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Introduction

The Government Performance and Results Act of 1993 (GPRA) requires federal agencies to establish standards measuring their performance and effectiveness. Federal agencies are required to develop strategic plans describing their overall goals and objectives, annual performance plans containing quantifiable measures of their progress, and performance reports describing their success in meeting those standards and measures. This report documents the Tennessee Valley Authority's (TVA) actual performance and progress in achieving the goals and objectives identified in its annual performance plan for FY 2005. Information is expressed in terms required by GPRA and the Office of Management and Budget (OMB) Circular A-11.

While TVA is a corporation of the federal government, it is unique in that it receives no federal appropriations and must finance itself entirely through revenues from sales and power financings. In addition to the normal challenges of operating and financing a \$7.8 billion business, TVA is now preparing for a more competitive market. To guide the organization through this transition, TVA has developed a corporate strategic plan consistent with and complementary to the plan required by GPRA.

TVA improves the quality of life for the 8.6 million people of the Tennessee Valley through its work in three major areas: energy, the environment, and economic development. Now operating in an increasingly vigorous and competitive marketplace, TVA fulfills its mission of public service by making prudent business decisions and using the best practices of private enterprise.

Mission

TVA was established to develop and operate the Tennessee River system to improve navigation, minimize flood damage, and provide energy and related products and services safely, reliably, and at the lowest feasible cost to residents and businesses in the multi-state Tennessee Valley region. TVA's management of the entire Tennessee River watershed optimizes the benefits of the water resource. Major functions of the corporation include:

- Management of the Tennessee River system for multiple purposes including navigation, flood control, power generation, water quality and water supply, public lands conservation, recreation, and economic development;
- Generation of electricity;
- Sale and transmission of electricity to wholesale and large industrial customers;
- Stimulation of economic development activities that generate a higher quality of life for citizens of the Tennessee Valley;
- Preservation and environmentally sensitive management of TVA assets and federal lands entrusted to TVA; and
- Research and technology development that addresses environmental problems related to TVA's statutory responsibilities for river and land management and power generation.

TVA's Vision, General Goals, and Strategic Objectives

Vision

Generating Prosperity in the Valley

Goals

TVA employees will set the standard for . . .

Supplying low-cost, reliable power

Meet the changing needs of power distributors and directly served customers for energy products and services in changing markets.

Supporting a thriving river system

Minimize flood damage, maintain navigation, support power production, improve water quality, protect public health and the environment, and support recreational uses.

Stimulating economic growth

Provide services based on core expertise to solve regional problems, protect natural resources, create jobs, and build partnerships for the public benefit.

. . . to improve the quality of every life.

Strategic Objectives:

- Meet customers' needs with affordable, reliable electric power;
- Reduce TVA's delivered cost of power relative to the market;
- Continue the trend of debt reduction, now referred to as Total Financing Obligations (TFOs);
- Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship;
- Demonstrate leadership in sustainable economic development in the Valley; and
- Strengthen working relationships with all of TVA's stakeholders.

Relationship of TVA's General Goals and Strategies to Performance Goals

Performance goals are selected to support attainment of the general goals and strategies and are expressed as performance indicators and annual targets. The following table summarizes information from the previous section and demonstrates the linkages between TVA's general goals, objectives, strategies, and performance goals / measures.

TVA GENERAL GOALS, OBJECTIVES, STRATEGIES, AND PERFORMANCE MEASURES

Goals	Objectives	Strategies	Performance Measures
1. Supplying low-cost, reliable power	1.A Control O&M expenses to allow TVA to focus on competitiveness in a deregulated wholesale power market.	1.A.1 Generate more for less.	<ul style="list-style-type: none"> O&M Costs Productivity
	1.B Continue the trend of debt reduction, now referred to as Total Financing Obligations (TFOs).	1.B.1 Invest prudently.	<ul style="list-style-type: none"> Financial Strength Bond Rating
	1.C Meet customers' needs with affordable, reliable electric power.	1.C.1 Improve power reliability to meet customer requirements.	<ul style="list-style-type: none"> System Reliability (Load Not Served)
		1.C.2 Achieve excellence in the asset optimization and production processes.	<ul style="list-style-type: none"> Asset Availability Fossil Plant Equivalent Availability Factor Hydro Equivalent Availability Factor Nuclear Plant Net Capacity Factor
		1.C.3 Provide flexible contracts and competitive pricing of products and services.	<ul style="list-style-type: none"> Energy Sales (kWh)
		1.C.4 Manage the environmental and safety impacts TVA's operations have on employees and the region.	<ul style="list-style-type: none"> Reportable Environmental Events (Discontinued FY 2005) Environmental Impact Index Sulfur Dioxide Emissions Nitrogen Oxide Emissions INPO Index
	1.C.5 Achieve excellence in the customer value and relationship process.	<ul style="list-style-type: none"> Customer Satisfaction (Discontinued FY 2005) Customer Impact 	

Goals	Objectives	Strategies	Performance Measures
2. Supporting a thriving river system	2.A Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship.	2.A.1 Minimize flood damage by operating the river system according to best management practices with flood control as a priority.	<ul style="list-style-type: none"> Flood Storage Availability
		2.A.2 Maintain a navigable commercial waterway from Knoxville to Paducah.	<ul style="list-style-type: none"> Days Navigable Waterway is Available from Knoxville to Paducah Shipper Savings
		2.A.3 Provide acceptable water quality.	<ul style="list-style-type: none"> Dissolved Oxygen Deficit Due to Forced Outages Minimum Flow Achievement
		2.A.4 Optimize the value of hydro generation subject to flood control, navigation, water quality, and summer reservoir-level constraints.	<ul style="list-style-type: none"> Discretionary Zone Attainment (Discontinued FY 2004)
		2.A.5 Support recreational uses of the river system and associated federal lands.	<ul style="list-style-type: none"> Summer Reservoir Level Attainment (Discontinued FY 2004)
3. Stimulating economic growth	3.A Demonstrate leadership in sustainable economic development in the Valley.	3.A.1 Promote development through targeted growth initiatives.	<ul style="list-style-type: none"> Economic Development Index

Summary of Changes in Performance Indicators

As part of its continuous performance management process, TVA periodically assesses its key performance indicators for alignment with TVA's goals and objectives. Accordingly, certain indicators have been discontinued or replaced as business conditions have changed and as new indicators are developed that provide for better alignment. The following table summarizes the changes in performance indicators subsequent to submission of TVA's 2005 GPRA Performance Plan.

Measure	Status	Reason
Reportable Environmental Events	Replaced by Environmental Impact Index beginning in FY 2005.	Components of this indicator are included in the more comprehensive Environmental Impact Index beginning in FY 2005.
Customer Satisfaction	Replaced by Customer Impact beginning in FY 2005.	Customer Impact focuses on two elements rated as most critical by TVA customers: power reliability and competitive price.
Discretionary Zone Attainment	Discontinued in FY 2004.	This indicator was discontinued in June 2004 due to the implementation of the Reservoir Operations Study.
Summer Reservoir Level Attainment	Discontinued in FY 2004.	This indicator was discontinued in June 2004 due to the implementation of the Reservoir Operations Study.

Economic Value Indicator

O&M Costs

Goal/Strategic Objective/Critical Success Factor

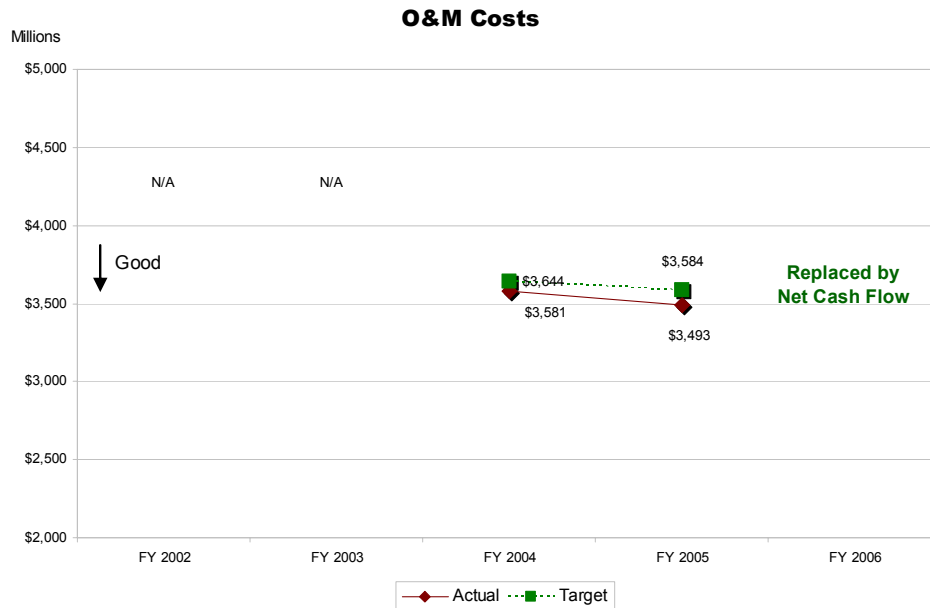
TVA Goal: Supplying low-cost reliable power.

Strategic Objective 1.A: Control O&M expenses to allow TVA to focus on competitiveness in a deregulated wholesale power market.

Critical Success Factor 1.A.1: Generate more for less.

Description

Customers view price as a deciding factor in whether to switch suppliers. Continued awareness and emphasis on controlling costs allow TVA to focus on competitiveness in the wholesale power market and positioning for future success. TVA calculates O&M expenses as total expenses less fuel, purchased power, interest expense and pension/postretirement financing costs.



FY 2005 Target: \$3,584

FY 2005 Performance: \$3,493

Targeted performance on this goal was achieved.

Performance Explanation: This favorable result is due to lower than planned O&M base costs, decreased projects, decreased depreciation expense, and increased external business income.

This indicator will be replaced by the Net Cash Flow indicator in FY 2006.

Economic Value Indicator

Productivity

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

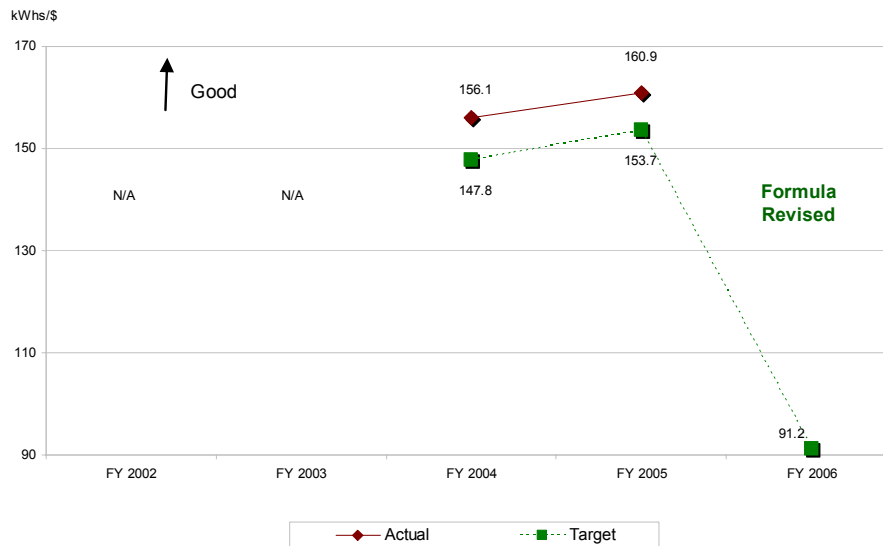
Strategic Objective 1.A: Control O&M expenses to allow TVA to focus on competitiveness in a deregulated wholesale power market.

Critical Success Factor 1.A.1: Generate more for less.

Description

Growing competitiveness in the electric utility and the energy services sector requires that we manage our production costs to effectively compete for and retain our customer base. Productivity measures planned available generation (i.e., total generation planned to be available including combustion turbine, conventional hydropower, fossil, nuclear and pumped storage) per Operating and Maintenance (O&M) labor cost dollar. The productivity measure provides a direct line of sight for all employees by demonstrating how their job performance and the efficient utilization of resources contribute to controlling O&M expenses. This measure is directly impacted by management decisions in managing labor.

Productivity



FY 2005 Target: 153.7 kWh/\$
FY 2005 Performance: 160.9 kWh/\$

Targeted performance on this goal was achieved.

Performance Explanation: This Achievement was due in part to the following:

- 1) TVA O&M labor costs for FY 2005 were \$53.9M (4.4%) under budget.
- 2) Contractor O&M labor costs were \$14.0M (6.3%) below projection for FY 2005.
- 3) An estimated 399 vacant positions were eliminated or not filled during FY 2005.

The formula was revised for FY 2006. The denominator changed from planned to delivered generation in kWhs. All O&M and capital labor costs (excluding Browns Ferry Nuclear Unit 1) will be included (only O&M was included in FY 2005).

Economic Value Indicator

Financial Strength

Goal/Strategic Objective/Critical Success Factor

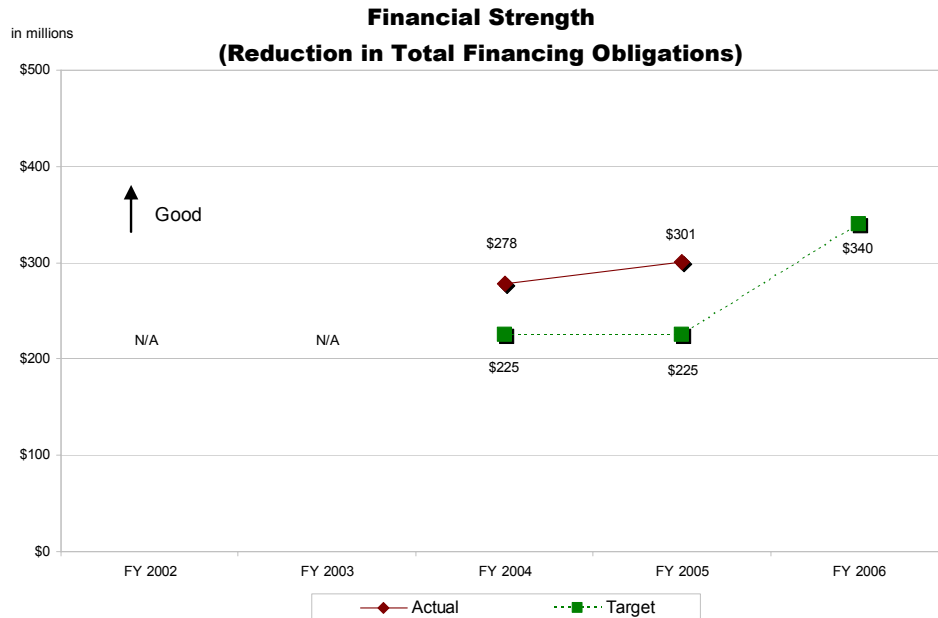
TVA Goal: Supplying low-cost, reliable power.

Strategic Objective 1.B: Continue the trend of debt reduction, now referred to as Total Financing Obligations (TFOs).

Critical Success Factor 1.B.1: Invest prudently.

Description

Financial Strength is a measure of the reduction in TVA's total financing obligations. The electric utility industry has become increasingly competitive over the last decade. Competition is expected to intensify, and restructuring legislation may dramatically change the way electric utilities do business in the future. TVA needs to improve its financial flexibility so that it can weather the greater volatility of revenues that comes with competition. In order to produce a more flexible cost structure, TVA has expanded its resources for capital by entering in lease-leaseback transactions (for both combustion turbine units and certain technological equipment) and arrangements with customers for prepayment of energy. Although these transactions provide favorable financing alternatives for TVA, they are debt-like in nature and are included in this measure of total financing obligations.



FY 2005 Target: \$225M

FY 2005 Performance: \$301M

Targeted performance on this goal was achieved.

Performance Explanation: This favorable result is due primarily to an increase in cash available for the reduction in total financing obligations driven by lower O&M base costs, lower interest costs, lower O&M project costs, and higher external business income.

Economic Value Indicator

Bond Rating

Goal/Strategic Objective/Critical Success Factor

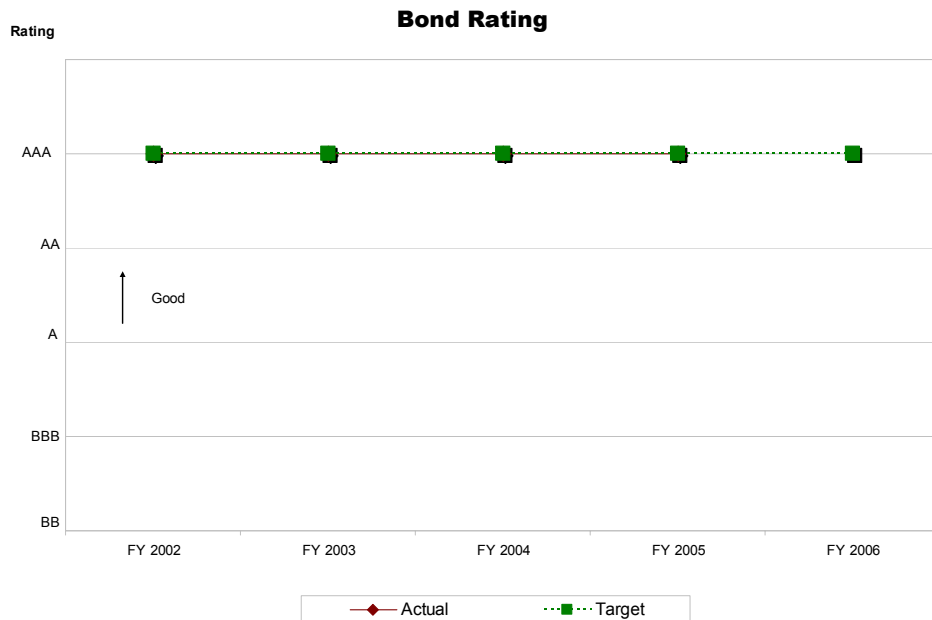
TVA Goal: Supplying low-cost, reliable power.

Strategic Objective 1.B: Continue the trend of debt reduction, now referred to as Total Financing Obligations (TFOs).

Critical Success Factor 1.B.1: Invest prudently.

Description

This performance measure monitors the strength of TVA's credit rating. TVA's current rating, triple-A, is the highest rating available. TVA's ratings are assigned by independent major credit rating agencies, and TVA has only limited control over certain factors that are considered by these agencies when ratings are assigned. According to Moody's Investors Service, "the Aaa ratings on the Tennessee Valley Authority (TVA) power bonds derive from the legislation defining its business charter and authority, its strong operational performance and its status as a wholly-owned corporate agency of the U.S. Government although TVA's bonds are not guaranteed by the U.S. Government."



FY 2005 Target: AAA
FY 2005 Performance: AAA

Targeted performance on this goal was achieved.

Performance Explanation: Independent bond ratings issued by Moody's Investors Service, Standard and Poors, and Fitch Ratings during FY 2005 documented TVA's continuing triple-A rating.

Economic Value Indicator

System Reliability (Load Not Served)

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

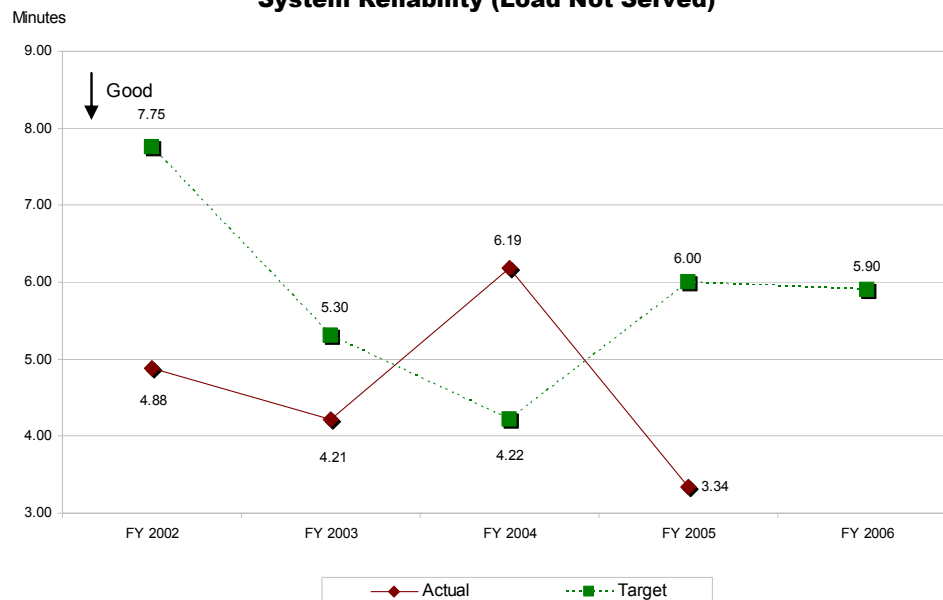
Strategic Objective 1.C: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor 1.C.1: Improve power reliability to meet customer requirements.

Description

Energy customers require a reliable power supply in order to remain competitive and to maintain consumers' safety and convenience. Load Not Served (LNS) measures the reliability of TVA's power supply in terms of the number of minutes the average customer is without power each year.

System Reliability (Load Not Served)



FY 2005 Target: 6.00 minutes

FY 2005 Performance: 3.34 minutes

Targeted performance on this goal was achieved.

Performance Explanation: During 2005, TVA experienced its lowest number of LNS megawatt hours and interruption events ever. Fluctuations in this indicator are a result of the randomness of interruptions to various size customers. Performance targets are based on maintenance efforts to maintain present reliability with an expanding and aging system without an increase in costs.

Economic Value Indicator

Asset Availability

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

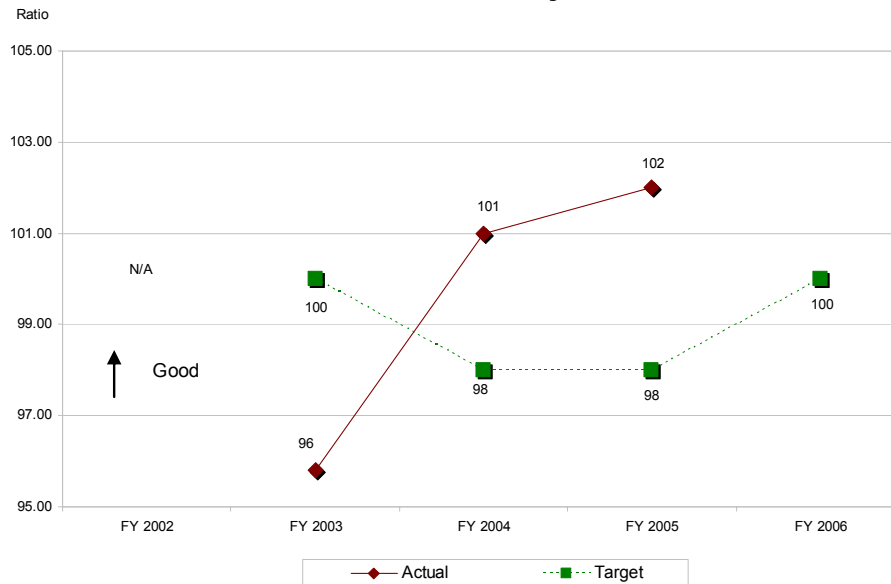
Strategic Objective 1.C: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor 1.C.2: Achieve excellence in asset optimization and production processes.

Description

Asset Availability is a monthly measure of how well TVA's generation system (excluding power purchase contracts) performed compared to availability and price forecasts. It is the ratio of actual to planned availability multiplied by a value factor that reflects market price.

Asset Availability



FY 2005 Target: 98%
FY 2005 Performance: 102%

Targeted performance on this goal was achieved.

Performance Explanation: Achievement of this indicator was primarily due to favorable Equivalent Forced Outage Rates (EFOR). FY 2005 recorded the best performance for any 12-month period on record. Fossil Power Group's focus on plant human performance and material condition were major factors. Nuclear performance was favorable due to better refueling outage execution and a low EFOR.

Economic Value Indicator

Fossil Plant Equivalent Availability Factor (EAF)

Goal/Strategic Objective/Critical Success Factor

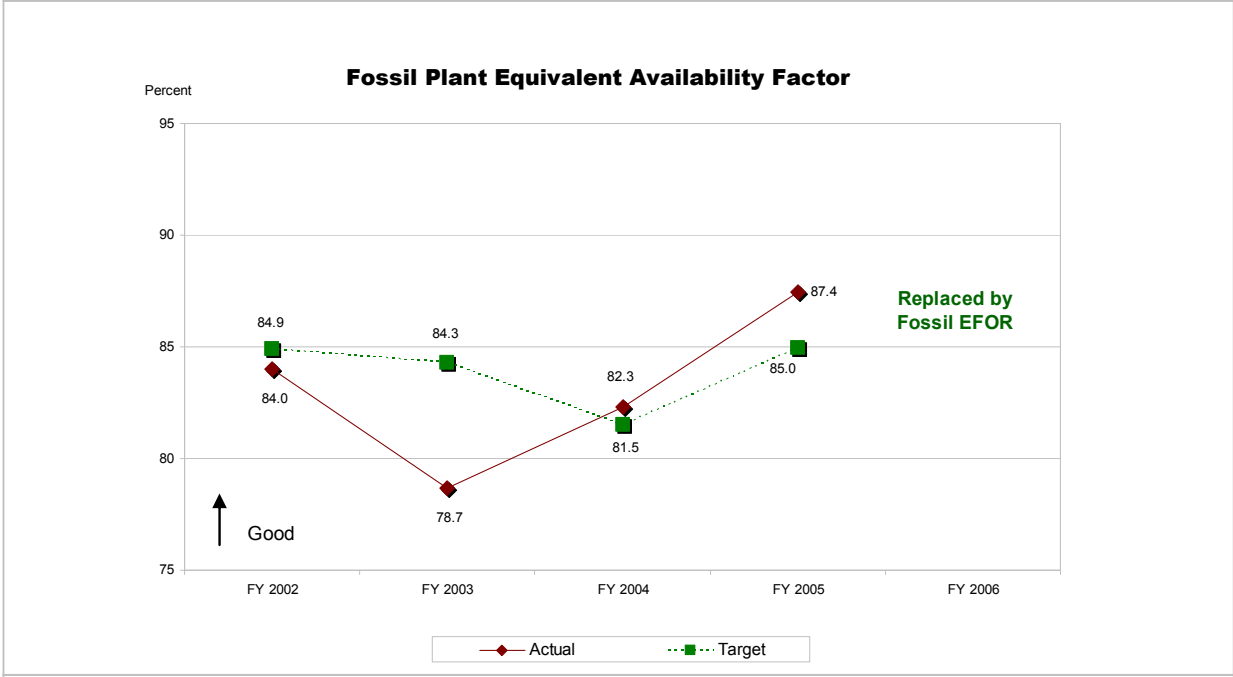
TVA Goal: Supplying low-cost, reliable power.

Strategic Objective 1.C: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor 1.C.2: Achieve excellence in the asset optimization and production processes.

Description

The retail distributors and industries that buy power from TVA require an adequate supply of electricity at a competitive price in order to add value to their customers. For TVA to meet this demand, TVA's coal-fired plants must operate at optimum availability, defined as the ratio of the amount of energy that can be provided divided by the maximum amount of energy that could be produced over a given period of time.



FY 2005 Target: 85.0%
FY 2005 Performance: 87.4%

Targeted performance on this goal was achieved.

Performance Explanation: FY 2005 EAF performance was the best on record. The primary factor was a significant decrease in unplanned unit outages and deratings across the system. In FY 2005, the fossil system Equivalent Forced Outage Rate (EFOR), the measure of these unplanned outages and derates, was the best in the history of the 59-unit system.

Fossil EAF index will be replaced by Fossil EFOR indicator in FY 06.

Economic Value Indicator

Hydro Equivalent Availability Factor (EAF)

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

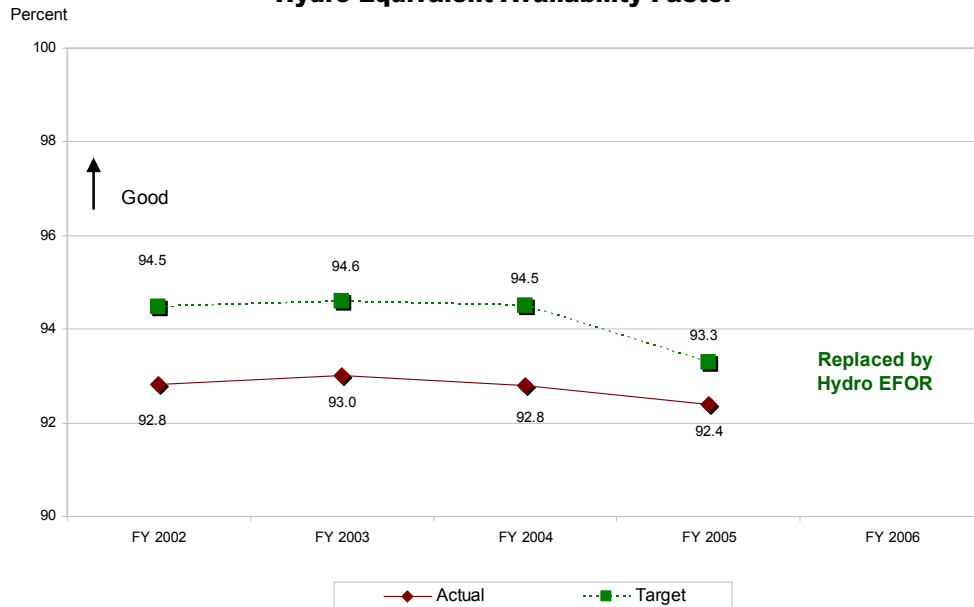
Strategic Objective 1.C: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor 1.C.2: Achieve excellence in the asset optimization and production processes.

Description

TVA's hydroelectric plants work to achieve high performance in plant availability. The hydroelectric plants help to satisfy energy customers' requirements for reliable, available electric power. Hydroelectric plant availability is calculated as the amount of energy available for generation divided by the maximum amount of energy that could be produced over a set period of time.

Hydro Equivalent Availability Factor



FY 2005 Target: 93.3%

FY 2005 Performance: 92.4%

Targeted performance on this goal was not achieved.

Performance Explanation: The EAF performance in FY 2005 was adversely impacted by seven significant forced outages.

Corrective Action: TVA is continuing its program of rehabilitating and maintaining its aging hydro assets. This program includes activities to improve power train reliability as well as dam structures that help regulate water flow throughout the system. These actions will lead to long term improvement of the Hydro Equivalent Availability Factor.

This indicator will be replaced by the Hydro EFOR indicator in FY 2006.

Economic Value Indicator

Nuclear Plant Net Capacity Factor

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

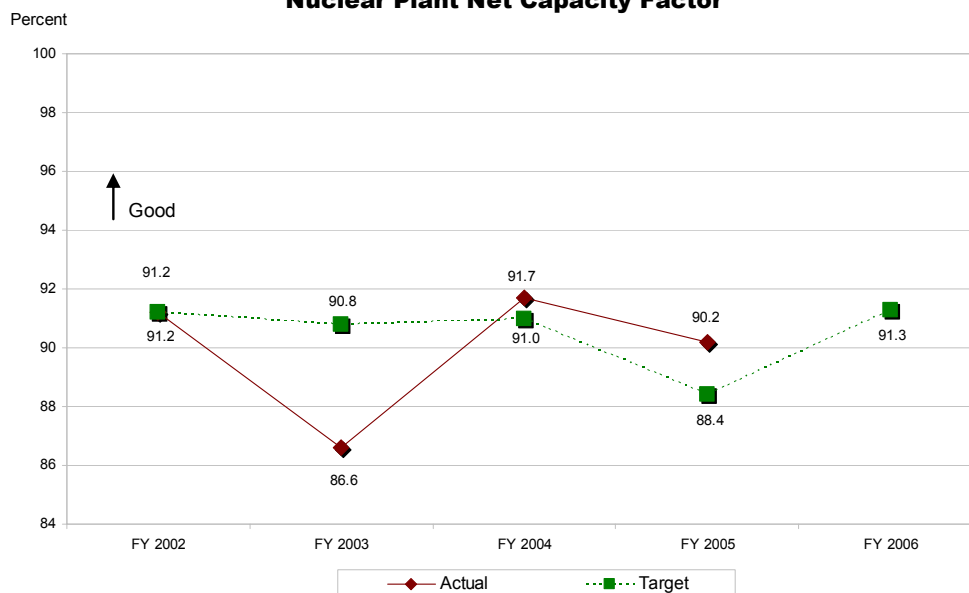
Strategic Objective 1.C: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor 1.C.2: Achieve excellence in the asset optimization and production processes.

Description

TVA monitors the operation of its nuclear power plants with the "net capacity factor," which is the ratio of the amount of electricity generated to the maximum amount of energy that could have been produced by the plant over a specified period of time.

Nuclear Plant Net Capacity Factor



FY 2005 Target: 88.4%

FY 2005 Performance: 90.2%

Targeted performance on this goal was achieved.

Performance Explanation: Net capacity factor was better than planned. Scheduled refueling outages were completed in 127 days versus the planned 134 days. Generation during non-outage periods was also greater than planned due to improvements in equipment reliability.

Economic Value Indicator

Energy Sales (kWh)

Goal/Strategic Objective/Critical Success Factor

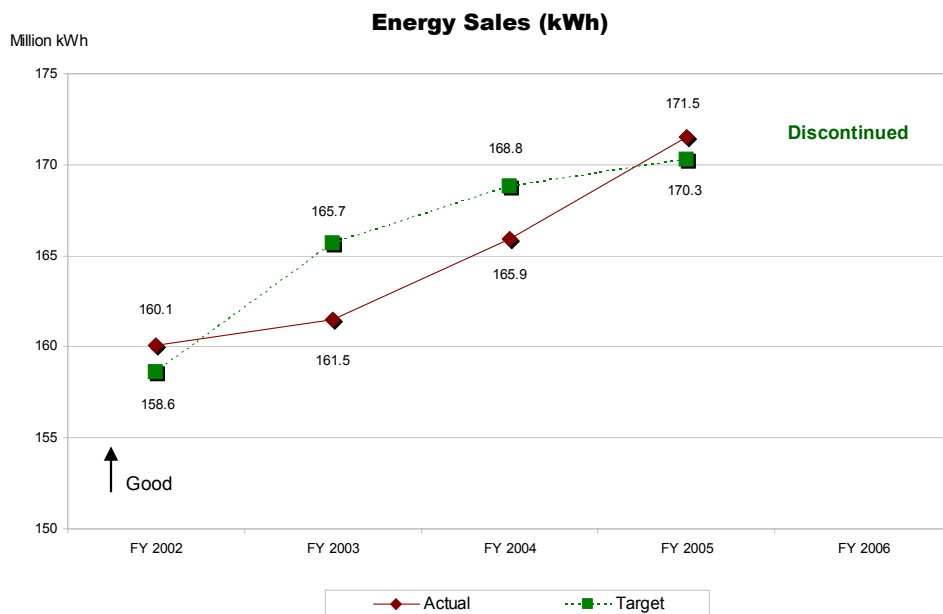
TVA Goal: Supplying low-cost, reliable power.

Strategic Objective 1.C: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor 1.C.3: Provide flexible contracts and competitive pricing of products and services.

Description

The ability to accurately forecast customers' energy needs is an important component of the job of optimizing the use of TVA's assets. Additionally, a trend of increasing sales provides a broader base over which to spread TVA's fixed costs and thereby reduce the average cost of power delivered.



FY 2005 Target: 170.3 million kWh

FY 2005 Performance: 171.5 million kWh

Targeted performance on this goal was achieved.

Performance Explanation: Energy sales were slightly higher than target.

This indicator has been discontinued for FY 2006 due to the alignment of our FY 2006 indicators to TVA's Strategic Plan that was released in FY 2004.

Environmental Value Indicator

Reportable Environmental Events

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

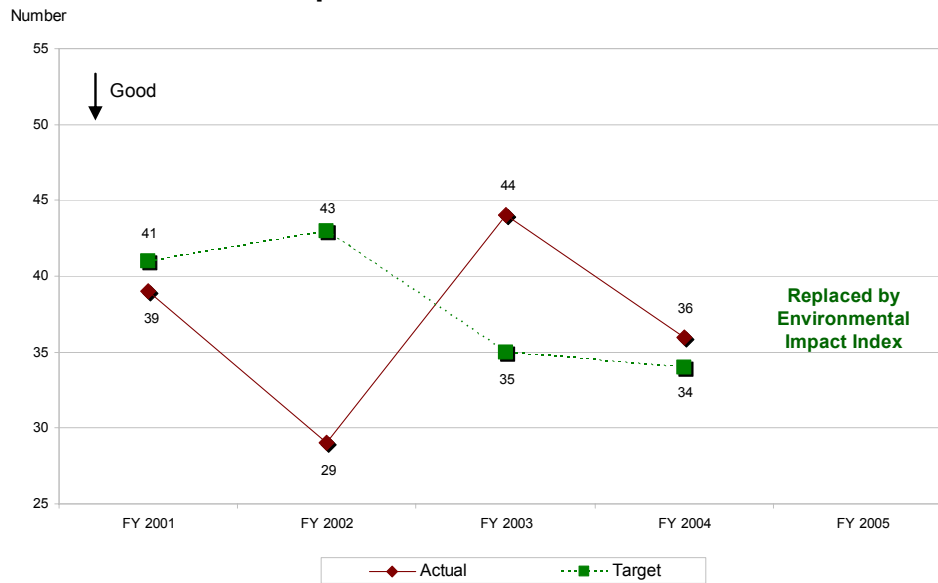
Strategic Objective 1.C: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor 1.C.4: Manage the environmental and safety impacts TVA's operations have on employees and the region.

Description

Energy customers and the general public expect TVA to be environmentally responsible in conducting operations in order to protect public health, natural resources, and environmental quality. TVA measures the performance of its operations in meeting environmental regulatory compliance requirements by monitoring occurrences of violations at TVA facilities that trigger notifications to, or enforcement actions by, a regulatory agency.

Reportable Environmental Events



This indicator was discontinued at the beginning of FY 2005 and replaced by the Environmental Impact Index which is now part of the GPRA Plan.

Environmental Value Indicator

Environmental Impact Index

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

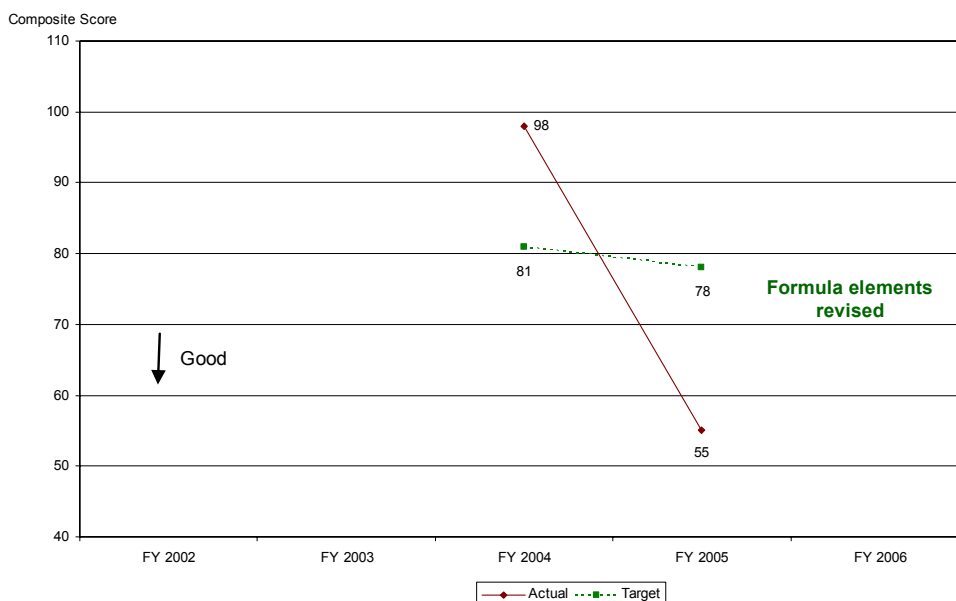
Strategic Objective 1.C: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor 1.C.4: Manage the environmental and safety impacts TVA's operations have on employees and the region.

Description

TVA has developed and implemented a comprehensive Environmental Management System (EMS) to meet the commitments expressed in its Environmental Policy and Principles (<http://insidenet.tva.gov:8021/environment/policy.htm>). This set of processes and procedures standardizes environmental practices, provides a means for continuous improvement, and is a tool for reducing environmental risk. The EMS, covering all TVA facilities and operations, requires TVA to identify its actual and potential environmental impacts. To track progress, the Environmental Impact Index was created as a measure of the more significant impacts and is a composite of 26 elements in 5 categories in terms of beneficial and detrimental impacts (or precursors) on Air Quality, Water Quality, Land, Waste Production, and Energy Consumption compared to a baseline of FY 2002. The elements allow a greater "line of sight" for more employees and demonstrate the balance between the different types of impacts. Tradeoffs and mitigation are also visible in the index providing a comprehensive view of TVA's overall environmental performance.

Environmental Impact Index



FY 2005 Target: 78
FY 2005 Performance: 55

Targeted performance on this goal was achieved.

Performance Explanation: Primary contributors to excellent performance for this indicator were reduction of sulfur dioxide emissions due to the use of low sulfur fuel and the reduction of nitrogen oxide emissions due to better than planned performance of Selective Catalytic Reduction Systems (SCRs). Additionally, waste minimization and prevention efforts in the Fossil Power Group resulted in no major hazardous waste events. Water Quality results were better than target due to improved performance in dissolved oxygen levels, minimum flows, avoided spills to water, and water discharges. Environmental protection and conservation efforts resulted in no accidental releases to TVA managed land.

Indicator formula included 26 elements for FY 2005. The formula has been revised to include 23 elements in FY 2006.

Environmental Value Indicator

Sulfur Dioxide Emissions

Goal/Strategic Objective/Critical Success Factor

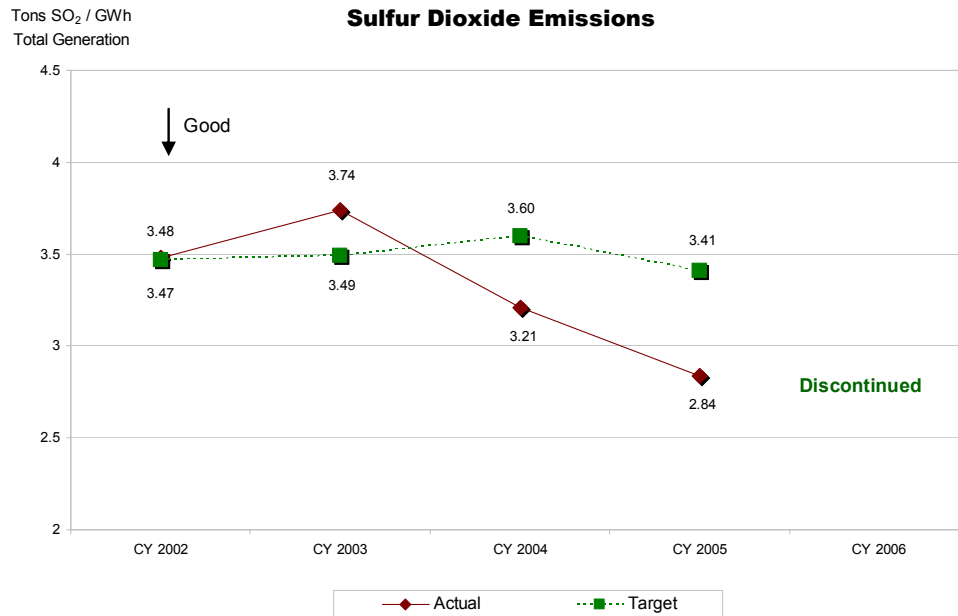
TVA Goal: Supplying low-cost, reliable power.

Strategic Objective 1.C: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor 1.C.4: Manage the environmental and safety impacts TVA's operations have on employees and the region.

Description

Energy customers and the general public expect TVA to be environmentally responsible while conducting operations in order to protect public health and natural resource quality. TVA reduces its SO₂ emissions by using scrubbers and switching to lower sulfur fuels. TVA monitors its emissions to verify compliance with the Clean Air Act.



CY 2005 Target: 3.41 tons SO₂ / GWh

CY 2005 Performance: 2.84 tons SO₂ / GWh

Targeted performance on this goal was achieved.

Performance Explanation: Performance was better than target due primarily to the use of lower-sulfur coal.

This indicator has been discontinued for FY 2006 due to the alignment of our FY 2006 indicators to TVA's Strategic Plan that was released in FY 2004.

Environmental Value Indicator

Nitrogen Oxide Emissions

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

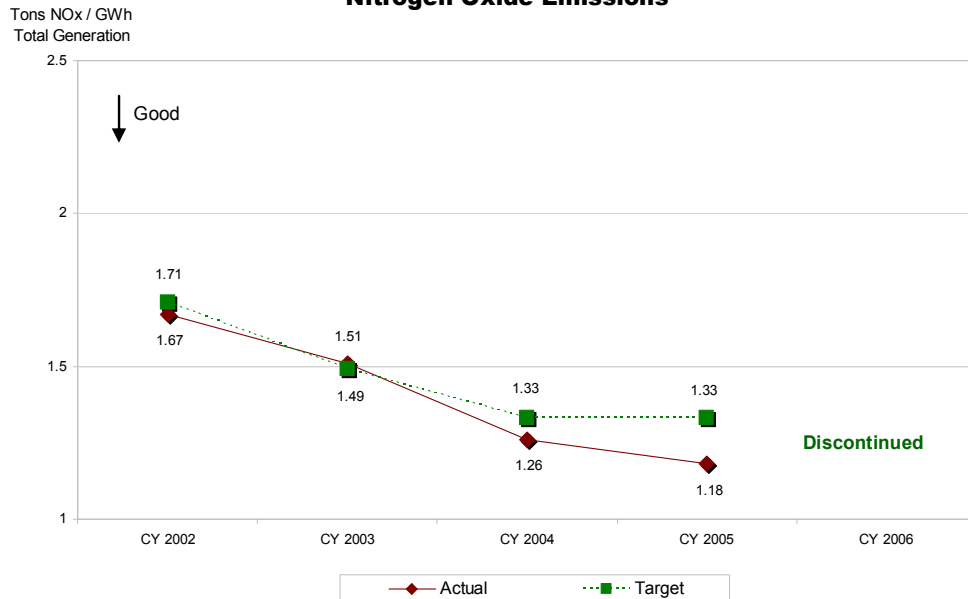
Strategic Objective 1.C: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor 1.C.4: Manage the environmental and safety impacts TVA's operations have on employees and the region.

Description

Energy customers and the general public expect TVA to be environmentally responsible while conducting operations in order to protect public health and natural resource quality. TVA reduces its nitrogen oxide emissions using technology and operational improvements to maintain compliance with the Clean Air Act and to help achieve attainment of local ambient air quality standards in the Valley. TVA monitors its emissions to verify compliance with the Clean Air Act.

Nitrogen Oxide Emissions



CY 2005 Target: 1.33 tons NO_x / GWh
CY 2005 Performance: 1.18 tons NO_x / GWh

Targeted performance on this goal was achieved.

Performance Explanation: Actual performance was better than target due to lower than planned emission rates.

This indicator has been discontinued for FY 2006 due to the alignment of our FY 2006 indicators to TVA's Strategic Plan that was released in FY 2004.

Economic Value Indicator

Institute of Nuclear Power Operators (INPO) Index

Goal/Strategic Objective/Critical Success Factor

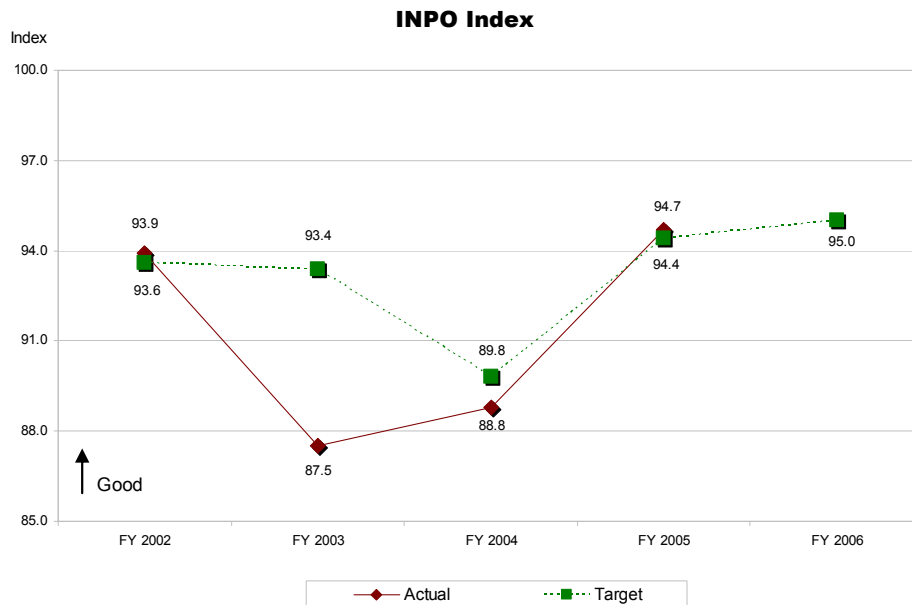
TVA Goal: Supplying low-cost, reliable power.

Strategic Objective 1.C: Meet customers' needs by providing affordable, reliable electric power.

Critical Success Factor 1.C.4: Manage the environmental and safety impacts TVA's operations have on employees and the region.

Description

The INPO Index is a weighting of a variety of performance parameters that measure performance and safety. It is measured as a percent between zero and 100.



FY 2005 Target: 94.4

FY 2005 Performance: 94.7

Targeted performance on this goal was achieved.

Performance Explanation: Fuel failures at two sites and unplanned reactor trips at one site adversely impacted the index. However, these adverse impacts were overcome by better than planned performance for radiation exposure, unit capability and forced loss rate.

Economic Value Indicator

Customer Satisfaction

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost reliable power.

Strategic Objective 1.C: Meet our customers' needs by providing affordable, reliable electric power.

Critical Success Factor 1.C.5: Achieve excellence in the customer value and relationship process.

Description

This indicator is a monthly measure of key TVA performance elements that impact TVA's long-term relationship with its customers. The purpose is to allow TVA employees to compare their actual performance against target measures to evaluate how the work they perform contributes to TVA's overall success in achieving customer satisfaction.



This indicator was discontinued at the beginning of FY 2005 and replaced by the Customer Impact indicator.

Economic Value Indicator

Customer Impact

Goal/Strategic Objective/Critical Success Factor

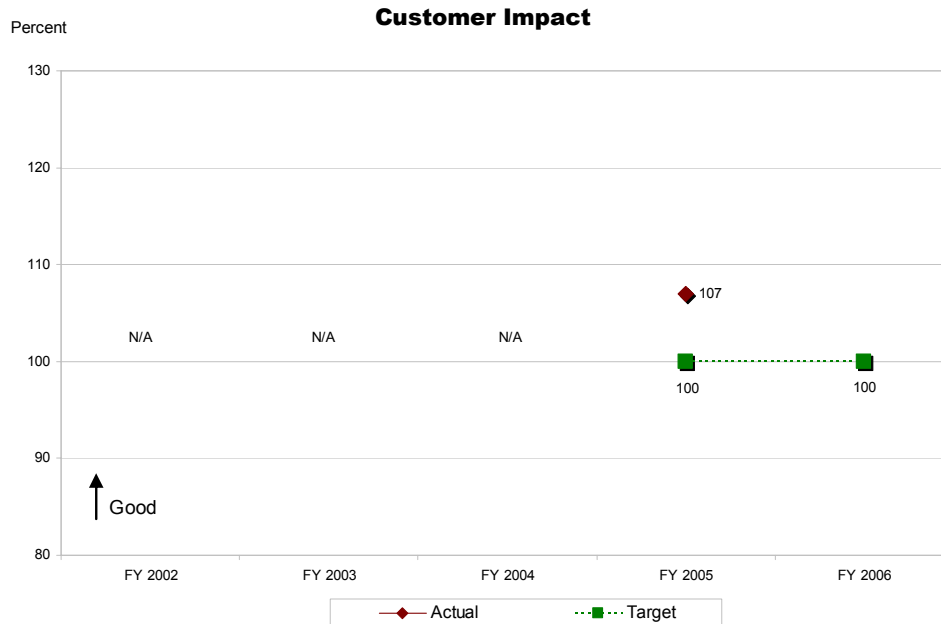
TVA Goal: Supplying low-cost reliable power.

Strategic Objective 1.C: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor 1.C.5: Achieve excellence in the customer value and relationship process.

Description

Customer Impact is a measure of key TVA performance elements that affect TVA's long-term relationship with its customers. The measure focuses on two elements that are deemed important by customers and TVA: power reliability and competitive price. Power reliability is measured by the number of connection point interruptions. Competitive price is based on the competitiveness of Valley retail electric rates, measured as a competitive retail price index.



FY 2005 Target: 100%
FY 2005 Performance: 107%

Targeted performance on this goal was achieved.

Performance Explanation: FY05 Customer Impact performance was better than target due to improved power reliability performance.

Environmental Value Indicator

Flood Storage Availability

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supporting a thriving river system.

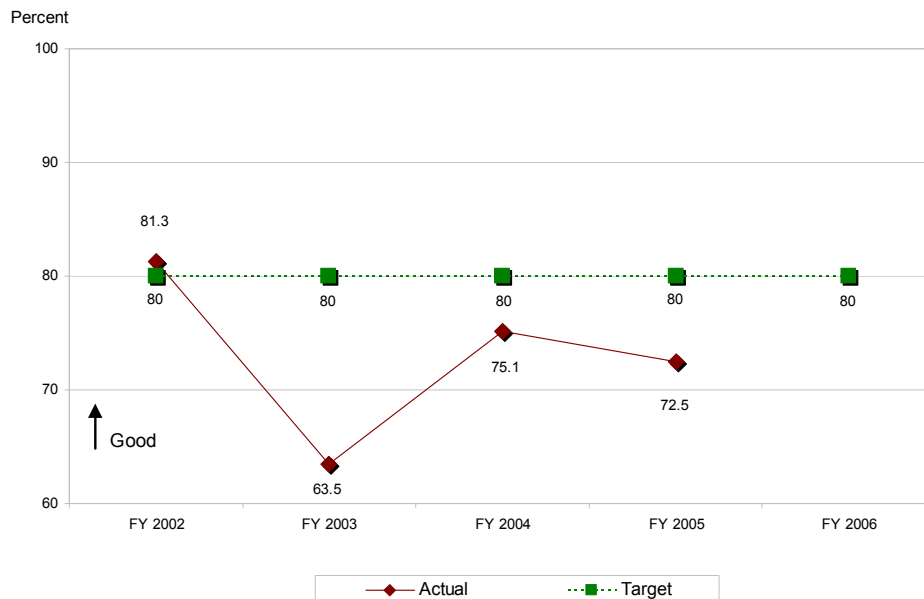
Strategic Objective 2.A: Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship.

Critical Success Factor 2.A.1: Minimize flood damage by operating the river system according to best management practices with flood control as a priority.

Description

Flood storage availability indicates TVA's readiness to control damaging floods. The reservoir system is operated based on mandates of the TVA Act and broad policy last reviewed as part of the Reservoir Operations Study (ROS) in 2004. Based on these guidelines, monthly flood storage availability targets were established. Operation of the system in accordance with these targets helps ensure that the priority placed on flood damage avoidance is maintained.

Flood Storage Availability



FY 2005 Target: 80.0%
FY 2005 Performance: 72.5%

Targeted performance on this goal was not achieved.

Performance Explanation: Record setting rainfall and runoff for the period September to December resulted in tributary pool levels being above flood guide for a substantial period of time for flood control operations. Heavy rainfall again in Southeast Tennessee during the summer resulted in Chatuge, Nottely, Hiwassee, and Blue Ridge remaining above flood guide for most of the summer. Storage recovery in both cases was in compliance with ROS guidelines.

Corrective Action: Performance targets are established based on normal hydrology. It is expected that rainfall and runoff will return to normal ranges in FY06.

Environmental Value Indicator

Days Navigable Waterway is Available from Knoxville to Paducah

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supporting a thriving river system.

Strategic Objective 2.A: Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship.

Critical Success Factor 2.A.2: Maintain a navigable commercial waterway from Knoxville to Paducah.

Description

Commercial shippers rely on TVA to maintain locks and other navigation system components in operable condition and to operate the river system to minimize disruptions to navigation. This metric monitors TVA's effectiveness in keeping the navigation channel and locks available for use.

**Days Navigable Waterway is Available
from Knoxville to Paducah**



FY 2005 Target: 357 days

FY 2005 Performance: 352 days

Targeted performance on this goal was not achieved.

Performance Explanation: Kentucky Lock was closed for nearly 7 days during the 1st quarter due to the lower river gate being stuck by a tow. Nickajack Lock was closed for 6 days during the 3rd quarter to upgrade the electrical controls, which were originally unplanned.

Corrective Action: A condition assessment was completed in FY 2005 for navigation infrastructure assets on the Tennessee River system. TVA and the U. S. Army Corps of Engineers (USACE) plan to use the results to prioritize navigation maintenance needs. We also plan to meet with USACE staff quarterly to review maintenance schedules and progress and to identify and discuss emergent needs.

Environmental Value Indicator

Shipper Savings

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supporting a thriving river system.

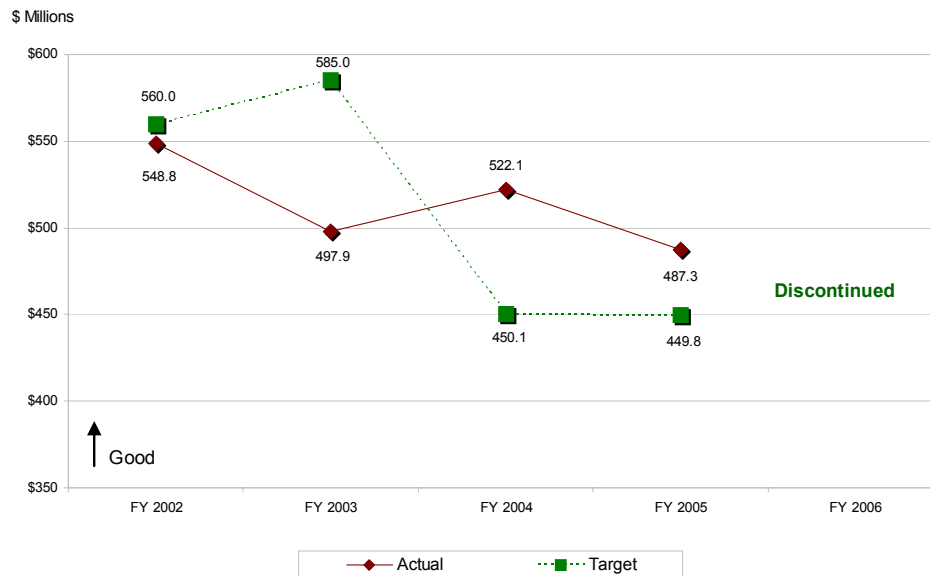
Strategic Objective 2.A: Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship.

Critical Success Factor 2.A.2: Maintain a navigable commercial waterway from Knoxville to Paducah.

Description

Commercial shippers rely on TVA to maintain locks and other navigation system components in operable condition and to operate the river system to minimize disruptions to navigation. TVA has a statutory responsibility to maintain a navigable channel along the Tennessee River from Knoxville to Paducah. Shipper savings include reductions in costs accruing to those shipping by barge. If the navigation system is not operable for extended periods of time, shipper savings are reduced.

Shipper Savings



FY 2005 Target: \$449.8 million

FY 2005 Performance: \$487.3 million

Targeted performance on this goal was achieved.

Performance Explanation: Shipper Savings indicator exceeded the target for FY 2005 due to higher than expected traffic on the Tennessee River.

This indicator has been discontinued for FY 2006 due to the alignment of our FY 2006 indicators to TVA's Strategic Plan that was released in FY 2004.

Environmental Value Indicator

Dissolved Oxygen Deficit Due to Forced Outages

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supporting a thriving river system.

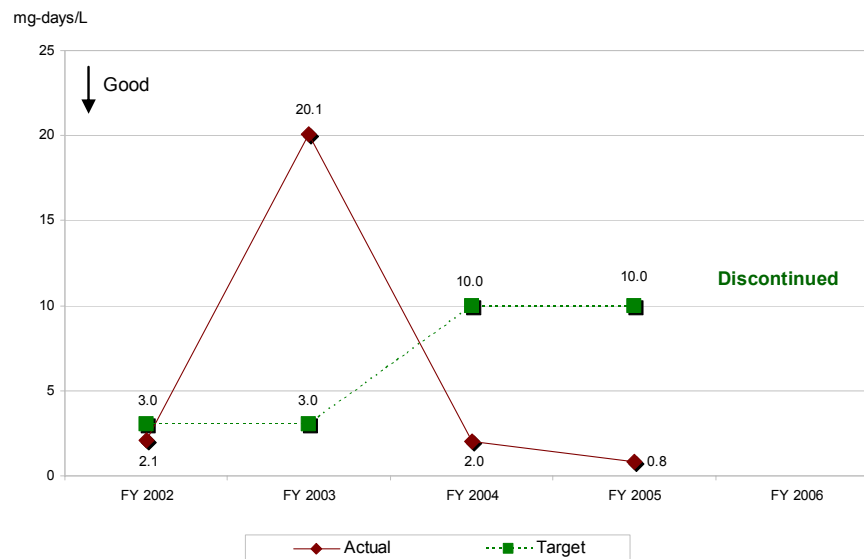
Strategic Objective 2.A: Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship.

Critical Success Factor 2.A.3: Provide acceptable water quality.

Description

Dissolved oxygen is an important component of water quality and vital to aquatic health. Dams have a detrimental impact on dissolved oxygen. The Reservoir Releases Improvement program initiated in the 1990's involved the installation of 15 aeration systems to reduce the negative impacts of TVA dams on tailwaters. These aeration systems are operated to help meet dissolved oxygen targets in 16 tailwaters. The dissolved oxygen target concentrations are 6 mg/L for cold water tailwaters and 4 mg/L for cool and warm tailwaters. The period of aeration equipment operation is site specific, but can range from mid-April through December.

Dissolved Oxygen Deficit Due to Forced Outages



FY 2005 Target: 10.0 mg-days/L

FY 2005 Performance: 0.8 mg-days/L

Targeted performance on this goal was achieved.

Performance Explanation: This indicator was achieved because aeration systems operated better than expected with minimal downtime due to forced outages.

This indicator has been discontinued for FY 2006 due to the alignment of our FY 2006 indicators to TVA's Strategic Plan that was released in FY 2004.

Environmental Value Indicator

Minimum Flow Achievement

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supporting a thriving river system.

Strategic Objective 2.A: Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship.

Critical Success Factor 2.A.3: Provide acceptable water quality.

Description

Dissolved oxygen levels, water temperature, and water flow rates are drastically altered by the vacillating effects of water storage and hydro generation processes. Fisheries, aquatic habitat, and potable water quality bear the most stress. TVA maintains minimum flows at 29 locations to improve the quality of water. Sustaining these minimum flows helps TVA minimize adverse environmental impacts to aquatic habitats and potable water quality associated with dam operations.

Minimum Flow Achievement



FY 2005 Target: 99.0%

FY 2005 Performance: 99.7%

Targeted performance on this goal was achieved.

Performance Explanation: Close attention to scheduling minimum flows along with reduced forced outages at tributary projects resulted in actual results exceeding the target.

This indicator has been discontinued for FY 2006 due to the alignment of our FY 2006 indicators to TVA's Strategic Plan that was released in FY 2004.

Environmental Value Indicator

Discretionary Zone Attainment

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supporting a thriving river system.

Strategic Objective 2.A: Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship.

Critical Success Factor 2.A.4: Optimize the value of hydro generation subject to flood control, navigation, water quality, and summer reservoir-level constraints.

Description

Valley residents expect TVA to operate the Tennessee River system of reservoirs for multiple benefits, including flood control, navigation, water quality, recreation, water supply, and hydroelectric generation. To meet this expectation, TVA monitors a performance goal that tracks the ability to maximize the flexibility and value of hydropower generation after meeting higher priority objectives. This "discretionary zone" is a region of operation bounded by the flood guide on the top and the minimum operating guide on the bottom. Under TVA's river system operation methodology, power value is optimized by operating tributary storage reservoir levels within the discretionary operating zone whenever possible.

Discretionary Zone Attainment



This target was discontinued in June 2004 due to the implementation of the Reservoir Operations Study.

Environmental Value Indicator

Summer Reservoir Level Attainment

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supporting a thriving river system.

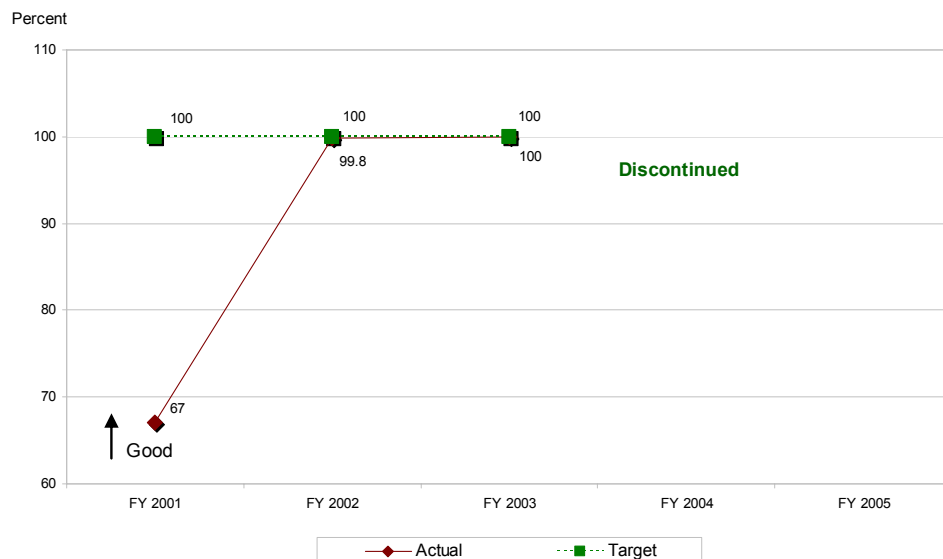
Strategic Objective 2.A: Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship.

Critical Success Factor 2.A.5: Support recreational uses of the river system and associated federal lands.

Description

Recreational reservoir users want TVA to maintain high water levels during the summer. These customers provide regional economic benefits through increased expenditures for recreational activities. In its 1991 Lake Improvement Plan, TVA made commitments to the user public to maintain tributary reservoirs at specified levels during June and July to support recreational uses that have significant economic impacts for the Tennessee Valley. TVA measures its commitment to these customers by monitoring achievement of targeted minimum water levels during June and July in ten tributary storage reservoirs.

Summer Reservoir Attainment Level



This measure was discontinued in June 2004 due to the implementation of the Reservoir Operations Study.

Economic Growth

Economic Development Index

Goal/Strategic Objective/Critical Success Factor

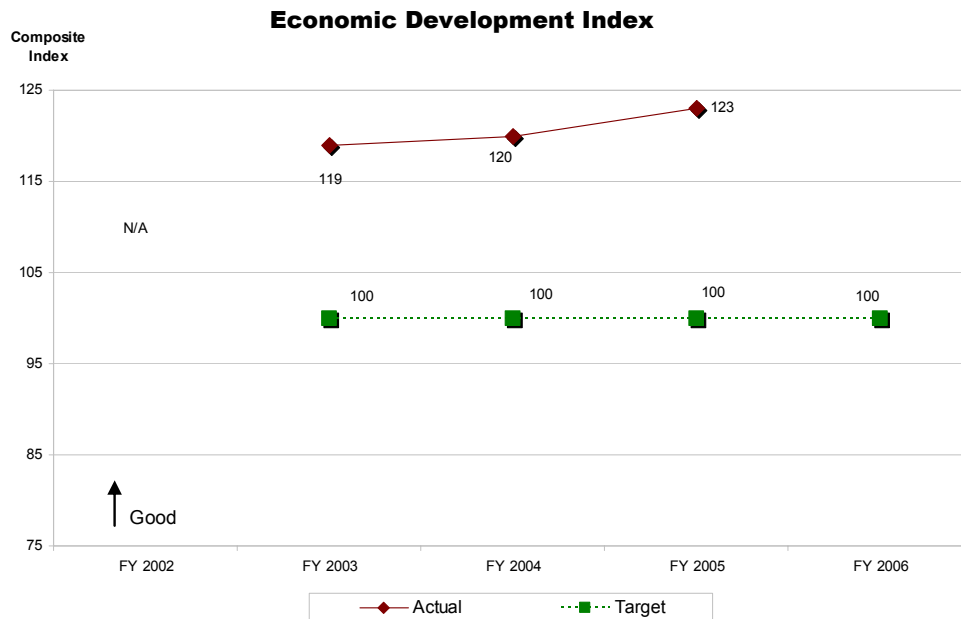
TVA Goal: Stimulating economic growth.

Strategic Objective 3.A: Demonstrate leadership in sustainable economic development in the Valley.

Critical Success Factor 3.A.1: Promote development through targeted growth initiatives.

Description

Since 1933, TVA has played a significant role in economic and community development in the Tennessee Valley. Energy customers are interested in the economic vitality of their communities resulting from projects which focus on business growth and industrial development. In this performance goal, TVA is measuring the overall impact of employment opportunities, financial investment, and quality of life improvements for Valley residents.



FY 2005 Target: 100
FY 2005 Performance: 123

Targeted performance on this goal was achieved.

Performance Explanation: This indicator, a component measure of jobs created and/or retained, capital investment leveraged and jobs impact, performed above target due in large part to higher than anticipated capital investments made by expanding companies, new company announcements, and larger than expected job growth in targeted sectors.

Appendix A

Descriptions of Means to Verify and Validate Values Of Performance Goals

O&M Costs

Measurement and Validation: This indicator is measured as total expenses less fuel, purchased power, interest expense and pension/postretirement financing costs.

Productivity

Measurement and Validation: Productivity measures the planned available generation per Operating and Maintenance (O&M) labor cost dollar. The components of TVA's O&M labor costs for TVA employees include straight-time, overtime, and benefits (excluding pension costs) and O&M labor costs (labor only). Planned available generation includes combustion turbine, conventional hydro, fossil, nuclear and pumped storage.

Financial Strength

Measurement and Validation: This indicator is measured as the change in total financing obligations including statutory debt, CT lease obligations, prepaid energy obligations, and QTEs (Qualified Technological Equipment).

Bond Rating

Measurement and Validation: TVA will report its bond rating as reported by the major bond rating agencies as of the end of each fiscal year.

System Reliability (Load Not Served)

Measurement and Validation: This indicator shows the amount of time an average customer could expect to be interrupted if its load was constant throughout the year. The calculation uses current billing data to estimate the amount of load which was interrupted, the actual clock time of the interruption as related to TVA problems, the load actually served during the time period being examined, knowledge of load cycles for the customer, and the number of minutes in the interruption period.

The formula is:

$$\left(\frac{\text{LNS in MWh}}{\text{LS} + \text{LNS in MWh}}\right) * \text{the number of minutes in the period.}$$
 For example, a 10 MW load is interrupted for 1 hour, resulting in 10 MWh of LNS. If the year long load served is 600,000 MWh, the LNS in minutes is:
$$\left(\frac{10}{10+600,000}\right)*525,600(\text{minutes in a year})=8.76 \text{ minutes of LNS.}$$
 The result is a normalized LNS in minutes that is calculated regardless of the load size.

Asset Availability

Measurement and Validation: TVA measures how well its electric generation system, excluding power purchase contracts, performed compared to planned availability and price forecasts. A monthly result is calculated by dividing Actual GWh Available by Plan GWh Available and multiplying the result by 100%. The fiscal-year-to-date Asset Availability result is based on the weighted average of monthly results based on a value factor.

Fossil Plant Equivalent Availability Factor

Measurement and Validation: TVA records the energy that can be provided by each fossil unit and divides it by the product of the unit's capacity and number of hours in the measurement period (nominally 8,760). The availability of all units is combined to determine the annual fossil system equivalent availability factor.

Hydro Plant Equivalent Availability Factor

Measurement and Validation: TVA calculates the energy that can be produced by the hydro system based on individual unit capacity and availability and divides that sum by the product of the total system capacity at 100 percent availability and the number of hours in the measurement period (nominally 8,760). This provides a weighted average (equivalent availability factor) for all units in the hydro system.

Nuclear Plant Net Capacity Factor

Measurement and Validation: TVA records the energy produced by each nuclear plant and divides it by the product of the unit's capacity and number of hours in the measurement period (nominally 8,760). The availability of all units is combined to determine the annual net capacity factor.

Energy Sales (kWh)

Measurement and Validation: TVA's annual sales figures are published in its annual report, which is audited by an independent accounting firm.

Reportable Environmental Events (Discontinued FY 2005)

Measurement and Validation: Each organization is responsible for reporting occurrences of violations that trigger notifications to, or enforcement actions by, a regulatory agency. Data are reported monthly and accumulated throughout the year to determine annual performance.

Environmental Impact Index

Measurement and Validation: The Environmental Impact Index is a composite of environmental performance factors in terms of beneficial and detrimental impacts (or precursors) on Air Quality, Water Quality, Land, Waste Production, and Energy Consumption compared to a baseline of FY 02. The 29 elements forming the index are dispersed throughout the agency, and data is provided by the owners on a quarterly basis. Measurements are made using a variety of methods: monitors, meters, scales, calculation, direct observation, utility bills, number of contracts, project planning, billing, and more.

Sulfur Dioxide Emissions

Measurement and Validation: SO₂ is measured using certified stack Continuous Emissions Monitors and reported on an annual calendar year basis to the public through an EPA emissions database. Total tons of SO₂ emitted are divided by total TVA system (calendar year) generation to determine the tons emitted per GWH of generation.

Nitrogen Oxide Emissions

Measurement and Validation: NO_x is measured via certified stack Continuous Emissions Monitors and reported on an annual calendar year basis to the public through the EPA database. Total tons of NO_x emitted are divided by total TVA system (calendar year) generation to determine the tons emitted per GWH of generation.

Institute of Nuclear Power Operators (INPO) Index

Measurement and Validation: The individual parameters measure performance in Unit Capability and Losses, Safety System Availability and Reliability, Fuel Reliability, Water Chemistry, Radiation Exposure, and Industrial Safety. These individual parameters are weighted and combined into a single measurement index. This index provides an indication of overall plant performance, as well as a benchmark measurement to other plants' performance. The INPO index is tracked monthly and the targets are determined based on industry top quartile performance. Each year's September calculation will be reported as the annual performance on this measure.

Customer Satisfaction (Discontinued FY 2005)

Measurement and Validation: This indicator is a monthly measure of key TVA performance elements that impact TVA's long-term relationship with its customers. It measures actual performance against target in four key areas: power reliability, billing reliability, product timeliness, and competitive pricing. Customer satisfaction is equal to 100 percent * [25% * (target/actual power reliability) + 25% * (target/actual billing reliability) + 25% * (target/actual product timeliness) + 25% * (target/actual competitive price)].

Customer Impact

Measurement and Validation: This measure focuses on two elements customers consistently rate as critical: power reliability (number of connection point interruptions (CPI)) and competitive price (competitiveness of Valley retail electric rates; measured as competitive retail price index (CRPI)). Customer Impact is equal to 100 percent * [50% * Power Reliability (target/actual) + 50% * Competitive Price (target/actual)].

Flood Storage Availability

Measurement and Validation: This performance measure is defined as the percent of project days when actual storage availability is greater than allocated storage. Eleven tributary storage projects are included in this measure; in addition, a measure of the composite eastern system is also included. TVA measures reservoir levels at midnight each day for each of the projects. In a 30-day month, each storage project has a maximum of 30 project days when actual reservoir storage can be equal to or greater than the allocated storage. TVA sums the days when storage meets or exceeds the guideline. For example, if all 11 projects and the eastern composite had reservoir storage levels above those required for 20 of the 30 days, monthly performance would be 240/360=66.7%. Data are reported monthly and are accumulated over the entire year to determine the annual performance on this measure.

Days Navigable Waterway is Available from Knoxville to Paducah

Measurement and Validation: This indicator measures instances when any segment of the Tennessee River is closed to navigation traffic. Lock operation and maintenance reports are the source of this information.

Shipper Savings

Measurement and Validation: Shipper savings is calculated as the product of the tons being shipped on the Tennessee River and the savings per ton attributed to barge transportation. Barge transportation is the cheapest mode for movement of certain commodities. Thus, barge transportation is compared in the indicator to the next least expensive mode, which is generally rail carriage. In the indicator, average savings per ton is estimated by TVA to be \$9.24 (\$2000 data – 1st quarter 2000 rates). This number was a product of a TVA study undertaken for the U.S. Army Corps of

Engineers (USACE), Huntington District, in 1995 as a component of USACE's update of the Kentucky Lock study. These modal transportation rates are a combination of survey data and estimates from TVA's Barge Costing Model and the Rebee Rail Costing model. The rates are estimated by component (line haul cost, transfer cost, loading and unloading cost) and do not include any "water compelled" rate effect, that is, what the rail rate would be expected to be without barge competition. Assumptions in the calculation reflect an estimated margin for carrier profit. The data used to estimate total current tonnage transported on the Tennessee River are a combination of river and lock data. The river data is published annually by the USACE Waterborne Commerce Statistical Center (WCSC) in New Orleans, Louisiana, with about a two-year lag. The lock data are published by the USACE Water Resources Support Center in Fort Belvoir, Virginia, with a two-month lag. In the shipper savings indicator TVA navigation economists forecast Tennessee River traffic by year.

Dissolved Oxygen Deficit Due to Forced Outages

Measurement and Validation: Of the 16 tailwaters monitored, nine sites have continuous sampling systems. Additionally, all 16 tailwaters are sampled on a weekly or biweekly schedule at designated compliance points. The measure is calculated by subtracting the actual dissolved oxygen concentration during aeration system forced outages from the targeted dissolved oxygen concentration and multiplying this value by the number of days the actual concentration is below the target because of equipment forced outages.

Minimum Flow Achievement

Measurement and Validation: The performance measure is defined as the percentage of location days actual flow met the minimum flow target. Locations included in this measure include both TVA dams and other river sites where minimum flow criteria have been established. Criteria may be hourly, daily, or bi-weekly average flow. Flow measurement devices are provided at dams and other locations. Operational records are checked daily for compliance. TVA sums the days when a violation occurred at each of the 29 locations and divides by 29 locations times the days/month. Data are reported monthly and accumulated over the entire year to determine annual performance of this measure.

Discretionary Zone Attainment (Discontinued FY 2004)

Measurement and Validation: The performance measure is defined as the percent of project days actual reservoir storage is within the discretionary operating zone. Projects included in this measure are the ten tributary storage projects with minimum operating guide curves. TVA measures reservoir levels at midnight each day for each of the ten storage projects. In a 30-day month, each storage project has a maximum of 30 project days when actual reservoir storage can be within the discretionary operating zone. TVA sums the days when storage was within the zone and divides by the total number of project days. For example, if all ten projects had reservoir levels within the discretionary operating zone for 25 of the 30 days, monthly performance would be $250/300=83.3\%$. Data are reported monthly and are accumulated over the entire year to determine the annual performance on this measure.

Summer Reservoir Level Attainment (Discontinued FY 2004)

Measurement and Validation: Reservoir levels for ten tributary storage projects are measured at midnight from June 1 to July 31 and checked against August 1 levels specified in the Lake Improvement Plan. There is the potential of maintaining summer reservoir levels for 61 days at each of the ten reservoirs (610 days total) per the Lake Improvement Plan. If one reservoir's level missed its target for ten of the 61 days, the indicator calculation would be $600/610=98.4\%$.

Economic Development Index

Measurement and Validation: Data are reported based on commitments with strategic partners to support job growth, leverage project investments, and enhance job quality in the region.

Appendix B

Program Assessment Rating Tool (PART) - Status Update

Power Program

TVA's power program is entirely self-financing and does not receive any federal appropriations. The power program budget is, however, included in the consolidated Budget of the United States Government. TVA is the fifth largest electric utility in the country, generating power from a diverse mix of coal-fired, hydro-electric, nuclear, and combustion-turbine plants to meet the electricity needs of 8.6 million people.

In the 2004 PART assessment, TVA received solid ratings for its Operational Performance, Strategic Planning, Program Management, and Program Results. In particular, the Program Management section received a 91 percent rating, with an overall average rating of 74 percent for the entire assessment. Some of the comments in the Program Management section are as follows:

- *TVA has an ongoing monthly budget and performance reporting system that includes both TVA organizational and contractor performance information. Budgets are reallocated as necessary to address emerging problems or opportunity. TVA is currently implementing Activity Based Management (ABM) as another tool to manage performance.*
- *TVA's financial reporting system includes detailed reports of actual vs. budget expenditures on a monthly (and for some components weekly) basis.*
- *TVA includes performance requirements in all major procurement and contractor "partner" agreements. Incentives are designed such that the supplier and TVA share in cost savings achieved.*
- *TVA has developed a highly qualified executive management team, most of which have private sector as well as public sector experience. Within the operating groups, functional "peer teams" have been established across all major disciplines. They meet regularly to evaluate all business processes, do extensive benchmarking studies, and implement "best practices" from other units and other companies.*
- *TVA develops extensive cost and benefit analysis on all asset acquisitions ranging from computer systems to generating units.*

Non-Power Program - Water and Land Stewardship

TVA serves the seven-state Tennessee Valley region through its management of the nation's largest public power system and the nation's fifth-largest river system, the Tennessee River. TVA dams and locks are operated as a fully integrated system to deliver multipurpose outputs. Navigation, flood control, and electric power generation are achieved while sustaining a balance between economic progress and protection of the environment. Public lands are managed to provide flood control, wildlife habitat, and recreation benefits.

In FY 2004, OMB gave TVA's stewardship program an average overall 86 percent rating for the entire assessment and stated that, *"TVA's Stewardship program continues to meet or exceed performance goals without increasing overall costs. These efficiency improvements come through the use of public/private partnerships and more effective use of internal resources (i.e., managed attrition, realignment of functions)."*

TVA is committed to meeting its obligation to operate and maintain its system of dams, reservoirs, and adjacent lands. Based on the authority provided in the Energy and Water Development Appropriations Act of 1998, TVA will fund its traditional essential water and land stewardship activities with power revenues, user fees, and sources other than appropriations. No appropriations have been received by TVA for Water and Land Stewardship since FY 1999 and none are requested for FY 2007. Long-term TVA funding levels for these activities are expected to continue at about the same level as in FY 1999 when TVA received appropriations of \$43 million to support this work, although FY 2005 stewardship expenditures were substantially higher (\$93 million) due to one-time capital expenditures related to the Reservoir Operations Study and dam safety. FY 2007 funding of this program is estimated at \$84 million.