TVA

TENNESSEE VALLEY AUTHORITY

"Fiscal Year-End 2011 Conference Call"
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Tom Kilgore, President and Chief Executive Officer
John Thomas, Chief Financial Officer
John Hoskins, Senior Vice President and Treasurer
Janet Herrin, Executive Vice President, People and Performance

OPERATOR: Good morning, and welcome to the Tennessee Valley Authority's fiscal year-end 2011 conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to TVA's Senior Vice President and Treasurer, John Hoskins. Mr. Hoskins, please go ahead, sir.

JOHN HOSKINS: Thank you. Good morning everyone, and welcome to the Tennessee Valley Authority's 2011 fiscal year-end financial and operations review. Leading our discussion today is Tom Kilgore, President and Chief Executive Officer along with John Thomas, TVA's Chief Financial Officer; and Janet Herrin, TVA's Executive Vice President of People and Performance.

Tom will lead off our discussion today with a review of key events from 2011 and provide an update on priorities for 2012. John will then provide an overview of TVA's financial performance in 2011, and Janet will conclude our discussion with an update on TVA's people and performance. We will then open up the call for a question-and-answer session.

Before we begin, I would like to point out that today's press release and TVA's 2011 annual report on Form 10-K are now available on TVA's website at www.tva.com. A replay of this call will also be available on TVA's website for one year. Today's discussion may include forward-looking statements that are subject to various risks and uncertainties. Please refer to TVA's SEC filings, including our most recent annual report on Form 10-K and quarterly report on Form 10-Q for a discussion of factors that may cause results to differ materially from projections, forecasts, estimates, and expectations.

Now I will turn the call over to TVA's Chief Executive Officer, Tom Kilgore. Tom?

TOM KILGORE: Thank you, John, and welcome to the call, everyone. I want to start off by briefly recapping some of our accomplishments this year and a couple of instances where our performance doesn't measure up to our goals. But by any measure, 2011 was an eventful year for TVA. It may even prove eventually to be a momentous year. The TVA board made several decisions that I consider to have far-reaching implications for the region and perhaps even the nation, referring to things like continuing with our nuclear construction and recovery from tornadoes, et cetera.

But at the top of my list of things we accomplished this year, I'd have to start with our transition to time-of-use rates, which will eventually offer greater opportunity for our customers to save money by shifting away from the expensive periods of peak power demand and use more in off-peak periods. We've seen some indication of that, and we have a lot of interest in things like charging electric vehicles on off-peak rates.

We've also published a comprehensive Integrated Resource Plan, which helps guide how we're going to plan for the future, and we've already begun implementing that, and one of those implementations was to decide to idle several of our older, less efficient coal units, which really starts us down the path toward modernizing our generating fleet. And in the process, we were able to reach comprehensive agreement with the EPA, and that's going to eliminate some legal challenges and regulatory hurdles, and it makes our path going forward really clear.

Then we acquired the Magnolia Combined Cycle Plant in Mississippi at a — at a good price that adds almost 1,000 megawatts of cleaner generation to our fleet. And then finally, one of those momentous decisions that the board, in a unanimous vote, approved our going forward with Bellefonte and adding 12,000 megawatts of emission-free base load generation to our system by 2020. I know a lot of people are talking about nuclear, but TVA is the one that's doing something about it.

In addition, something that we're really proud of and give ourselves good grades, but I think that's because we can benchmark this, is we marked another year of serving our customers with 99.999 percent reliability. That's our 12th year in a row of doing that. And in an effort that really I kind of term heroic, our workers restored the power last year at April 27th and following days faster than I could even imagine after we had about 150 tornadoes cross the system in one afternoon and evening.

Like all of our nuclear plant operators in the country, we have a lot of interest in what's going on in Fukushima. We took some proactive measures early and are continuing to study that as we prepare to address how we will be even more prepared for the unlikely combination of natural disasters as Japan experienced.

Like much of the nation, we struggled with slow economic conditions in the Valley, and that weighed on our power demand. You'll hear John Thomas talk about our sales statistics in a few minutes. But at that same time, our aggressive economic development efforts helped recruit or expand about 140 companies in the TVA region, and I'm extremely proud of our ED efforts. These companies announced capital investments of about $4.9 billion, and that will create or retain about 43,000 jobs. So that's up substantially from about 25,000 jobs that we experienced at the low in '08; so we see a substantial recovery there. Not enough to call it great, because we are seeing some additional slide, as John will talk about later, but 43,000 compared to 25,000 is a — is a good number. For the sixth year in a row, TVA was named one of the top ten economic development utilities in the nation, and those numbers I just gave you I think point out why.

So those are some of the highlights. Let me turn to something that's a hard spot for us. Our biggest challenge last year was our nuclear program, including a stuck valve at the Browns Ferry Nuclear Plant, which resulted in a finding by the NRC. And while we take this problem very seriously, at no time did it affect the safety of the public or put the public in any danger. We — for instance, when the tornadoes hit on April 27, those valves all worked right, because we had repaired them as soon as we found it. We repaired them not only on the unit in question, but all of our other units as well. So we're determined to learn from that and make Browns Ferry a model of safe operation.

And, finally, another hard spot is we announced that we'll have to change our construction schedule for Watts Bar Unit 2. We're currently evaluating both the schedule and the cost of that unit, and we're not finished with that. That's why we're not announcing new dates or numbers. But if you look at what the number was and what I think it will be, I'm still very confident that it will be a very economical unit.

And, you know, if you look at 1,000 or 1,100 megawatts for the budgeted amount of $2.5 [billion], even if the cost and schedule go up, we're still going to be substantially more economical than the other units that have been announced in the country. And while I would prefer that any construction project not have a delay, it's much more important — and I've told our folks that quality and cost control, but quality is first. We will complete Unit 2, and we'll be out with new numbers early next year when we finish this current study. When Watts Bar comes online in 2013, it will produce over 1,100 megawatts of power at very competitive prices, and it'll be another major source of our goal of trying to be more emission-free electricity. We have a goal of being about 50 percent carbon-free by 2020.

So looking back, I'm very proud of our accomplishments in financial year '11 for us. We've kept rates competitive. We had about a 2 percent rate increase that we implemented in August, but that was during a period when the CPI was about 3.9 percent, so we're about half what the rest of the CPI's going up. And our reliability remains world-class. We've kept faith with our stakeholders and conducted our business responsibly. We've recovered from the storms. You didn't hear anything about Browns Ferry struggling during the storms. We kept the reactors quiet and cool, and at the same time we took decisive steps and made significant progress toward our vision of being one of the nation's leading providers of low-cost and cleaner energy.

And I appreciate your time. I'm separated from the rest of the group a little bit out in the field this morning on a cell phone, so I'm going to turn the program back over to John Thomas, and John will be running it from here. John?

JOHN THOMAS: All right. Thank you, Tom. In terms of beginning a kind of the fiscal walkthrough of 2011, I wanted to hit — just recap some of the highlights, some that in particular had an impact on our financial performance, and then some of the hard spots that — the term that Tom's coined here at TVA, and then I'll move through some of the key financial statistics.

And so from a highlights perspective, we did certainly see low commodity prices in 2011. In particular, natural gas has remained low, and that's helped keep purchase power fairly low. And so what you'll see through the results is we did buy opportunistically from the market this year and did not have to dispatch our higher-cost units.

We had a reasonable rainfall year. It wasn't dry, it wasn't overly wet, but it was a reasonable year. As well, our asset performance, particularly during the hot summer months, performed very well. As Tom had mentioned, we added a low-cost gas asset to our fleet, and with low gas prices, that combined cycle unit is dispatching quite frequently. We've continued to see historic low interest rates, and we've taken advantage of that and had very little short-term debt. We're mostly termed out with long-term debt. We anticipate interest rates remaining low throughout 2012 as well.

We did conserve cash in 2011. We primarily focused the organization around cash, and I'll talk about net income, but that's not our primary driver. How we manage the cash in the business is, and we were happy that in 2011, we ended the year with a little more than $300 million over what our normal cash reserve target is. We try and maintain approximately $200 million for kind of intrayear volatility, and we ended the year with about $500 million. That is in line with what we planned when we put our budget together. We had anticipated having that cash to help mitigate rate impacts and to fund operational initiatives in 2012.

And then as Tom went through some of the highlights around executing on the vision, we're very proud of the fact that we were able to move forward with the approval of Bellefonte as well as two clean air projects, and so overall a very successful year relative to moving forward on the vision. On the hard spots, Tom did mention the storm, and the storm costs really showed up in two areas. One, the majority of the costs showed up in fuel and purchase power, and that was where our Browns Ferry unit was down, and we had to spend approximately $95 million in incremental costs, running higher-cost units and/or purchasing on the market. From an infrastructure perspective, we spent about $39 million in a combination of capital and O&M projects restoring the system.

For nuclear, two things this year. One is that we had five nuclear refueling outages, so you'll see in our operation and maintenance expense was impacted by the higher number of outages. We had had three outages in 2010, and then in 2012, we're anticipating having two nuclear refueling outages there. I will say, however, but the — that the nuclear refueling outages did cost more than what we had planned. We are pleased that overall, the scope that was contemplated in those outages, we did not sacrifice on any of the scope. However, it did take longer and cost more than what we had even anticipated for the five outages.

We are continuing to see a sluggish economy. I'll talk more about that when I talk about the sales, but in particular, as we were going into the July and August time period, we could certainly see the impacts of that, and I'll talk a bit more about what we see for 2012 in that regard.

Market and regulatory uncertainty certainly remained. It was not a good year overall for our investment funds. In particular, we have a large pension fund, and we saw rather modest earnings on our pension fund. And then when we get to the reconciliation of talking through net income versus overall cash flow, we did have a number of noncash items that'll show up in expenses, and I'll try and highlight those as I go through the financials.

And so now what I'd like to do is move into a discussion of the particular statistics in the year. And so I'll start with our revenue and sales for 2011 versus 2010. And so you can see that power sales were actually down by 3.4 percent, to 167,000 — or [167] million megawatt hours. And so about 2½ percent of that, roughly, was driven by weather, and so 2010, if you remember, was a much colder winter and hotter summer than we saw in 2011. 2011 was slightly above average, but 2010 was a bit extreme. But we did have overall about 0.7 percent reduction on a normalized weather basis, and so that certainly is showing that there are economic impacts that are impacting our sales.

When you look at revenue, it's a little bit different story, and you can see that $11.8 billion in revenue versus $10.8 [billion] in 2010. One thing I'll highlight about 2010, and you'll see this on the fuel and purchase power expense as well, is in 2009, through our fuel cost adjustment, we had over-collected a little more than $800 million in fuel costs, and we refunded that in 2010. And so those 2010 numbers are a little bit depressed, and you'll see that on the expense side. And so when you adjust for that, there's approximately $200 million increase that you would see, and that's primarily associated with a mix of the different industrial, commercial, and residentials. And so overall, our total power sales revenue was $11.7 billion, and so you can see, within about $100 million, predominately all of our revenue comes through power sales.

When we then look at the overall rates, and this is something, if you paid attention to yesterday's board meeting, Tom commented on, is that we — you know, while we are pleased that we're overall in the 40th position relative to 100 — the top 100 utilities in terms of our overall rates, our goal is to be in the lowest 25 percent, and so in this chart below the green line, and the objectives and the plans that we build in line with the vision are to work our way down to top quartile, and so that'll be initiatives we're implementing over the next several years, to move our rates even more competitive than they are today.

So net income — and, again, we really are incentivized to manage to cash, not net income. All of the net income goes back to reinvestment within the fleet and the operations. But you can see we had $162 million worth of net income. That is down from the $972 million that we had in 2010. Several contributors to that were in operations and maintenance expense. I did mention that we had five nuclear refueling outages this year. In addition, we had incremental pension expense. It's the discount rate that's used to value the liabilities and then ultimately ends up driving the expense recognition. The discount rates are certainly lower, in line with what you see with interest rates. And then you also see that our tax — in lieu of tax payments were higher by about $200 million, approximately, in round numbers.

The overall cash payment associated with our in lieu of taxes is relatively constant year over year, around $550 million. However, how we recognize the expense associated with that is really tied to two factors. One is we recognize the in lieu of taxes on the fuel portion in the current year, and then we recognize the nonfuel portion in the subsequent year. And so because of our rate change that we implemented in April, in line with that, we moved all of our fuel into our fuel cost adjustment, whereas in the past some of our fuel was in the base rate, and as a result of that, that accelerated the recognition of the expense. So that's, you know, really more of the expense recognition than it really is the cash. And moving forward, we may look at changing our fuel cost adjustment calculation to make those more similar and be easier to explain.

Then moving down to operating cash flow, you can see this is our primary driver and focus for the organization, $2.4 billion worth versus $1.9 billion in 2010. And then lastly, cash used in investing, $3.1 billion versus $2.4 billion, so you can see, while we have increased the overall operating cash flow, we are also using that to invest, that investment coming in several areas. One is increasing the amount of overall maintenance expense, a capital refurbishment activity that we're doing, but more importantly, the actions we're taking to add lower costs and cleaner assets. And so that includes both the work that we're doing on Watts Bar, the design work that had been done on Bellefonte as well as the purchase of the new Magnolia facility, and then the work we do on a natural gas combined cycle unit that we have coming online at John Sevier that should be online next spring.

In terms of the total system capacity, you can see just over 34,000 megawatts that we have in our system. While that shows somewhat of a modest increase from the 34.1 thousand megawatts that we had in 2010, we have also been going through and, as you're aware, retiring coal units as we've been adding natural gas. Total assets, up to $46.4 billion, from $42.7 [billion], and then you can see in terms of the total net debt, $24.4 billion versus $23.4 billion, so we increased the level of assets, as you can see there, a little over $3 billion while only taking on $1 billion worth of debt, and that's primarily driven by these financial guiding principles. Our financial guiding principles that we use and are approved by our board is that we only use debt to fund capacity expansion or clean air projects that extend the life of our assets. All of our operating expenses, all of our base capital expenditures to maintain our plants, are all funded through operating cash flows.

And so those were the highlights of the particular figures included in our 10-K, and at this point, I'll turn it over to Janet Herrin, the Executive Vice President of People and Performance, and she'll give a few comments on our overall performance in a broader sense.

JANET HERRIN: Thank you, John. Good morning. You've heard a recap of the highlights and hard spots that we've worked to carry out our mission this past year. Our mission is to serve the people of the Tennessee Valley by providing reliable, low-cost power, managing the Tennessee River System, promoting economic development, providing environmental stewardship, and pursuing technological innovation. In carrying out these responsibilities, we're working to create a high-performance culture. We're improving organizational effectiveness and productivity within the company by continuing to set the bar higher and providing a competitive compensation package that is designed to motivate performance.

We also have sharpened our focus. We identified six strategic focus areas that are critical to achieving our vision to be one of the nation's leading providers of low-cost and cleaner energy, and every job in TVA and every initiative that TVA pursues is linked to one of these focus areas. In 2011, TVA met or exceeded its targets in four of these six strategic focus areas: high reliability, responsibility, cleaner air, and greater energy efficiency, and we made some strong gains under challenging conditions in the other two areas, low rates and more nuclear generation.

Most importantly, we're driving continued improvement through peer benchmarking and by setting performance targets aligned with TVA's mission and vision and by analyzing and reporting TVA's performance and identifying and addressing performance gap. It was a good year in terms of overall performance, and we will continue to strive for improved results. John?

JOHN THOMAS: All right. I wanted to make a few comments about 2012 in terms of the look ahead, if you will, and I'll use the same kind of highlights and hard spots format. And so as I had mentioned earlier, we do expect this favorable interest rate environment to continue into 2012. We are expecting stable fuel and purchase power prices throughout the period, predominately driven by low natural gas. And we are actively managing spending. I had alluded to the fact that as we ended 2011, we saw a softening overall of our sales, and as we look out into 2012, we anticipate that that will continue. And so we are working within the business to actively manage our spending to be able to ensure that we have — sufficiently cover any sales shortfalls.

We expect that market volatility will continue. And overall, one of the focuses for us is we do have quite a large number of large capital projects that we're managing, construction projects in particular, and that'll be an area of focus for us in terms of making sure that we execute on time and on budget for those as we move through 2012.

JOHN HOSKINS: Thank you, John. Because we had the public board meeting yesterday, and media were able to cover that meeting, we would like to provide the financial community with the first opportunity to ask questions today. Then we will be glad to take questions from any news media on the call. Operator, we are now prepared to open up the call for questions.

OPERATOR: Thank you, sir. We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then 2. We also request that you limit yourselves to a single question. Please note that if you would like to ask additional questions, you may rejoin the queue by pressing star and then 1. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Carrie Saint Louis of Fidelity. Please go ahead.

CARRIE SAINT LOUIS: Hi, good morning.

JOHN THOMAS: Good morning.

CARRIE SAINT LOUIS: So I had a few questions. First I wanted to just ask about, on the nuclear side of the business, just the schedule for the red finding on Browns Ferry. What — I think I have seen that the phase one was complete, so maybe you could give us just an update on findings out of that and when you anticipate findings coming out on both phase two and phase three?

JOHN THOMAS: Yeah, thanks, Carrie. I don't have the specifics on the timing in terms of following through the phases. If there are kind of specific questions like that that we don't have the answer to today, we'll get our media folks and ask you to call into our media folks after the call, and they can get you the specifics of the when we expect to go through each of the phases.

CARRIE SAINT LOUIS: Okay, but is it something that's hoped to be resolved in 2012?

TOM KILGORE: John, let me jump in there, if I could. Can you hear me, Carrie?

CARRIE SAINT LOUIS: Yes, I can.

TOM KILGORE: This is Tom Kilgore. No, this will be a long-term — the NRC will need to do probably about two to three inspections. They've been in once already, I know, and as John said, we can get you more specifics, so I'd like to do that. But this will take several months to be completely resolved, not that the problem isn't fixed. The problem is fixed, and we're confident that these valves are fully operational. However, when something happens like this that pushes you into the red area, or column 4, as we call it, the NRC, rightly so, steps up its inspection, and it goes through a multifunction, you know, kind of holistic look at everything that's going on. So they will be doing several inspections, and I expect it will take all of this calendar year, or all of the calendar year of '12, for them to address their program and to decide where we will stand in terms of which column we wind up in in their inspection program. But we'll get some more details back to you.

CARRIE SAINT LOUIS: Okay, great. And then maybe you could comment on the Watts Bar slippage. Just what is the specific issue that is causing the — I guess it sounds like maybe the cost of the investment to rise as well as the timing to be pushed out? Is it an issue with like demand and not needing it as quickly, or what's specifically going on?

JOHN THOMAS: Yeah, so the — I mean, the primary issue that we've been experiencing is really the productivity, and so the — as the amount of work that we expected we would accomplish as we moved through each of the phases and systems, we really have not seen the level of productivity that we would have assumed in the initial schedule. I think those are the primary factors. There are other contributing factors, but I think that's the main issue.

OPERATOR: Thank you. Our next question, and pardon the pronunciation, comes from Gavin Danahe [sic] of John Hancock Financial Services. Please go ahead.

GAVIN DANAHER: Thank you. Close, Danaher. Sorry, I may be missing an R in there on that. Thanks for the call this morning. Very helpful discussion. I appreciate you guys doing this. I think it's really helpful for the investment community to hear you guys talk about financial performance.

So I have a couple of questions on, I guess first off, the debt ceiling of $30 billion, given the capex and growth plans going forward, how you guys anticipate, you know, I guess managing the $30 billion debt ceiling, and, you know, if your plans for future debt issuance is, you know, obviously at $25 billion today, when do you plan to hit that ceiling, and how do you — how do you manage that?

JOHN THOMAS: Yeah, that's a good question, Gavin, thanks. So this is John Thomas. We're — you know — one of the things that we've been discussing and we're actively pursuing right now is utilizing lease-purchase transactions. We still have $5 [billion] to $6 billion worth of headroom; however, what we're able to take advantage of is the fact that when we have plants that we have built that have not gone into service, we're able to use kind of lease-purchase transactions to be able to really get — take advantage of the equity we already have in those plants to fund future expansion projects. And so we're looking at our John Sevier natural gas unit that's planned to come online next spring, and we'll be going through a — doing a lease-purchase transaction on that, and then we'll explore other opportunities as we go forward. And so we're not waiting until we get up against the $30 billion. We're kind of actively managing that today, and we're allowing ourselves some cushion within the $30 billion, should there be situations where we wanted to go out and just use traditional bond financing.

GAVIN DANAHER: And have you had — have you had commentary or feedback from Congress as to the inclusion of lease-purchase transactions as the — you know, being within the guidelines in — of the $30 billion ceiling?

JOHN THOMAS: Yeah, so we have confirmation that the lease-purchase transactions do not count towards the $30 billion, and so that enables us to move forward with those with confidence.

GAVIN DANAHER: Okay. Thank you. You mentioned the financial guiding principles and only issuing debt to, you know, expand the asset base, and is that true for refinancings? Do you guys not use debt to refinance existing maturities?

JOHN THOMAS: We do use debt to refinancing [sic] existing maturities, but I think if what — you look at the overall change in our debt level, we manage to two things, is you would not see an increase in our aggregate debt level unless it was directly tied to an increase in what our overall capacity is. And one of the second financial guiding principles is that we pay off our debt in line with the useful life of the asset. So, you know, think of it as we took the $24 billion, and we assigned it to all of our plant and equipment, and as it depreciates, we actually pay off about $800 million, roughly, in debt each year. And so that's why, as you saw our debt went up by $1 billion, but we added more than $1 billion worth of expansion capital, but what you're seeing there is the net number. And so, I mean, I would think of it relative to the aggregate debt level, not the specific maturities. Does that make sense?

OPERATOR: Thank you, sir. It appears our next question is a follow-up from Carrie Saint Louis of Fidelity. Please go ahead.

CARRIE SAINT LOUIS: Hi, good morning.

JOHN THOMAS: Hi, Carrie.

CARRIE SAINT LOUIS: So I just wanted to kind of follow up again about this Watts Bar. So the productivity being delayed, how does that enhance the costs? Like what floats in your EPC contract? Is it labor, or what's the issue that would push the costs higher?

JOHN THOMAS: It would be — it would be predominately labor costs.

CARRIE SAINT LOUIS: Okay. And then could you talk to a couple things? First, your capex outlook for 2012, I haven't seen that number. So this year was $3.1 billion. Could you just talk about, you know, what it would look like versus that number?

JOHN THOMAS: Yeah, so I'll get you an exact number here in a minute, but as we move into 2012, one of the things that you see is that we're continuing to work on Watts Bar 2. We'll begin kind of a more robust work around Bellefonte now that that — this is in the design/engineering type phase with Bellefonte. You'll see us begin work on the two scrubber projects that we have going in, and the board approved in our budget, our normal kind of capacity, and probably the last item I think would be the John Sevier — finishing — sorry, finishing out the John Sevier project. I think you'd see our overall capacity — or overall, sorry, capital expenditures would be reasonably close to what you saw in 2011 as we go into 2012.

CARRIE SAINT LOUIS: Okay, and so based on that, what's your view for non-fleet financing, like lease-purchase financing, like just in terms of the general funding? You know, what's your expectation for how much you would like to issue in 2012?

JOHN THOMAS: Well, we'd certainly like to take advantage of the John Sevier transaction on a lease-purchase, and we'll see, once we get that executed, which, you know, we anticipate that being done, you know, within months, and so we'll certainly look forward to that. And we'd probably move forward with the next project. We're still in discussions about whether we would try and do something around a financing with clean air equipment or whether we would — we would pursue with Watts Bar 2 and how quickly we could move forward on that. So it's likely we would have kind of a second financing done by the end of our fiscal year, but we'll have to see as we get into — getting the John Sevier transaction done, how quickly we could move.

OPERATOR: Thank you.

JOHN THOMAS: In terms of our overall — you know, I'll just comment. In terms of our overall cash needs to fund these expansion projects, I think if we did John Sevier and one other modest transaction, not something of a Watts Bar 2 size, we would have sufficiently covered what we need.

OPERATOR: Thank you. As a reminder, if you'd like to ask a question, please press star, then 1.

Our next question is a follow-up from Gavin Danaher of John Hancock Financial Services. Please go ahead.

GAVIN DANAHER: I think Carrie and I are battling for mic time here. Okay. So thanks — two other questions. The pension fund, you mentioned the performance was kind of a weak year. Do you guys have plans around future injections into that? I know you guys have put a lot into that recently. What are the plans to manage the fund going forward?

JOHN THOMAS: Yeah, we injected $270 million in 2011. We had actually, if you go back to 2009, put $1 billion in as a part — kind of an agreement with an internal board — TVARS Board, sorry. They — we had kind of agreed to do a prefunding, if you will, but just based off market conditions, it certainly seemed prudent that we put $270 million in last year. In our fiscal plans, we have allocated $300 million in the plan that we could contribute. You know, that money could also be used for other initiatives as well, but we've allowed $300 [million] that we could — and we'll evaluate the market conditions as we go through the year. We wouldn't make a decision on that, I wouldn't think, until we get to the end of the fiscal year, much like we did this year, but we have allowed $300 million, should it be another poor investment performance year.

GAVIN DANAHER: Okay. And my last question — and can you speak quickly about the — maybe the economic — I don't know the economic conditions of the territory, service territory, and whether your customer base is a growing — the end use customer base of your customers, the end users, is that a growing base, or is it a —you know, declining?

JOHN THOMAS: Yeah, that's a good question, Gavin. So we had started out with a plan where we were anticipating about 2.6 percent growth going from 2011 into 2012, and now we're looking at about a 1.4 percent. So there's still inherent growth in there. We just thought that it might be a little bit more robust.

GAVIN DANAHER: Okay.

JOHN THOMAS: Does that help?

GAVIN DANAHER: That helps. Thanks very much for the call this morning.

JOHN THOMAS: Okay, great. Thank you.

OPERATOR: Our next question comes from David Flessner of the *Chattanooga Times Free Press*. Please go ahead.

DAVID FLESSNER: Morning. I wondered what the results on the winning performance, if you know now, what kind of benefits and payments you may be making under that plan.

JANET HERRIN: Yeah, Dave, this is Janet. The percent payout — we had good performance this year. The percent payout will be 107 percent of planned in terms of the winning performance team incentive payout.

DAVID FLESSNER: What's the total value of that, then?

JANET HERRIN: The total value will be about $107 million.

DAVID FLESSNER: Which is the highest you've had to date? Have you had it that much before?

JANET HERRIN: No, we've not.

DAVID FLESSNER: Is this your best year ever, then, for meeting winning performance standards?

JANET HERRIN: Our results this year are very similar to the results that we saw last year. The two years previous to that were much less.

DAVID FLESSNER: And to note, there's been a request that federal agencies not increase federal pay. TVA had voluntarily agreed to participate in the freeze. How do you reconcile this with your commitment to not boost employee pay, then?

JANET HERRIN: We did not increase salaries. Because we do have the pay — the salary freeze, salaries were not increased. This is a very key part of our pay is market based and pay for performance. And so this is an opportunity where we set the goals out at the beginning of the year, and then when we achieve those goals with regard to performance, we pay out on that improved performance.

DAVID FLESSNER: And one other question, relative to your executive pay, I see in the SEC filing they all went up as well for total compensation. Is that the same point? Can you address why the top five executives all had higher pay as well?

JANET HERRIN: The main reason for that is in the — the change in the pension value for each one of those executives.

DAVID FLESSNER: Thank you.

OPERATOR: Our next question is a follow-up from Carrie Saint Louis of Fidelity. Please go ahead.

CARRIE SAINT LOUIS: I think this is my last question. Sorry. I guess I'm just trying to understand — I think you have a maturity in '12, roughly. I'm looking at Bloomberg. I see like a billion and a half. So are you planning on being in the market to refinance that?

JOHN THOMAS: Yeah, we are. Yeah, so we — our intent is to be in the market for that.

CARRIE SAINT LOUIS: Okay, so we would expect kind of the normal channels that you've historically issued, probably the refunding of that maturity. But any incremental new money, or roughly the size is about a billion and a half?

JOHN THOMAS: I think you could expect it to be roughly that size, yes.

CARRIE SAINT LOUIS: Okay. And any, you know, view on timing, interest rates are low, like would you be — you know, is there specific timing based on, you know, I don't know, regulatory constraints or anything like that, or it could come at any time?

JOHN THOMAS: Yeah, it could come at any time. We really want to be cognizant about what we're doing around John Sevier.

CARRIE SAINT LOUIS: Okay.

JOHN THOMAS: And so it's a little bit early right now for us to — for me to give you some indication of exactly when we'd do it.

CARRIE SAINT LOUIS: Okay. And then on John Sevier, that's a few months, is what you're thinking for that?

JOHN THOMAS: That's right, yeah.

CARRIE SAINT LOUIS: Okay, great. Thank you. And, again, I should echo, you know, that we really appreciate the call. It's a very strong step forward.

JOHN THOMAS: Okay, great. Well, thanks, Carrie. We appreciate the feedback.

CARRIE SAINT LOUIS: Okay.

OPERATOR: As a final reminder, if you'd like to ask a question, please press star, then 1 on your touchtone phone at this time.

Our next question is a follow-up from David Flessner of the *Chattanooga Times Free Press*. Please go ahead.

DAVID FLESSNER: Relative to your top-line growth, I see you had another 3 percent decline in overall sales. Can you give some discussion about — we've had a number of years I think where there was declining sales, not the growth rate that either was the historic pattern or even I think what you've projected. Maybe I'm wrong, but are we seeing a change in consumption pattern and a slower rate of growth or perhaps not a stable — or lack of growth in the future now in that electricity demand?

JOHN THOMAS: Yeah, it's a good question, Dave. You know, it's as much as we can, you try and look underneath the numbers and see what the real drivers are and try and parse out between what of this is driven by just, you know, the economy itself, what's driven — certainly we are stepping up our energy efficiency and demand response programs, and so as we better educate people on ways to use less energy, in particular on the off-peak — I mean, on the on-peak periods. I can't say that we — that we have a definitive slice about how much is each, but given that there is still expected some inherent growth, I wouldn't say that it's a fundamental shift. I just think it's a little bit more energy efficiency and conservation and, probably because of the economic conditions, people conserving. But you mentioned the weather was certainly the biggest driver this year on the year over year.

DAVID FLESSNER: So as you look long term, are you — what kind of rate increases — or revenue increase — demand increases are you expecting? I'm sorry. What rate of growth over time?

JOHN THOMAS: Yeah, we're looking at about a 1 percent rate of growth, net — that's net of energy efficiency and demand response programs, so about 1 percent is what we would expect. You know, probably the bigger question is when does that start? We expect it'll start in 2012 and hope it will, but — and that's our — you know, looking out over a decade kind of period, in line with our integrated resource plan.

OPERATOR: Thank you. This concludes our question-and-answer session. I'd like to turn the conference back over to Mr. Hoskins for any final remarks.

JOHN HOSKINS: Thank you. I would like to thank everyone for participating on today's call. Also, if you have any follow-up questions, please contact TVA's Media Relations or Investor Relations at the contact information provided in today's press release. This will conclude today's call. Thank you.

OPERATOR: The conference is now concluded, and we thank you for attending today's presentation. You may now disconnect your lines.