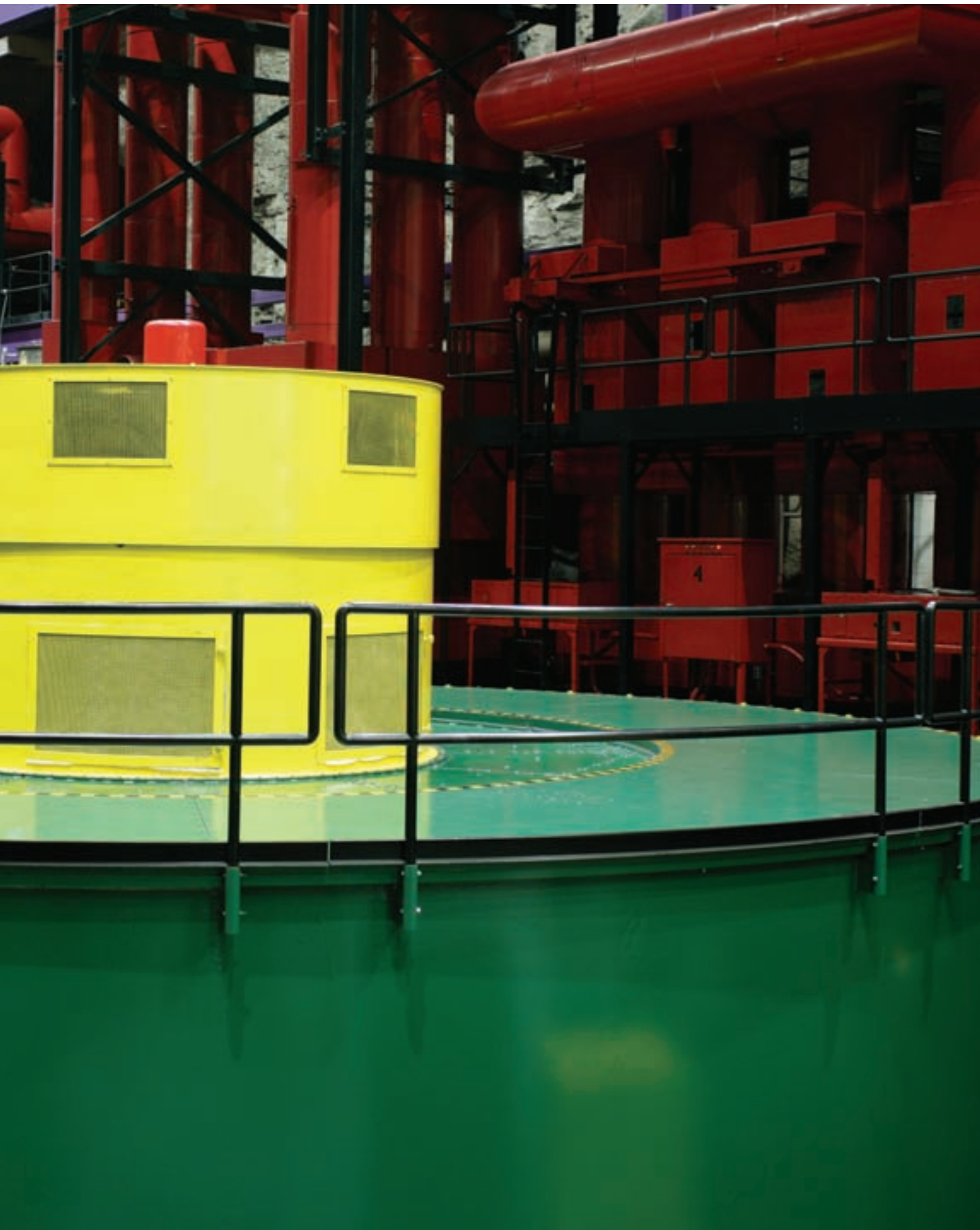
**Karl W. Singer**  
Chief Nuclear Officer and Executive Vice President,  
TVA Nuclear



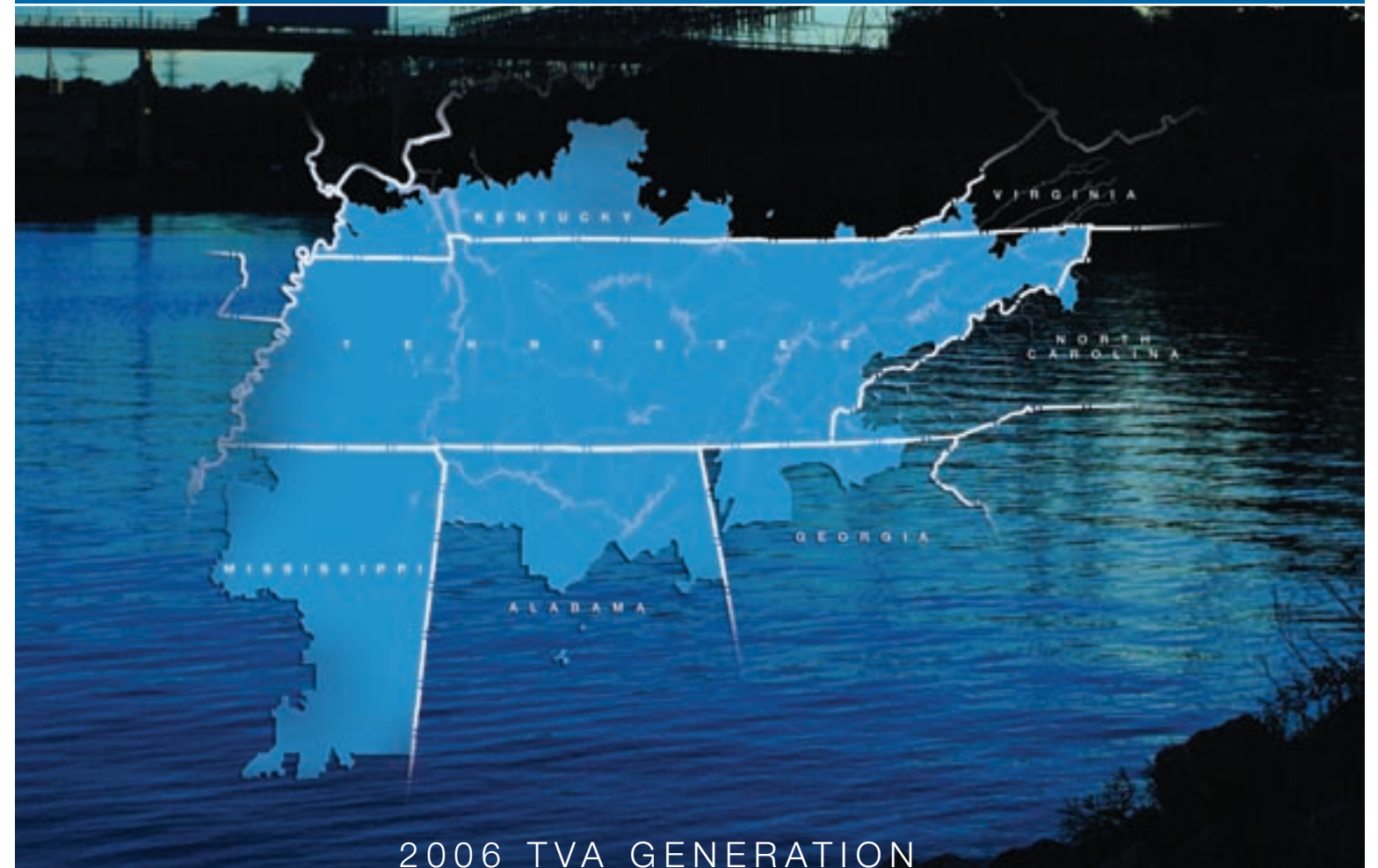


	Tennessee Valley Authority	Our Customers & Partners		How We Help Them
Energy	<p>Nation's largest public power provider</p> <p>34,951 megawatts of capacity (net winter dependable)</p> <p>11 fossil plants (59 units)</p> <p>3 nuclear plants (5 units)</p> <p>29 hydro plants (109 units)</p> <p>1 pumped-storage plant (4 units)</p> <p>6 combustion turbine plants (72 units)</p> <p>9 diesel units</p> <p>16 solar energy sites</p> <p>1 wind energy site (18 units)</p> <p>Transmission system consisting of more than 17,000 miles of line</p> <p>Funded almost entirely by power revenues and financings, receiving no tax dollars</p>	<p>158 power distributor customers</p> <ul style="list-style-type: none"> <li>• 108 municipal utilities</li> <li>• 50 electric cooperatives</li> </ul> <p>62 directly served businesses and industries and federal agencies</p> <p>12 exchange power arrangements*</p> <p>8.7 million residents and 650,000 businesses and industries across an 80,000-square-mile service area covering most of Tennessee and parts of Alabama, Georgia, Kentucky, Mississippi, North Carolina, and Virginia</p> <p><i>*Includes an exchange arrangement with Tapoco Inc., a division of Alcoa Inc., which is one of TVA's 62 directly served customers</i></p>		<p>TVA's power system helps the region to thrive and residents to enjoy a better quality of life by delivering reliable, affordable electric power.</p> <p>TVA provides one of the most efficient and reliable transmission systems in the nation:</p> <ul style="list-style-type: none"> <li>• Achieving 99.999-percent reliability for seven straight years</li> <li>• Monitoring and maintaining more than 17,000 miles of transmission line</li> <li>• Providing accessibility through 1,045 individual interchange and connection points</li> <li>• Managing some 260,000 right-of-way acres</li> </ul>
Environment	<p>One of the nation's most aggressive emissions-reduction programs</p> <p>Steward of the Tennessee River, the nation's fifth-largest river system</p> <p>49 dams for integrated river management</p> <p>11,000 miles of reservoir shoreline</p> <p>293,000 acres of reservoir land managed for multiple benefits</p> <p>650,000 surface acres of water for recreational use</p> <p>100+ public recreation areas</p> <p>Clean water initiatives</p> <p>Green Power Switch® program</p>	<p>Valley residents and visitors</p> <p>Outdoor recreation enthusiasts</p> <p>Industries shipping goods by barge</p> <p>Communities located along the Tennessee River and its tributaries, as well as those along the Ohio and Mississippi Rivers</p> <p>Watershed coalitions and environmental groups</p> <p>State and local governments and other federal agencies</p> <p>Municipal water utilities</p> <p>State and national fish and wildlife agencies and park services</p>		<p>TVA is working aggressively to further improve air quality.</p> <p>TVA manages the following uses of the Tennessee River system:</p> <ul style="list-style-type: none"> <li>• Flood damage reduction</li> <li>• Navigation</li> <li>• Power production</li> <li>• Water quality</li> <li>• Water supply</li> <li>• Recreation</li> <li>• Land use</li> </ul> <p>TVA's management of the river system provides a platform for economic development throughout the Valley and supports 21.8 million recreation-user-days annually.</p>
Economic Development	<p>\$376 million in tax-equivalent payments to Valley states and counties</p> <p>\$2.4 billion spent in Valley states for goods, fuel, and services</p> <p>\$2.9 million to administer economic-development-related projects for the Appalachian Regional Commission</p> <p>\$2.2 million for regional industrial development associations in partnership with distributors of TVA power</p> <p>\$753,000 in contributions to Chambers of Commerce</p> <p>10 Economic Development field offices</p>	<p>158 power distributor customers</p> <p>Site-selection consultants</p> <p>Industries</p> <p>Valley communities</p> <p>Federal agencies</p> <p>Regional industrial development associations</p> <p>State and local economic developers</p> <p>Chambers of commerce</p> <p>Public officials</p> <p>Business incubation network</p> <p>Universities and colleges</p>		<p>TVA builds business and community partnerships that bring jobs to our region—and keep them here—to make our economy stronger.</p> <p>Resources include:</p> <ul style="list-style-type: none"> <li>• World-class power reliability and attractive rate options</li> <li>• Site-location services, such as TVAsites.com, a comprehensive land-and-buildings database</li> <li>• Help for target industries—automotive, plastics, food, and distribution/warehousing</li> <li>• Certified megasites that feature industry-ready properties</li> <li>• Financial and technical assistance for new and existing industries</li> <li>• Programs to help communities prepare for economic growth</li> </ul>





TVA Service Area



2006 TVA GENERATION

64% COAL

29% NUCLEAR

6% HYDRO

1% NATURAL GAS & DIESEL

sales of 176 billion kilowatt-hours of electricity, serving 8.7 million people and fueling industry



POWER SYSTEM STATISTICS

At September 30 or for the years ended September 30, as appropriate (in millions)	2006	2005	PERCENT CHANGE
<b>System input (millions of kilowatt-hours)</b>			
System generation			
Hydro, including pumped storage	9,961	15,723	(37)
Fossil	99,630	98,404	1
Nuclear	45,313	45,156	<1
Combustion turbine and diesel generators	613	595	3
Green power	19	18	6
Total net generation	155,536	159,896	(3)
Purchased	20,017	16,637	20
<b>Total system input</b>	<b>175,553</b>	<b>176,533</b>	(1)
<b>System output (millions of kilowatt-hours)</b>			
Sales			
Municipalities and cooperatives	143,343	136,640	5
Industries directly served	30,987	30,872	<1
Federal agencies and other	2,040	3,986	(49)
Total sales	176,370	171,498	3
Other	1,038	1,806	(43)
Change in accounting estimate	(4,707)	-	
Losses	2,852	3,229	(12)
<b>Total system output</b>	<b>175,553</b>	<b>176,533</b>	(1)
<b>Winter net dependable capacity (megawatts)</b>	<b>34,951</b>	<b>33,981</b>	3
<b>System peak load (megawatts) – summer</b>	<b>32,008</b>	<b>31,924</b>	<1
<b>System peak load (megawatts) – winter</b>	<b>27,718</b>	<b>29,278</b>	(5)
<b>Number of employees at September 30</b>	<b>12,600</b>	<b>12,703</b>	(1)
<b>Percent winter dependable generating capacity</b>			
Fossil	49%	49%	0
Nuclear	19%	19%	0
Hydro	17%	17%	0
Combustion turbine	15%	15%	0



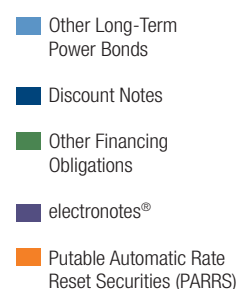
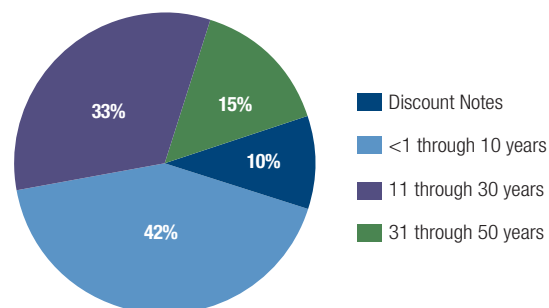
INVESTOR INFORMATION

**Financing Goal**

TVA's financing goal is to offer unique investment opportunities that provide exceptional value for both the investor and TVA.

**Bond and Note Maturities**

At September 30, 2006, TVA had 87 long-term bonds and notes outstanding, of various final maturities, which totaled \$20.51 billion. TVA had \$2.38 billion in short-term Discount Notes outstanding at September 30, 2006.



**Financing Structure**

At September 30, 2006, TVA had \$22.89 billion of bonds and notes outstanding, including short-term Discount Notes, electronotes®, PARRS, and other Power Bonds.

TVA also had \$2.35 billion of Other Financing Obligations outstanding for Total Financing Obligations of \$25.24 billion.

**Key features of TVA bonds**

**Credit Ratings:** TVA's rated Power Bonds are rated Aaa by Moody's Investors Service and AAA by Standard & Poor's and Fitch Ratings.

**Statutory Requirements:** The TVA Act requires TVA to set power rates sufficient to pay, among other things, debt service on outstanding bonds.

**First Pledge of Payment:** Holders of TVA bonds and notes are given first pledge of payment from net power proceeds.

**Purpose of Issuance:** TVA may issue securities only to provide capital for its power program or to refund existing indebtedness. TVA may issue other power program financings that rank on parity with, but not ahead of, TVA's

senior bonds and notes.

**State & Local Tax Exemption:** Both principal and interest on TVA securities are generally exempt from state and local income taxes.


*TVA securities are backed solely by the net power proceeds of the TVA power system and are neither obligations of nor guaranteed by the United States Government.*

**Form and Denomination**

Security	Book-Entry Form	Denomination*	Payments
electronotes® (62 issues)	The Depository Trust Company	\$1,000	Varies with offering
PARRS (2 issues)	The Depository Trust Company	\$25	Quarterly
2003 Series A Sterling Global	The Depository Trust Company	£1,000	Annual
2001 Series B Sterling Global	The Depository Trust Company	£1,000	Annual
1998 Series H Sterling Global	The Depository Trust Company	£1,000	Semi-annual
Other Power Bonds (20 issues)	Federal Reserve Bank System	\$1,000	Various

\*Market prices and broker policies may require investors to pay more or less than par value for a security in secondary market transactions. These pages do not include all information about TVA or TVA securities that is important for making investment decisions.

**Description of TVA Securities**

TVA's electronotes® program offers bonds  in a variety of different structures targeted to individual investors. The bonds are generally issued in denominations of \$1,000, with maturities ranging from 1 to 30 years.

**Puttable Automatic Rate Reset Securities (PARRS)**

These bonds trade on the New York Stock Exchange under the symbols "TVC" and "TVE." They were issued in denominations of \$25 and pay interest quarterly. An annual reset provision provides for a possible reduction in the coupon rate under certain conditions. If the rate is reset, investors may put (return) the bonds to TVA at par value.

**Discount Notes**

These are short-term notes offered for sale on a continuing basis to investment dealers and dealer banks. Discount notes are sold at a discount, in book-entry form, in principal amounts of \$100,000 and additional increments of \$1,000.

**Other TVA Power Bonds**

TVA has issued both global and domestic bonds of varying maturities, structures, and interest payment frequencies and in different currencies.

*The 2006 Annual Report does not constitute an offer to sell or a solicitation of an offer to buy any TVA securities.*

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**E-mail alert**

E-mail alerts are conveniently sent to a subscriber's e-mail address whenever certain new information about TVA bonds is available. To learn more about how to subscribe to e-mail alerts, visit TVA's web site at [www.tva.com/finance](http://www.tva.com/finance).

**Additional information**

Please visit [www.tva.com/finance](http://www.tva.com/finance) for more details on TVA investment opportunities as well as offering circulars for specific securities, or call TVA's Treasury organization toll-free at 888-882-4975. TVA does not sell securities directly to investors. TVA securities may generally be purchased through a broker, bank, or other financial institution.

**Guide to using TVA's Annual Report and Form 10-K**

This 2006 Annual Report is intended to provide highlighted information of interest about TVA's business and operations during its 2006 fiscal year, which ended on September 30, 2006. The Annual Report should be read in conjunction with TVA's Form 10-K Annual Report for the year ended September 30, 2006, which is attached to this report. The 10-K provides additional financial, operational, and descriptive information, including financial statements for TVA's fiscal year 2006. The 10-K also provides important information about various risks to which TVA is exposed in the course of its operations, which are important to consider before investing in any TVA securities.

The 2006 TVA Annual Report and 2006 10-K do not contain all information about specific TVA securities that is important for making investment decisions. Please refer to the appropriate Offering Circular, and any relevant supplements, for detailed information about TVA securities.

TVA is an equal opportunity and affirmative action employer. TVA also provides that the benefits of programs receiving TVA financial assistance are available to all eligible persons regardless of race, color, sex, national origin, religion, disability or age. This document can be made available in an alternate format upon request. This report is printed on 30% post-consumer recycled paper and uses soy-based inks.