

Annual Report 2005



for the



we serve





*the people of TVA are committed
to **improving life** in the Valley*

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Financial Highlights

For the years ended September 30 (in millions)

	2005	2004	PERCENT CHANGE
Summary statements of income			
Operating revenues	\$ 7,794	\$ 7,533	3
Operating expenses	(6,503)	(5,873)	11
Operating income	1,291	1,660	(22)
Other income, net	33	37	(11)
Unrealized gains (losses) on derivative contracts, net	3	(7)	NM
Interest expense, net	(1,242)	(1,304)	(5)
Net income	\$ 85	\$ 386	(78)

Unless otherwise indicated, years (2005, 2004, etc.) in this report refer to TVA's fiscal years ended September 30.



A letter from Chairman Bill Baxter

It is my privilege to serve as TVA's Chairman, along with Director Skila Harris, in an important and exciting period of transition.

As TVA prepares for the future, we are focused on sustaining our momentum in the key areas of 1) operational excellence in generating and transmitting electricity, 2) environmental stewardship, 3) our mission of fostering economic development in the Tennessee Valley and 4) our disciplined work to increase TVA's financial flexibility.

A Successful Year in Operational Excellence

TVA's generation and transmission system enjoyed its most successful year on record in fiscal year (FY) 2005, selling more than 171 billion kilowatt-hours of electricity to our customers and earning revenue totaling almost \$7.8 billion.

The TVA power system's performance throughout the year is a tribute to operational excellence in fossil, nuclear, hydro, bulk power trading, transmission and all parts of the TVA system.

For the sixth year in a row, TVA's transmission system delivered power to customers with 99.999-percent reliability.

On July 25 and 26, the power system met TVA record peaks of 31,703 and 31,924 megawatts, respectively.

The second peak was 1,958 megawatts, or 6.5 percent, higher than the TVA record before July 25.

In the years to come, the system is expected to grow even stronger. Work to restart the Browns Ferry Nuclear Plant Unit 1 reactor is on budget and on schedule for completion in 2007. Scheduled to be the nation's first nuclear unit to come online in the 21st century, Browns Ferry 1 is expected to add 1,280 megawatts of zero-air-emission, low-cost base-load power to the TVA system.

Environmental Stewardship

TVA is doing its part to make the Valley's air cleaner for our children and grandchildren. During 2005, TVA invested \$202 million in clean-air equipment.

When our current commitments are completed, TVA expects to have invested \$5.7 billion to reduce emissions.

As stewards of the Tennessee River system, TVA works with partners across the Valley to improve water quality through watershed teams and initiatives like the Clean Marina program.

Economic Development

Meanwhile, TVA continues to deliver on its mission of economic development, partnering with public officials and community leaders who work to bring quality jobs to the region and keep them here, enabling communities to realize their dreams and making life better in the Valley.

In FY 2005, TVA and our state and local partners helped attract or retain 57,000 jobs and leveraged investments of \$3.6 billion in our region.

Financial Flexibility

TVA is taking aggressive steps to reduce debt and give the corporation the financial flexibility it needs to meet the Valley's ever-increasing demand for electricity. This year we reduced our total financing obligations by \$301 million. This brought the total reduction of our financing obligations to \$2.1 billion, from \$27.7 billion at the end of 1996 to \$25.6 billion at the end of FY 2005. In those nine years, the amount of each revenue dollar used to pay interest and other financing expenses has declined from 34 cents to 18 cents.

An Exciting Future

This year we were pleased to welcome to TVA Tom Kilgore, who in March became President and Chief Operating Officer. Tom is an outstanding choice for leading TVA's operations.

Tom has 30 years of experience in the electric-utility industry, most recently as President and Chief Executive Officer of Progress Ventures in North Carolina. He is hard-nosed but gracious, and a natural leader, with a keen understanding of the complex challenges facing TVA in an era of competition.



Chairman Baxter and Director Skila Harris preside at a July board meeting in Knoxville.

At the corporate level, TVA is moving toward completion of its transition to a nine-member board of directors and a single CEO.

Director Harris and I look forward to welcoming the seven new directors when they are nominated by the President, confirmed by the Senate, and sworn in as members of the TVA Board. Once in place, the new board will name a chief executive officer to run TVA's day-to-day operations. This new management structure will enable TVA to move more quickly to adjust to a fast-changing business environment.

This is a time of transition, ongoing improvements and positive changes. What is *not* changing is TVA's commitment to our mission of service to the Valley. As we adapt to changing conditions, TVA will continue to provide the benefits of our unique combination of energy, environment and economic development. As it has been for 72 years, the winners are the people, businesses and communities of the Tennessee Valley.

Bill Baxter
Chairman

Proudly partnering with distributor
customers to serve **8.6 million** neighbors
and **650,000** businesses
in seven states

for the **people** *we serve:* **moving from good to great**

99.999%
transmission reliability
six years running



A conversation with President and Chief Operating Officer Tom Kilgore

Tom Kilgore was named President and Chief Operating Officer of TVA in March 2005.

Kilgore previously served as President and Chief Executive Officer at both Progress Ventures, a subsidiary of Progress Energy, and Oglethorpe Power, which supplies power from fossil, nuclear and hydroelectric plants for 39 consumer-owned utilities in Georgia.

A native of Alabama, he earned a bachelor's degree in mechanical engineering from the University of Alabama and a master's in industrial engineering from Texas A&M University. He is a member of the Alabama Engineering Hall of Fame and a Distinguished Engineering Fellow at the University of Alabama.

Q: What were your main impressions of TVA before you came on board?

I grew up in North Alabama. I saw firsthand how TVA fostered the economic health of the area.

One of my first jobs during college was on a TVA fossil-plant testing crew, so I have always been familiar with the size and scope of TVA's operations.

My previous experience gave me an appreciation for the importance of TVA's relationship with its distributor customers.

The people of TVA have much to be proud of, and one of my goals is to reinforce employees' pride in their own and in TVA's proud history of achievements.

Q: What were the top operational accomplishments in 2005?

Overall, this was the best that TVA's integrated power system has ever performed. For the year, TVA's system supplied our customers with more than 171 billion kilowatt-hours of electricity. You have to give credit to my predecessor, Ike Zeringue, for leaving the operating facilities in a high state of readiness.

The biggest test came during a stretch of scorching days in July, when the TVA system met peak power demands of over 29,000 megawatts on eight consecutive days.

It was the first time the system had ever had peaks of over 29,000 megawatts on any two days in a row, let alone eight. During that streak, we met our two highest peak demands ever, and the high demand continued through the fall. Starting in June, TVA set new monthly peak-demand records for five consecutive months, extending into the new fiscal year.

For the year, TVA's coal-fired plants generated 98.4 billion kilowatt-hours of electricity, 4 percent above last year's total. Our system of 11 coal-fired plants achieved

its best reliability ever recorded for a fiscal year. Six fossil units set continuous-run records, including Widows Creek Unit 3, which in April completed 819 days of continuous operation to set what was at the time a national record for nuclear and coal-fired units.

All five nuclear units ran near full capacity during the crucial summer months. Their equipment reliability for the fiscal year was the best ever, with days offline due to equipment failures totaling just 6.2.

Thanks in part to our ongoing hydro power-train modernization program, TVA dams generated 15.7 billion kilowatt-hours, 13 percent above normal. This is especially impressive since rainfall for the year was 9 percent below normal.

It was the best year ever for TVA's transmission-system reliability. We not only completed the sixth year in a row of 99.999-percent reliability to our customers, but we also achieved our best-ever performance in a key reliability indicator—Load Not Served. Looking to the future, we plan to continue making significant investments in TVA's transmission system.

River operations avert
an estimated **\$224 million**
annually in flood damage



Q: What were TVA's top accomplishments as stewards of the Valley for 2005?

One of the basic aims of TVA is to be a good Valley steward, improving our environment, fostering economic development and supporting communities.

TVA continues to improve its management of the nation's fifth-largest river system. In its first full year of operation, TVA's new reservoir operations policy helped us meet flow commitments, keep water levels high through Labor Day and generate much-needed hydropower to help meet record power demands.

Fifty-three marinas have now joined the TVA Clean Marina program. The program recognizes marinas that adhere to practices of responsible waste management and overall environmental compliance in their operations and by their boating customers.

Our watershed teams, working in partnership with 8,100 volunteers, collected more than 300 tons of trash and debris from area reservoirs, streams, parks and roadways.



Tabnika Rodriguez of Bulk Power Trading buys and sells megawatt-hours in the power market.

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



But I am most excited about the positive changes we are making to keep improving the air we breathe. Studies show that air quality in the Tennessee Valley, including the Smoky Mountains, is better now than at any time since at least the 1970s. In part this is the result of TVA's emissions-control program, which is one of the most aggressive in the nation.

TVA expects to add five sulfur-dioxide (SO₂) scrubbers to the six already in operation. Two are under construction, at Paradise Fossil Plant in Kentucky and Bull Run Fossil Plant in Tennessee. When the five are finished, overall SO₂ emissions are expected to be reduced by 80 to 85 percent below 1977 levels.

With this year's addition of two new selective catalytic reduction systems, TVA now has 20 in operation. These and other measures have reduced summer nitrogen-oxide emissions by 80 percent since 1995.

TVA's economic development efforts helped retain or attract some 57,000 Valley jobs.

In response to the growing need for large industrial properties, or "megasites," for automotive-manufacturing or assembly plants, TVA two years ago introduced an industrial-site certification program.

TVA contracted with the site-location firm McCallum Sweeney Consulting to identify, evaluate and certify potential megasites. In the past two years, five megasites have been certified—one in Kentucky, two in Mississippi and two in Tennessee.

An important aspect of corporate citizenship comes from the employees who make up TVA. Their contributions to our quality of life can be seen in numerous, often unheralded activities performed every day.

These activities were exemplified by selfless acts on the part of employees and retirees in the relief efforts following Hurricanes Katrina and Rita.

Winston Churchill said, "We make a living by what we get, but we make a life by what we give." I am proud



that TVA employees and retirees continue to demonstrate that they know what life in this Valley is about.

Q: What is TVA's top challenge in 2006?

The rising prices of coal, natural gas and purchased power present one of our toughest ongoing challenges. Moreover, the ever-increasing demand for coal means we face mounting difficulties in getting our coal delivered, in terms of cost and availability.

Q: What are your main areas of focus moving forward?

Four important keys to TVA's future are:

1) Operational Excellence – We intend to continue meeting rising energy demands day after day through the most efficient use of system resources.

2) Financial Flexibility – Being frugal in a smart way, we must continue to reduce our debt so we are ready to meet future challenges.

This year we were able to pay down our total financing obligations by over \$300 million, which was more than what was budgeted for the year. This brings our total reduction since the end of 1996 to \$2.1 billion.

This is a good trend. Still, it is not aggressive enough. We plan to more than double that reduction over the next 10 years.

3) Customer Relationships – To be successful, we must work effectively with the 158 power companies that serve 8.6 million people across the Valley and with our 61 directly served customers.

4) Quality of Life in the Valley – We are committed to TVA's core mission of managing the Valley's natural resources, stimulating economic growth and supporting communities as they work to improve the quality of life in our region. ■

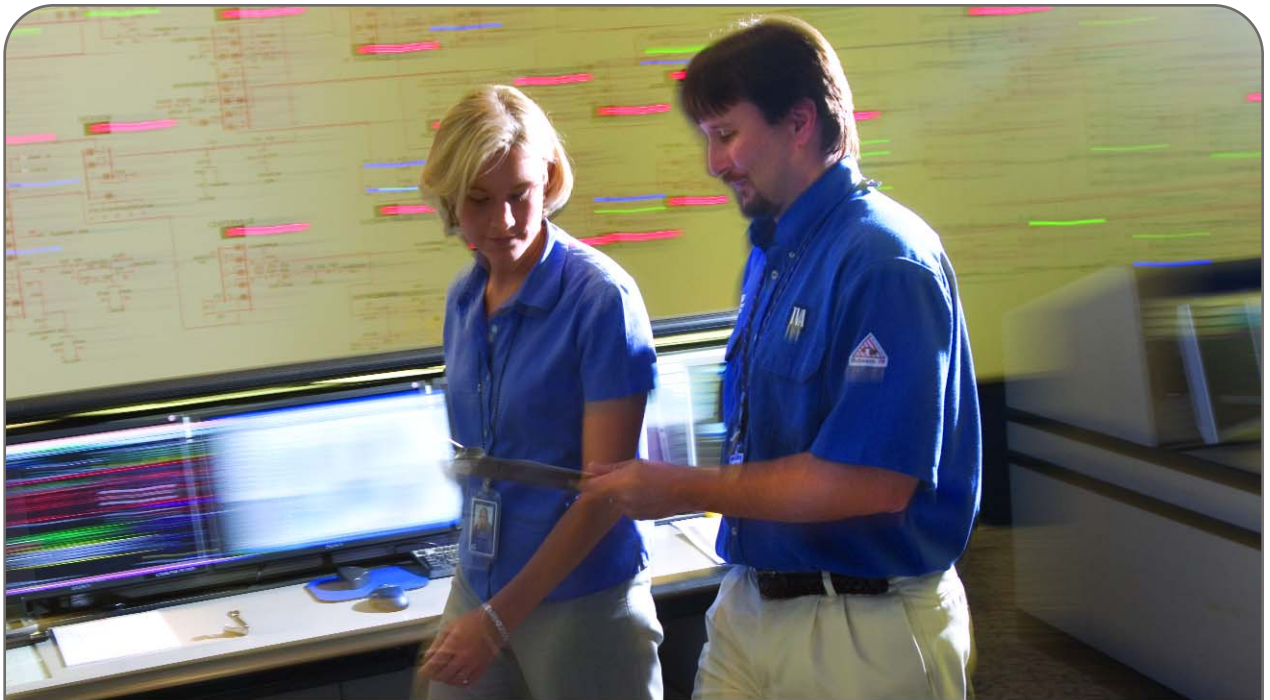


\$5.7 billion
total commitment
in emissions-reduction
controls

for the **people** *we serve:* **operational excellence**

31,924 megawatts
record peak demand





Tracy McCrory and Chip Troy compare notes in the Systems Operations Center.

The energy to be on top of our game

Throughout the challenging summer and fall, TVA's 12,700 employees – like Tracy Holland McCrory and Chip Troy of the Systems Operations Center (*above*) – and contractors kept more than 50 generating units running and 17,000 miles of transmission lines delivering power.

In 2005, TVA produced an amount of power equivalent to more than 13 percent of the electricity consumed by all U.S. households. Overall, TVA's power system performed better than ever in 2005. This success is a tribute to operational excellence in fossil, nuclear, hydro, bulk power trading, transmission and all parts of the TVA system.

TVA's fossil plants continued to set records for reliability as well as continuous-run records. TVA's 59 coal-fired units ran continuously for more than 159 hours – Fossil's longest stretch ever without any type of outage.

All five nuclear units generated roughly 300 million kilowatt-hours more than expected during the heavy summer demand.

Nucleonics Week ranked Browns Ferry and Sequoyah nuclear plants as having the nation's first- and second-lowest production

costs, respectively, over a three-year period. Watts Bar Nuclear Plant ranked third among single-unit sites. Sequoyah achieved a 100-percent index score from the Institute of Nuclear Power Operations.

Watts Bar completed its first cycle of irradiation services for tritium production, supporting the presidential directive requiring the Department of Energy to have a new supply of tritium available this year.

In spite of low rainfall, TVA dams produced 13 percent more electricity than normal.

The North American Electric Reliability Council cited TVA as an "Example of Excellence" for its reliability and internal procedures.

Along with TVA's generation mix, the bulk power trading market is a key tool for ensuring the necessary balance of power supply and demand. In 2005, TVA's Bulk Power Trading Group acquired some 12 billion kilowatt-hours through off-system purchases.

"If the market can sell us power for less than our cost of producing it," says Beth Creel of Bulk Power Trading, "we buy the power. If we have surplus power, we sell it."



A world-class partnership

At its plant in Philadelphia, Mississippi, Weyerhaeuser—one of the largest forest-products companies in the world—uses the plentiful, reliable electricity distributed by Central Electric Power Association of Carthage, Mississippi.


With 27,000 residential and 5,500 commercial and industrial customers, Central EPA is one of TVA's largest and fastest-growing Mississippi distributor customers. The area's vibrant growth is built on an excellent infrastructure, a desirable quality of life and a world-class workforce. It is led by such regional success stories as Weyerhaeuser, the Choctaw Reservation and new facilities like Attala Steel, going up in Kosciusko.

"When Katrina hit and knocked out power all across our entire service area," says Central EPA Manager Paul Long, "TVA was by our side with line crews, equipment, materials and technical assistance until we returned power to our customers.

"Whether it's in operational maintenance or technical services or planning to meet the needs of our new base of end-use customers, we can always count on TVA to be a strong partner," Long adds. "Right now TVA is building a 161-kilovolt interconnection point in our service area to ensure that we can continue to serve our customers with reliable power, even as our load keeps growing."

Allyson Kirkwood and Danny Burnett of Central Electric Power Association work with TVA's Earl Clardy to better serve Weyerhaeuser's energy needs.





171 billion kilowatt-hours
of electricity lighting
3.7 million households and
fueling industry

2005 TVA GENERATION

10% HYDRO

62% FOSSIL

28% NUCLEAR

80% reduction
in ozone season
nitrogen-oxide emissions





Jennifer Call and Roger Tanner lead the charge for cleaner air.

Caring for the air we breathe

Meteorologist Jennifer Call and air monitoring specialist Roger Tanner (*above*) are on the front lines of TVA's efforts to monitor and improve air quality in the Tennessee Valley.

Tanner analyzes the chemistry of the atmosphere. Call creates models for predicting ozone and particulate levels across the region and provides forecast support to the states of Tennessee and Alabama. "We've been helping forecast air quality since 2001," says Call, "and we've noticed a great improvement, not only in ozone levels but also in air quality in general."

During 2005, TVA invested \$202 million in clean-air equipment, including scrubbers to reduce sulfur-dioxide emissions and selective catalytic reduction (SCR) as well as selective noncatalytic reduction systems to reduce nitrogen-oxide emissions from coal-fired plants.

With this year's addition of two new SCR systems, TVA now has 20 in operation. These systems and other measures have reduced summer nitrogen-oxide emissions by 80 percent since 1995.

In coming years, TVA expects to add five scrubbers to the six already in operation. With two scrubbers under construction, at Paradise Fossil Plant in Kentucky and Bull Run Fossil Plant in Tennessee, TVA is on track to reduce sulfur-dioxide emissions by 80 to 85 percent from 1977 levels.

Many benefits flow from the river

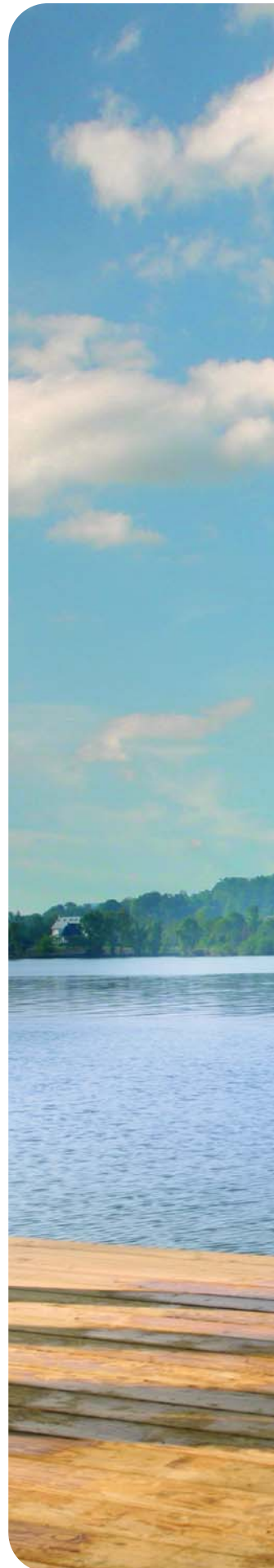
In June 2004, TVA adopted a new reservoir operating policy designed to enhance water-based recreation opportunities while continuing to meet other needs: reducing flood damage, protecting water quality and aquatic resources, providing year-round navigation, and providing water for power production and municipal and industrial use.

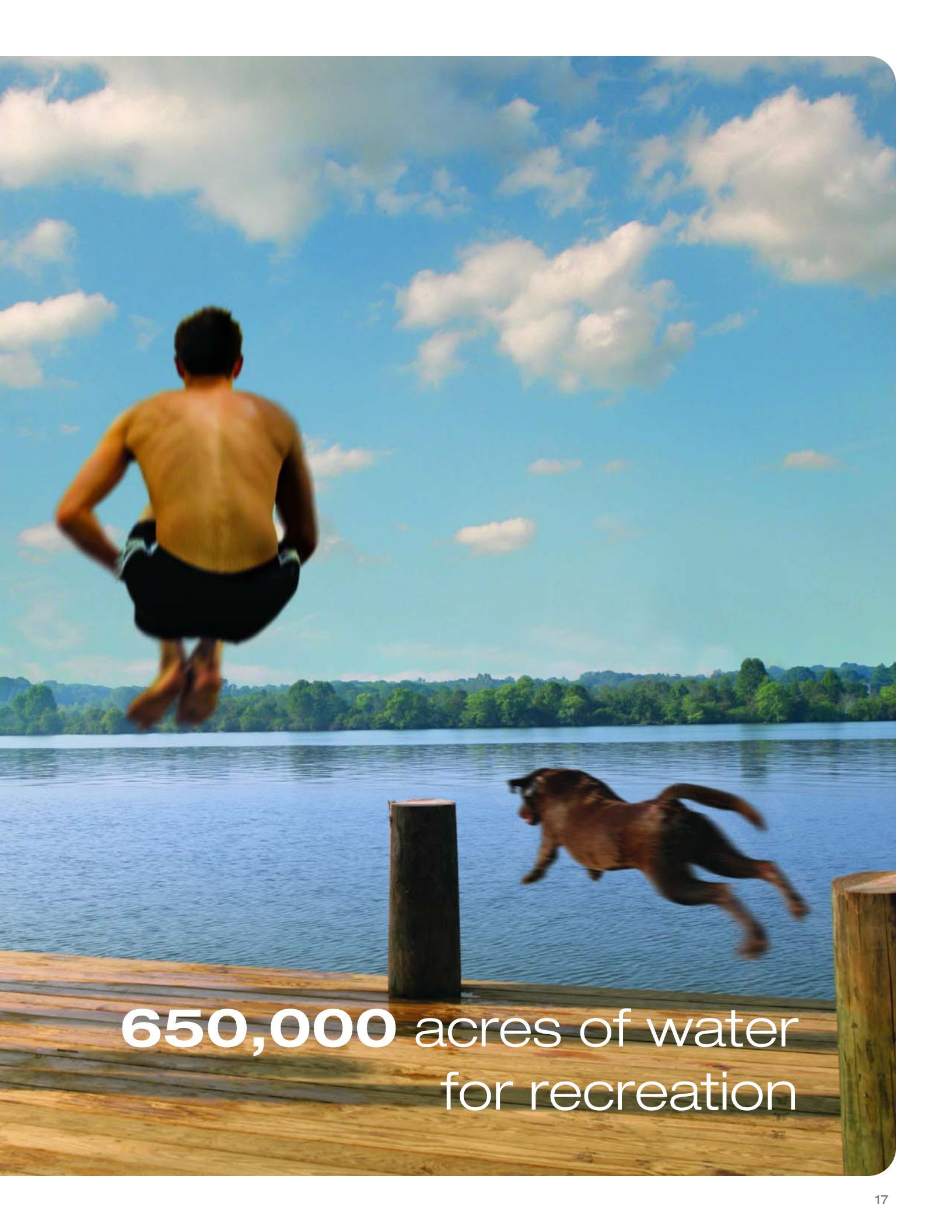
The new policy was shaped with extensive public input from citizens across the Valley as well as representatives from state and other federal agencies. It shifts the focus of TVA reservoir operations from achieving specific summer pool elevations on TVA-managed reservoirs to managing the flow of water through the river system.

Under the new policy, the drawdown of tributary storage reservoirs is restricted until Labor Day, subject to meeting downstream flow requirements.

Implementation of the new policy has gone smoothly, according to Randy Kerr, Manager of River Forecasting. “We had the wettest fall on record in 2004, and this past summer has been abnormally dry, so our new operating policy has been put to a good test. In both years, we’ve been able to store water to minimize flooding and supply water for a full range of downstream uses, including providing hydropower to offset the higher costs of gas-fired generating sources. By all measures, the new operating policy has been a success.”

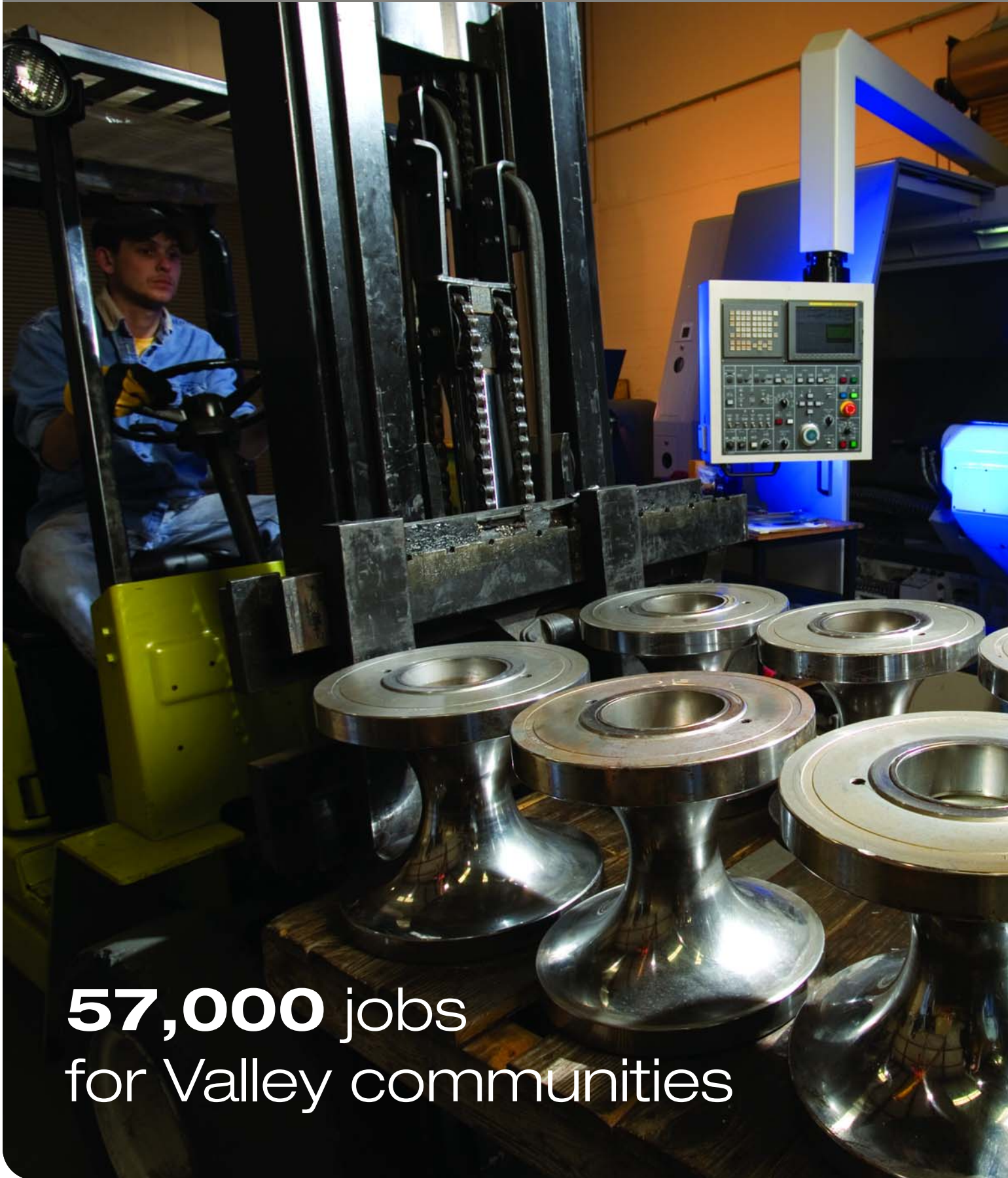
Randy Kerr and son Connor enjoy a recreational moment on Ft. Loudoun Reservoir.



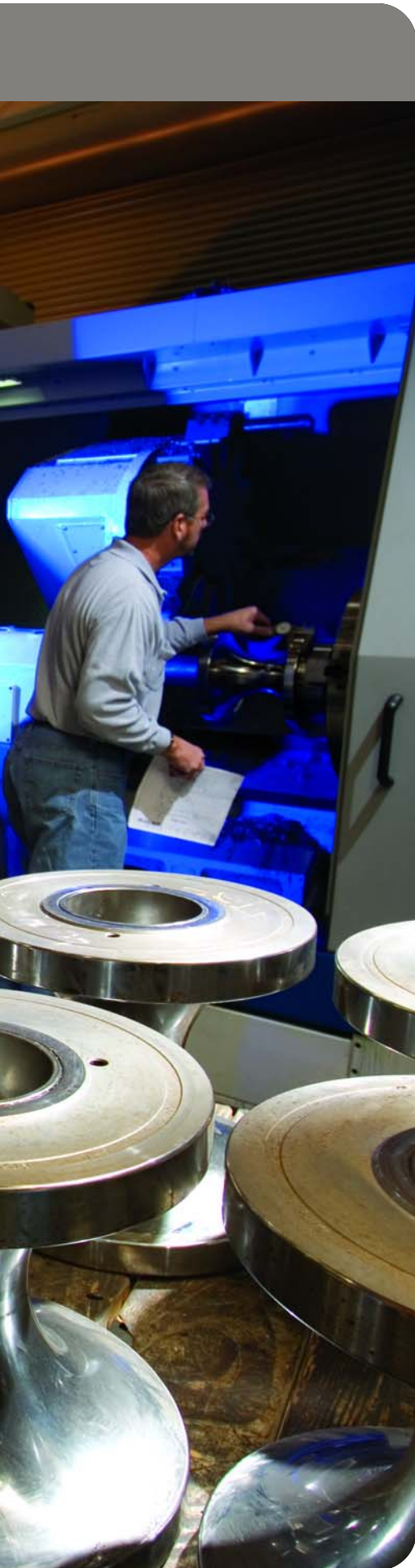


650,000 acres of water
for recreation

for the **people** *we serve:* **leadership in economic development**



57,000 jobs
for Valley communities



Bill Adams displays TVAsites.com, which helps companies find the best locations.

Attracting and retaining jobs

Bill Adams, TVA Economic Development target market specialist for automotive assembly site consultants, says, “My goal is to find the best location for a prospective industry’s needs while saving them time and money and reducing investment risk factors.”

Today’s economic-development world is fast-paced, competitive and global. Through TVAsites.com, a comprehensive GIS-based land and properties database, TVA offers businesses immediate access to information that can help them with expansion and relocation decisions.

TVA target market specialists are focusing recruitment efforts on key industries—automotive, plastics, life sciences, food, and distribution/warehousing—while nurturing businesses growing up in the Valley.

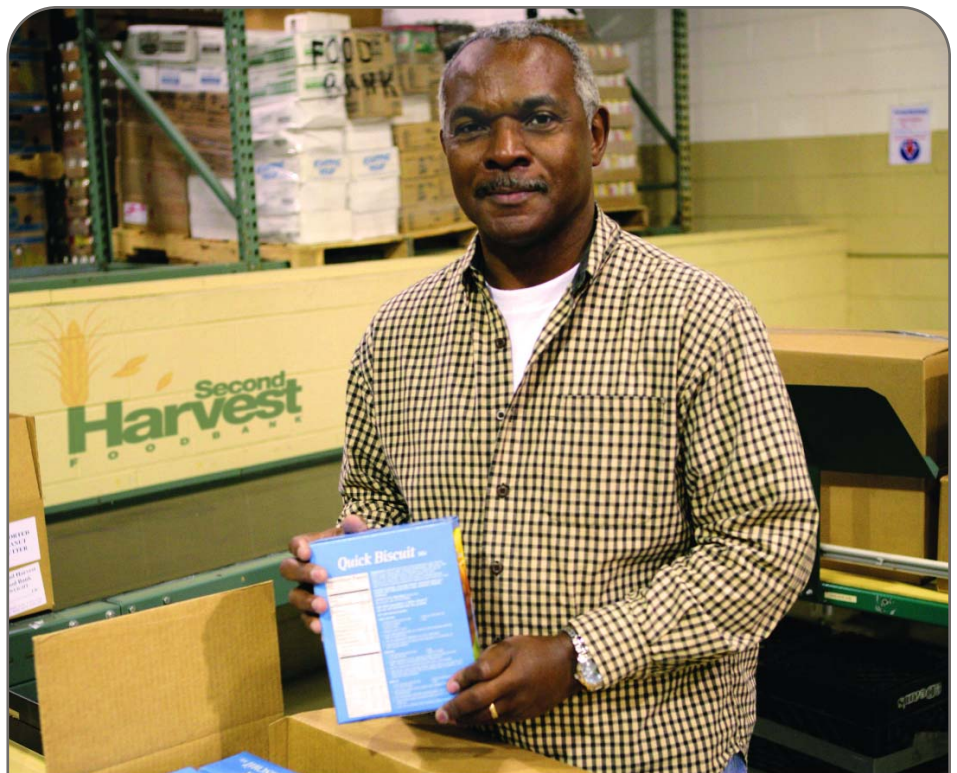
Steve Morrison (*left, at control panel*) started Uni-Tec Roll Inc. four years ago in the Bessemer (Ala.) Business Incubation System. He has expanded with help from TVA Economic Development loans and now has annual sales of \$1 million.

TVA’s Economic Development staff works with our customers, communities and stakeholders to make life better in the Valley. In FY 2005, TVA’s economic-development efforts helped retain or attract some 57,000 Valley jobs. These include 650 jobs at a T-Mobile call center in Chattanooga; 860 at Jewelry Television’s distribution headquarters in Knoxville; 300 at Cullman Casting Corporation, an industrial manufacturing facility being built in Cullman, Alabama; 400 at Baldor, an electric-engine manufacturer in Columbus-Lowndes County, Mississippi; and 250 at a Benson International truck-and-trailer-body plant in Trigg County, Kentucky.

for the **people** *we serve:* **dedication to our community**

A woman with dark curly hair, wearing a red cardigan with several patches (including 'STOP', 'LUNCH', and a number '2'), stands in the foreground of a gymnasium. She is smiling and looking towards the camera. In the background, several children are engaged in an activity on the wooden floor, which has yellow and black lines. The lighting is bright, creating a warm atmosphere.

20,000 employee hours
of volunteer service



TVA Police Officer Thomas McDaniel unpacks boxes at Second Harvest Food Bank during the Combined Federal Campaign Day of Caring.

Helping our neighbors

“An important aspect of corporate citizenship comes from the employees who make up TVA,” says President and Chief Operating Officer Tom Kilgore. “Their contributions to our quality of life are seen through numerous, often unheralded activities performed every day.”

The events of Hurricanes Katrina and Rita brought to light the charitable acts done by TVA employees and retirees on a regular basis.

The week after Katrina struck, retirees and employees loaded tractor-trailers with 84,000 bottles of water and sent them to the Gulf Coast region. Retirees and employees then collected an additional \$27,000 in cash donations to provide other much-needed supplies such as diapers and baby formula.

In the weeks afterward, employees and retirees contributed \$212,000 and \$34,000, respectively, to assist those affected by the tragedy. TVA matched those funds, making the cash contributions total more than \$480,000.

No one exemplifies the spirit of can-do contribution to the community more than TVA Police Officer Thomas McDaniel (*above*). Last June, McDaniel was recognized at an awards ceremony and reception at the White House as a 2005 National Combined Federal Campaign Hero.

Over the past 16 years, he has done it all as a volunteer, serving as a CFC key worker and campaign co-chair, running clothing drives for local shelters, teaching school children about water safety on TVA reservoirs and gang prevention in the streets, and working with the Junior Olympics.

	Tennessee Valley Authority	Our Customers & Partners	How We Help Them
Energy	<p>Nation's largest public power provider</p> <p>33,981 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); 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 turbines)</p> <p>Transmission system consisting of over 17,000 miles of line</p> <p>Funded almost entirely by power revenues and financings, receiving no system tax dollars</p>	<p>158 power distributor customers</p> <ul style="list-style-type: none"> • 108 municipal utilities • 50 electric cooperatives <p>61 directly served industries and federal agencies</p> <p>12 exchange power arrangements*</p> <p>8.6 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 61 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"> • Achieving 99.999-percent reliability for six straight years • Monitoring and maintaining 17,000 miles of transmission line • Providing accessibility through 1,025 individual interchange and connection points • Managing 258,000 right-of-way acres
Environment	<p>One of the nation's most aggressive emissions-reduction programs</p> <p>Stewards 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"> • Flood damage reduction • Navigation • Power production • Water quality • Water supply • Recreation • Land use <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>\$365 million in tax-equivalent payments to Valley states and counties</p> <p>\$2.3 billion spent in Valley states for goods, fuel and services</p> <p>\$4 million to administer economic-development-related projects for the Appalachian Regional Commission</p> <p>\$2.3 million for regional industrial development associations (RIDAs) in partnership with distributors of TVA power</p> <p>\$776,000 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. Resources include:</p> <ul style="list-style-type: none"> • World-class power reliability and attractive rate options • Site-location services, such as TVAsites.com, a comprehensive land-and-buildings database • Help for target industries—automotive, plastics, life sciences, food, and distribution/warehousing • Certified megasites that feature industry-ready properties • Financial and technical assistance for new and existing industries • Programs to help communities prepare for economic growth

Power System Statistics

At September 30 or for the years ended September 30, as appropriate (in millions)

	2005	2004	PERCENT CHANGE
System input (millions of kilowatt-hours)			
System generation			
Hydro, including pumped storage	15,723	13,916	13
Fossil	98,404	94,648	4
Nuclear	45,156	46,003	(2)
Combustion turbine	595	278	114
Green power	18	18	-
Total net generation	159,896	154,863	3
Purchased	16,637	15,148	10
Total system input	176,533	170,011	4
System output (millions of kilowatt-hours)			
Sales			
Municipalities and cooperatives	136,640	133,161	3
Industries directly served	30,872	29,344	5
Federal agencies and other	3,986	3,353	19
Total sales	171,498	165,858	3
Other	1,806	1,378	31
Losses	3,229	2,775	16
Total system output	176,533	170,011	4
Winter net dependable capacity (megawatts)	33,981	33,189	2
System peak load (megawatts) – summer	31,924	29,966	7
System peak load (megawatts) – winter	29,278	27,997	5
Annual load factor (percent)	62.4	64.2	(3)
Number of employees at September 30	12,703	12,742	-
Percent winter dependable capacity by fuel source			
Fossil	49%	50%	(2)
Nuclear	19%	19%	-
Hydro	17%	16%	6
Combustion turbine	15%	15%	-

In the 2004 Information Statement and Annual Report, TVA began presenting consolidated financial statements that include both power and nonpower activities.



Board of Directors and Senior Leadership



Bill Baxter

Chairman

Was appointed by President George W. Bush...sworn into office November 2001 to become the 27th member of the TVA Board of Directors...named Chairman in June 2005...prior to his appointment, was Chairman and Chief Executive Officer of his family-owned business, Holston Gases Inc., headquartered in Knoxville...appointed Commissioner of Economic and Community Development for the State of Tennessee...during his three-year tenure, the state achieved three consecutive years of record private capital investment and job creation...board member of the Grand Teton National Park Foundation and Friends of the Smokies...also serves on the U.S. Department of Energy's National Renewable Energy Laboratory National Advisory Council...B.A. from Duke University and law degree from the University of Tennessee. He and his wife, Ginger, have four children—Elizabeth, Jennifer, Joe and John.



Skila Harris

Director

Was appointed by President Bill Clinton to a nine-year term as the 25th member of the TVA Board of Directors in November 1999...the first woman to hold the post of TVA Director...18 years of public and private experience in the energy field...served in the Department of Energy in both the Clinton and Carter administrations...from 1993 to 1997, served as special assistant to Vice President Al Gore and as Tipper Gore's chief of staff...was Vice President for Development and Compliance at Steiner-Liff Iron and Metal Company from 1989 to 1992...was a contract and project manager at the U.S. Synthetic Fuels Corporation...B.A. in political science from Western Kentucky University...M.A. in legislative affairs from George Washington University.

Terry Boston

Executive Vice President,
Power System Operations

John J. Bradley

Senior Vice President,
Economic Development

Kenneth R. Breeden

Executive Vice President,
Customer Service and Marketing

Joseph R. Bynum

Executive Vice President,
Fossil Power Group

Maureen H. Dunn

Executive Vice President and
General Counsel

Theresa A. Flaim

Senior Vice President,
Pricing and Strategic Planning

Kathryn J. Jackson

Executive Vice President, River System
Operations and Environment,
and Environmental Executive

Tom Kilgore

President and Chief Operating Officer

John E. Long, Jr.

Executive Vice President,
Administrative Services

Michael E. Rescoe

Chief Financial Officer and Executive Vice
President, Financial Services

Ellen Robinson

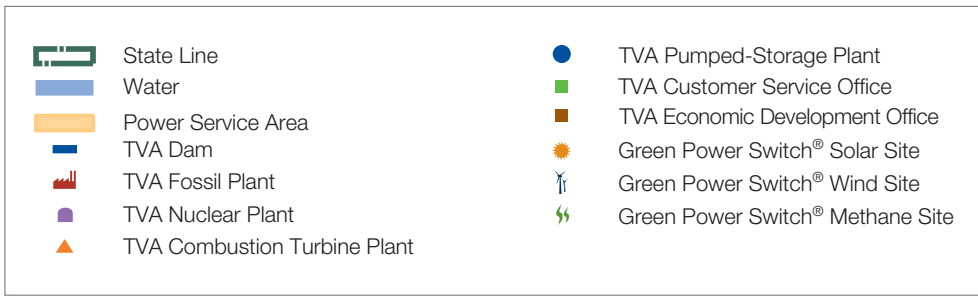
Executive Vice President,
Communications

Karl W. Singer

Chief Nuclear Officer and Executive Vice
President, TVA Nuclear



TVA Service Area



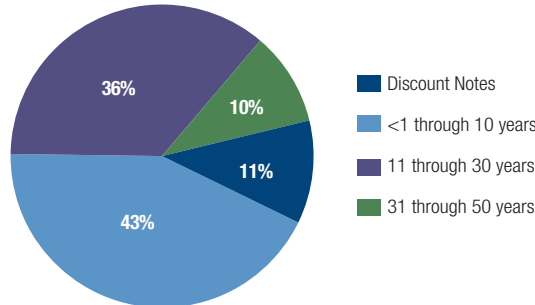
Financing Goal

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, 2005, TVA had 80 long-term debt issues outstanding of various final maturities, which totaled \$20.6 billion.

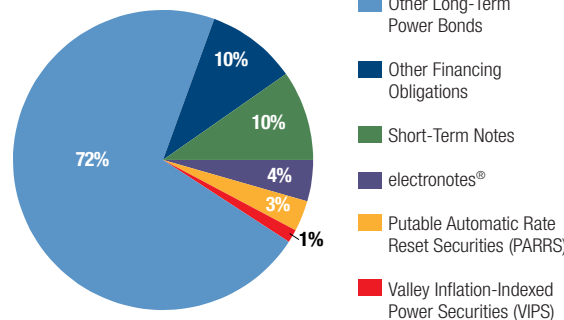
TVA had \$2.5 billion in short-term discount notes outstanding at September 30, 2005.



Financing Structure

At September 30, 2005, TVA had \$23.1 billion of bonds and notes outstanding, including short-term notes, electronotes®, PARRS, VIPS and other Power Bonds.

TVA also had \$2.5 billion of other financing obligations outstanding for total financing obligations of \$25.6 billion.



Form and Denomination

Security	Book-Entry Form	Denomination*	Payments
electronotes®	The Depository Trust Company	\$1,000	Varies with offering
PARRS (2 issues)	The Depository Trust Company	\$25	Quarterly
2003 Series A Global	The Depository Trust Company	£1,000	Annual
2001 Series B Global	The Depository Trust Company	£1,000	Annual
1998 Series H Global	The Depository Trust Company	£1,000	Semi-annual
1996 Series C Global	The Depository Trust Company	DM1,000	Annual
Other Power Bonds (19 issues)	Federal Reserve Bank System	\$1,000	Various

Description of TVA Securities

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

Putable 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 market conditions. If the rate is reset, the bond owner has the option to put (return) the bonds to TVA at par value.

Valley Inflation-Indexed Power Securities (VIPS)

These bonds are indexed to inflation as measured by the Consumer Price Index (CPI). Investors receive a fixed coupon rate, but the principal is adjusted for the changes in the CPI over time.

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 both global and domestic bonds of varying maturities, structures, currencies, and interest payment frequencies.

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's senior bonds and notes are given first pledge of payment from net power proceeds.

Purpose of Issuance: TVA may only issue securities to provide capital for its power program or to refund existing indebtedness.

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

Survivor's Option: Some issues contain an option that allows for redemption at par value upon the death of the beneficial owner (subject to certain limitations).

TVA securities are backed solely by the net power proceeds of the TVA power system and are neither obligations of nor guaranteed by the U.S. Government.

Market prices and broker policies may require investors to pay more or less than par value for a security in the secondary market. TVA does not guarantee the availability of any securities or the existence of any secondary markets. These pages do not include all information about TVA or its securities that is important for making investment decisions.

Neither the 2005 Annual Report nor the 2005 Information Statement constitutes an offer to sell or a solicitation of an offer to buy any TVA securities.

General Inquiries

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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.

Additional information

Please visit 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 Information Statement

This 2005 Annual Report is intended to provide highlighted information of interest about TVA's business and operations during the 2005 fiscal year. The Annual Report should be read in conjunction with the 2005 Information Statement, which is attached to this report. The Information Statement provides additional financial, operational and descriptive information, including financial statements for TVA's fiscal year 2005. The Information Statement also provides important information about various risks to which TVA is exposed in the course of its operations, which may be important to consider before investing in any TVA securities.

The 2005 TVA Annual Report and 2005 Information Statement do not contain all information about specific TVA securities that is important for making investment decisions. Please refer to the appropriate Offering Circular, or relevant supplements, for detailed information on 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.

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