



TVA BOARD
MEETING

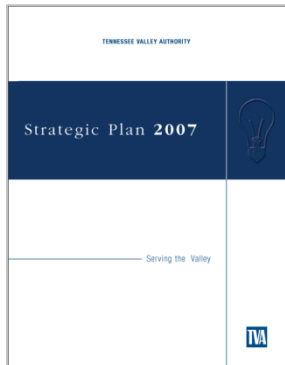
AUGUST 16, 2012



PRESIDENT'S REPORT

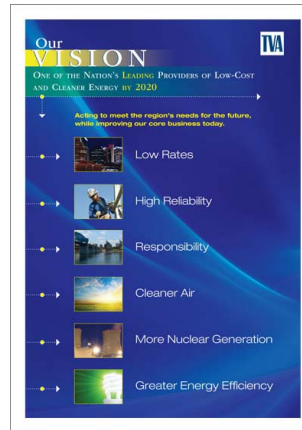
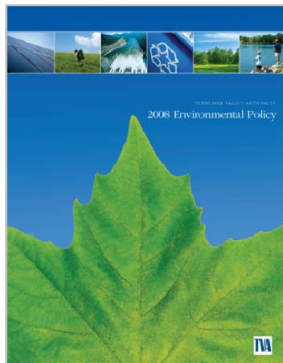
SETTING THE RIGHT PATH

2006 to Today



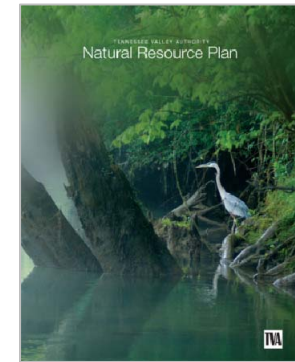
2007

2008



2010

2011



2011

Our VISION

ONE OF THE NATION'S
LEADING PROVIDERS
OF LOW-COST
AND CLEANER ENERGY
BY 2020



PATH TO THE VISION

RATES

- Top Quartile Rates

RELIABILITY

- Focus on system reliability
- Attention to individual plant reliability
- Balanced Portfolio

RESPONSIBILITY

- Financial health
- Cleaner air
- Economic development
- Trusted public partner

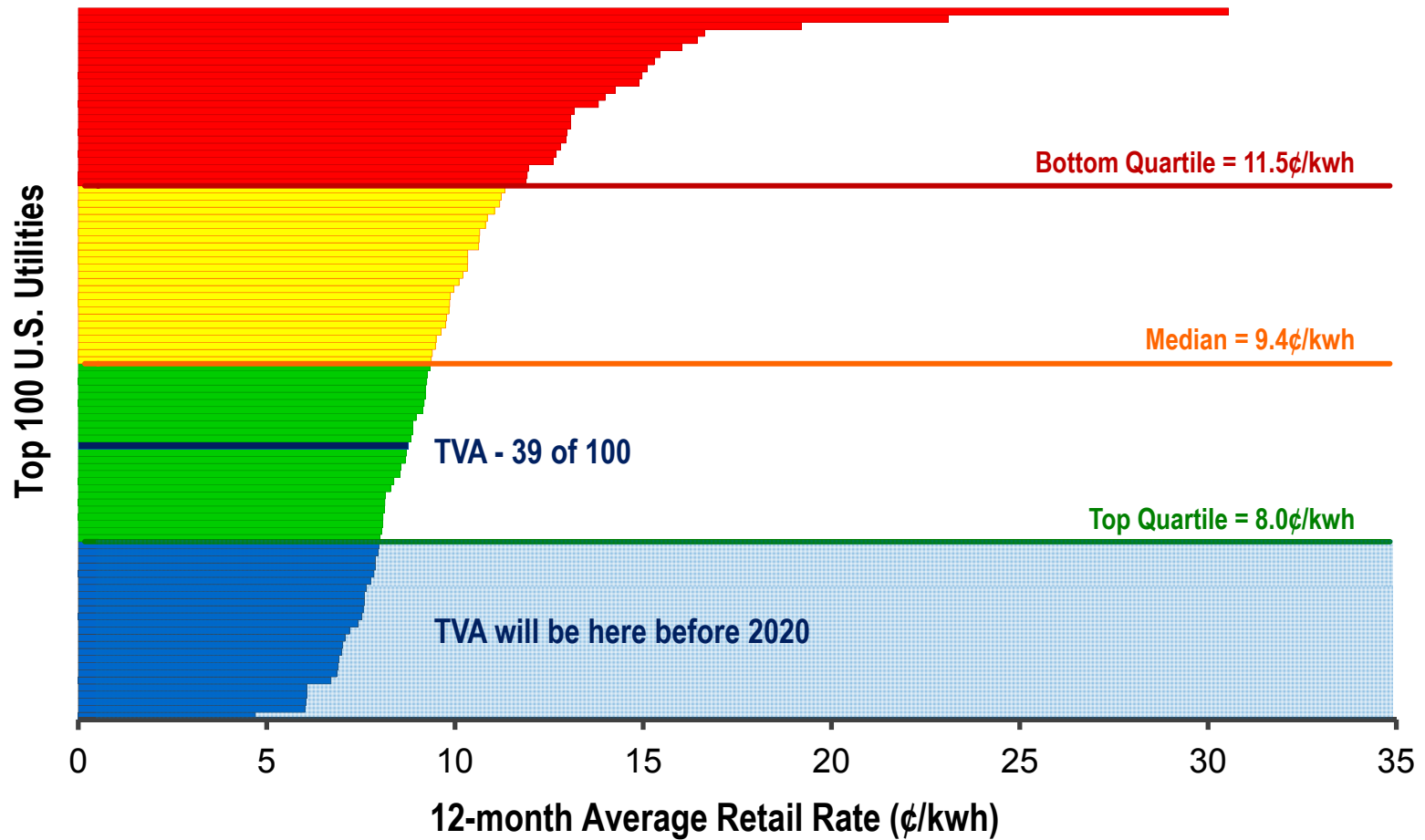
PRESIDENT'S REPORT

RATES



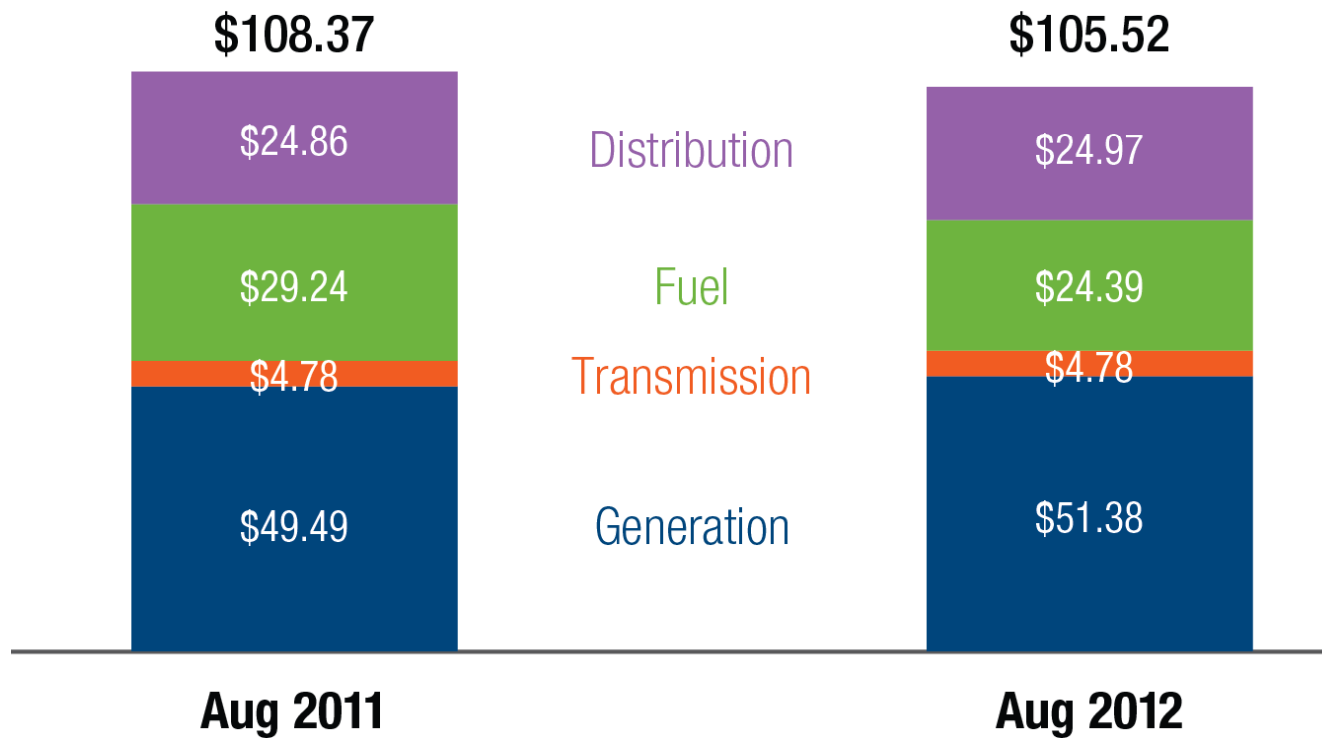
AUGUST 16, 2012

TOP QUARTILE RATES BEFORE 2020

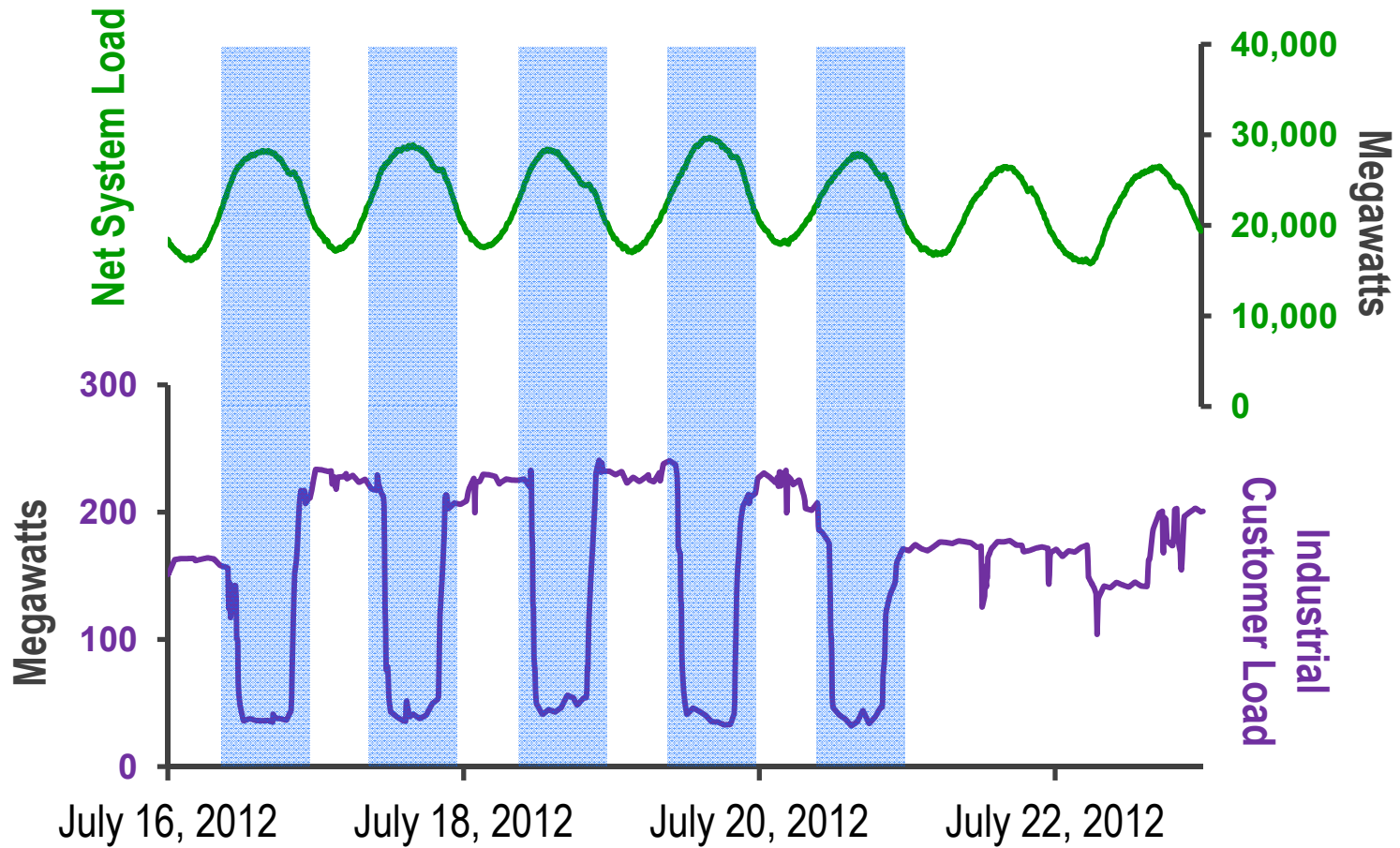


Apr, 2011 - Mar, 2012 Source: EIA-826 and ESS

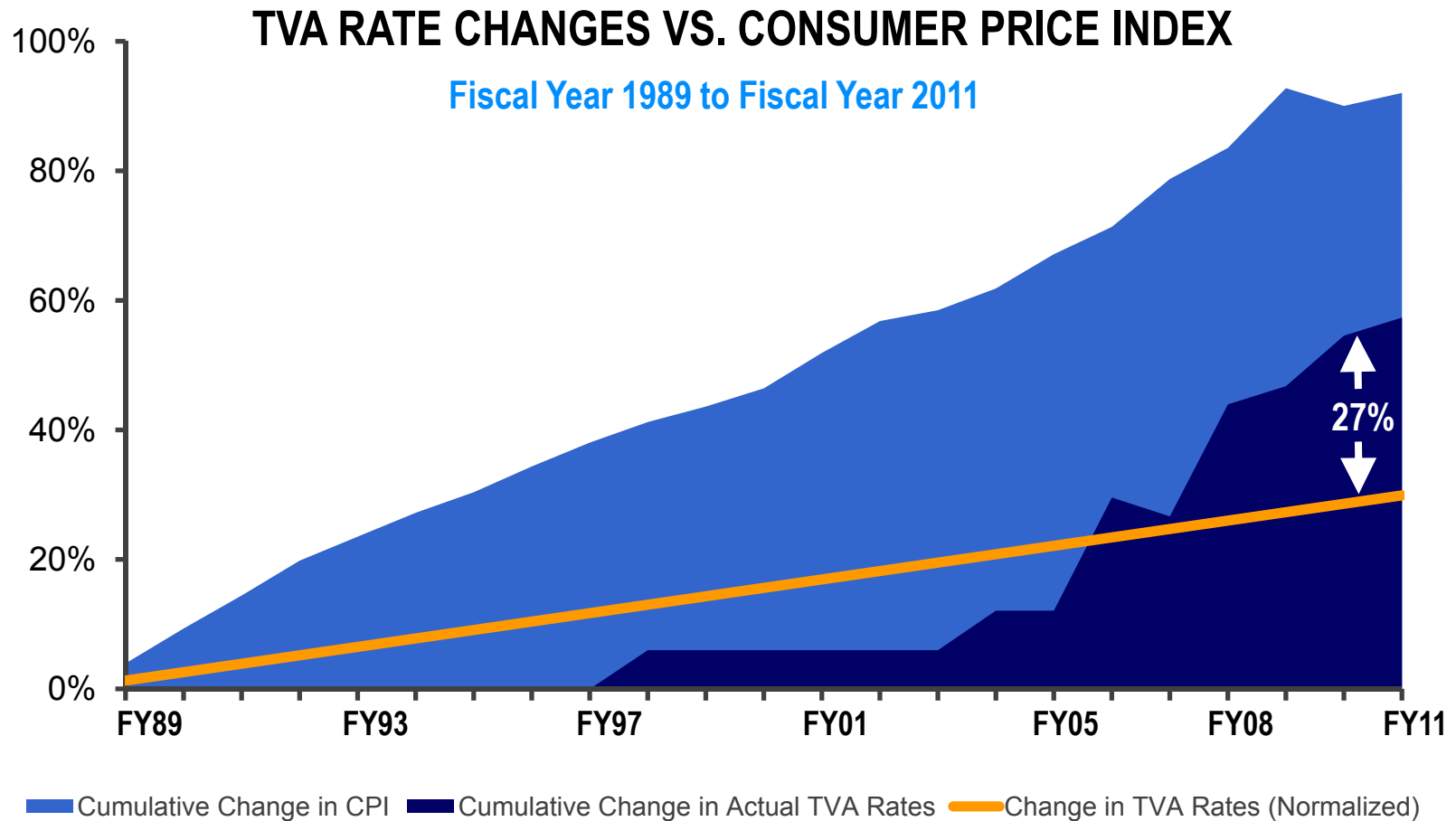
AVERAGE AUGUST 1,000 KWH POWER BILL



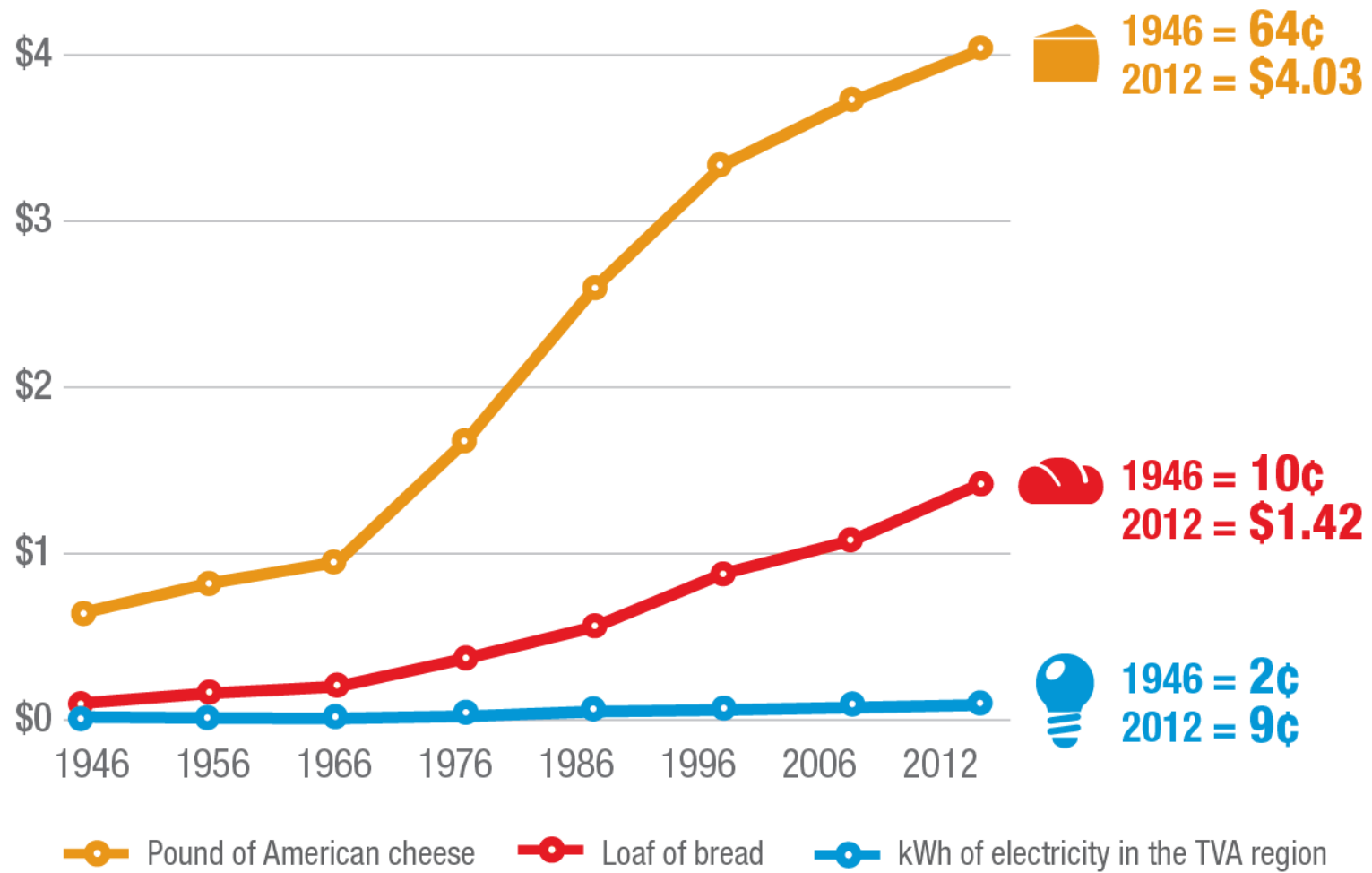
TIME OF USE RATES ARE WORKING



FUTURE RATE STRATEGY: AVOID SPIKES



VALUE OF POWER



Source: U.S. Bureau of Labor Statistics

PRESIDENT'S REPORT

RELIABILITY



AUGUST 16, 2012

RESPONSE TO HEAT WAVE

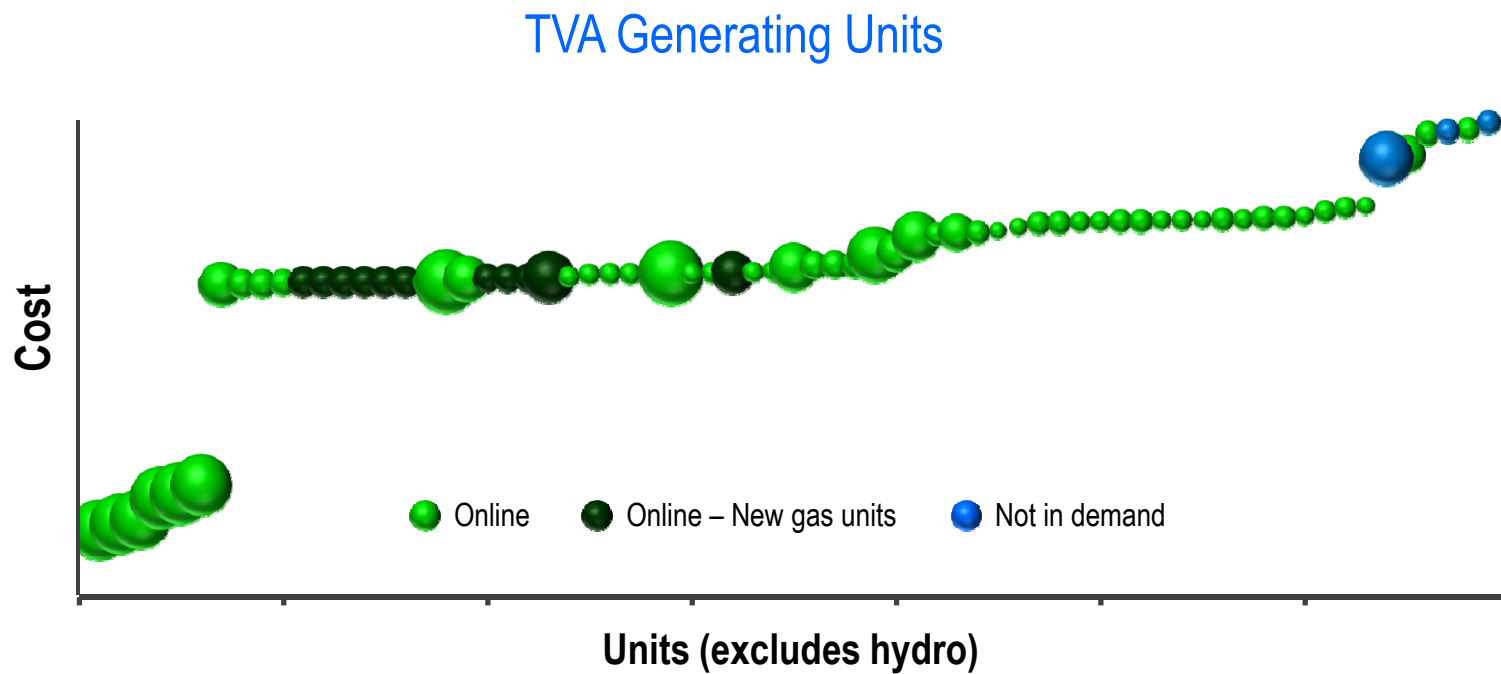
Record-setting heat wave in 2012 June 25 to July 9

- Nashville, TN set an all time high temperature at 109°
- Chattanooga, TN tied an all time high temperature at 106°
- Tupelo, MS set a June high temperature at 106°
- All-time June peak load of 31,097 megawatts



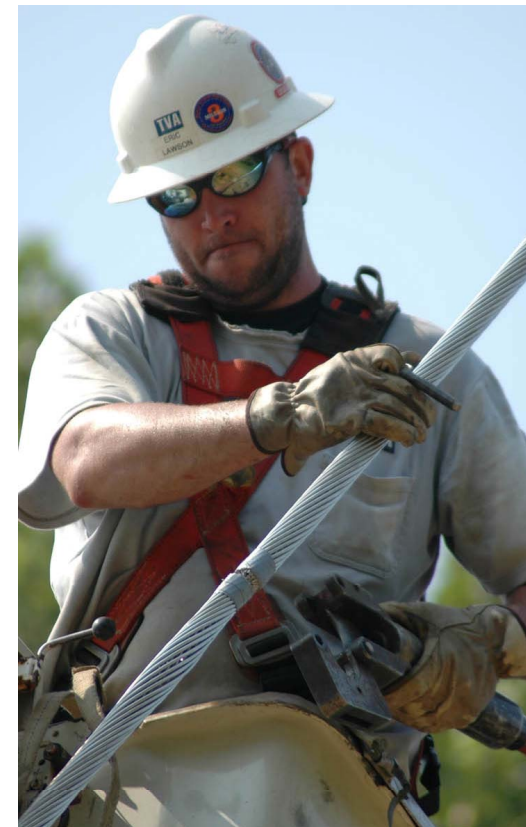
PLANT PERFORMANCE – JUNE 29, 2012

- All generation units running or available
- 11 new low-cost gas units

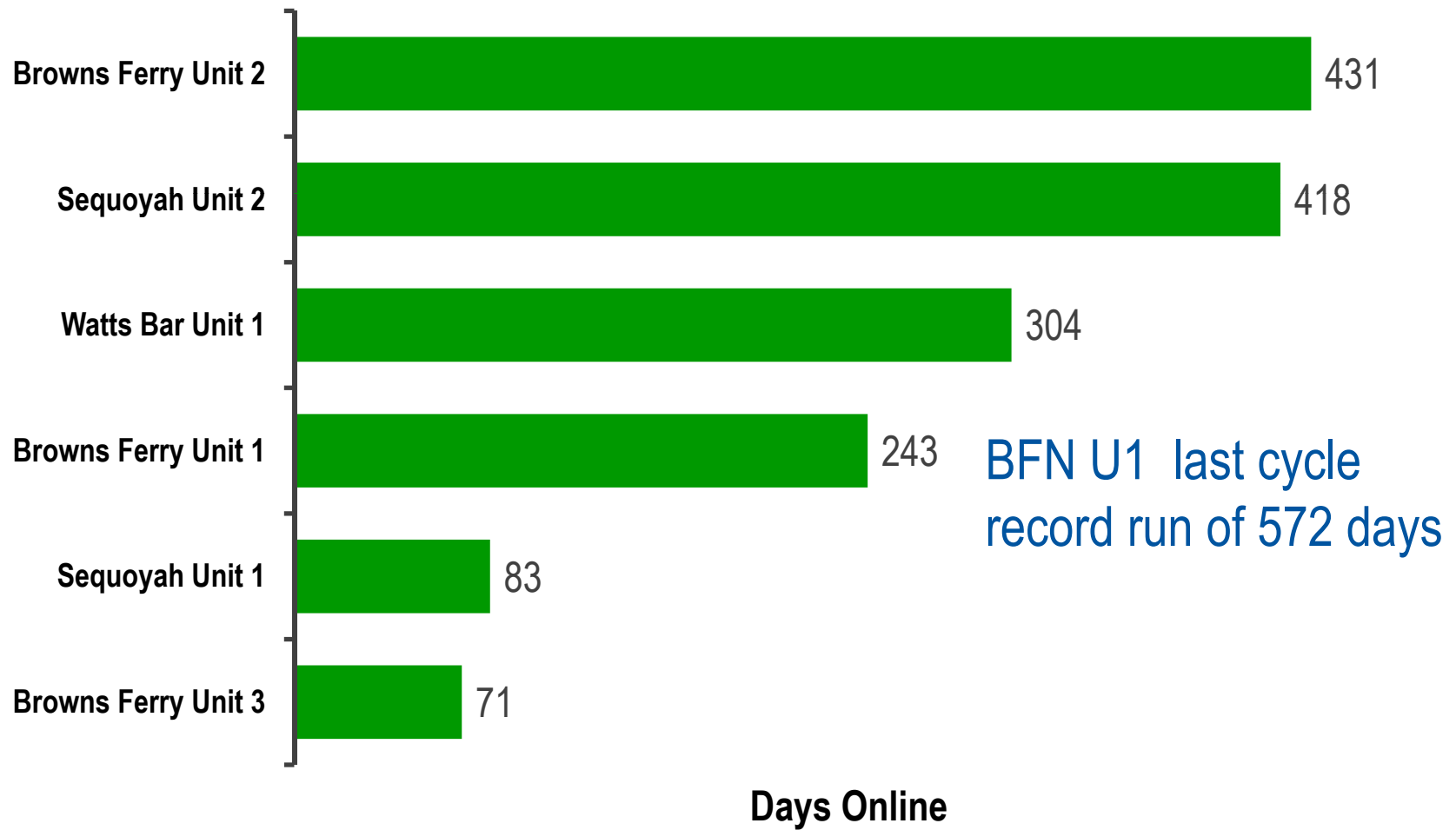


OPERATIONAL PERFORMANCE

- Reliable service provided during heat wave
- Transmission reliability 99.999%
- Worked to offset lower revenue
- Taking advantage of lower gas prices
- Coal units best (lowest) forced outage rate
- Nuclear units are running well



NUCLEAR UNITS CONTINUOUS DAYS ONLINE



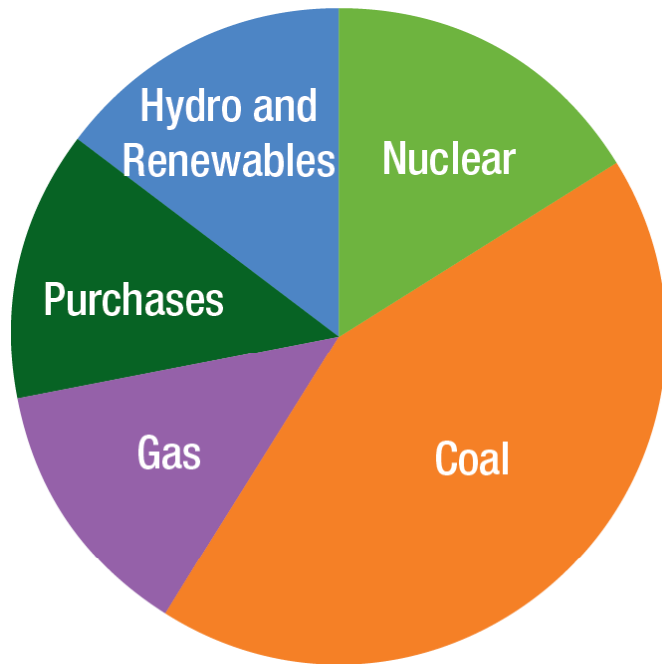
OPERATIONAL CHALLENGES

- Browns Ferry regulatory status
- Raccoon Mountain unplanned outage
- Right-of-way management
- Balancing cost savings and capital investment

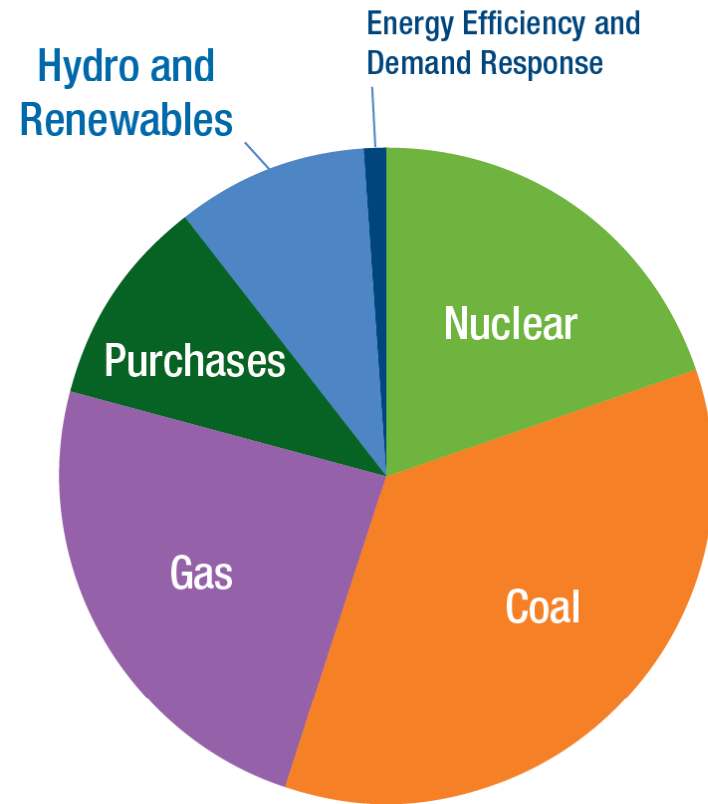


A BALANCED PORTFOLIO LOWERS RATES AND PROTECTS RELIABILITY

2006

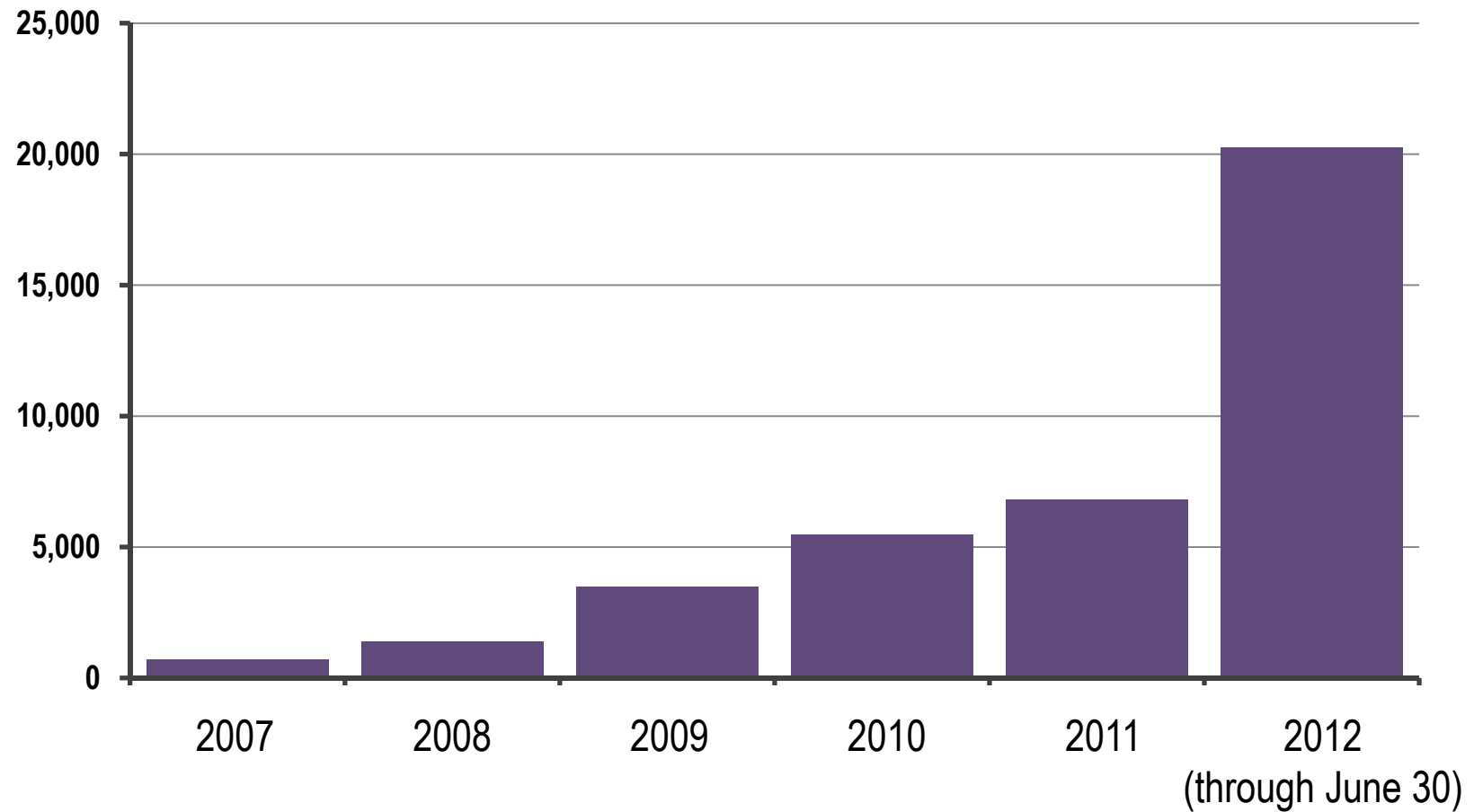


2012



GROWING GAS GENERATION

millions of kWh



PRESIDENT'S REPORT | RELIABILITY: BALANCED PORTFOLIO

NEW NUCLEAR

WATTS BAR 2 UPDATE

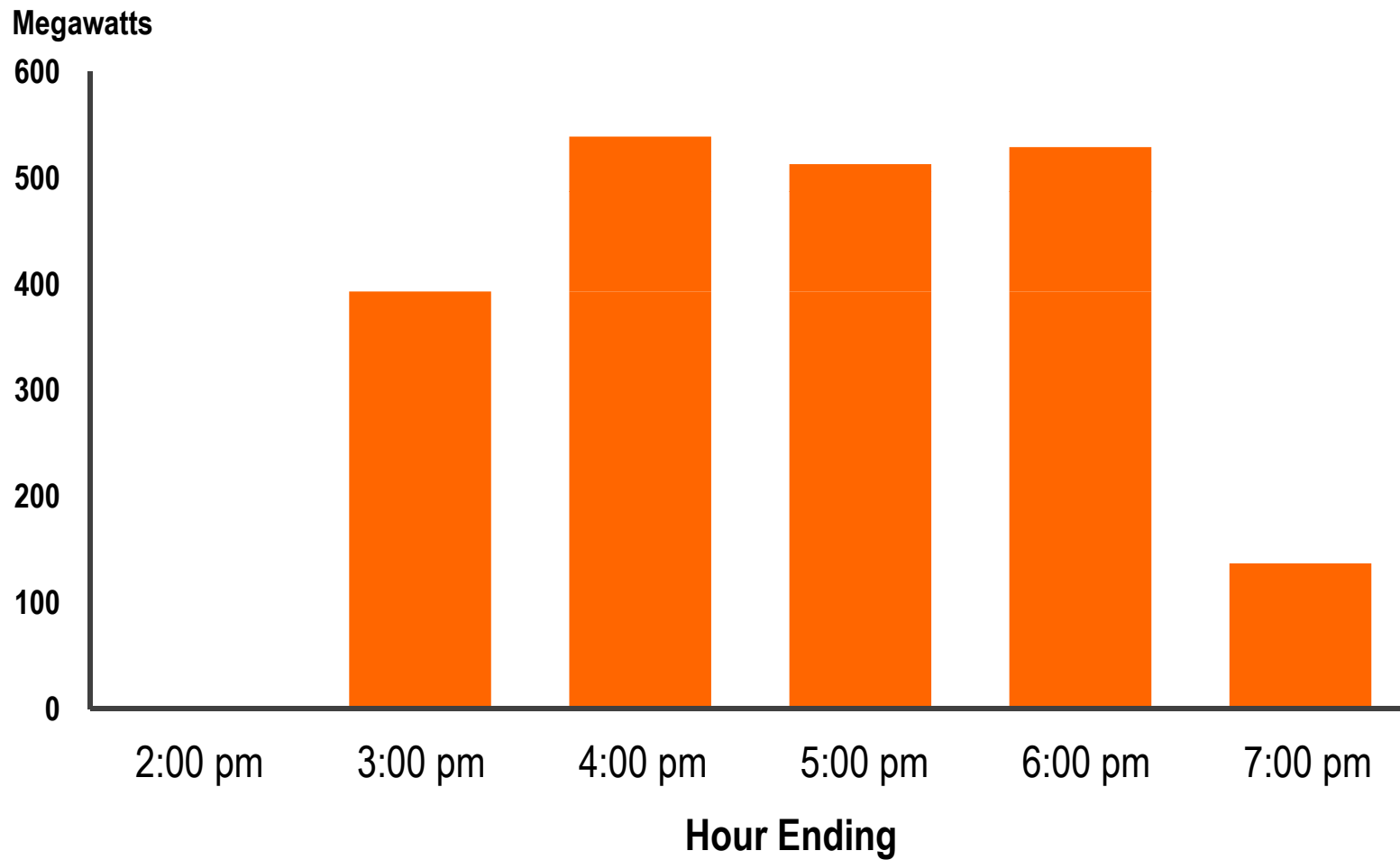
- Watts Bar 2 construction is on target
- Progress is monitored and continuous improvement plans are implemented as needed
- Regular reporting to TVA Board and the Nuclear Oversight Committee



PRESIDENT'S REPORT | RELIABILITY: BALANCED PORTFOLIO

GREATER LOAD MANAGEMENT

DEMAND RESPONSE



ENERGY EFFICIENCY



RESIDENTIAL

1. Insulation
2. HVAC
3. Hot water

Lower bills
Better homes



COMMERCIAL

1. Refrigeration
2. Lighting

Lower energy charge
Lower demand charge
with Demand Response



INDUSTRIAL

1. Processes
2. Motors

Lower bills
Processes efficiencies
Retains jobs

PRESIDENT'S REPORT

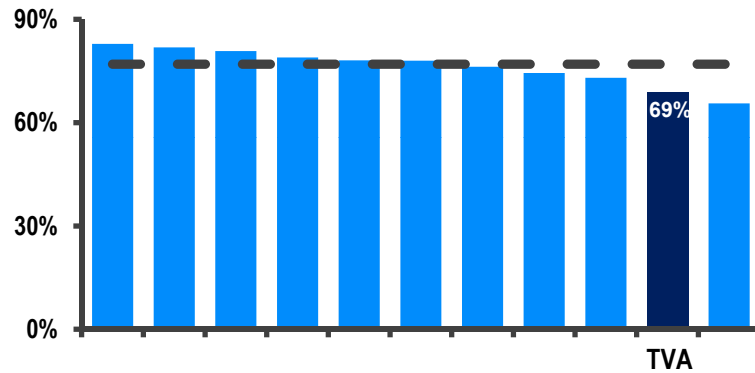
RESPONSIBILITY



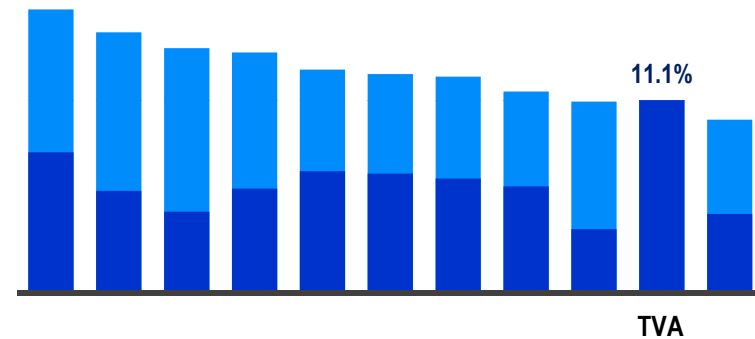
AUGUST 16, 2012

FINANCIAL HEALTH

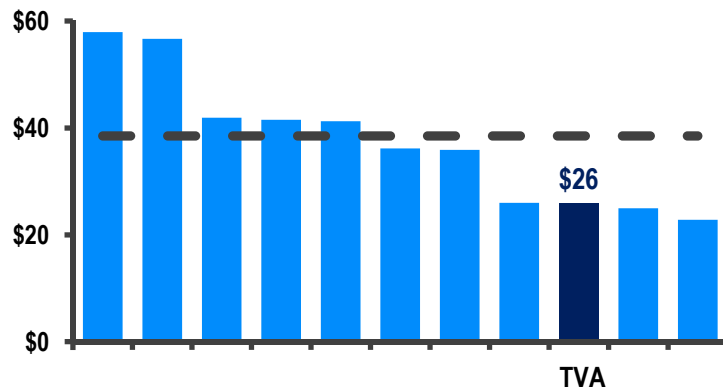
Total Capitalization to Total Assets
versus Investor Owned Utilities



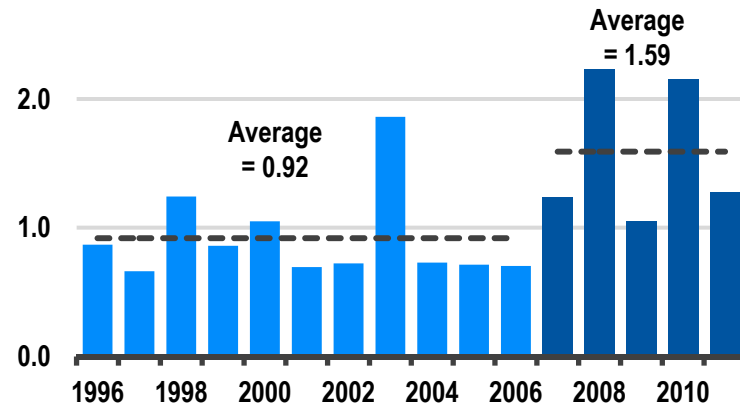
Financing Expense as a % of Revenue
versus Investor Owned Utilities



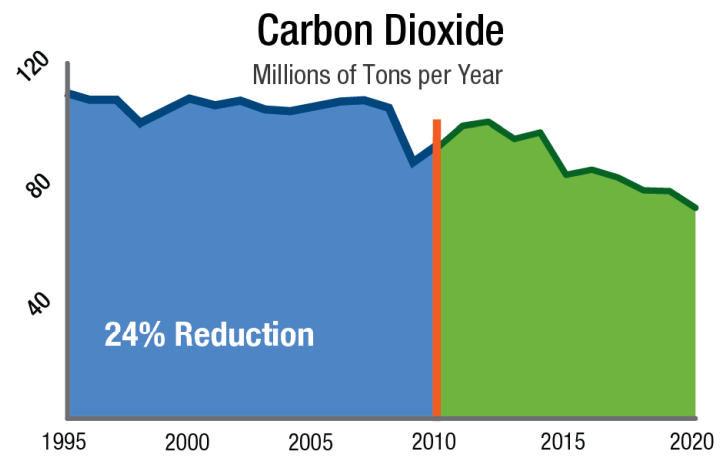
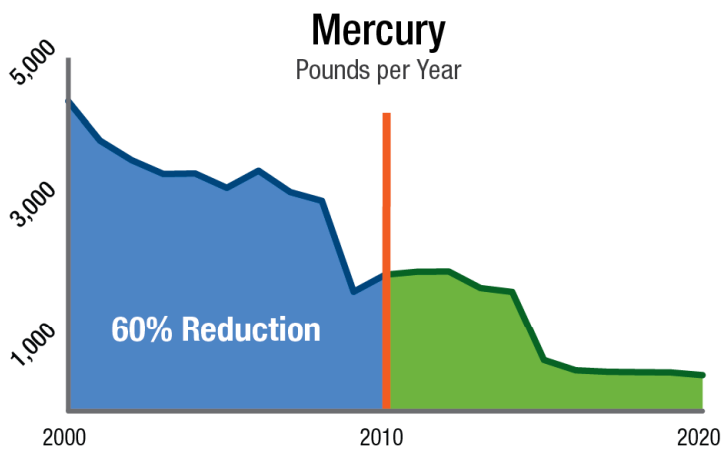
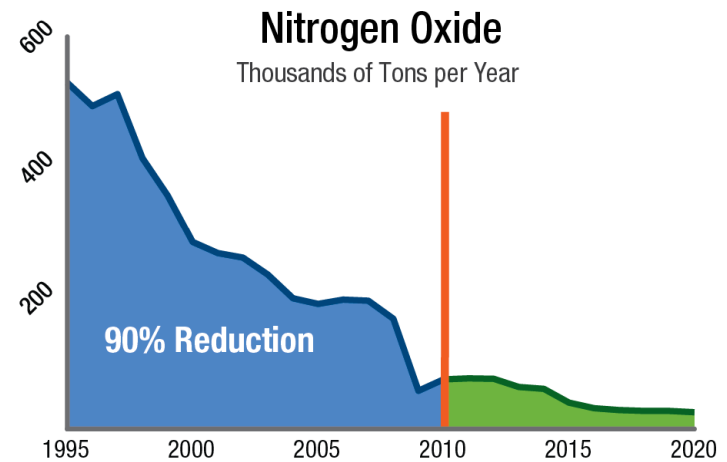
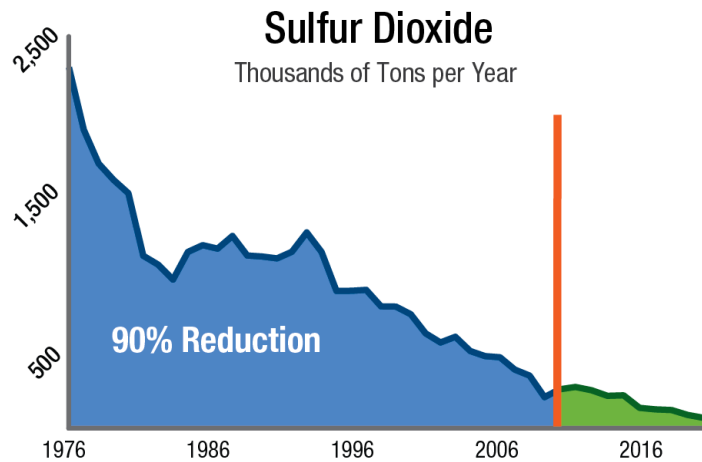
Fuel and Purchased Power Cost
versus Investor Owned Utilities



Debt Service Coverage

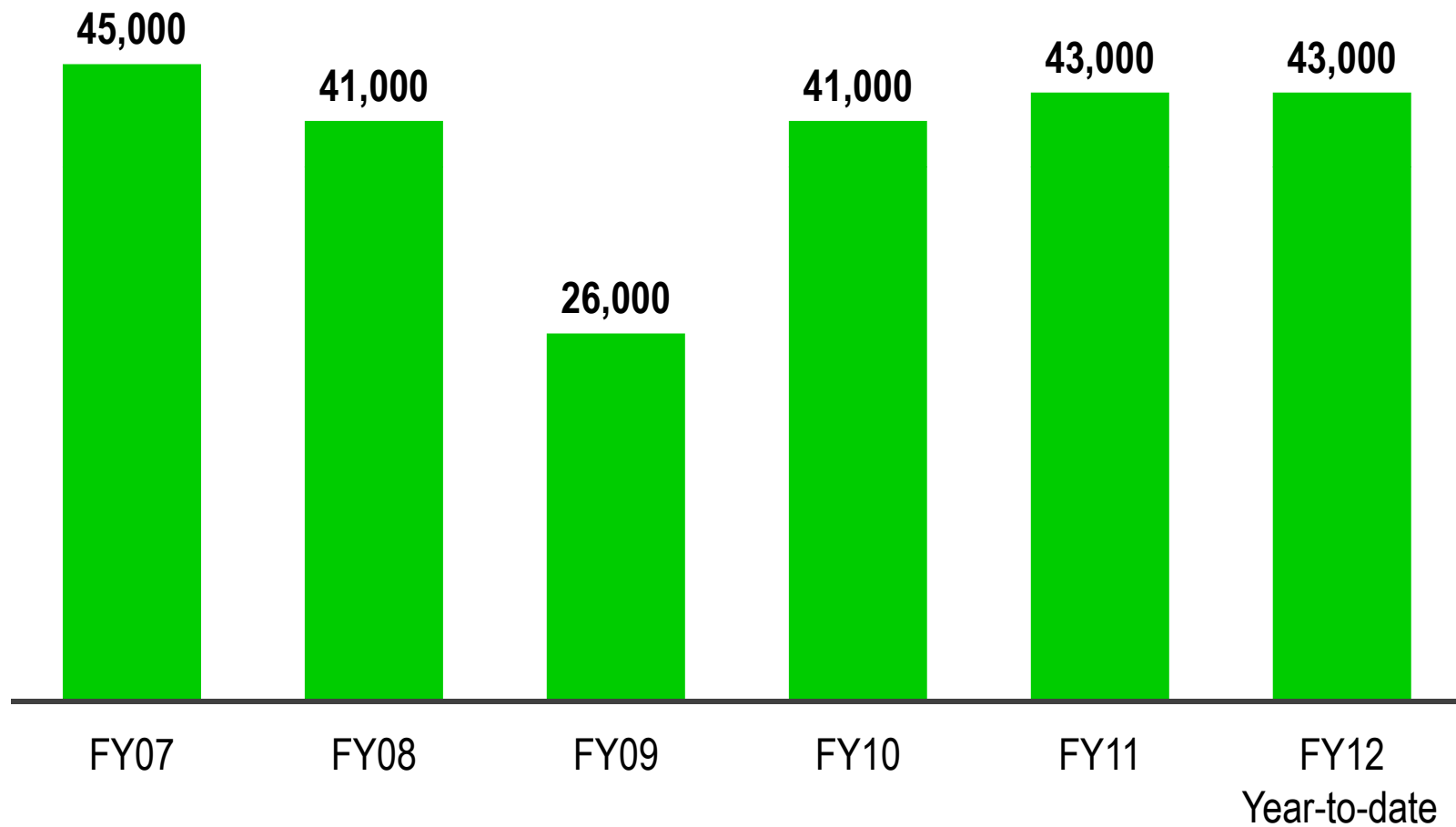


CLEAN AIR



Data current as of November 2009

ECONOMIC DEVELOPMENT: JOBS CREATED AND RETAINED



STRIVE TO BE A TRUSTED PUBLIC PARTNER

Working to preserve
public lands for the
enjoyment of everyone



SUMMARY

On the right path to reach Our Vision

Focus remains on:
Rates, Reliability, and Responsibility





FINANCE, RATES, AND PORTFOLIO

COMMITTEE

AUGUST 16, 2012

FINANCE, RATES, AND PORTFOLIO COMMITTEE

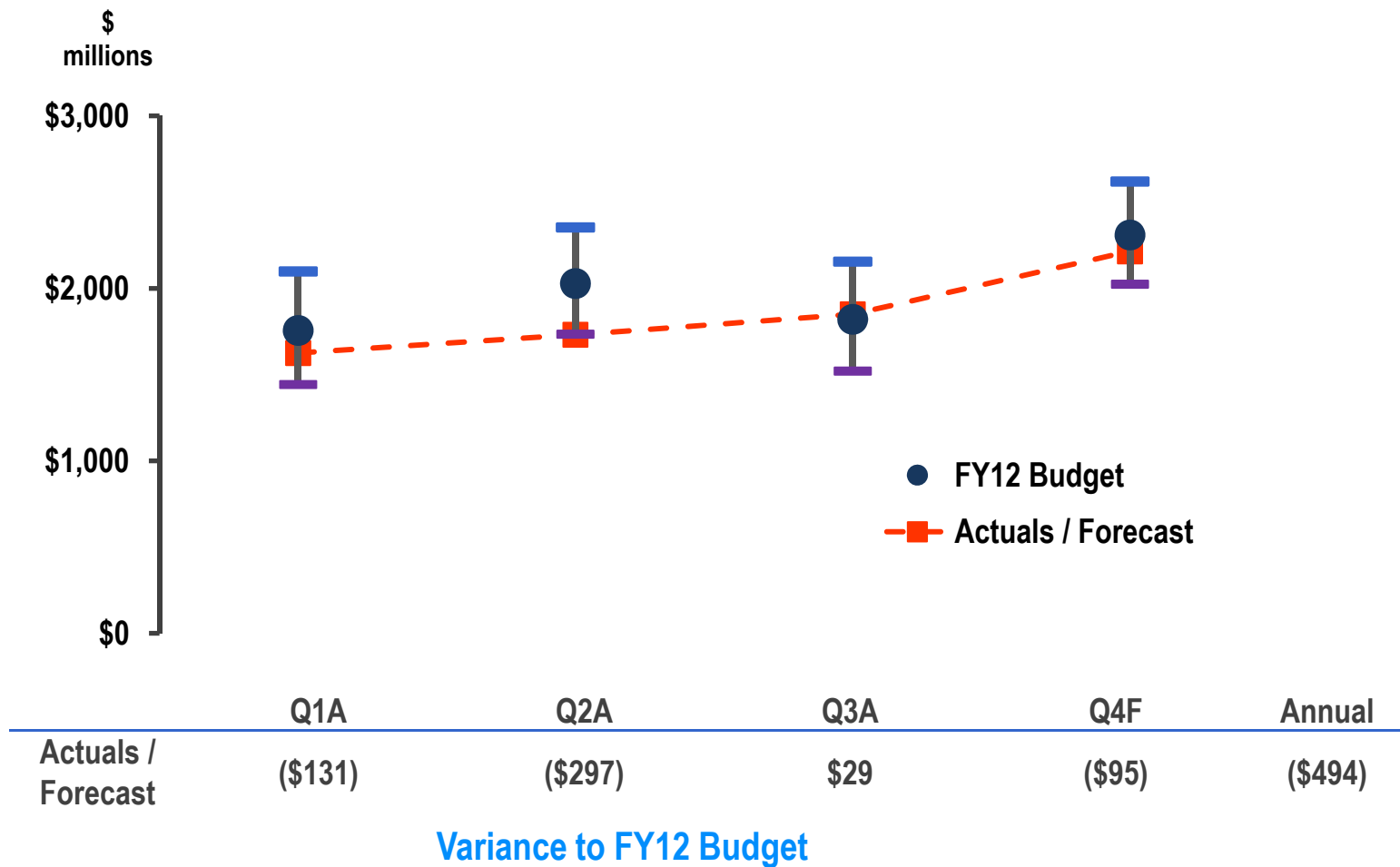
FY12 FINANCIAL UPDATE

AUGUST 16, 2012

FYTD JUNE 2012

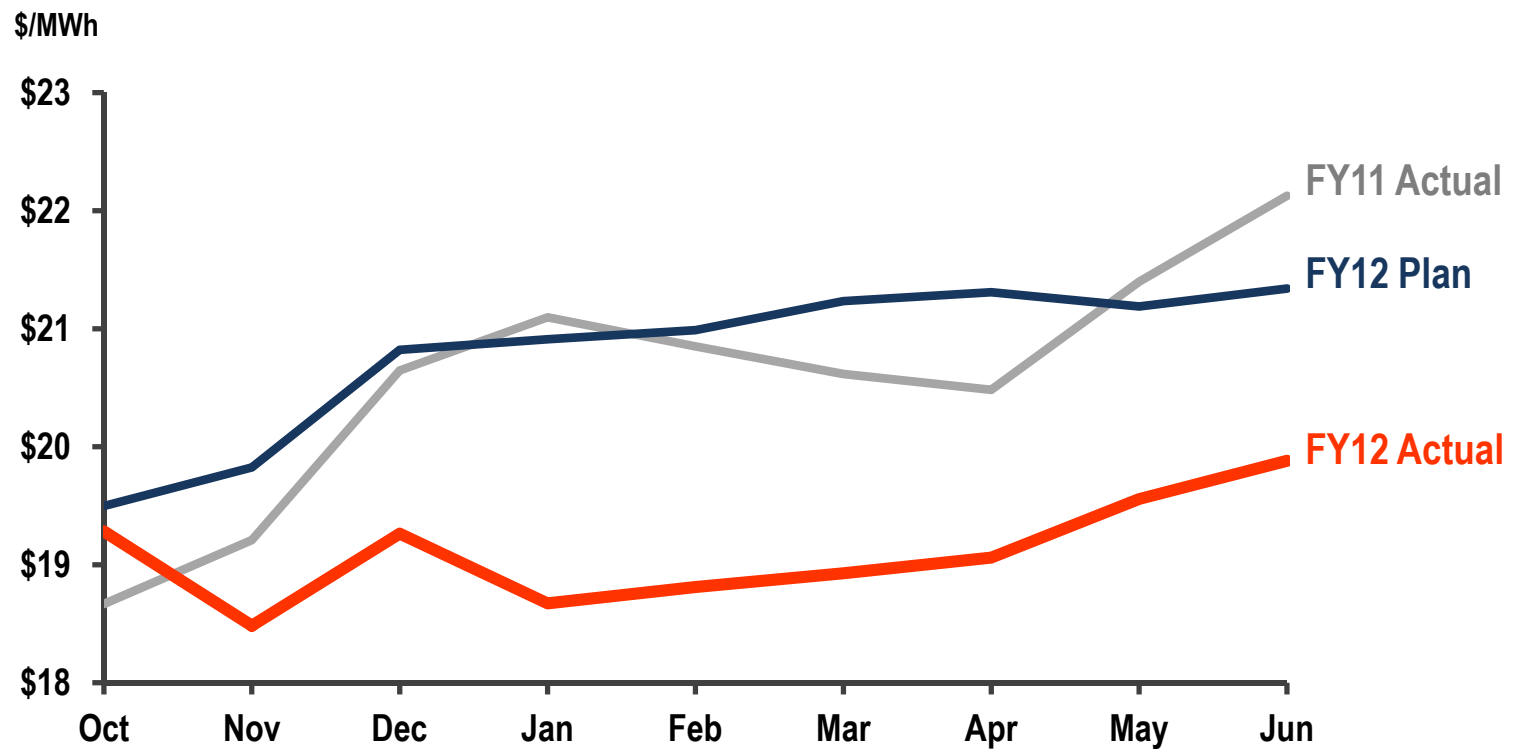
- Mildest temperatures in 60 years drove lower sales and demand
- Lower base revenues than planned
- Cash Flow impacted by lower revenues and offset by management actions
- Discretionary spending conserved to offset mild weather
- Capacity Expansion slowed to match current conditions
- Net Income unfavorable to plan and forecasted as a loss

BASE REVENUES



LOWER FUEL RATES

FY12 Fuel Rates Lower than Plan



SUMMARY INCOME STATEMENT

Base Revenue impacted by weather, economy, customer usage

<i>(\$ millions)</i>	<u>YTD Prior Year</u>	<u>YTD Budget</u>	<u>YTD Actual</u>	<u>Variance</u>
Operating Revenue	\$ 8,453	\$ 8,610	\$ 7,949	\$ (661)
Base Revenue	5,459	5,606	5,159	(447)
Fuel Revenue	2,903	2,914	2,691	(223)
Other Revenue	91	91	100	9
Operating Expenses	7,534	7,581	7,288	293
Fuel & Purchased Power	3,097	2,968	2,772	196
Operations & Maintenance	2,677	2,774	2,625	148
Depreciation / Amortization	1,296	1,375	1,439	(64)
Tax Equivalents, Other	464	464	452	12
Operating Income	<u>\$ 919</u>	<u>\$ 1,029</u>	<u>\$ 661</u>	<u>\$ (368)</u>
Other Income (investments, external business)	25	7	16	9
Interest Expense	979	1,049	967	81
Net Income	<u>\$ (35)</u>	<u>\$ (12)</u>	<u>\$ (290)</u>	<u>\$ (278)</u>

SUMMARY CASH FLOW STATEMENT

Weather impacts offset by less spending on O&M and capital

Fiscal Year to Date (\$ millions)	<u>YTD Prior Year</u>	<u>YTD Budget</u>	<u>YTD Actual</u>	<u>Variance</u>
Beginning Cash and Short-term Investments	\$ 328	\$ 500	\$ 507	\$ 7
Cash Flow from Operating Activities	1,703	1,650	1,252	(398)
Cash Flow from Investing Activities	(1,880)	(2,850)	(1,867)	983
Cash Flow from Financing Activities	391	885	355	(530)
				-
Net Change in Cash & Cash Equivalents	<u>214</u>	<u>(315)</u>	<u>(260)</u>	<u>55</u>
Ending Cash and Short-Term Investments	\$ 542	\$ 185	\$ 247	62
FYTD Debt and Financing Obligations	\$ 26,192	\$ 27,174	\$ 27,001	\$ 173

FYTD SUMMARY

Highlights

- Lower commodity prices (natural gas and purchased power)
- Diet & Exercise producing efficiency gains
- Lower borrowing and interest rates
- Lower spending on discretionary items

Hard Spots

- Mild weather significantly impacted demand in winter
- Slower economic recovery
- Fuel inventory and natural gas margins are pressuring working capital
- Still addressing plant material condition

FINANCE, RATES, AND PORTFOLIO COMMITTEE

FISCAL YEAR 2013

BUDGET AND BUSINESS PLAN

AUGUST 16, 2012

FINANCIAL UPDATE

Discussion Topic	Key Takeaway
FY13 Planning	Top Quartile Rate Trajectory Slight Sales Growth
Cost Drivers	Near Top Quartile Nuclear Recovery & Pension Challenges
Debt Funded Obligations	Addressing Future Needs
FY13 Rate Outlook	No increase recommended

FY13 PLANNING PROCESS HIGHLIGHTS

Financial Guiding Principles

- Retire Debt Over Useful Life Of Assets
- Only Issue New Debt For New Assets
- Use Regulatory Treatment For Specific Unusual Events
- Rate Increases As Necessary To Fund Operational Spending
- Evaluate Rate Actions To Avoid Significant Rate Volatility

Vision 2020

Mission

- Low Rates
- High Reliability
- Responsibility

Portfolio Balance

- Cleaner Air
- More Nuclear Generation
- Greater Energy Efficiency

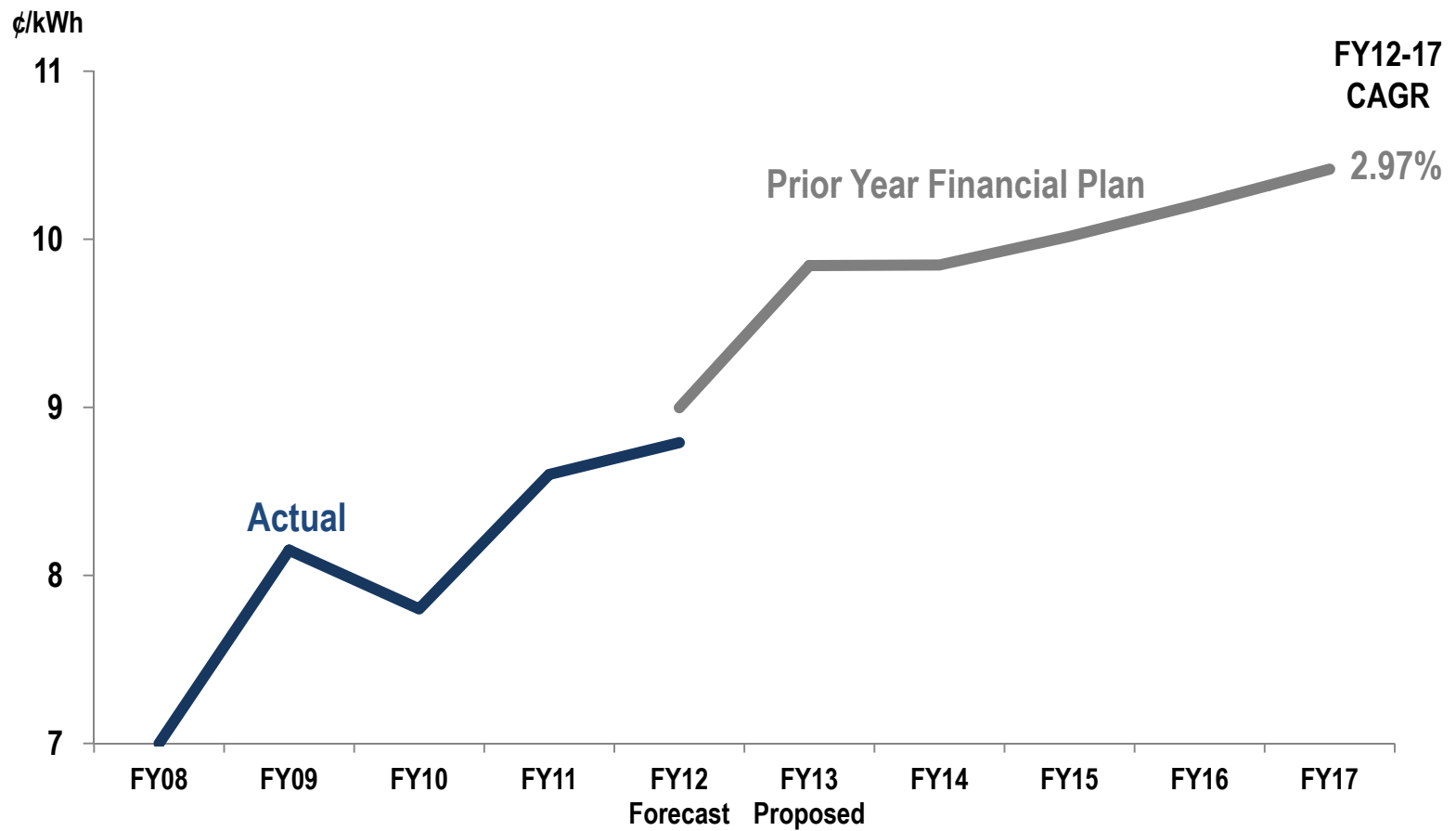
External Considerations

- Increased Regulatory Pressures
- Commodity Prices
- Lower Growth/Slower Economy

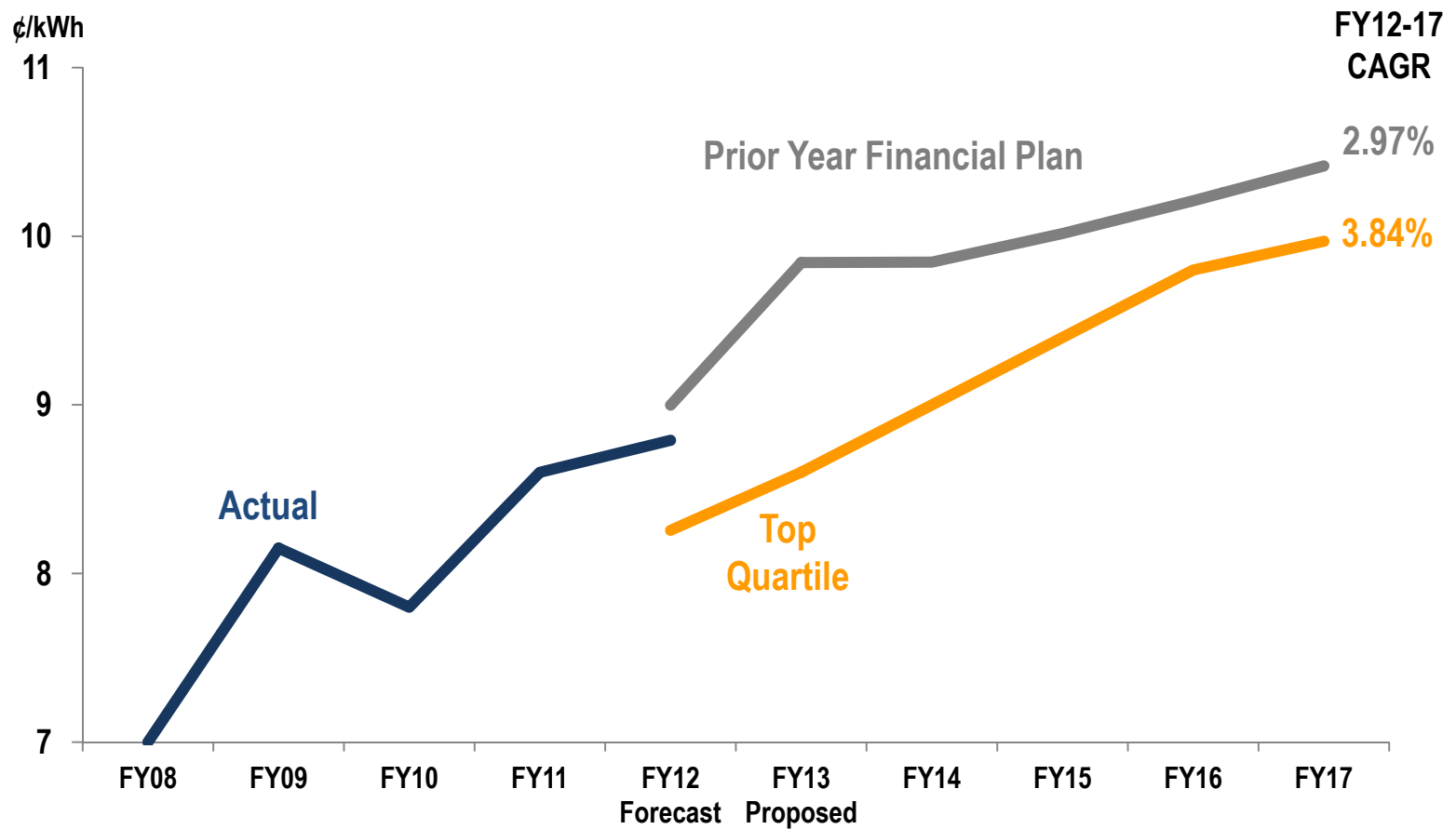
TVA Challenges

- Increasing Our Rate Competitiveness
- Managing Risk
 - Material Condition
- Sustaining Productivity Improvements
- Executing Our Major Projects

TVA RETAIL RATE

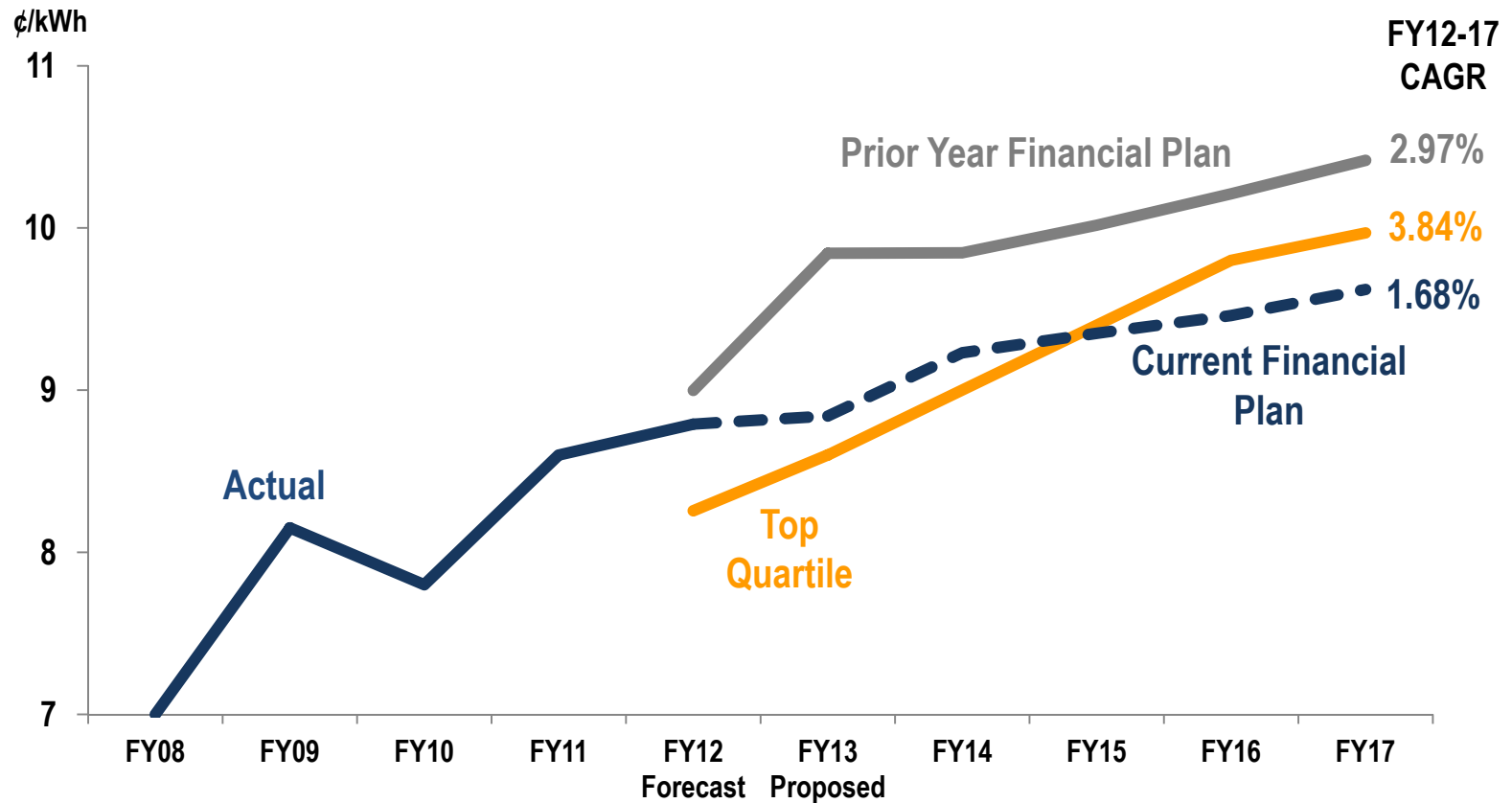


TVA RETAIL RATE



TVA RETAIL RATE

Current trajectory achieves top quartile by FY16



ECONOMIC FACTORS

Regional Growth 2.3%

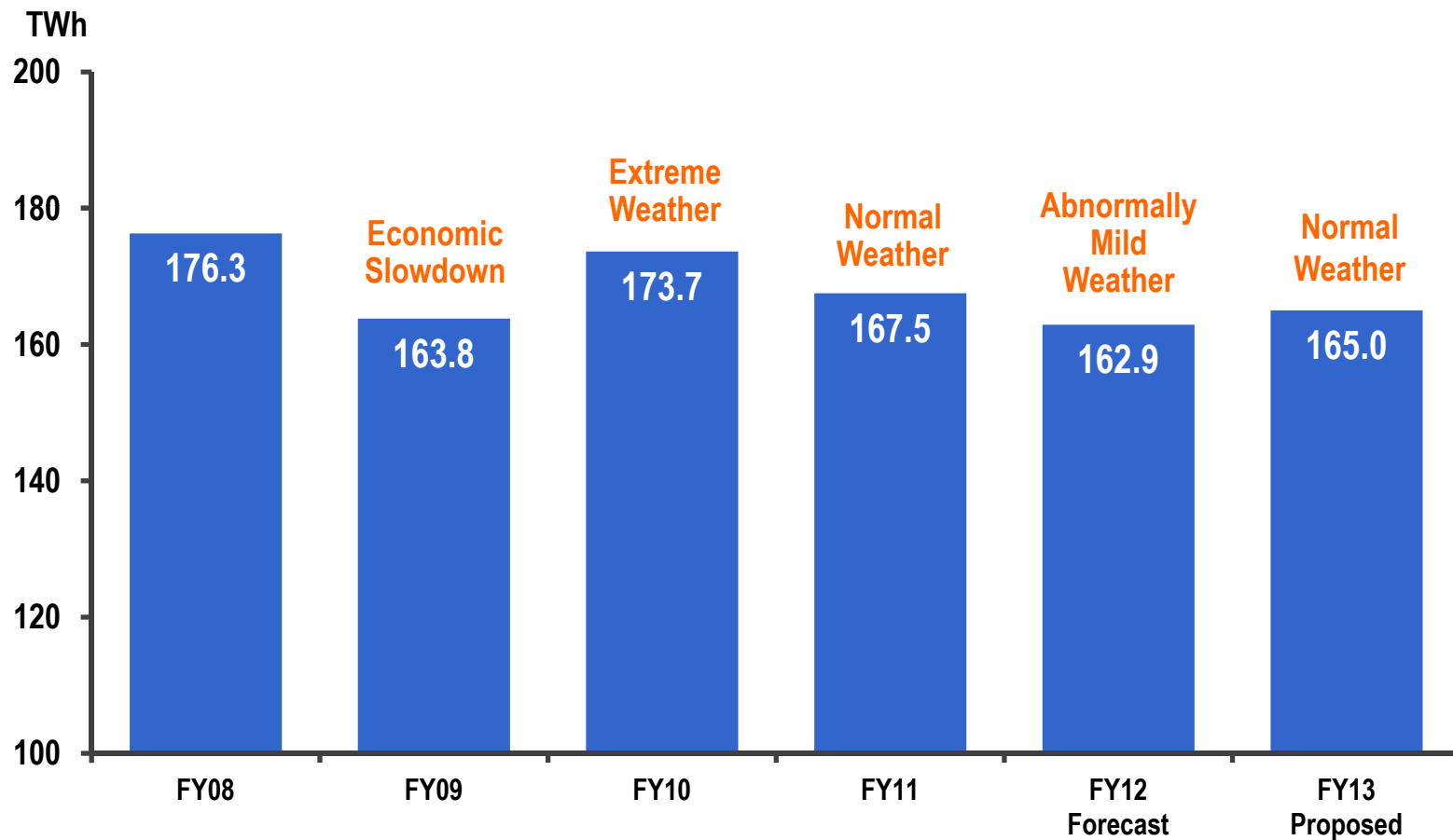
- Lower near-term

Regional Unemployment 8.2%

Flat to little growth in:

- Industrial Employment
- Population
- Real Income

SALES

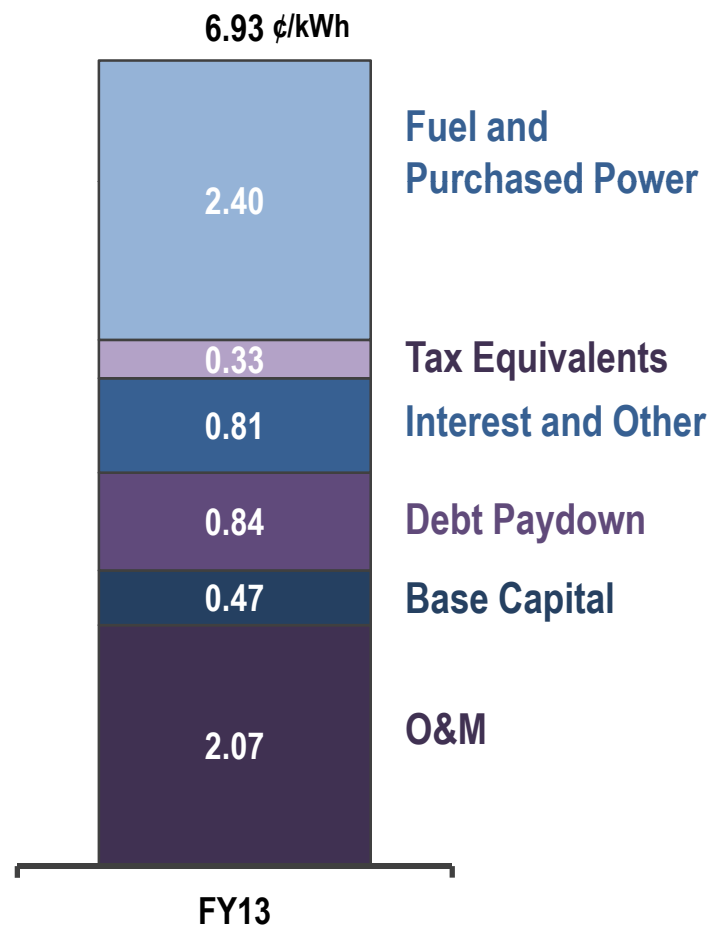


Projected TVA Sales (kWh) = System Energy less Transmission Losses

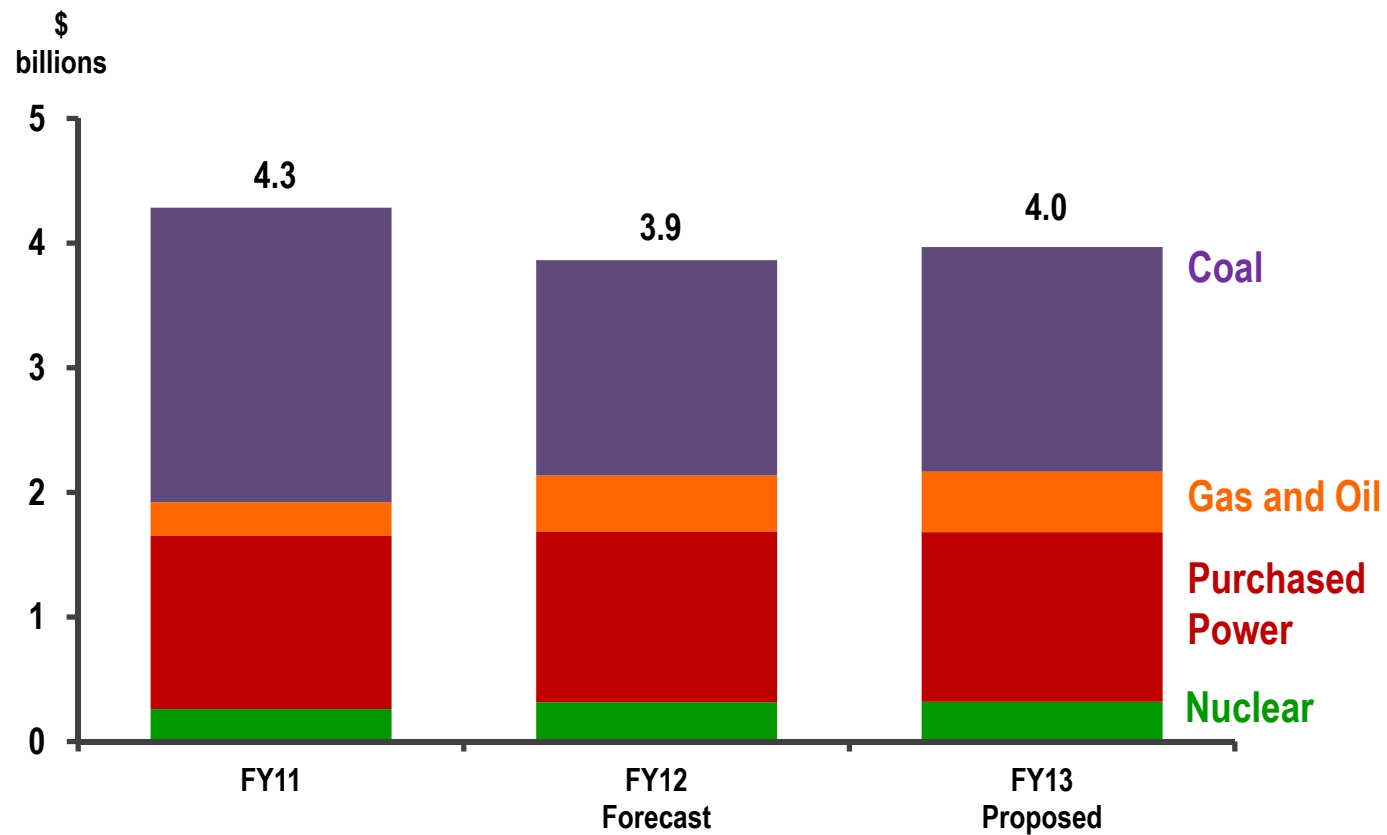
FINANCE, RATES, AND PORTFOLIO COMMITTEE
FISCAL YEAR 2013: BUDGET PLANNING AND BUSINESS PLAN

COST DRIVERS

TVA AVERAGE WHOLESALE RATE BY REVENUE REQUIREMENTS



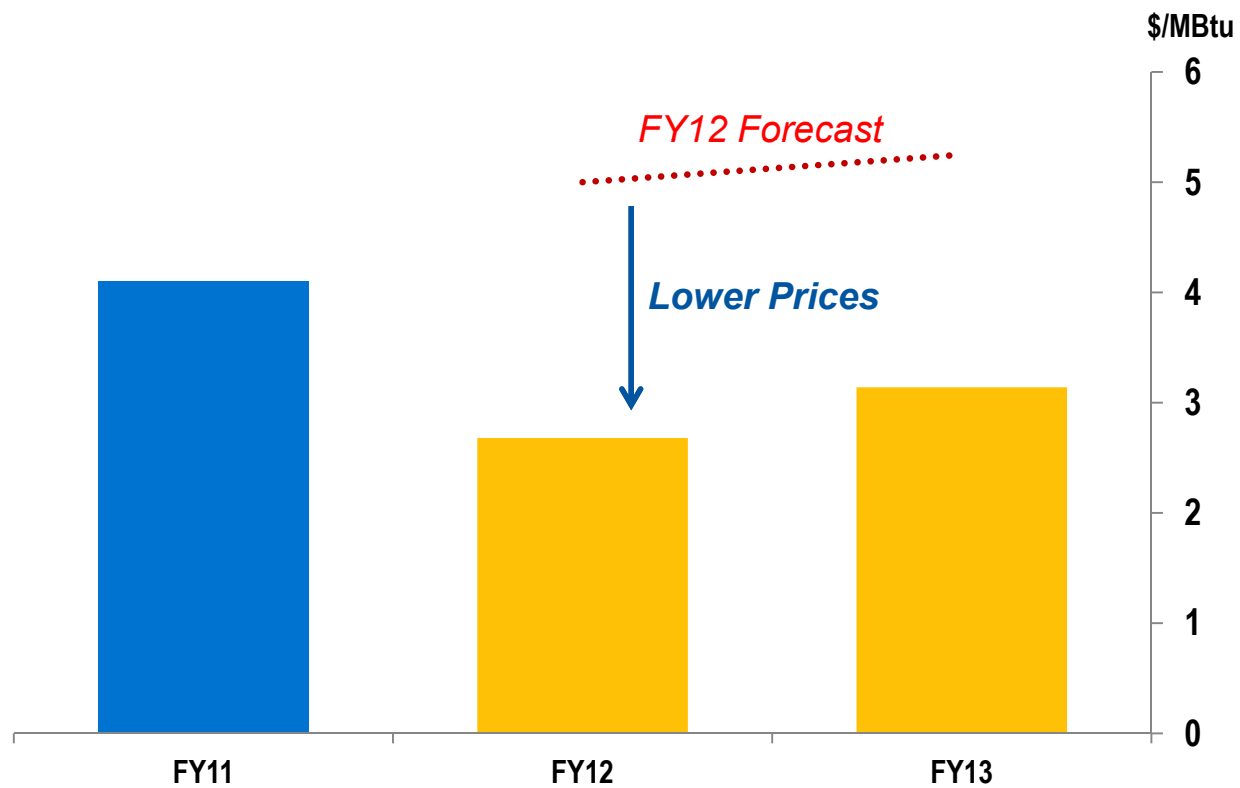
FUEL AND PURCHASED POWER



Does not reflect adjustments to fuel expense related to FCA fuel revenue over/under recovery.

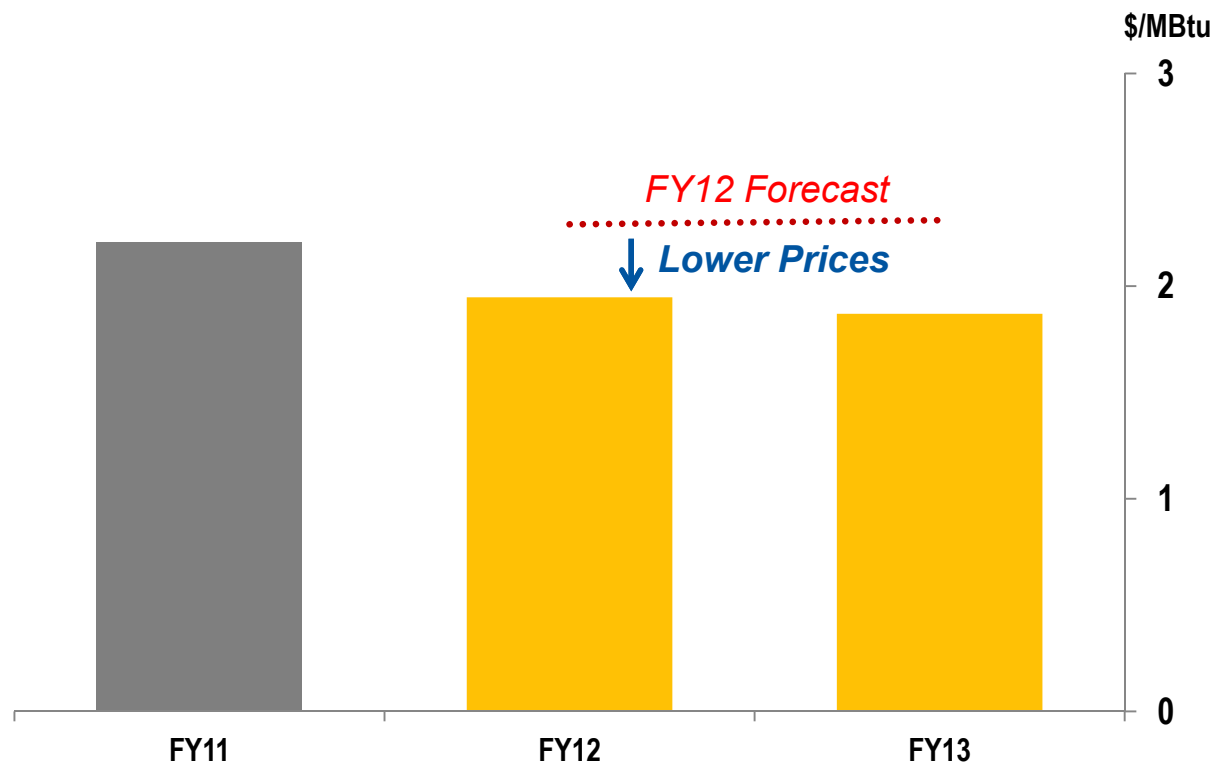
COMMODITY PRICE OUTLOOK

Natural Gas Price – Henry Hub



COMMODITY PRICE OUTLOOK

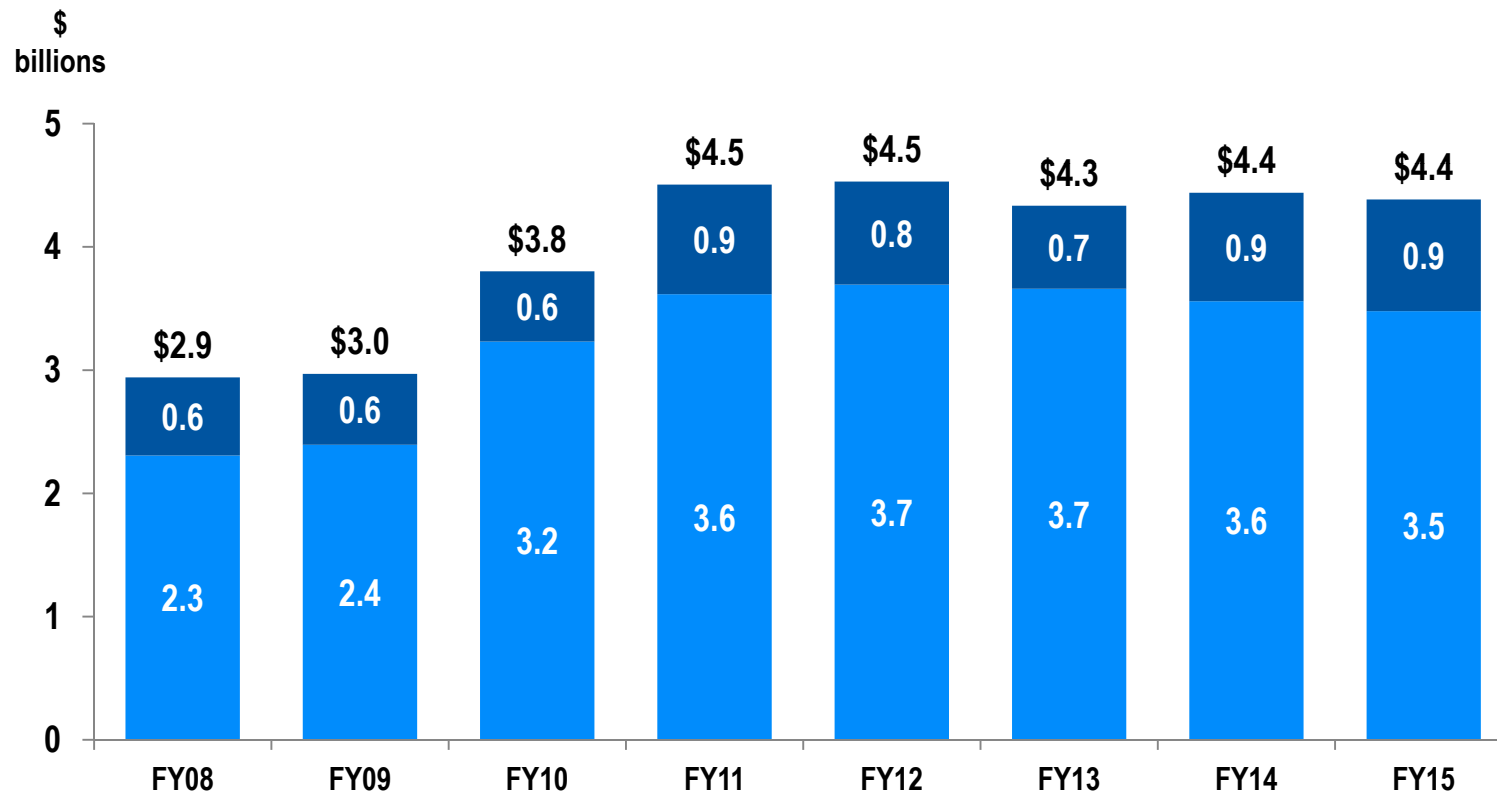
Illinois Basin Coal Price – FOB Mine



FUEL AND PURCHASED POWER SUMMARY

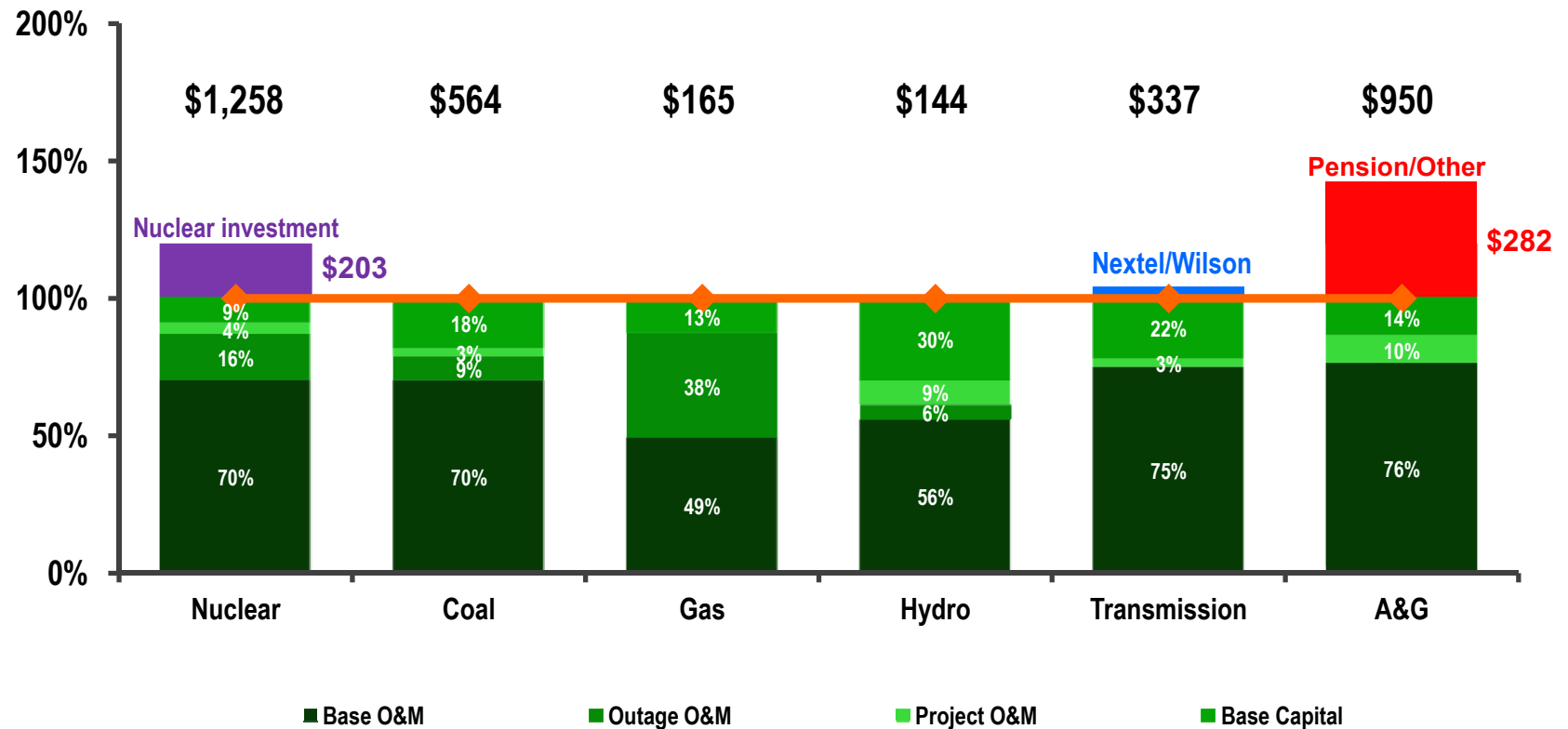
- Lower commodity prices (natural gas and purchased power)
- Increased fuel switching between coal and natural gas assets
- Reducing coal inventories
- Continued natural gas price volatility

BASE EXPENDITURE TRENDS



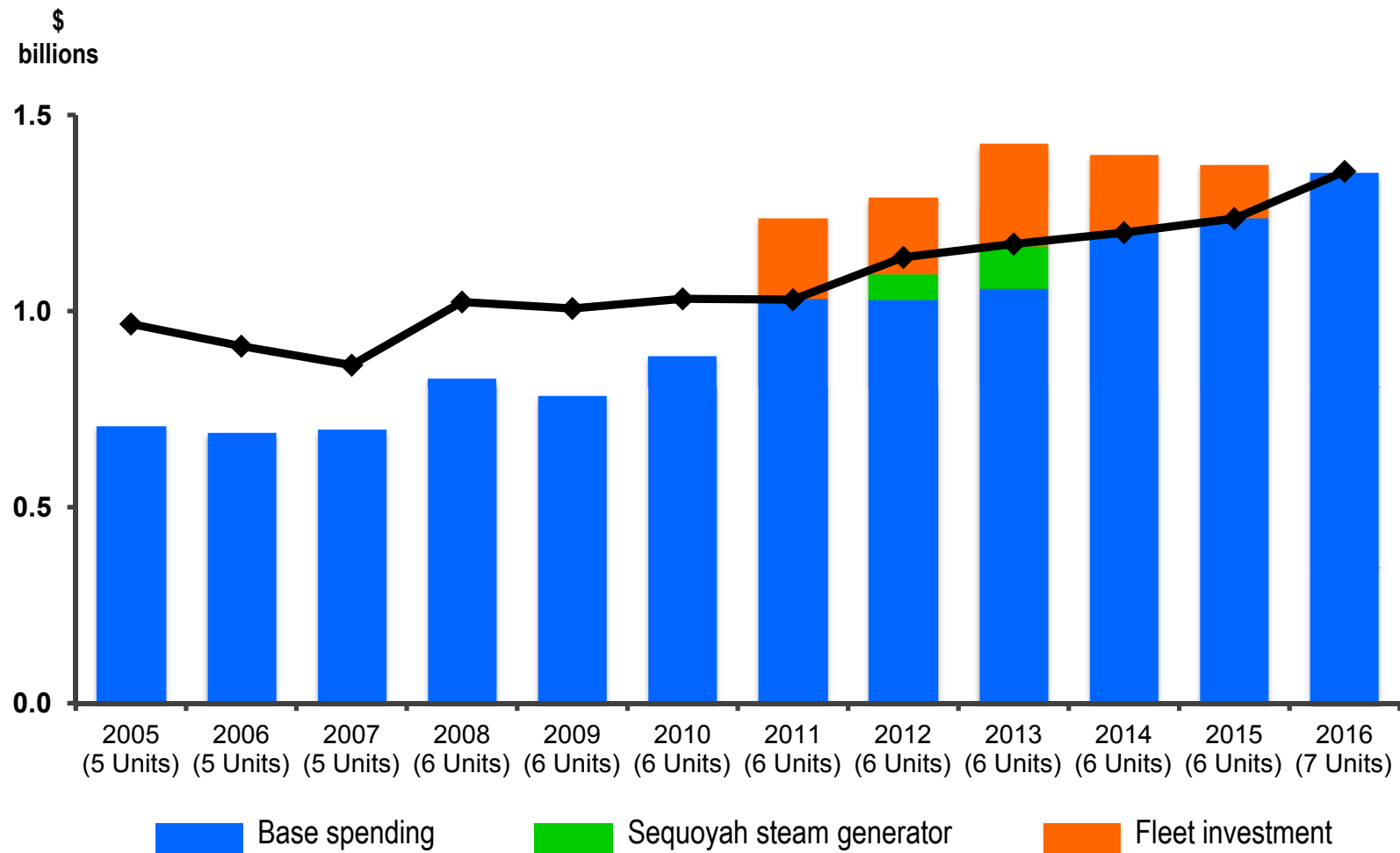
FY13 BASE EXPENDITURES

Total Spend vs. Top Quartile Target



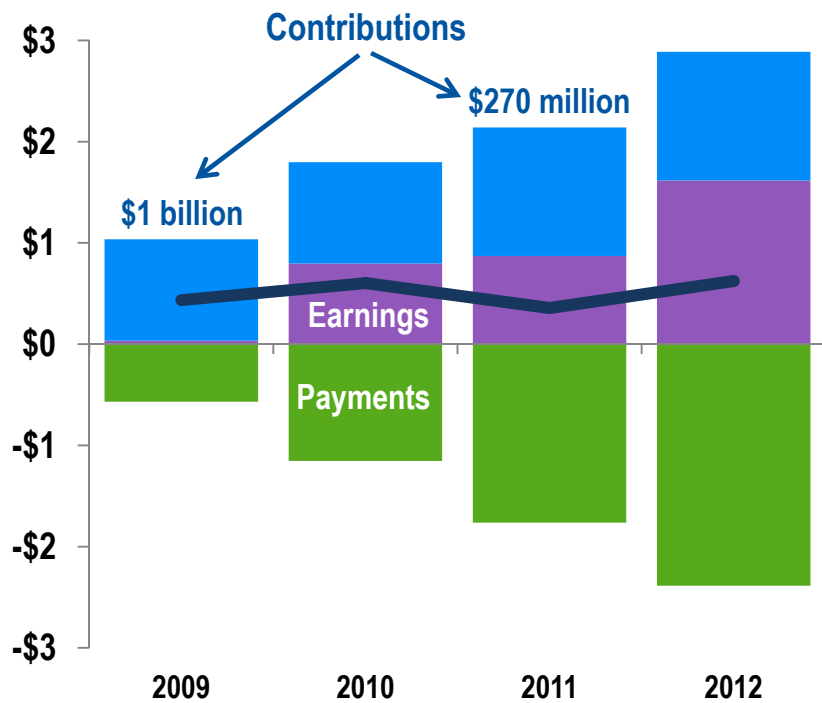
Top Quartile Target =100%

NUCLEAR SPENDING



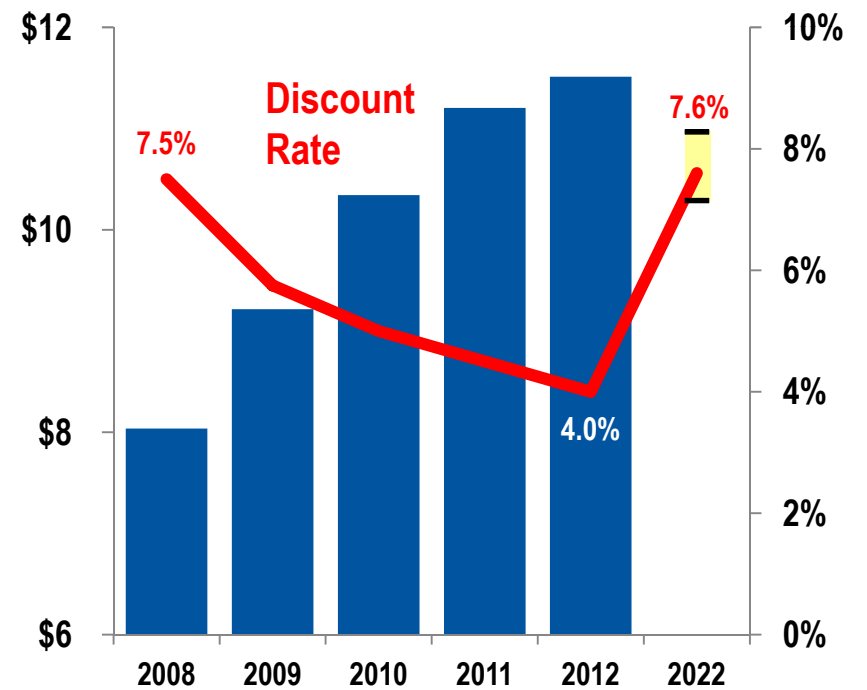
PENSION

Contributions and Earnings Have Increased Pension Assets



Cumulative Change (billions)

Pension Liabilities Have Been Impacted By The Drop in the Discount Rate



NUCLEAR SPENDING/PENSION SUMMARY

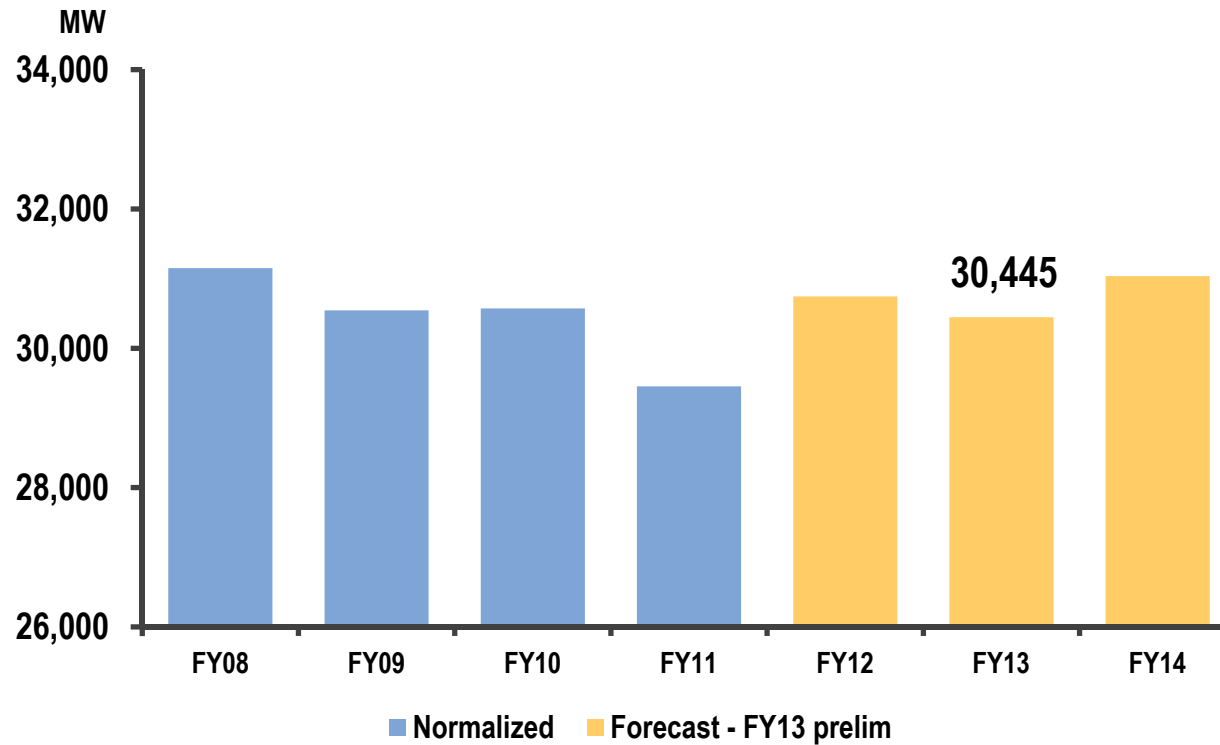
- No quick fixes; recovery addressed over many years
- Ongoing funding obligation
- Prioritization & Risk Management necessary as recovery continues

FINANCE, RATES, AND PORTFOLIO COMMITTEE
FISCAL YEAR 2013: BUDGET PLANNING AND BUSINESS PLAN

DEBT-FUNDED OBLIGATIONS

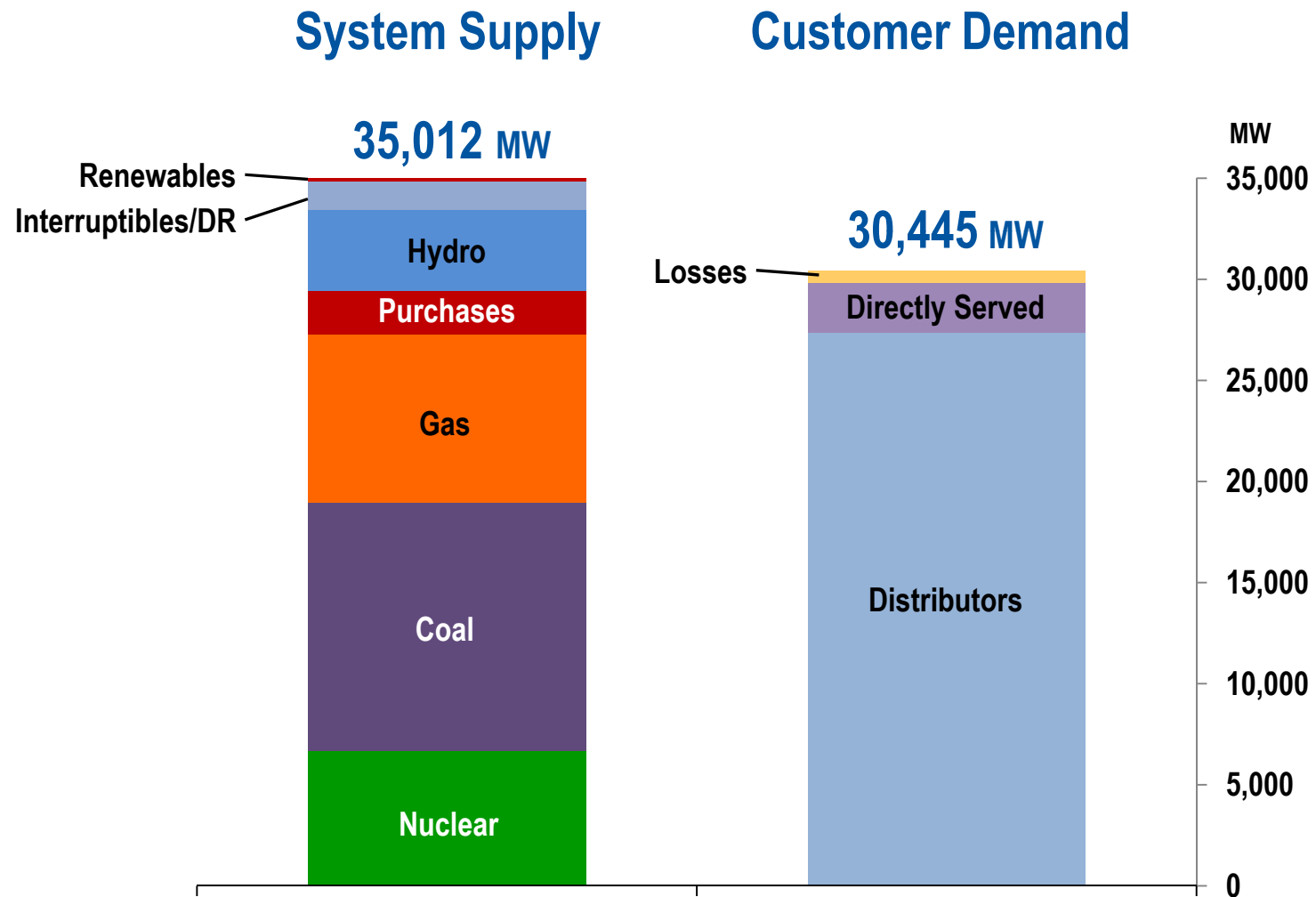
SYSTEM PEAK

Annual Summer System Peak – Weather Normalized

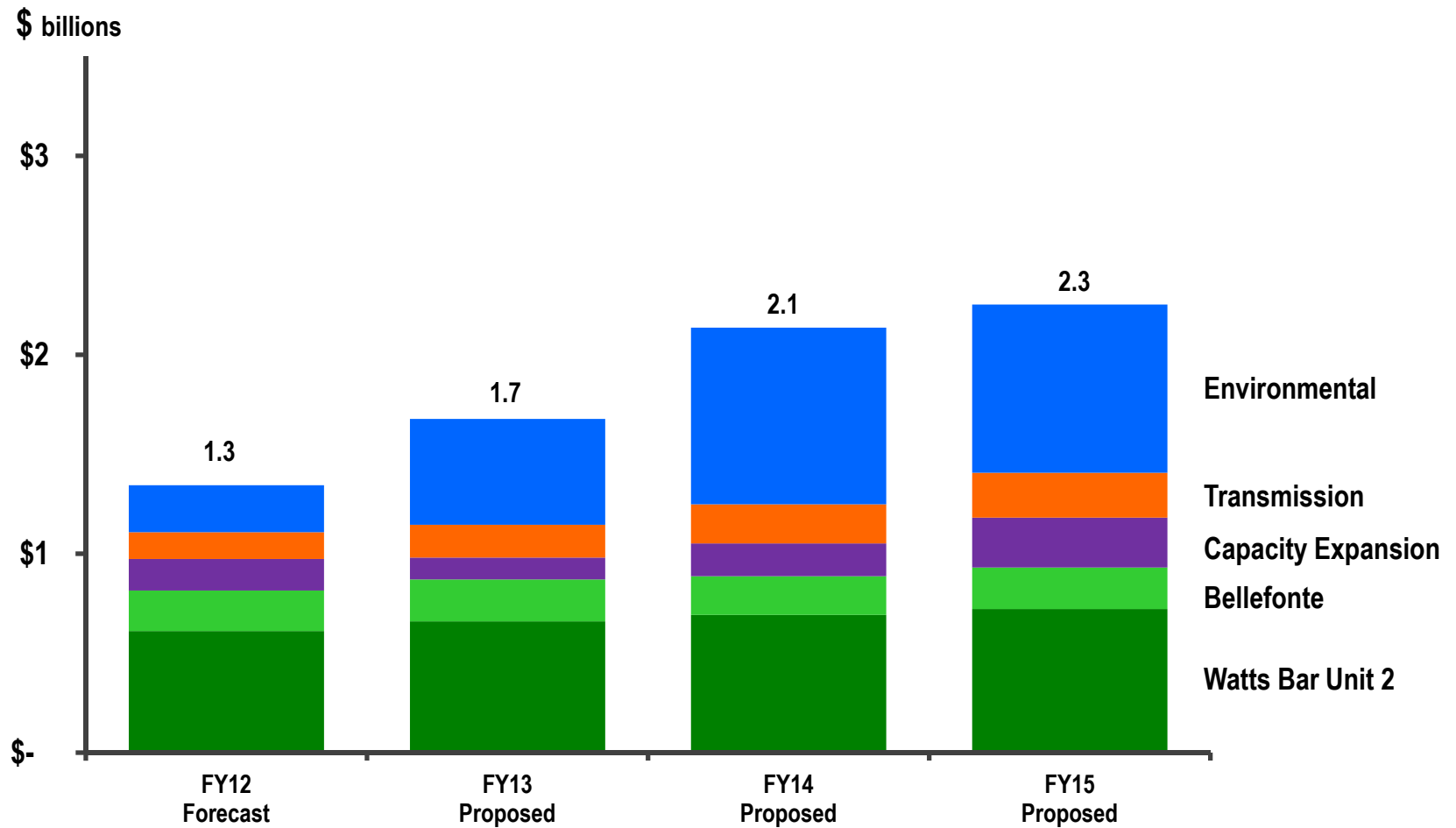


TVA All-Time Peak: 33,482 MW - August 16, 2007

2013 CAPACITY AND DEMAND BALANCE



DEBT FUNDED INVESTMENTS



DEBT AND DEBT-LIKE OBLIGATIONS

	FY12	FY13
	Forecast	Proposed
Beginning Debt	\$ 26.7	\$ 26.9
New Borrowings:		
Capacity Expansion	1.1	1.2
Kingston	0.1	0.2
Environmental	0.2	0.5
Total New Borrowings	1.5	1.9
Total Debt Paydown	(1.3)	(1.4)
Total Change in Debt	0.2	0.5
Ending Debt Levels:		
Alternative Financing	2.7	2.2
Statutory Debt Balance	24.2	25.2
Total Financing Obligations	\$ 26.9	\$ 27.4

FISCAL YEAR 2013 FINANCIAL SHELF

Power bonds are typically issued to:

- Refinance existing debt: \$2.9 billion
 - Fund new capacity: \$1.9 billion
 - Additional Flexibility: \$0.2 billion
- Total: \$5.0 billion

Interest rate hedges may be used to reduce exposure to fluctuating interest rates

Issuing individual bonds requires:

- Notification of Board Finance, Rates, and Portfolio Committee
- Approval of Chief Executive Officer and Chief Financial Officer

RISKS AND CHALLENGES

- Weather
- Economy
- Regulatory Pressures
- Asset Risk Management: Material Condition
- Sustainable Productivity Improvements

FINANCE, RATES, AND PORTFOLIO COMMITTEE
FISCAL YEAR 2013: BUDGET PLANNING AND BUSINESS PLAN

RATE OUTLOOK

OPERATING BUDGET AND REVENUES

FISCAL YEAR 2013

(\$ millions)

Operating Revenue	\$11,236
Operating Expenses	
Fuel & Purchased Power	3,967
Operations, Maintenance, and Other	3,662
Interest & Other	1,336
Tax Equivalents	<u>550</u>
Subtotal	<u>9,515</u>
Other Operating Cashflow	398
Operating Cashflow	<u>\$2,119</u>

CAPITAL BUDGET

FISCAL YEAR 2013

(\$ millions)

Operating Cashflow	\$ 2,119
Capacity Expansion	1,146
Environmental	532
Nuclear Fuel	364
Nuclear	276
Fossil	104
Transmission	84
River Operations	43
Gas	22
Other	155
Capital Expenditures	(2,726)
Net Cashflow Prior to Financing	\$ (607)

FINANCING

FISCAL YEAR 2013

(\$ millions)

Net Cashflow Prior to Financing	\$ (607)
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New Borrowings	1,844
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Debt Paydown	(1,362)
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Other Financing	125
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Subtotal	607
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Shortfall	\$ (0)
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No Increase Recommended

RECOMMENDATION

Approve the 2013 budget:

- Revenues of \$11.2 billion
- Operating Expenses of \$9.5 billion
- Capital Expenditures of \$2.7 billion

Approve Contracting Plan for Fuel and Purchased Power

- Fuel & Purchased Power of \$4.0 billion (In Operating Expenses)

Approve the Financial Shelf for issuance of up to \$5 billion of long-term bonds and the ability to utilize interest rate hedges in fiscal year 2013

FINANCE, RATES, AND PORTFOLIO COMMITTEE

DISTRIBUTOR POWER CONTRACT AMENDMENT

AUGUST 16, 2012



NUCLEAR OVERSIGHT

COMMITTEE

AUGUST 16, 2012

NUCLEAR OVERSIGHT COMMITTEE
NUCLEAR POWER GROUP
PERFORMANCE



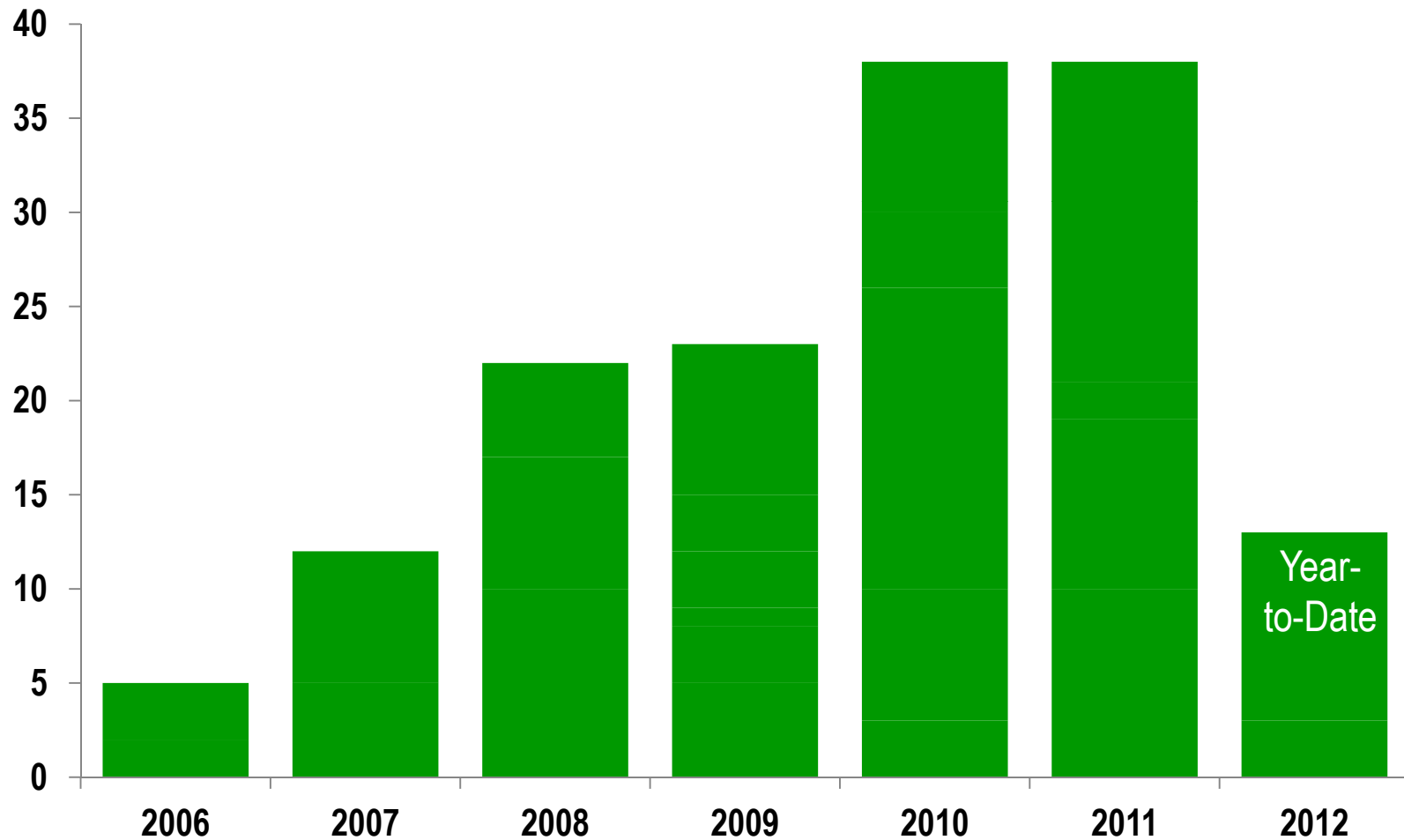
AUGUST 16, 2012

PEOPLE

- Excellent Safety Performance:
OSHA Injury Rate of 0.25 vs. 0.36 three years ago
- Continued focus on:
 - Talent Management and Succession Planning
 - Training and Development
 - Increasing number of licensed personnel
 - First Line Supervisors accountability
- Positive results observed:
 - Safety
 - Human Performance Error Rate
 - New operators licensed
 - Cultural Health



NEW OPERATOR LICENSES



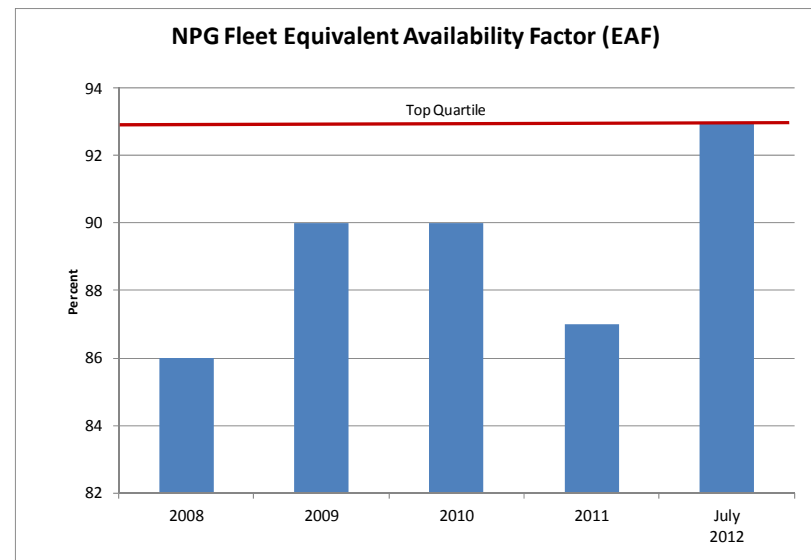
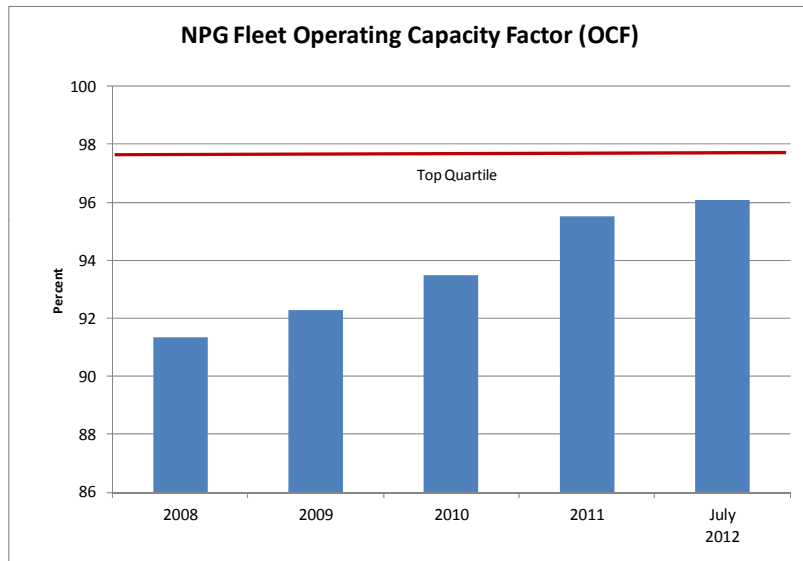
PROCESSES



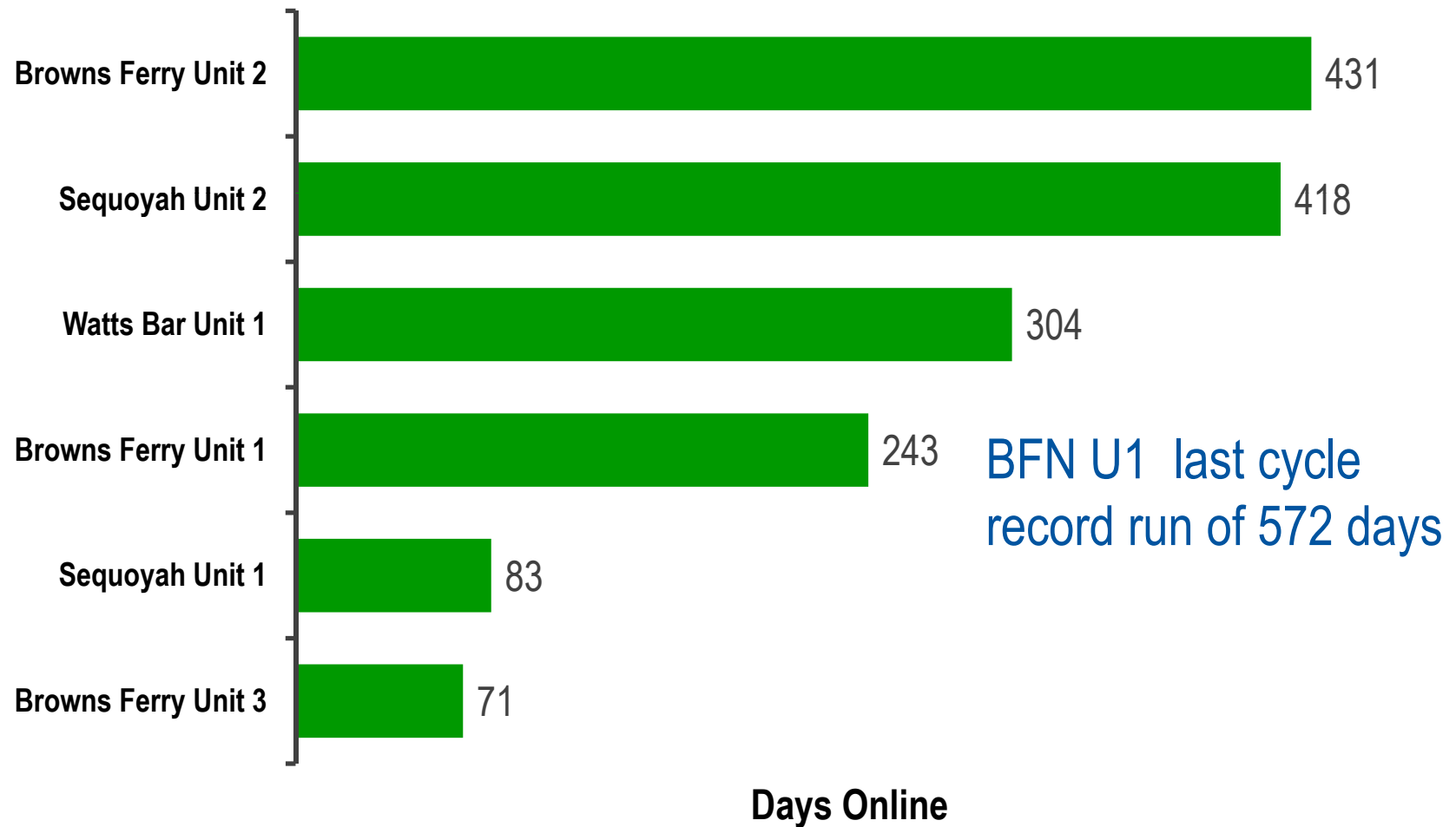
- Established Nuclear Operating Model
- Improved performance through five Focus Areas
- Implemented System, Component, and Program health monitoring



NUCLEAR OPERATING CAPACITY FACTOR AND EQUIVALENT AVAILABILITY FACTORS



NUCLEAR UNITS CONTINUOUS DAYS ONLINE

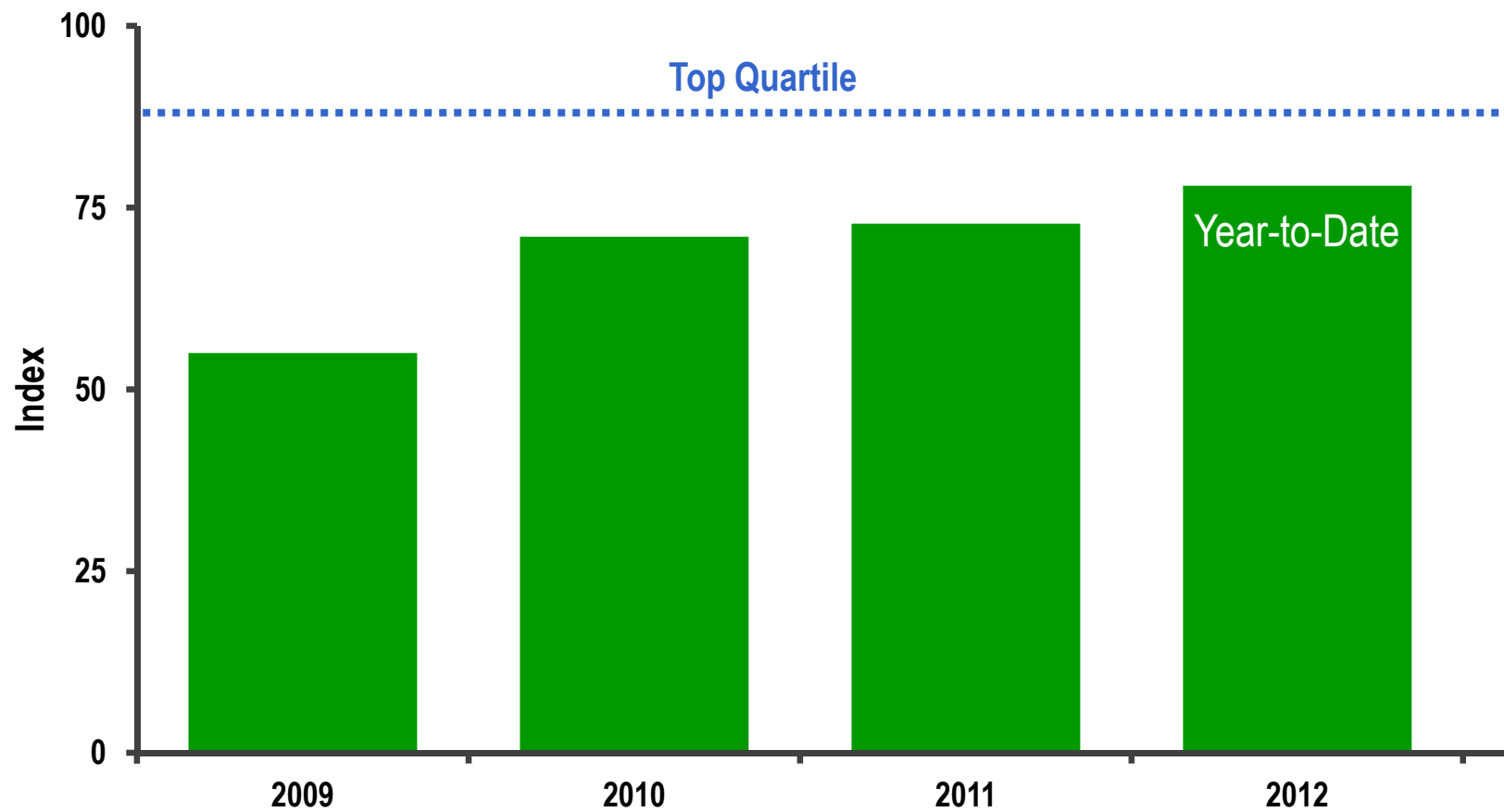


PLANT

- Improved the Equipment Reliability Index from 55 to 80
- Increased funding for Equipment Reliability improvements
- Developed engineering excellence plan
- At TVA, Nuclear Power continues to be low cost generator with a 2008-2010 average of \$17.54/MWH
- Success of BFN cooling towers has caused no power reduction in 2012, allowing approximately \$10 M savings vs. loss of \$53 M over 2010 and 2011



EQUIPMENT RELIABILITY INDEX



NEXT STEPS

- Return Browns Ferry to normal regulatory oversight column
- Steam generators replacement at Sequoyah
- Asset management for equipment reliability
- Fukushima upgrades
- Watts Bar Unit 2 Integration
- Integrating licensed operators
- Operational excellence from reliable generation



NUCLEAR OVERSIGHT COMMITTEE

WATTS BAR 2 UPDATE



AUGUST 16, 2012

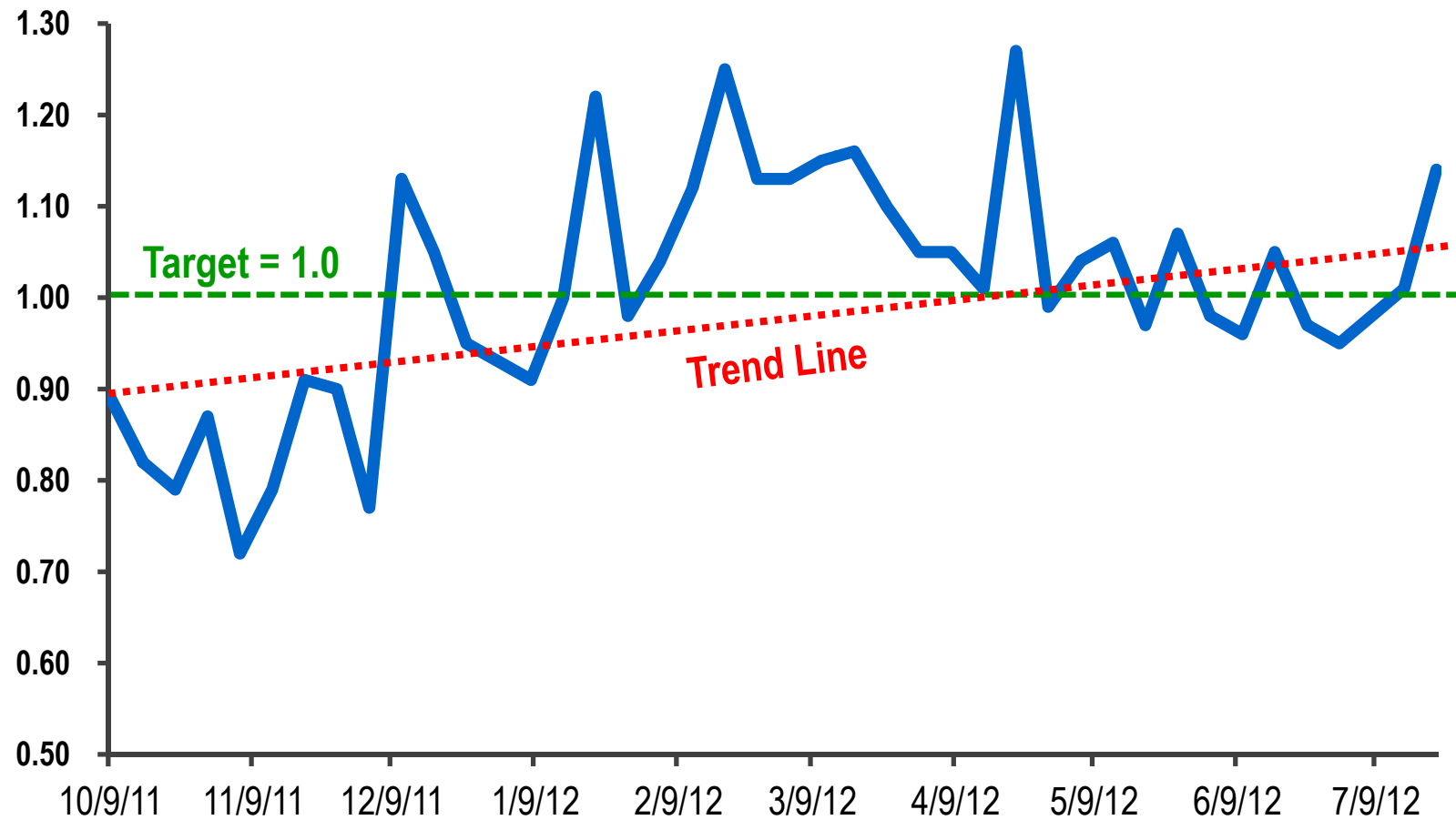
HIGHLIGHTS

- 15 million man-hours exceeded without a lost-time accident
- Corrective Action Program improvements
- Work package improvement
- Major equipment completions
- Organizational health initiatives

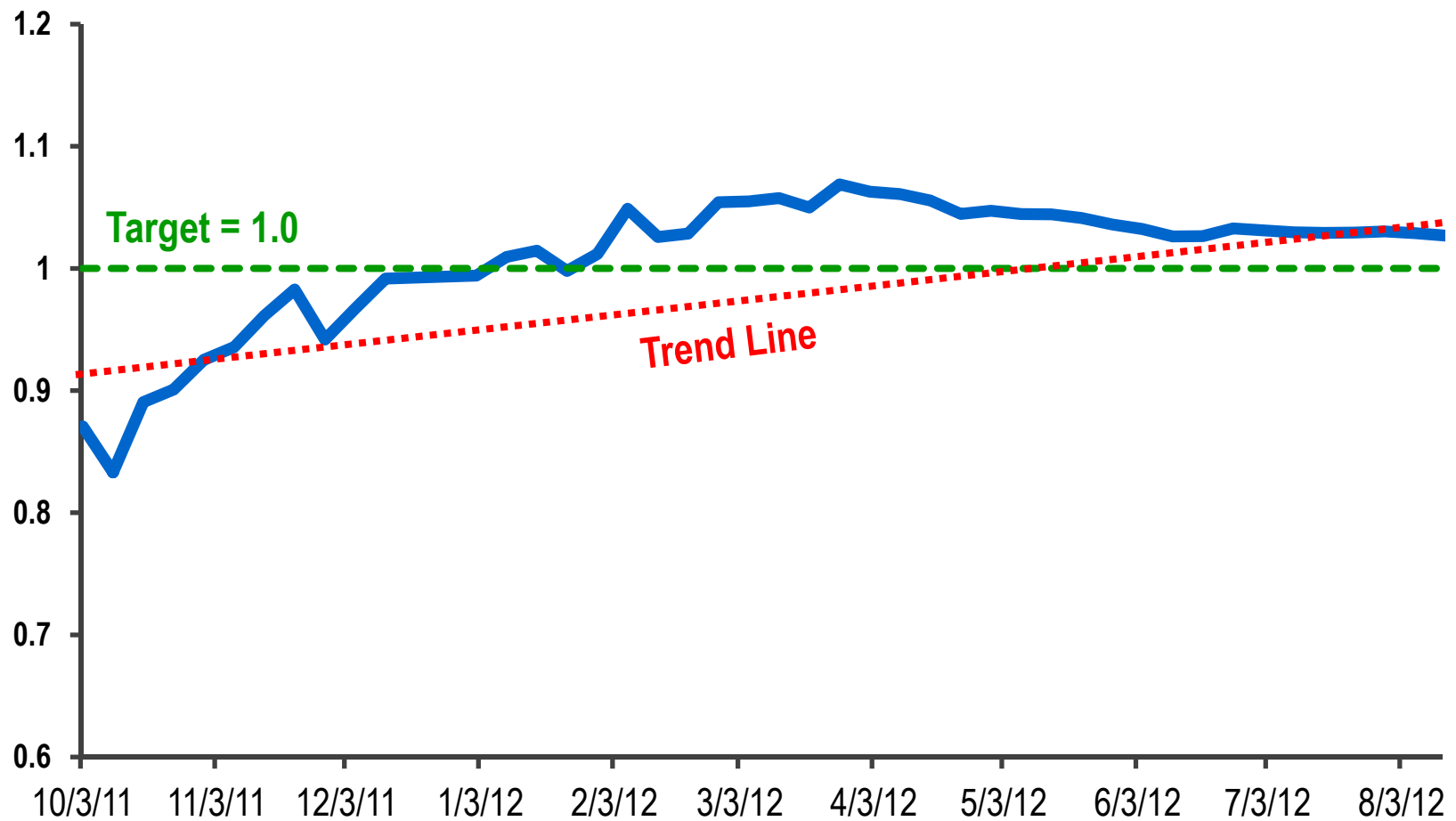


WATTS BAR 2 COST PERFORMANCE INDEX

Cost Performance Index



SCHEDULE PERFORMANCE INDEX



GOING FORWARD

- Documentation closure
- System turnover transition
- Watts Bar Unit 1 / Unit 2 integration
- Completion of quarterly Estimate To Complete update





NUCLEAR OVERSIGHT

COMMITTEE

AUGUST 16, 2012



PEOPLE AND PERFORMANCE

COMMITTEE

AUGUST 16, 2012



AUDIT, RISK, AND REGULATION

COMMITTEE

AUDIT, RISK, AND REGULATION COMMITTEE

FY13 EXTERNAL AUDITOR SELECTION



EXTERNAL RELATIONS

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EXTERNAL RELATIONS

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