

# Our VISION



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



Low Rates



Cleaner Air



High Reliability



More Nuclear Generation



Responsibility



Greater Energy Efficiency

**Acting to meet the region's needs for the future, while improving our core business today.**

---

# President's Report

# Our VISION



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



Low Rates



Cleaner Air



High Reliability



More Nuclear Generation



Responsibility



Greater Energy Efficiency

**Acting to meet the region's needs for the future, while improving our core business today.**

# Our VISION

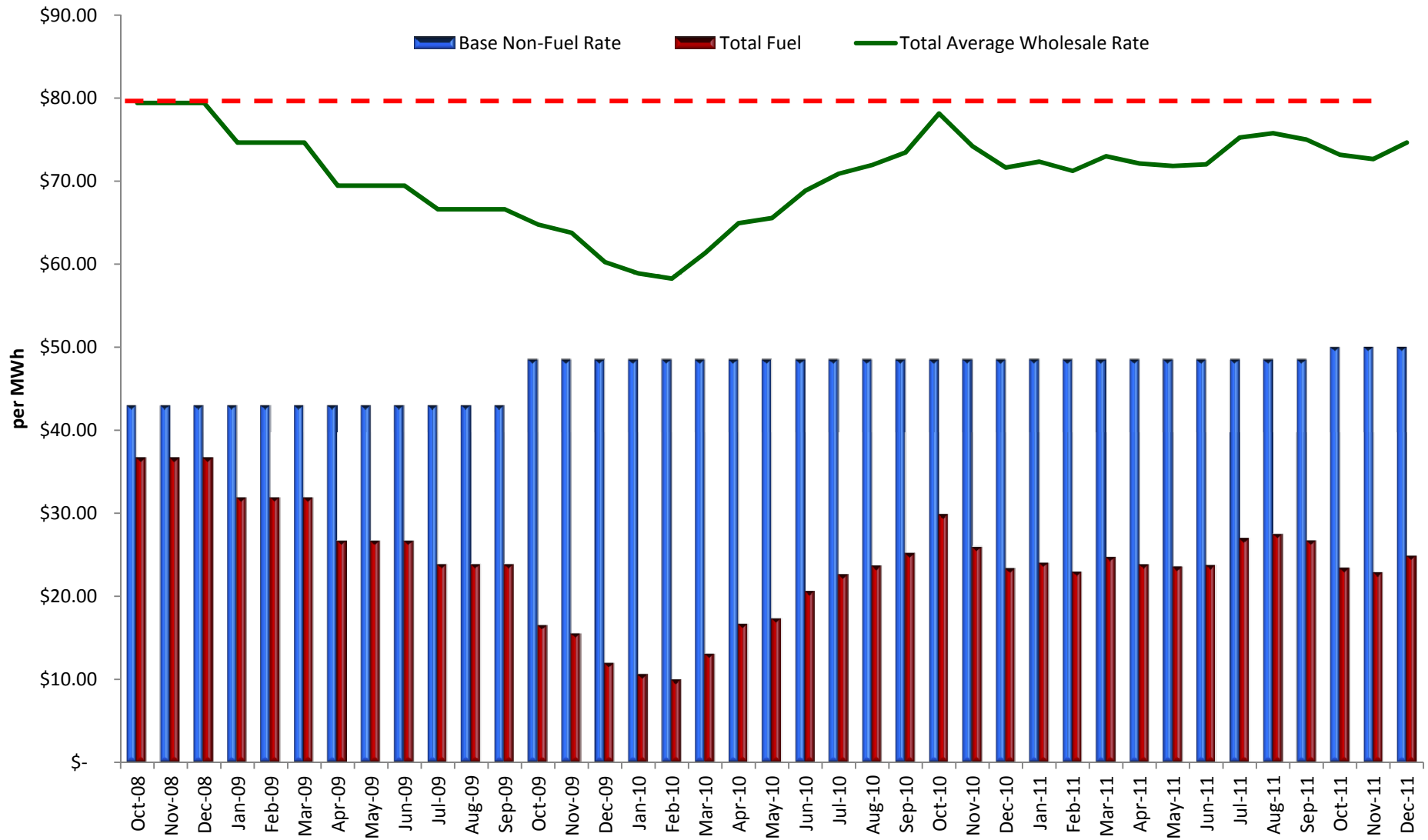


ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020

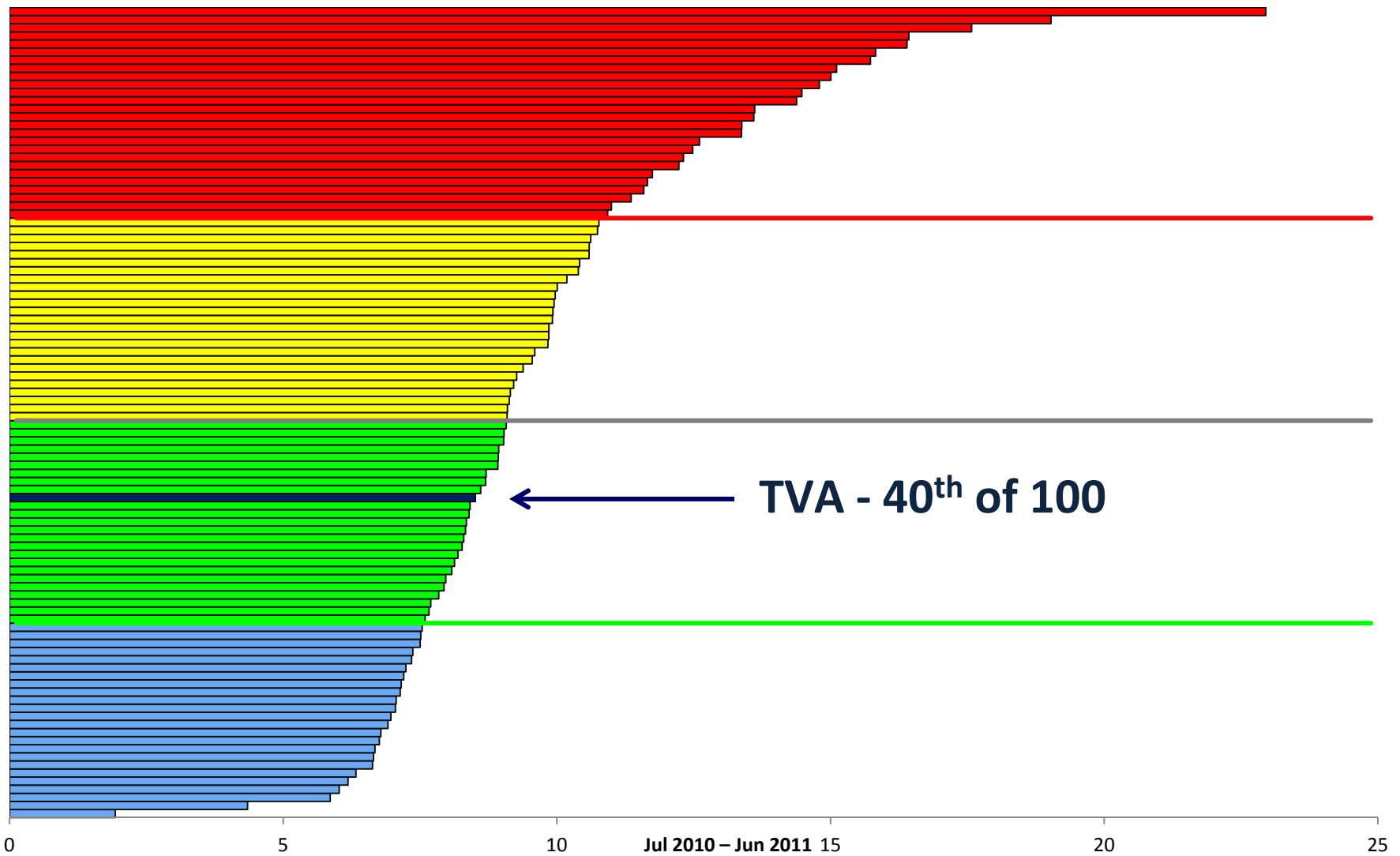


## Low Rates

# Average Firm Wholesale Rate



# Top 100 Utilities' Retail Rates

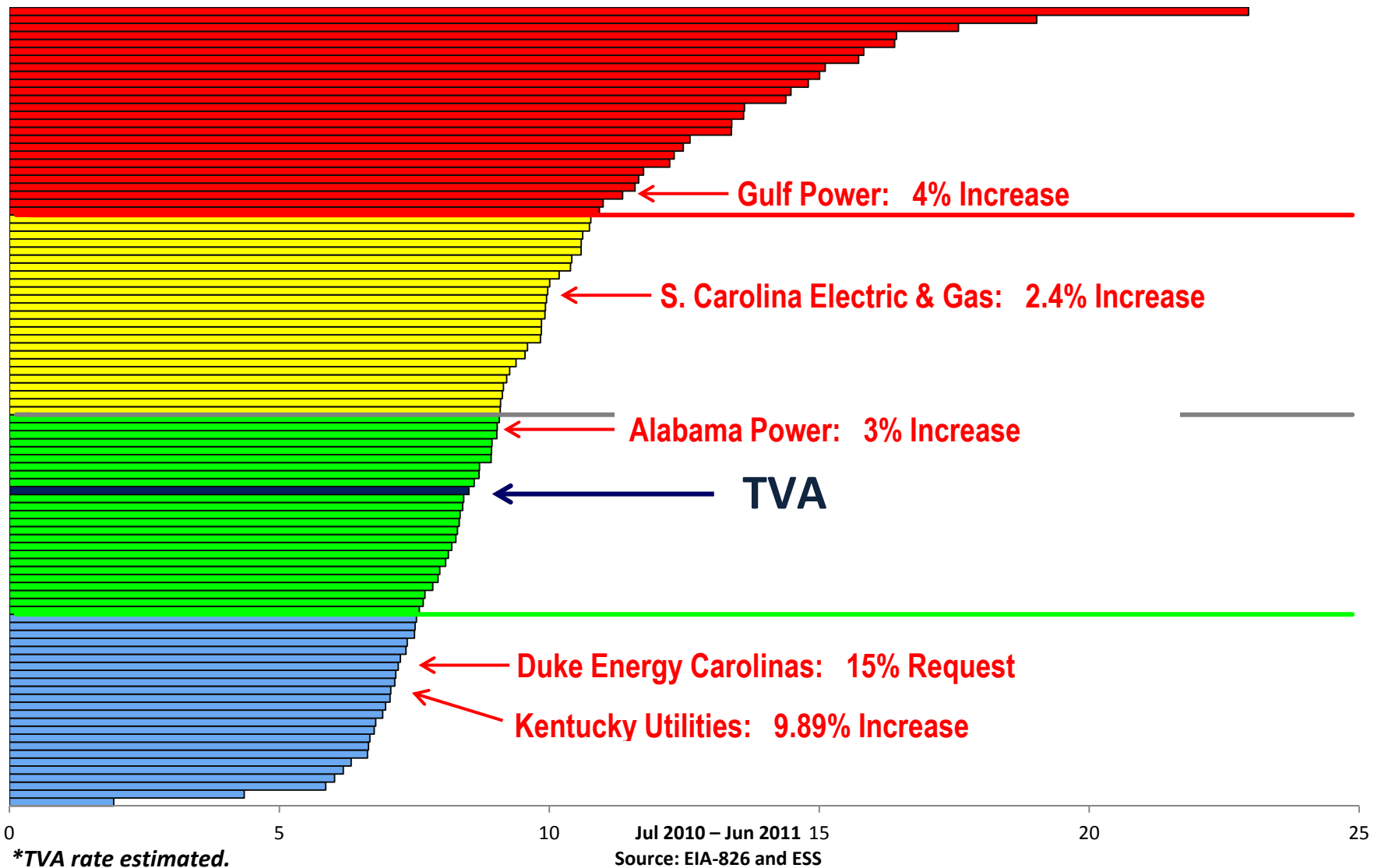


← TVA - 40<sup>th</sup> of 100

\*TVA rate estimated.

Jul 2010 – Jun 2011 15  
Source: EIA-826 and ESS

# Top 100 Utilities' Retail Rates



# Our VISION



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



## High Reliability





# Paradise Sets 2-Unit Record



## 3-Unit Continuous Run Record at Browns Ferry

# Our VISION



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



## Responsibility

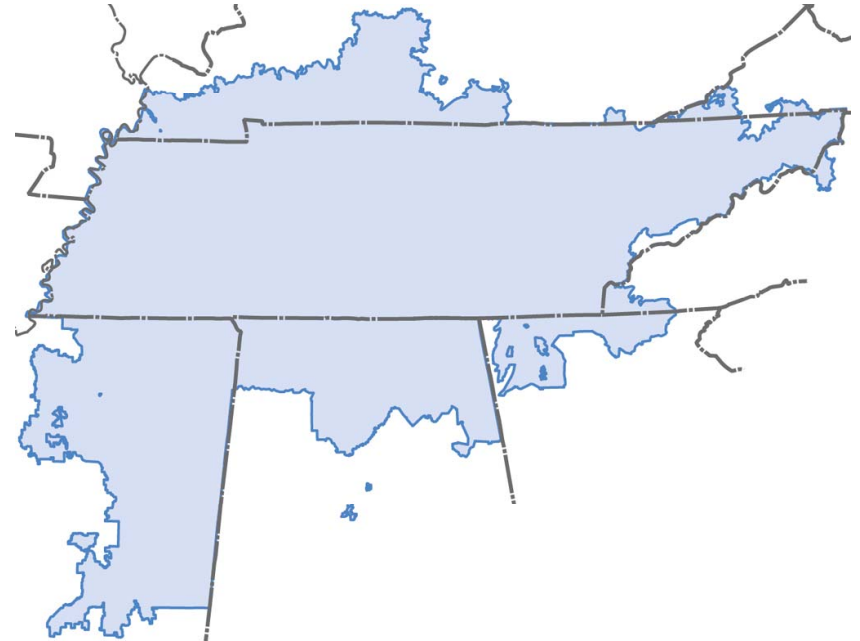


# A Century of Service

---

# Recent Economic Development

TVA named one of the nation's Top 10 economic development utilities for 6th straight year



## 4<sup>th</sup> Quarter

Capital Investment: \$1.6 billion

New and Retained Jobs: 8,500

---

# New Auto Plant Begins Operation



Toyota Plant in Blue Springs, Mississippi





## Hemlock Semiconductor connects to the TVA System



Room in the Inn



Catholic Charities - Columbus Home



Tennessee River Gorge Cleanup

# Helping the Community



---

# TVA Engineer of the Year

---

# Fiscal Year 2011 Financial Highlights

---

# Fiscal Year 2011 Summary

Year over year energy growth impacted by April storms and decreased sales to commercial / industrial sectors

Non-Fuel O&M unfavorable due to increased scope of nuclear projects and outages plus April storm impacts

Fuel expenses on-target; market price favorability offset the use of higher-priced generation due to April storms forcing nuclear outages

Mild weather in August and September plus sluggish economy will impact Fiscal Year 2012 cash flows

# Summary Income Statement

Preliminary September 2011 Fiscal Year to Date

(in millions)	YTD Actual	YTD Budget	Variance
<b>Operating Revenue</b>	<b>\$ 11,841</b>	<b>\$ 11,846</b>	<b>\$ (5)</b>
Fuel & Purchased Power	4,353	4,344	(9)
Operations & Maintenance	3,617	3,436	(181) • Nuclear outages • April storm recovery
Depreciation, Amortization	1,772	1,762	(10)
Tax Equivalents & Other	662	567	(95) • Rate change
<b>Operating Expenses</b>	<b>10,404</b>	<b>10,110</b>	<b>(294)</b>
Operating Income	1,437	1,736	(299)
Other Income	30	17	13
Interest Expense	1,305	1,301	(4)
<b>Net Income</b>	<b>\$ 162</b>	<b>\$ 452</b>	<b>\$ (290)</b>

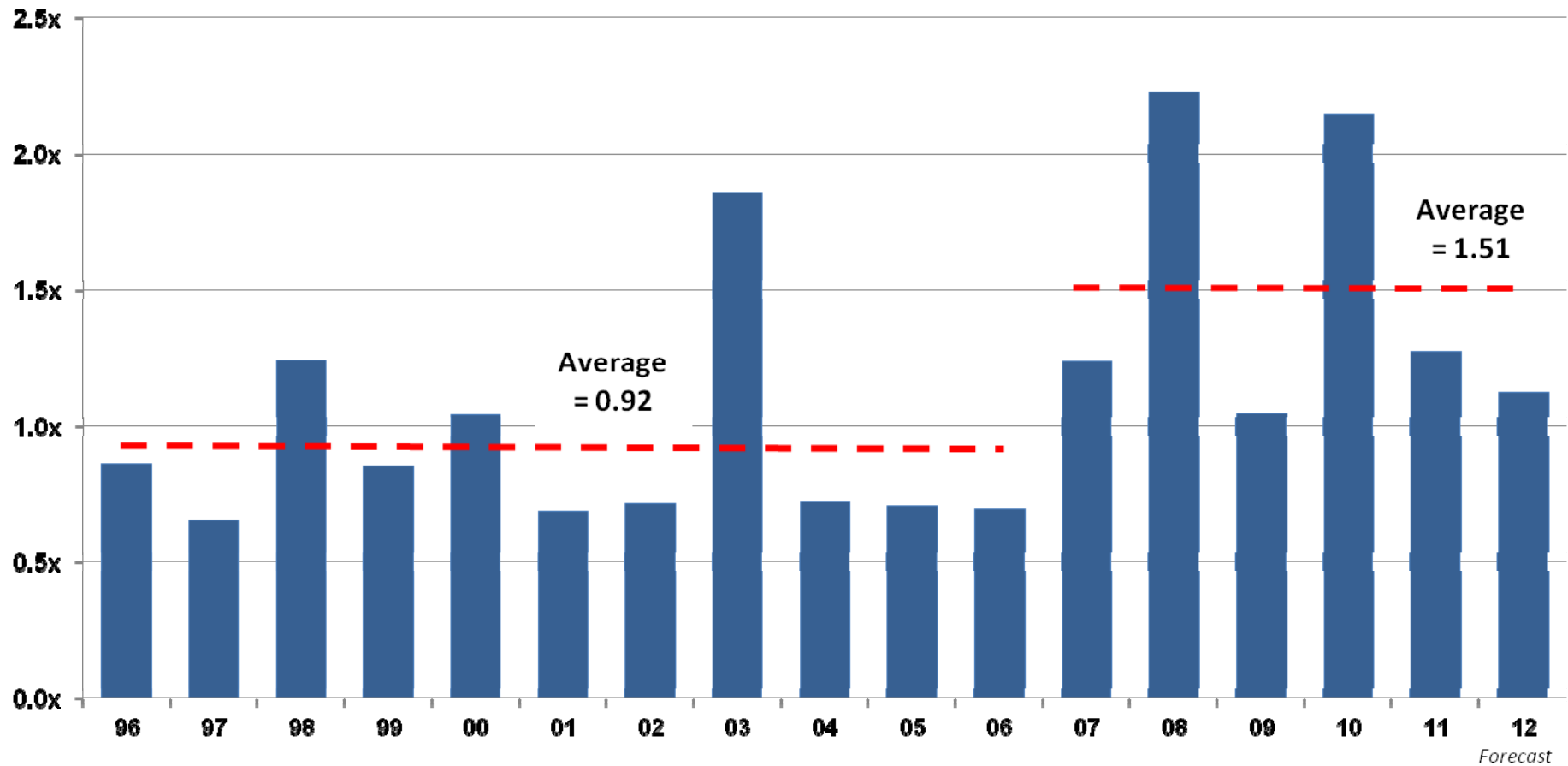
# Summary Cash Flow Statement

Preliminary September 2011 Fiscal Year to Date

Fiscal Year to Date <i>(Millions of Dollars)</i>	YTD	YTD Ctl	Variance	
	Actual	Bud		
Beginning Cash and Short-term Investments	\$ 328	\$ 201	\$ 127	
Cash Flow from Operating Activities	\$ 2,437	\$ 2,059	\$ 378	• Working capital improvements
Cash Flow from Investing Activities	(3,142)	(2,980)	(162)	• Magnolia
Cash Flow from Financing Activities	884	921	(37)	
Net Change in Cash & Cash Equivalents	<u>\$ 179</u>	<u>\$ -</u>	<u>\$ 179</u>	
Ending Cash and Short-term Investments	<u>\$ 507</u>	<u>\$ 201</u>	<u>\$ 306</u>	
<b>FYTD Total Statutory Debt</b>	<b>\$ 24,431</b>	<b>\$ 24,918</b>	<b>\$ (487)</b>	

# Improving Debt Service Coverage

Since 2006, TVA has substantially improved its coverage of debt service



---

# Summary

## Highlights

- Low commodity prices (natural gas)
- Reasonable rainfall and seasonal asset performance
- Historic low interest rates
- Added low-cost gas asset
- Conserved cash to take into Fiscal Year 2012

## Hard Spots

- Longer nuclear refueling outages
- Storm impacts
- Non-cash expenses (pension, tax equivalents)
- Sluggish economy
- Market and regulatory uncertainty remains

---

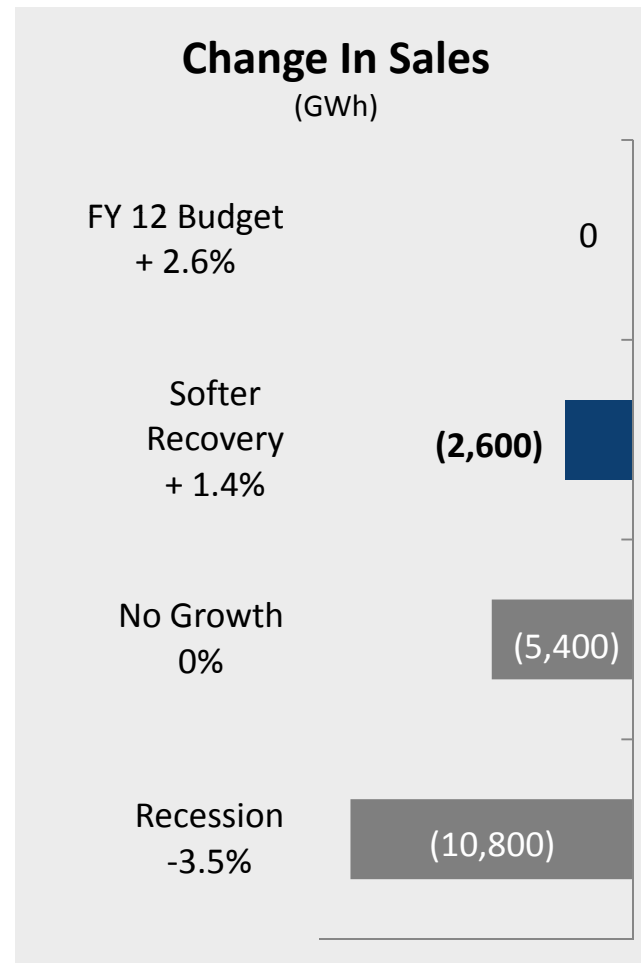
# Fiscal Year 2012 Look Ahead



# Fiscal Year 2012 Look Ahead

## Sluggish Economy

Sales  
Growth  
Scenarios:



**1.4%**  
**Growth Rate**



**Base Revenue**  
**Impact**

---

# Fiscal Year 2012 Look Ahead

## Highlights

- Lower interest rates continue
- Stable fuel and purchased-power prices expected
- Actively managing spending

## Hard Spots

- Weak end to Fiscal Year 2011 sales
- Reduced outlook for sales in 2012
- Managing increased capital project scope
- Market volatility

# Our VISION



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



Low Rates



Cleaner Air



High Reliability



More Nuclear Generation



Responsibility



Greater Energy Efficiency

**Acting to meet the region's needs for the future, while improving our core business today.**

---

# Customer and External Relations Committee

---

# EnergyRight Solutions Framework

# Fiscal Year 2011 Highlights

## Major Industrial Program (> 5 MW)

38 projects

**133 GWh and 14 MW saved**

## EnergyRight Solutions for Business

908 projects

**121 GWh and 19 MW saved**

## Online Audit

Exceeded goal, with  
35,591 audits

**61 GWh saved**

**559 GWh Achieved  
373 MW Reduction**

## Heat Pump Program

Over 10,000 installations

**36 GWh saved**

## EnerNOC

725 participating customers

**223 MW of load reduction**

## Generation Partners

**56 GWh**

## In-Home Energy Evaluations

Over 28,000 since program inception,  
April 2009

---

# Path Forward



Broadening our EnergyRight Solutions brand to include energy efficiency, demand response, and our renewable programs under one umbrella

---

# Path Forward



## Programs

Homes

Business

Industry

Demand Response

## Education

For Homes

For Kids

For Business

## Resources

*Green Power Providers*

Standard Offer

Renewable Energy Power  
Purchase Agreements

TVA-owned Renewable  
Resources



# Scorecard Under Development



---

# Solar Solutions Initiative Pilot

Economic development incentive for solar projects **in the Valley** that use equipment manufactured and installed by companies **in the Valley**

Projects must be between 50 and 1,000 kilowatts

Limited to 10 megawatts per year

Two-year pilot starts in January 2012

---

# Energy Efficiency Forum

**February 21 and 22, 2012**

- Two-day regional forum in Nashville
- Create a strong base of awareness and interest in Energy Efficiency and Demand Response
- Participants will include power distributors, direct-serve customers, industry leaders, policymakers, and subject matter experts

---

# Green Power Providers

Board approval is requested to replace the current Generation Partners Pilot with a sustainable, long-term program to incentivize installation of small renewable generation projects

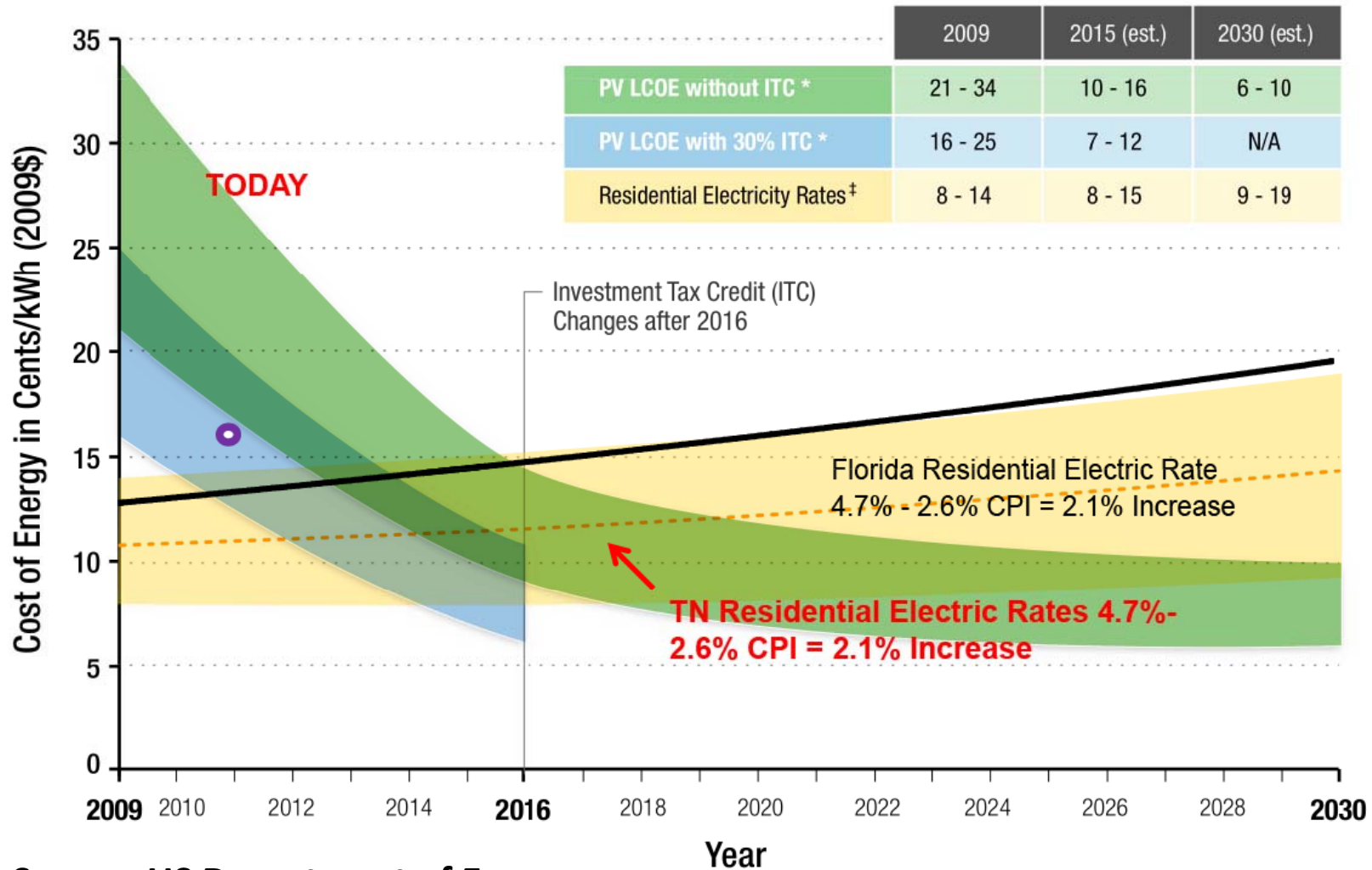
---

# Green Power Providers

- Eligible renewable resources - solar, wind, biomass, and hydro
- Maximum project size of 50 kilowatts
- Participants receive initial incentive payment of \$1,000
- Contract term up to 20 years
- Participation expanded to include TVA direct served customers
- Premium payments and key program attributes reviewed and evaluated annually by TVA

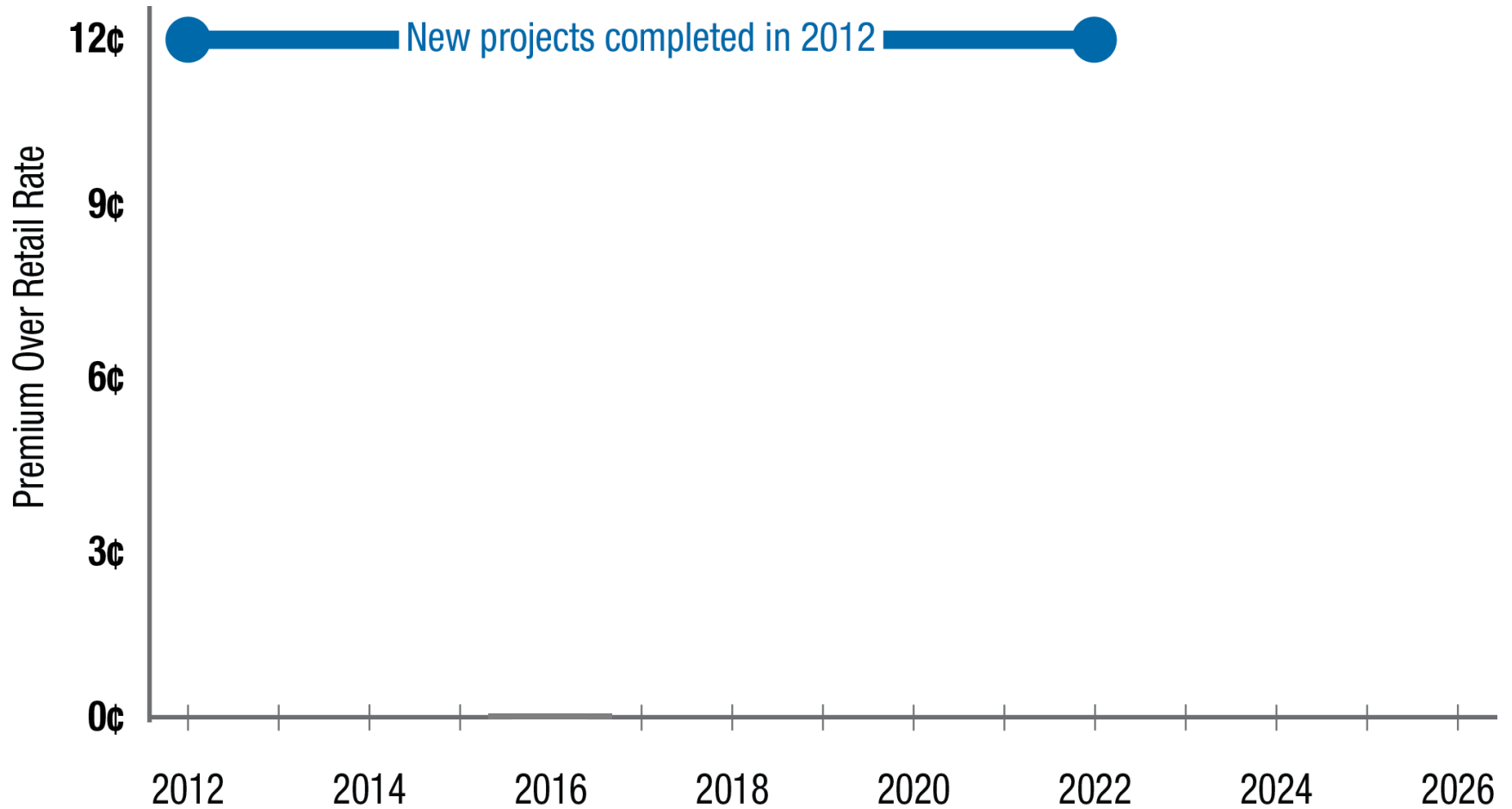
# Solar Costs Going Down

## Residential PV



Source: US Department of Energy

# Solar Premium for Residential Projects



---

# Green Power Providers

Program will be sustainable in the long term while still providing sufficient incentive for participation

Continues to provide economic benefits to the Tennessee Valley

Aligns with the Integrated Resource Plan and TVA's Vision



---

# Recommendation

Board approval for the proposed transition to the Green Power Providers Program

---

# Customer and External Relations Committee

---

# Finance, Rates, and Portfolio Committee

---

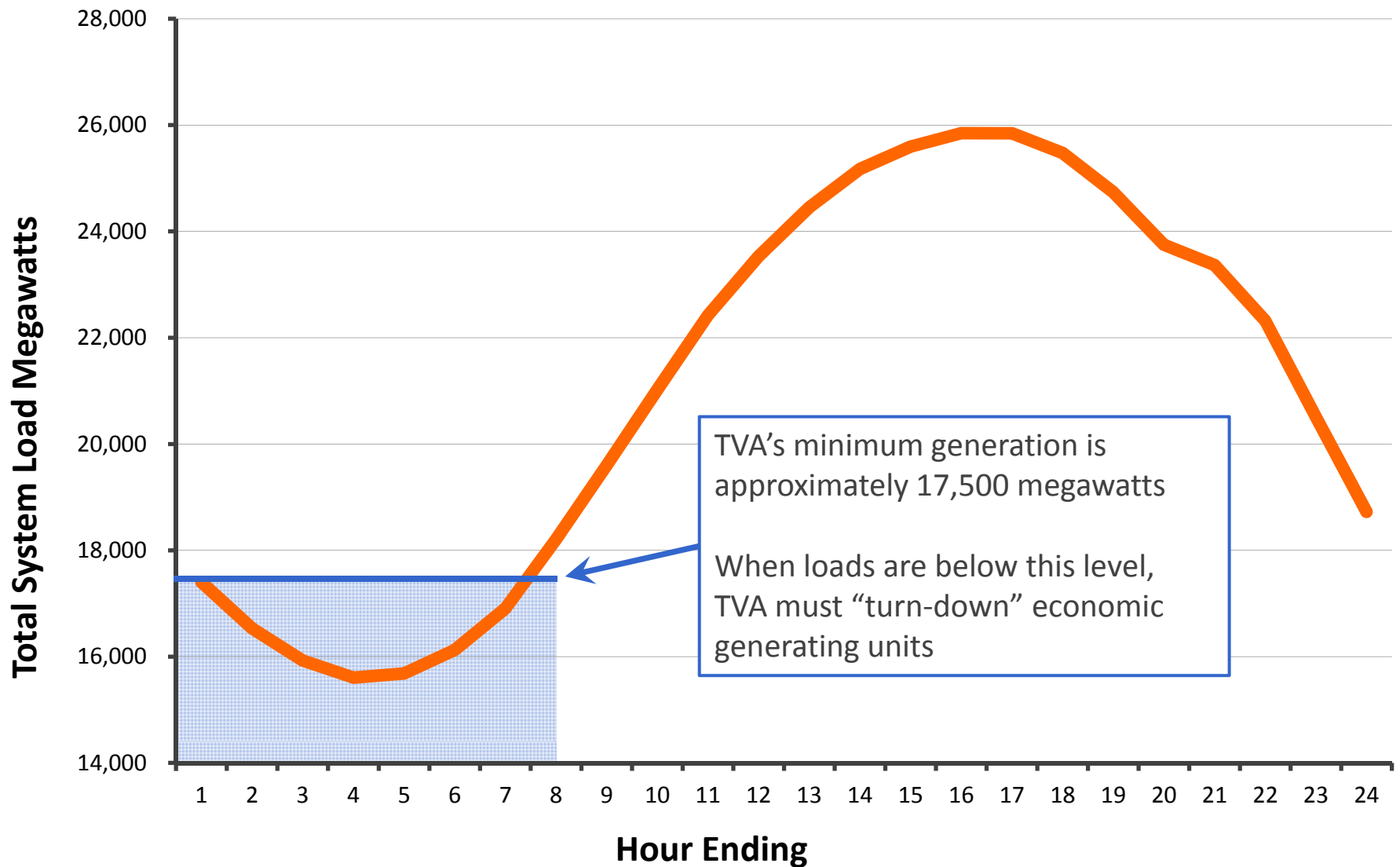
# Off-Peak Pricing Product Overlay

---

# For Board Consideration

Board approval for a three-year pilot of an off-peak pricing overlay to the Seasonal Demand and Energy Rate for customers with loads greater than five megawatts

# Average Hourly System Loads - June



# Pricing Ranges

<b>Seasons</b>	Summer	April through October
	Winter	November through March
<b>On-Peak</b>	Summer	\$60 - \$100 per MWh
	Winter	\$50 - \$75 per MWh
<b>Shoulder</b>	Summer	\$40 - \$55 per MWh
	Winter	\$40 - \$55 per MWh
<b>Targeted Off-Peak</b>	Summer	\$30 - \$45 per MWh
	Winter	\$25 - \$40 per MWh

---

# Recommendation

Board approval for a three-year pilot of an off-peak pricing overlay to the Seasonal Demand and Energy Rate for customers with loads greater than five megawatts



---

# Section 13 Tax Equivalent Payments

---

# For Board Consideration

Approval of the final tax equivalent payments to the states and counties for Fiscal Year 2011

Approval of the estimated tax equivalent payments to the states and counties for Fiscal Year 2012

---

# Background

TVA Act requires five percent of TVA's gross proceeds from power sales to be redistributed as tax equivalent payments

The payments are determined by the following criteria:

- 50% from the states' book value of power properties compared to TVA total power properties
- 50% from the states' power sales compared to TVA total power sales

# Historical Tax Equivalent Payment Data

<b>State</b>	<b>Final FY 2008</b>	<b>Final FY 2009</b>	<b>Final FY 2010</b>	<b>Final FY 2011</b>	<b>Estimated FY 2012</b>
Alabama	\$ 112	\$ 120	\$ 125	\$ 116	\$ 120
Georgia	7	8	9	9	9
Illinois	<1	1	1	<1	1
Kentucky	43	46	49	47	46
Mississippi	26	32	35	33	40
North Carolina	3	3	3	3	3
Tennessee	265	295	327	321	347
Virginia	<1	<1	1	1	1
<b>Total</b>	<b>\$ 457</b>	<b>\$ 505</b>	<b>\$ 550</b>	<b>\$ 530</b>	<b>\$ 567</b>

---

# Recommendation

Approval of the final tax equivalent payment of \$530 million to the states and counties for Fiscal Year 2011

Approval of the estimated tax equivalent payment allocations of \$567 million to the states and counties for Fiscal Year 2012

---

# John Sevier Contractual Service Agreement

---

# For Board Consideration

Request approval to enter into a long-term service agreement with General Electric for the three gas turbines installed at John Sevier

- Maximum amount of \$120 million
- Contract term based on a fixed amount of operational hours adjusted for starting duty

---

# Background

Inspection, outage and other services along with replacement parts for the plants will be needed and these types of agreements are industry standard practice

TVA evaluated other contractor proposals as well as self-performing this work and the proposed action was determined to be the lowest-cost option



---

# Recommendation

Request approval to enter into a long term service agreement with General Electric for the three new gas turbines at TVA's John Sevier plant

---

# Nuclear Oversight Committee

---

# Audit, Risk, and Regulation Committee

---

# Selection of TVA's External Auditor for Fiscal Year 2012

---

# People and Performance Committee

---

# Performance Report

# Our VISION



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



Low Rates



Cleaner Air



High Reliability



More Nuclear Generation



Responsibility



Greater Energy Efficiency

**Acting to meet the region's needs for the future, while improving our core business today.**

---

# Future Performance Goals



---

# Fiscal Year 2011 Summary

## At or Above Plan

Fossil Construction

River Operations

Power System Operations

Strategy and External Relations

TVA Corporate Support

Fossil Generation

## Below Plan

Nuclear

Nuclear Construction

**Performance average for all of TVA is 107% relative to plan**

---

# For Board Consideration

- Corporate performance measures and goals for the Winning Performance Team Incentive Plan and the Executive Annual Incentive Plan for Fiscal Year 2012
- Adjustments to the Executive Long-Term Incentive Plan (ELTIP) goals for the Fiscal Years 2011-2013 performance cycle
- Performance measures and goals for the ELTIP for the Fiscal Years 2012-2014 performance cycle

# Annual Performance Corporate Measures

## Fiscal Year 2012

	Weight	Performance	Threshold	Target	Stretch
Net Cash Flow (\$ Millions)	50%	\$161M (2011)	\$0	\$200M	\$400M
Nuclear Equivalent Availability Factor	25%	89.1% (2009-11)	89.2%	90.1%	92.2%
Critical Fossil Seasonal Equivalent Forced Outage Rate	25%	8.9% (2009-11)	8.5%	6.8%	5.1%

# Executive Long-Term Incentive Measures

## Fiscal Year 2011- 2013 Performance Cycle

	<b>Weight</b>	<b>Performance</b>	<b>Threshold</b>	<b>Target</b>	<b>Stretch</b>
Retail Rate	40%	11% gap (2011)	Improve to 10.75% gap vs. Top Quartile	Improve to 10% gap vs. Top Quartile	Improve to 9% gap vs. Top Quartile
Load Not Served	30%	4.9 (2009-11)	7.8 99.999% Reliable	5.9 Top Quartile	3.8 Top Decile
Organizational Health	30%	59% (2011)	61%	66%	71%

# Executive Long-Term Incentive Measures

## Fiscal Year 2012 – 2014 Performance Cycle

	Weight	Performance	Threshold	Target	Stretch
Retail Rate	40%	11% gap (2011)	Improve to 10% gap vs. Top Quartile	Improve to 9% gap vs. Top Quartile	Improve to 8% gap vs. Top Quartile
Load Not Served	30%	4.9 (2009-11)	7.8 99.999% Reliable	6.8 Top Quartile	3.3 Top Decile
Organizational Health Index	30%	59% (2011)	63%	68% Top Quartile	73%

---

# Recommendation

Approval of:

- Corporate performance measures and goals for the Winning Performance Team Incentive Plan and the Executive Annual Incentive Plan for Fiscal Year 2012
- Adjustments to the ELTIP goals for the Fiscal Years 2011-2013 performance cycle
- Performance measures and goals for the ELTIP for the Fiscal Years 2012-2014 performance cycle

---

# Annual Incentive Plan Design Changes

---

# For Board Consideration

Revisions in the design of the Annual Incentive Plans effective beginning in Fiscal Year 2012



---

# Annual Incentive Plan Design Changes

- Evaluate performance based equally on corporate and organizational measures
- Remove funding pool
- Balance the negative and positive range for the corporate modifier (-20% / +20%)

---

# Recommendation

Approval of revisions in the design of the Annual Incentive Plans effective beginning Fiscal Year 2012

---

# People and Performance Committee

---

# Board Governance

---

# Committee Appointments and Transition Planning

---

# Amendments to TVA Board Practices

---

# Resolutions Honoring Departing Directors

# Our VISION



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



Low Rates



Cleaner Air



High Reliability



More Nuclear Generation



Responsibility



Greater Energy Efficiency

**Acting to meet the region's needs for the future, while improving our core business today.**