
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.

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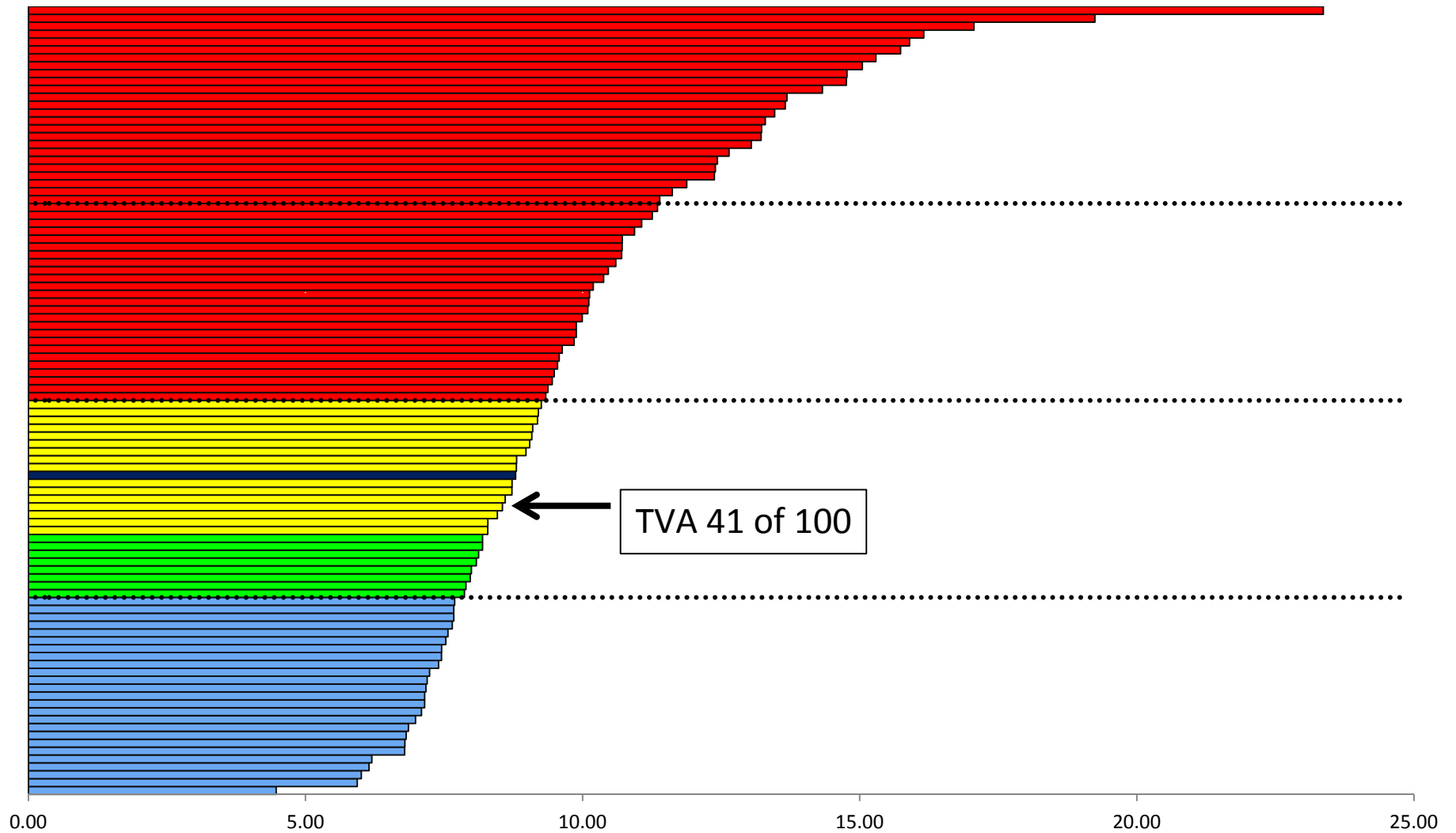


FY 2012-to-Date



Low Rates

Top 100 Utilities' Retail Rates

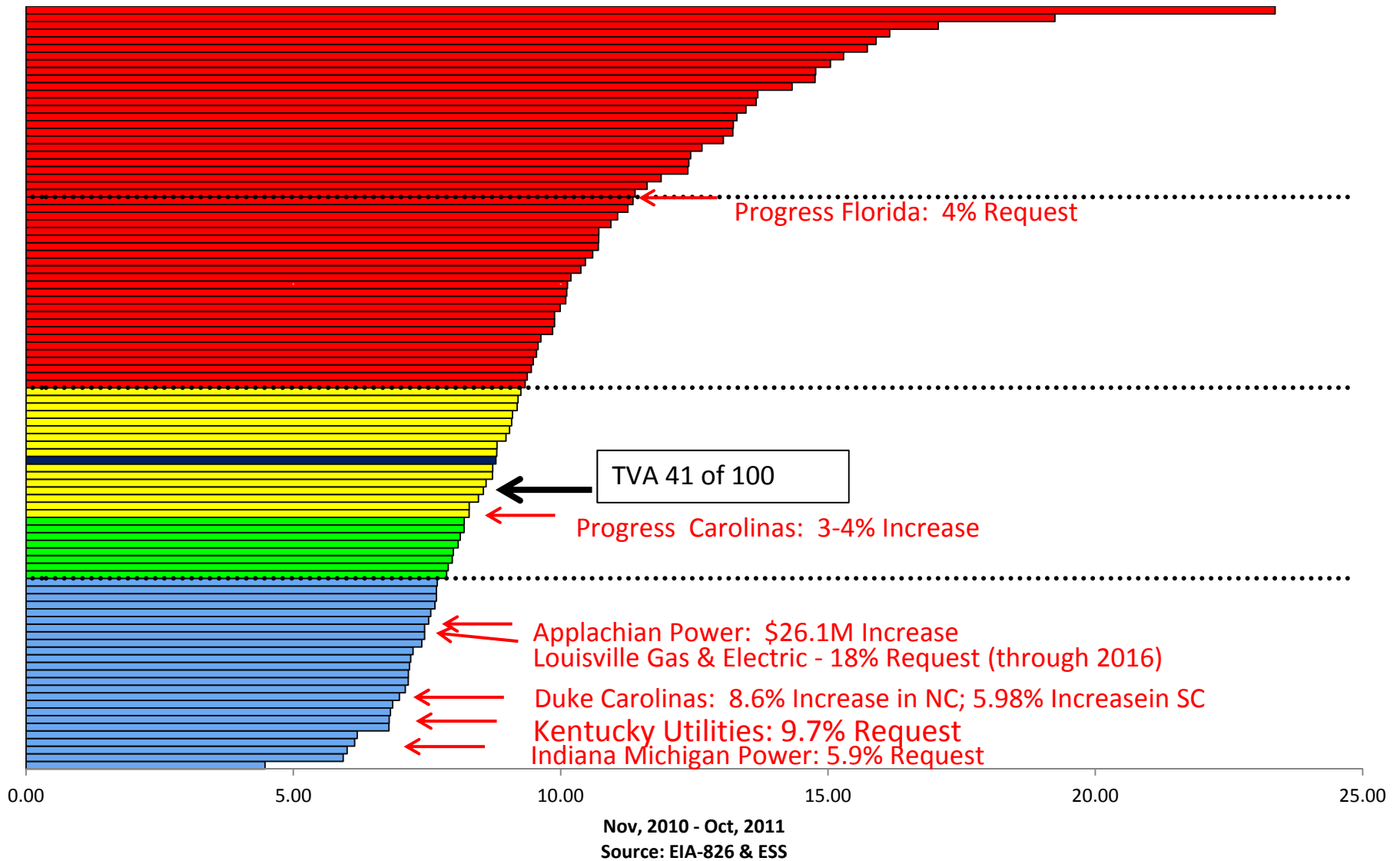


TVA 41 of 100

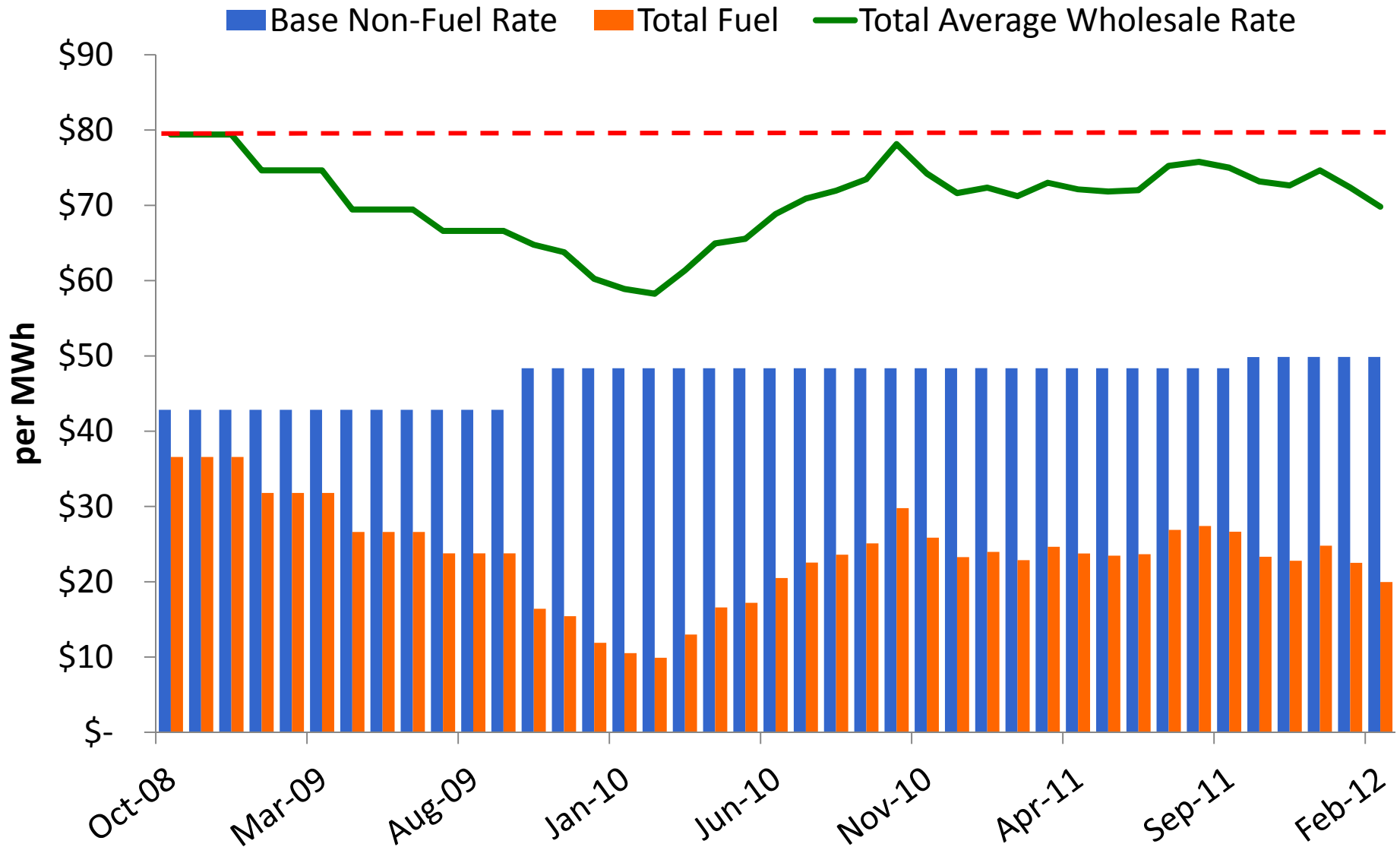
*TVA Rate Estimated

Nov, 2010 - Oct, 2011
Source: EIA-826 & ESS

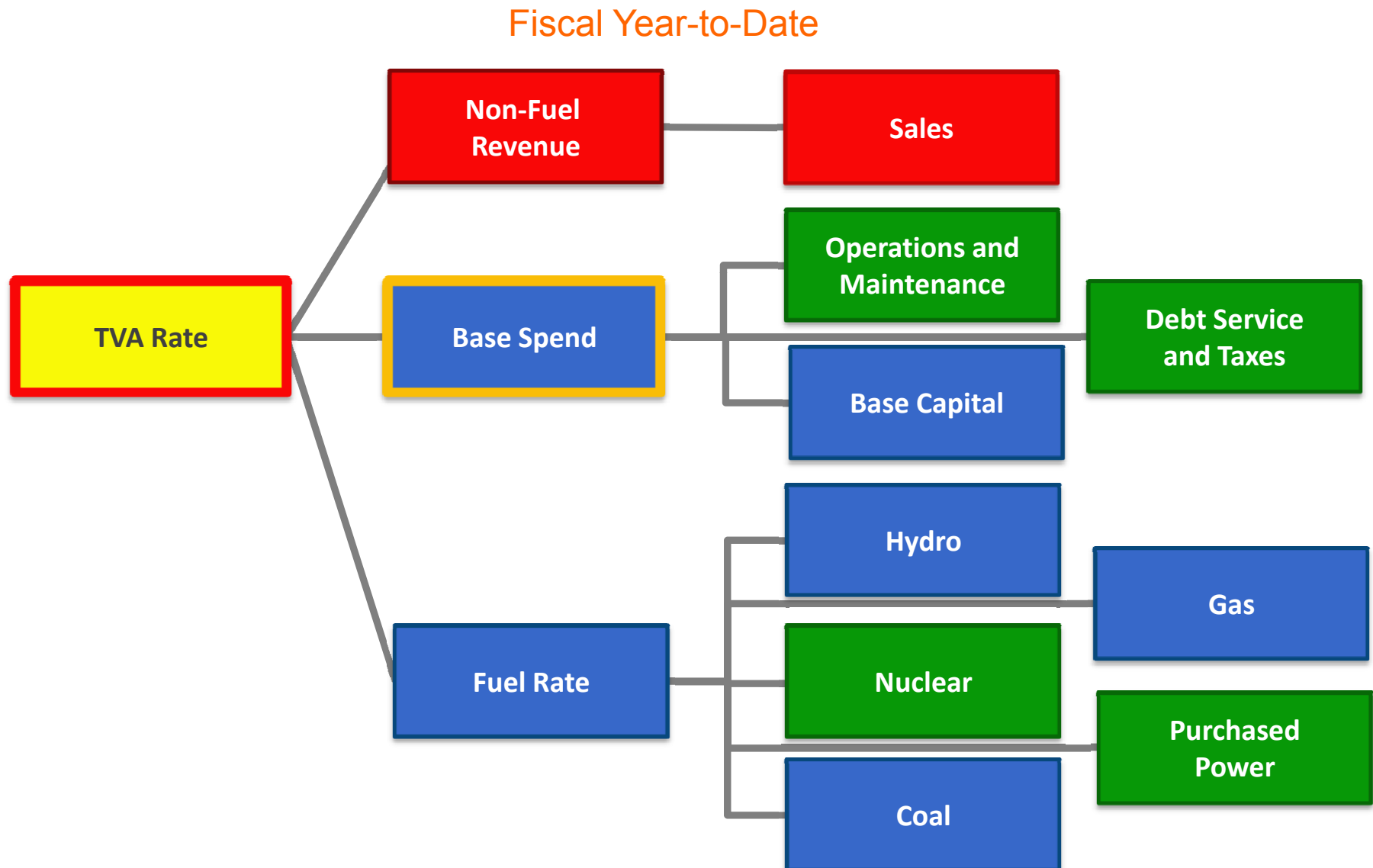
Top 100 Utilities' Retail Rates



Average Firm Wholesale Rate



TVA Rate



Pressure on Rates

- Lower power sales
- Mild weather
- Slow economy



Focusing on Competitive Rates



People

Solicit and listen to ideas

Performance

Maintain positive trends

Correct negative trends

Priorities

Scrutinize purchases

Make every dollar count



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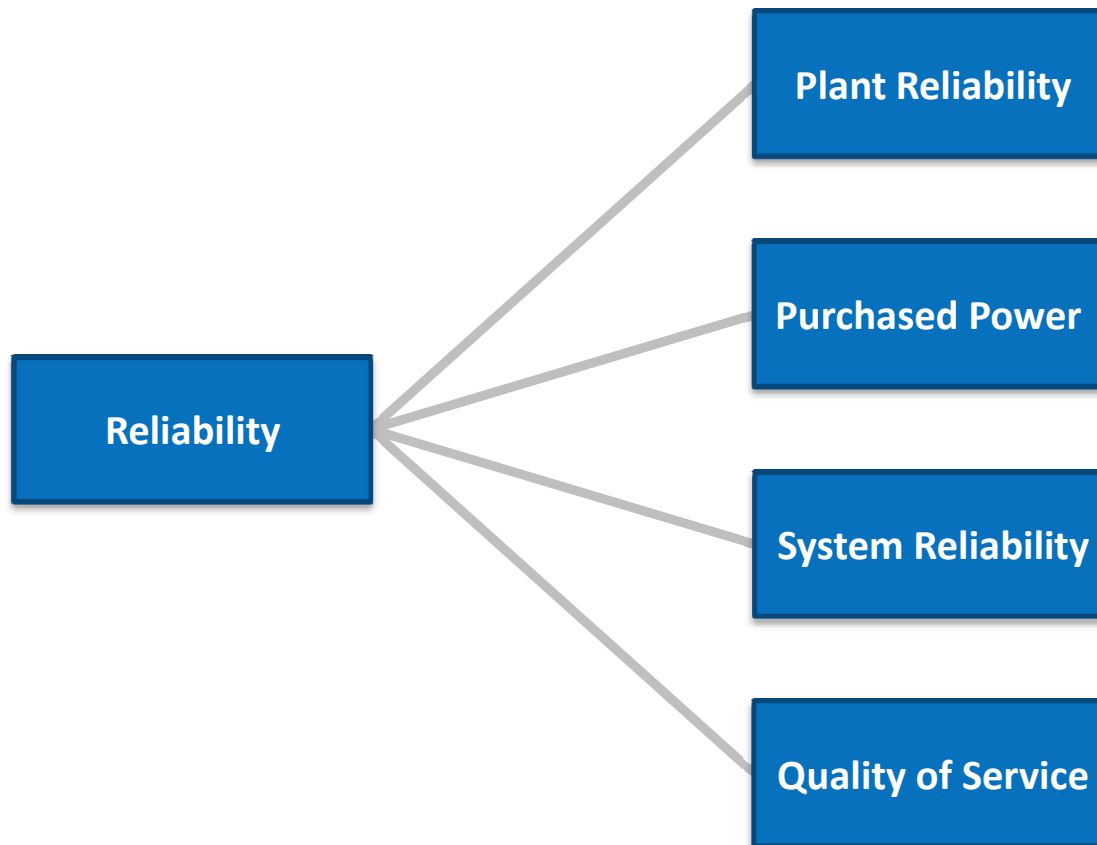
High Reliability

FY 2012-to-Date



Blue-Ribbon Reliability

First Quarter 2012



TVA Plants in Top 20

Nuclear Generation

Rank	Owner	Plant	Generation MWh
2	TVA	Browns Ferry	24,771,137

Nuclear Capacity Factor

Rank	Owner	Plant	Capacity Factor
6	TVA	Watts Bar	99.0%

Coal Heat Rate

Rank	Owner	Plant	Heat Rate Btu/KWh
3	TVA	Bull Run	9.198

Source: Electric Light & Power

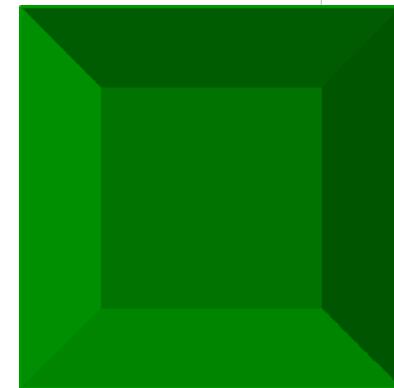
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FY 2012-to-Date



Responsibility

Progress at Kingston



North Embayment in 2008

North Embayment Today



Economic Development Highlights

TVA won Site
Selectors Guild's
Inaugural Award
for Excellence in
Economic Development

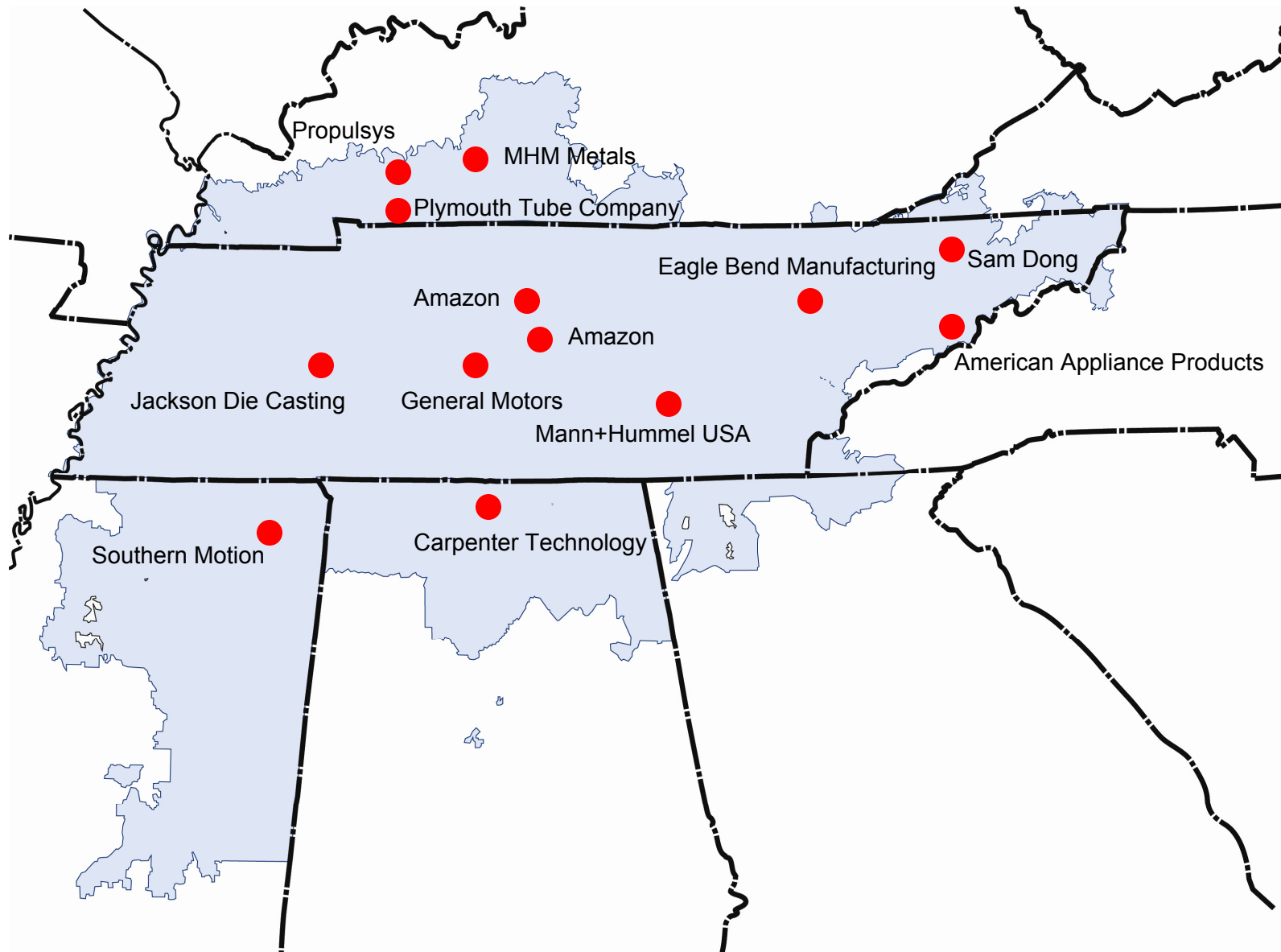


FY 2012 1st Quarter Results

Investment by others: \$1.48 billion

New and Retained Jobs: 8,400

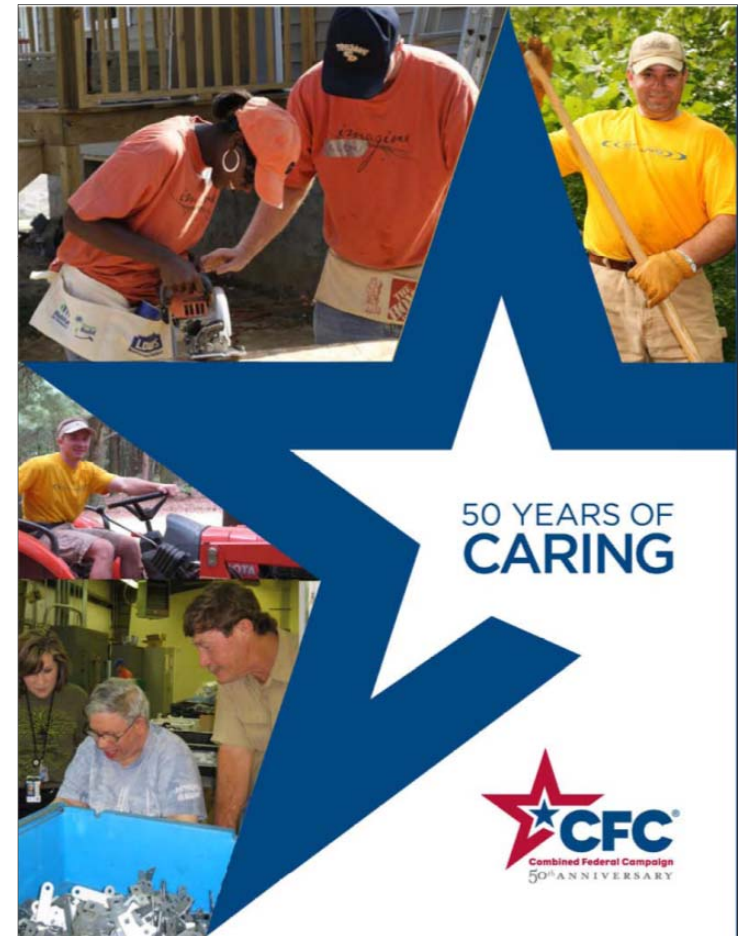
Recent Regional Announcements



Giving Back to the Community

Combined Federal Campaign marked a half-century of helping those in need

TVA employees donated \$ 2.6 million



Our VISION

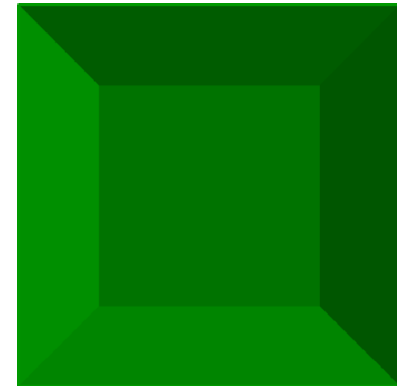


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Cleaner Air

FY 2012-to-Date

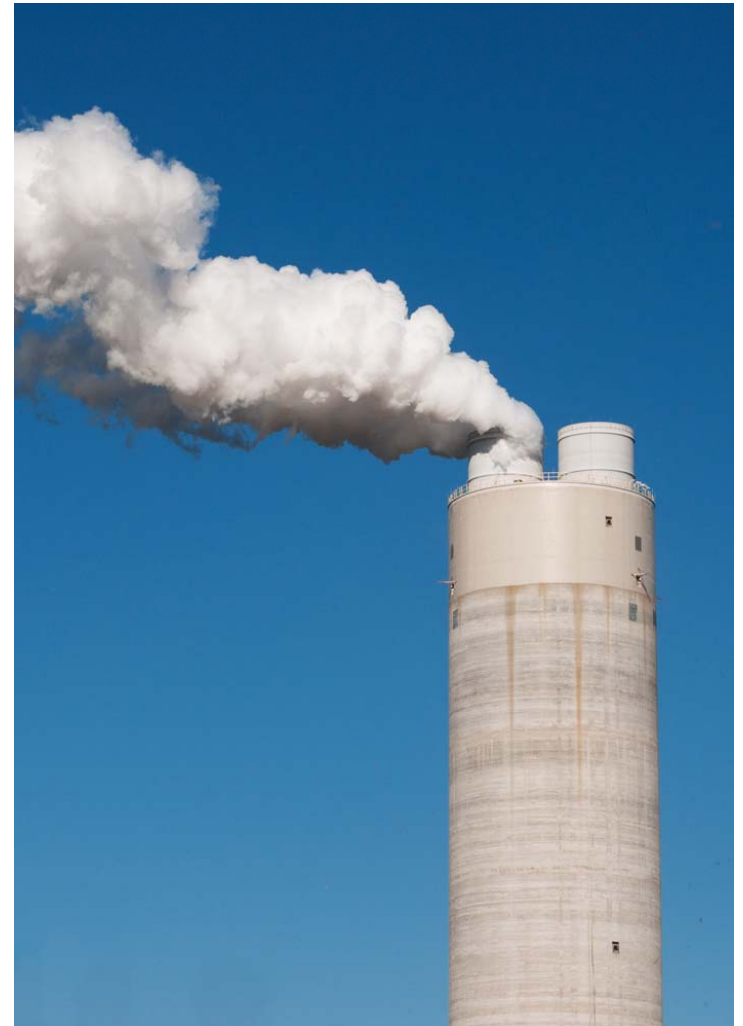


Clean Air Improvements

Kingston scrubber became functional in December

State-of-the-art controls remove 98% of the sulfur dioxide

Will contribute to better air quality in East Tennessee and the Smokies



More Renewable Energy

New contracts with four
Midwest wind farms add
535 megawatts

TVA wind contracts now total
950 megawatts

*...enough electricity for
200,000 homes in the TVA
region*



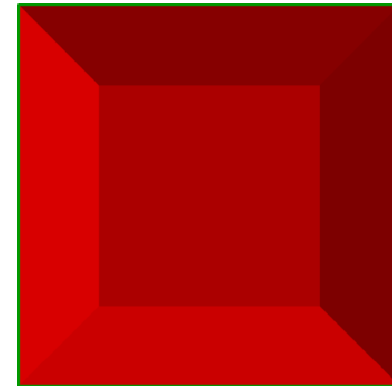
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FY 2012-to-Date



More Nuclear Generation

Nuclear Update

Evaluating Watts Bar Unit 2 completion

Planning steam generator replacement for Sequoyah Unit 2

Refueling outages planned for five nuclear units this year



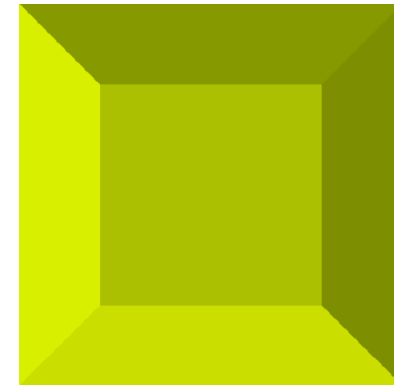
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FY 2012-to-Date



Greater Energy Efficiency

Energy Star Manufactured Homes



Clayton Homes will build all new manufactured homes to Energy Star standards

TVA is providing energy efficiency incentives

Average consumers will save \$840 per year

Energy Efficiency Forum

February 21-22

Opryland Hotel in
Nashville Tennessee

Will draw efficiency
experts, policy makers, utility executives, elected
officials and stakeholders

Topics include trends, obstacles and best practices

Sponsored by TVA, TVPPA and the Alliance to Save
Energy



Off-Peak Pricing Program

Approved by Board in November 2011

Limited pilot started in January 2012 with two customers

Approximately 50 megawatts added during weekend off-peak hours and 40 megawatts added during weekday off-peak hours

Official program starts April 1

Summary

Finance, Rates, and Portfolio Committee

Financial Report

1st Quarter Summary – FY12

Sales and Revenue less than planned

Fuel costs favorable

O&M and Base Capital favorable

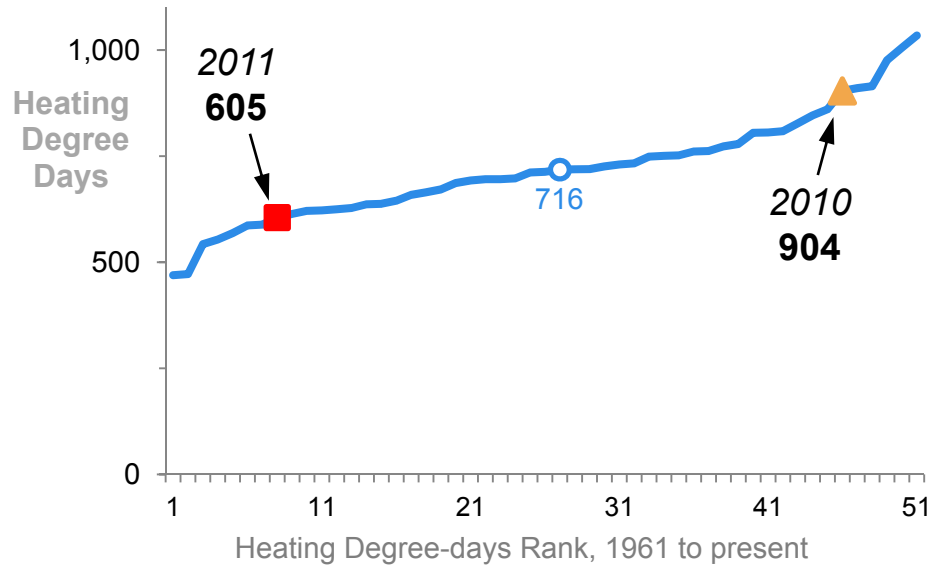
Net Income variance to plan -\$79.5M

Capacity Expansion favorable due to timing

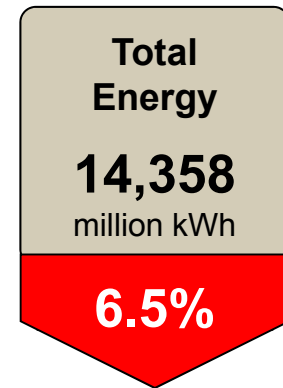
Net Cash Flow variance to plan -\$43M

December Weather Drove Sales

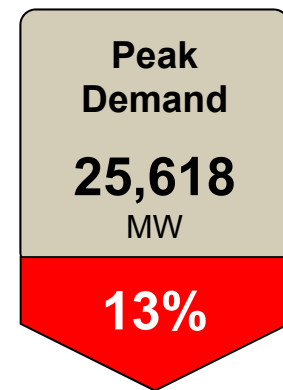
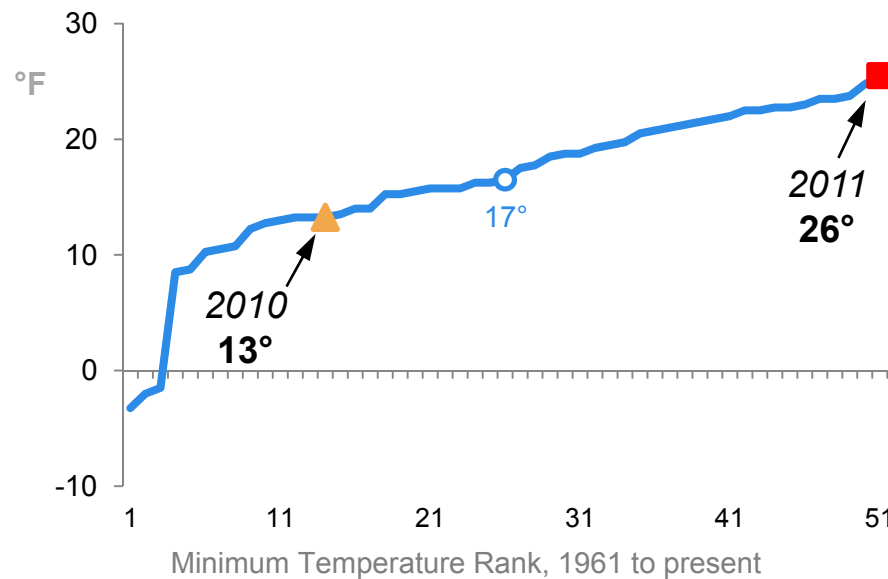
Overall, December was the 8th warmest since 1961, leading to reduced sales



v. Plan



The minimum temperature for December was 26°, the warmest in over 50 years



Summary Income Statement

(in millions)	YTD Actual	YTD Budget	Variance
Operating Revenue	\$ 2,569	\$ 2,725	\$ (157)
Fuel & Purchased Power	874	954	79
FCA Amortization/Deferral	85	10	(75)
Operations & Maintenance	878	901	23
Depreciation, Amortization	441	455	14
Tax Equivalents & Other	151	152	1
Operating Expenses	2,428	2,472	43
Operating Income	140	254	(114)
Other Income	8	2	6
Interest Expense	319	347	28
Net Income	\$ (170)	\$ (91)	\$ (79)

Summary Cash Flow Statement

Fiscal Year to Date (in millions)	YTD Actual	YTD Budget	Variance
Beginning Cash and Short-term Investments	\$ 507	\$ 500	\$ 7
Cash Flow from Operating Activities	101	372	(271)
Cash Flow from Investing Activities	(666)	(1,405)	739
Cash Flow from Financing Activities	271	805	(534)
Net Change in Cash & Cash Equivalents	\$ (294)	\$ (228)	\$ (66)
Ending Cash and Short-term Investments	\$ 213	\$ 272	\$ (59)
FYTD Debt & Financing Obligations	\$ 26,910	\$ 27,119	\$ 209

Summary

Highlights

- Low commodity prices (natural gas & purchased power)
- Low interest rates
- Project cash flows (timing)

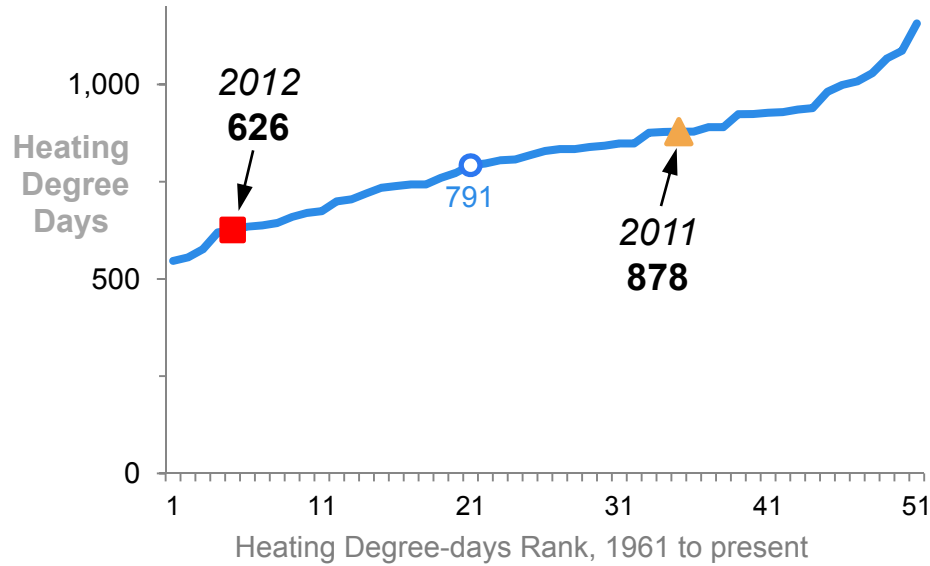
Hard Spots

- Sluggish economy
- Mild weather significantly impacting demand
- Regulatory maintenance driving operational project spend
- Market returns

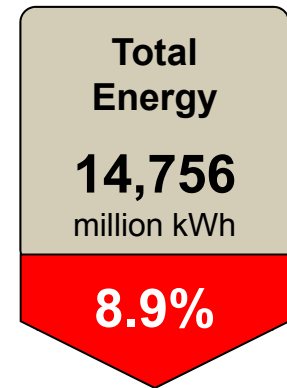
Fiscal Year 2012 Look Ahead

January Continues Trend

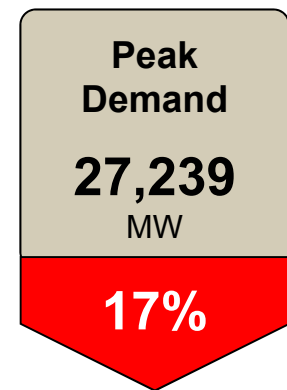
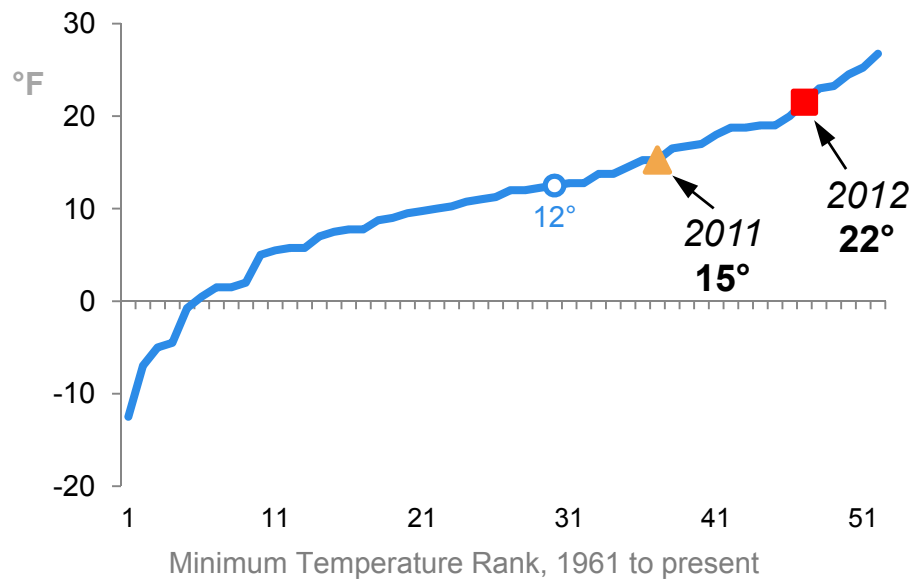
Overall, January was the 5th warmest since 1961, leading to reduced sales



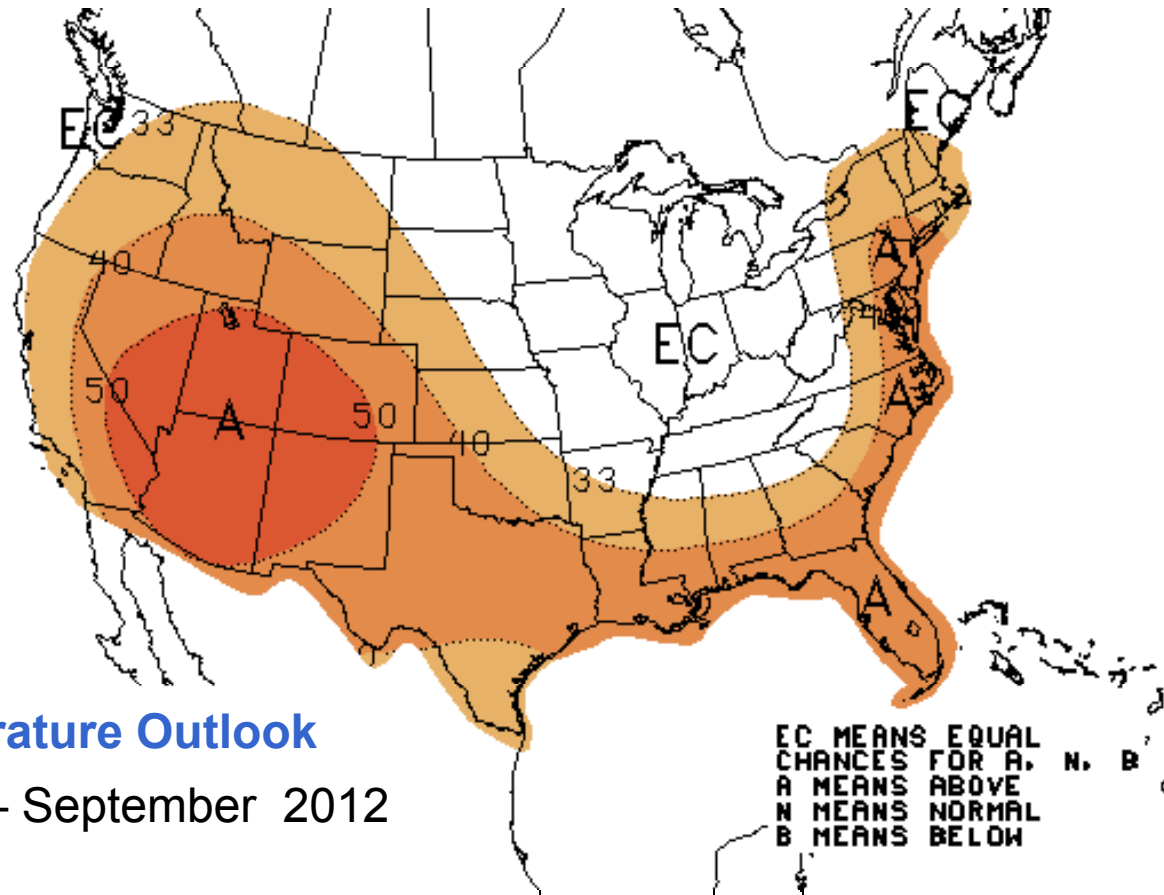
v. Plan



The minimum temperature for January was 22°, the 6th warmest in over 50 years



Summer Weather Picture

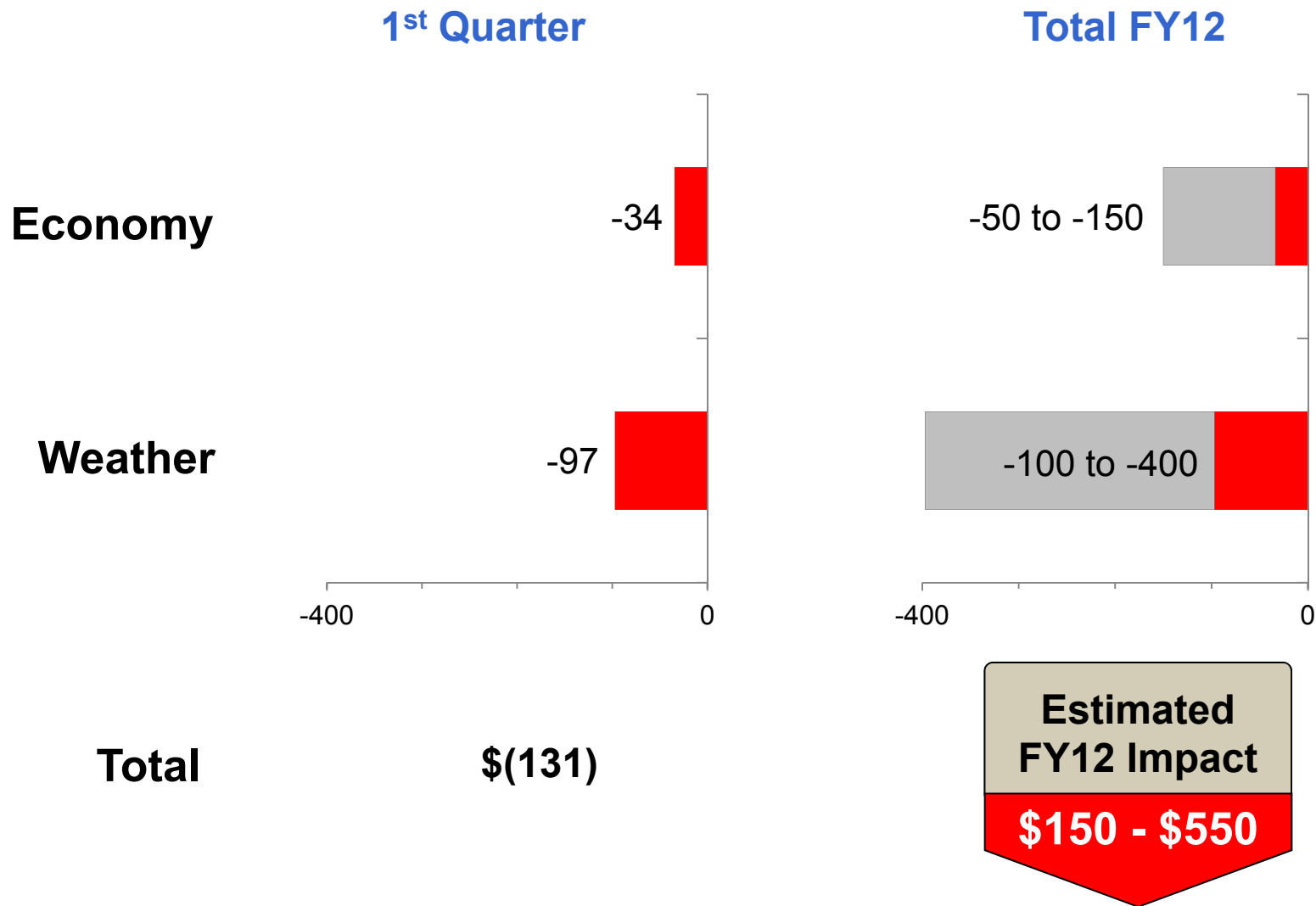


NOAA Temperature Outlook

July – August – September 2012

Made January 19, 2012

Non-Fuel Revenue Outlook



Rates

Actual Base Rates Are Below Plan and Below Last Year

Effective Rates - ¢/kWh	FY12 1 st Qtr	FY11 1 st Qtr	%
Actual	4.16	4.34	(4.1%)
Plan	4.29		(3.0%)

Fiscal Year 2012 Look Ahead

Highlights

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

Hard Spots

- Reduced outlook for sales in 2012
- Increasing capital investment needs
- Market volatility

Portfolio Report

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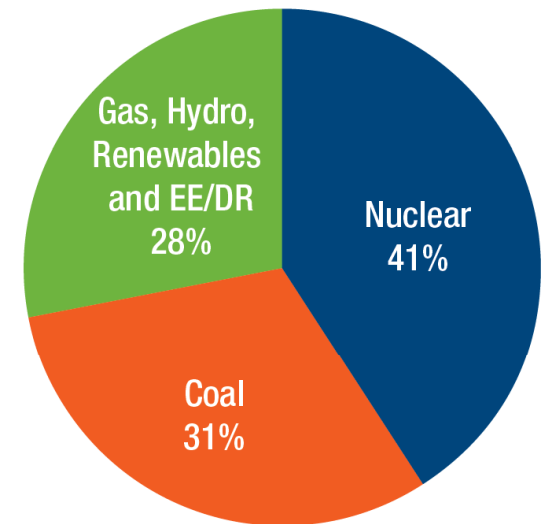
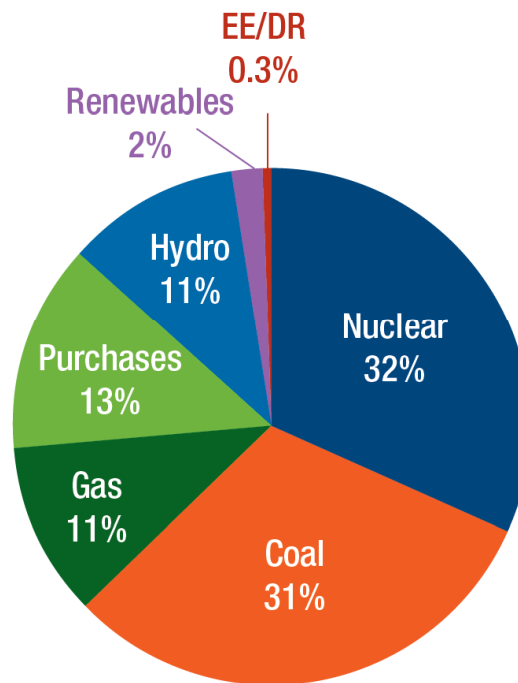
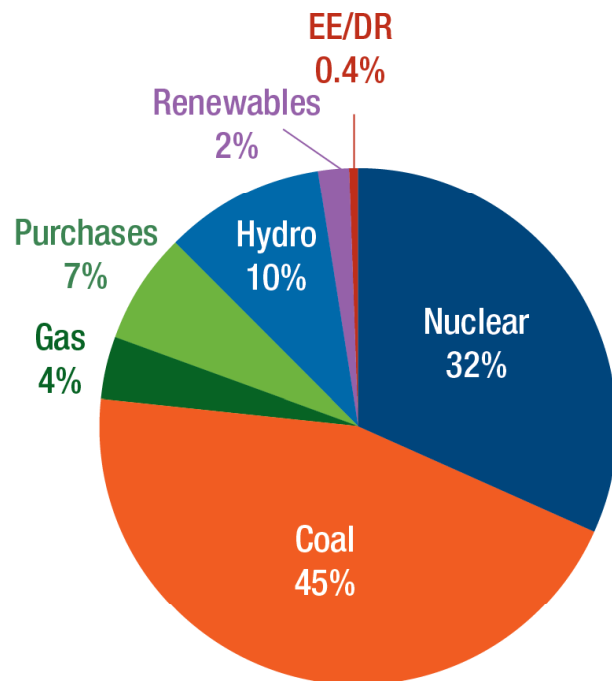
Acting to meet the region's needs for the future, while improving our core business today.

Generation Portfolio

IRP Direction

2012 Actual

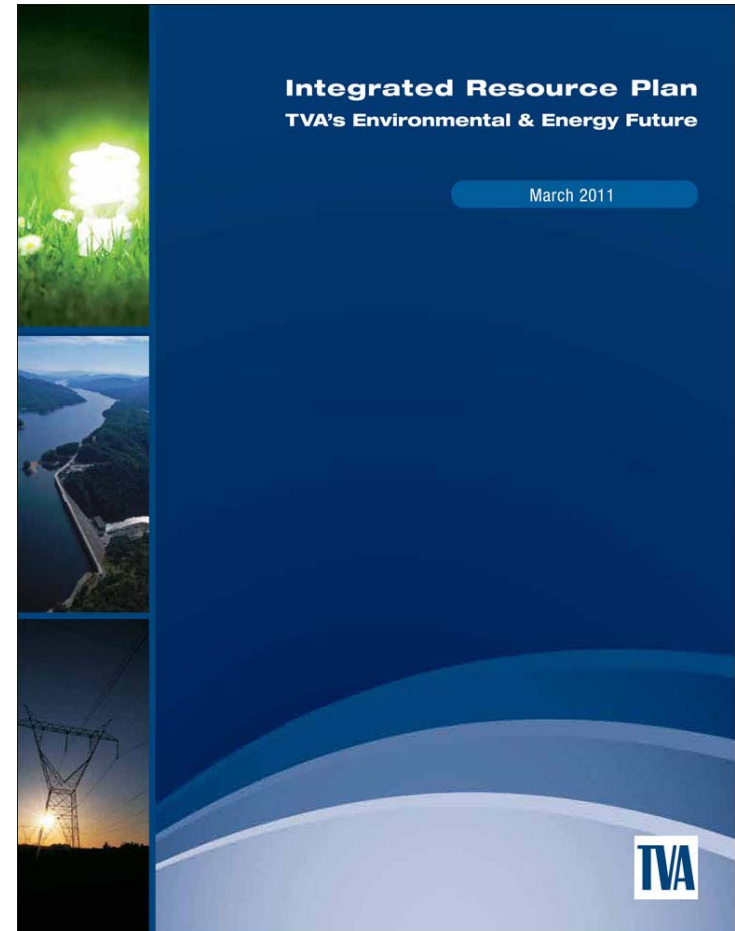
2012 Budget



TVA's Integrated Resource Plan

A Framework for TVA's Long-Term Future

- Guides power system planning by bounding decisions for possible future market conditions
- Balances costs and risks to benefit all stakeholders with goal to maintain low rates
- Allows flexible responses to change
- Reduces environmental impacts



IRP Recommendations

 **Nuclear generation**

 **Coal capacity**

 **Natural gas as an intermediate supply source**

 **Energy efficiency and demand response**

 **Cost-effective renewable energy**

Near-Term Market Pressures



Slower Load Growth

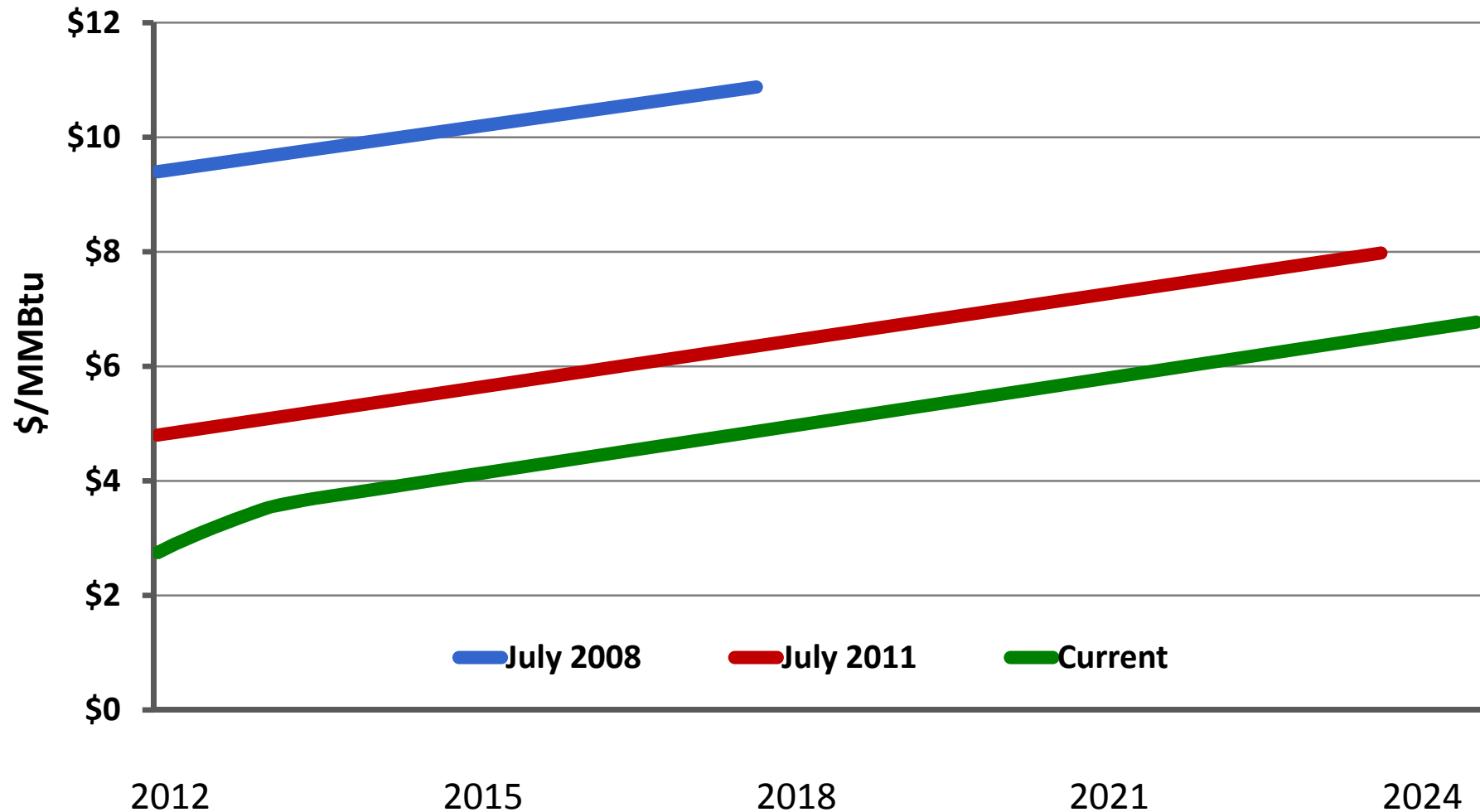
Lower Natural Gas Prices



Environmental Regulation

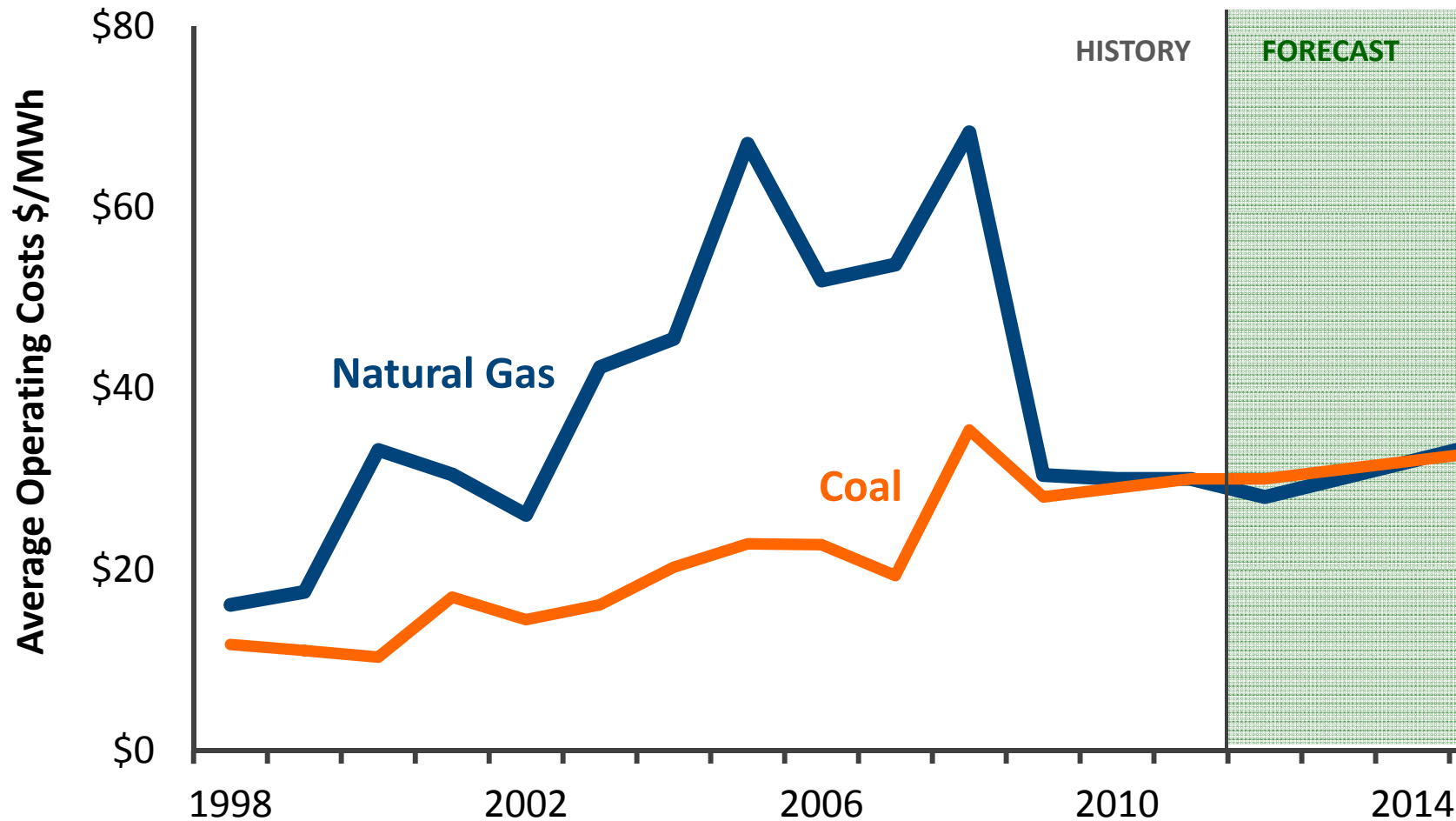
Natural Gas Prices

View of Long Term Natural Gas Prices Has Shifted



Natural Gas vs Coal

Natural Gas is Now a Strong Competitor to Coal



Portfolio

Regulatory Compliance

- EPA Clean Air Agreement aligns with our Vision
- Portfolio Plan for Environmental Compliance
 - Continue to invest in economic units
 - Retire/idle older costly units
 - Evaluate conversion of existing assets to natural gas

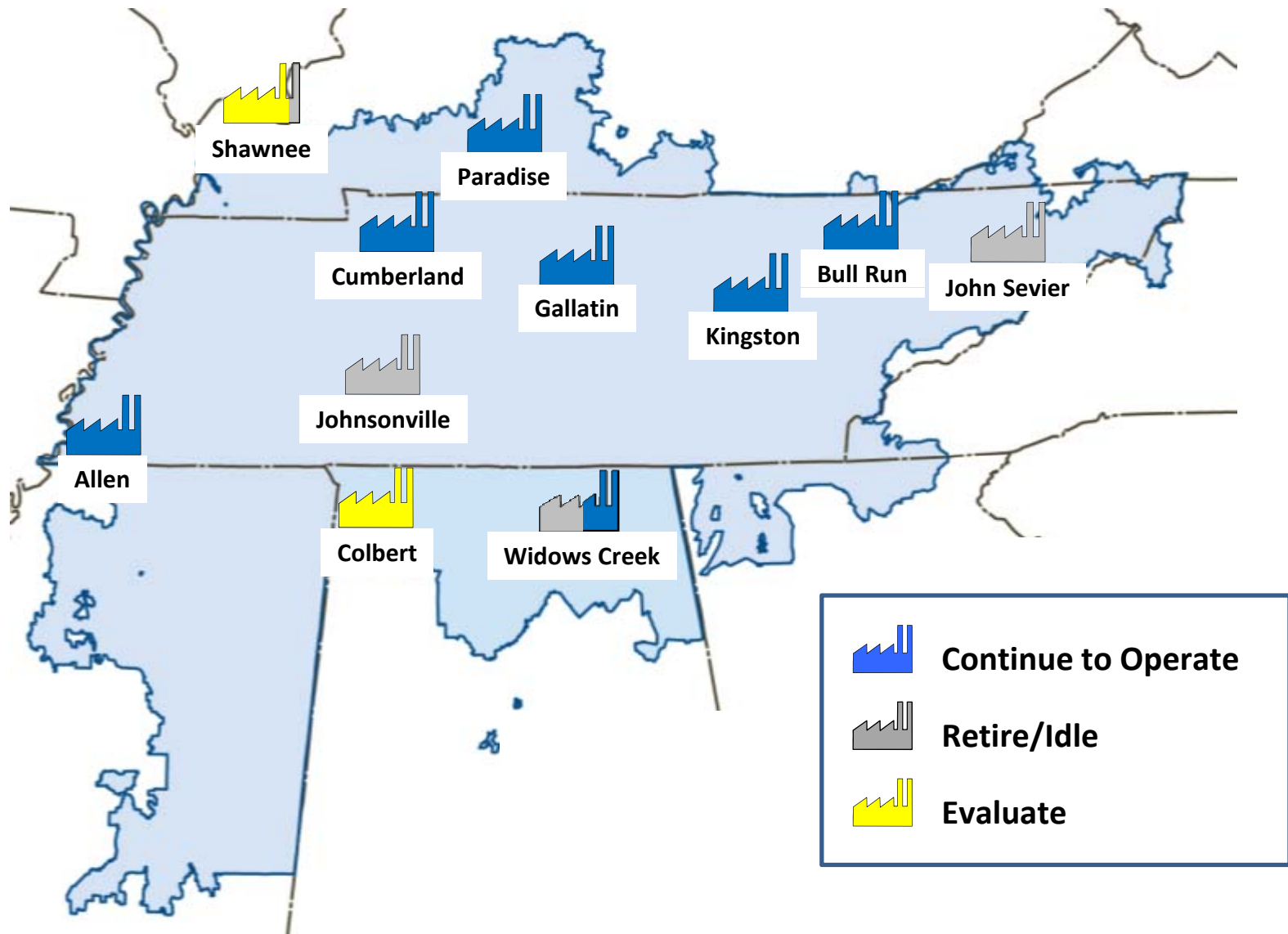


Announced Coal Plant Retirements

	Number of Units	Capacity in Megawatts
Multi-Owned	20	4,227
American Electric Power (AEP)	18	4,106
FirstEnergy	21	3,304
Other (<3 units each)	19	2,771
Tennessee Valley Authority	18	2,700
Duke Energy Corporation	19	2,521
Dominion Resources, Inc.	11	1,580
Progress Energy, Inc.	8	1,402
CMS Energy Corporation	7	970
Southern Company	3	957
PPL Corporation	6	908
Xcel Energy Inc.	4	533
GenOn Energy Inc.	5	514
Wisconsin Energy Corporation	5	450
AES Corporation	4	301
Alliant Energy Corporation	3	103
Rio Tinto PLC	3	100

Data Source: SNL Financial and TVA (Nameplate capacity)

TVA Coal Fleet Decisions

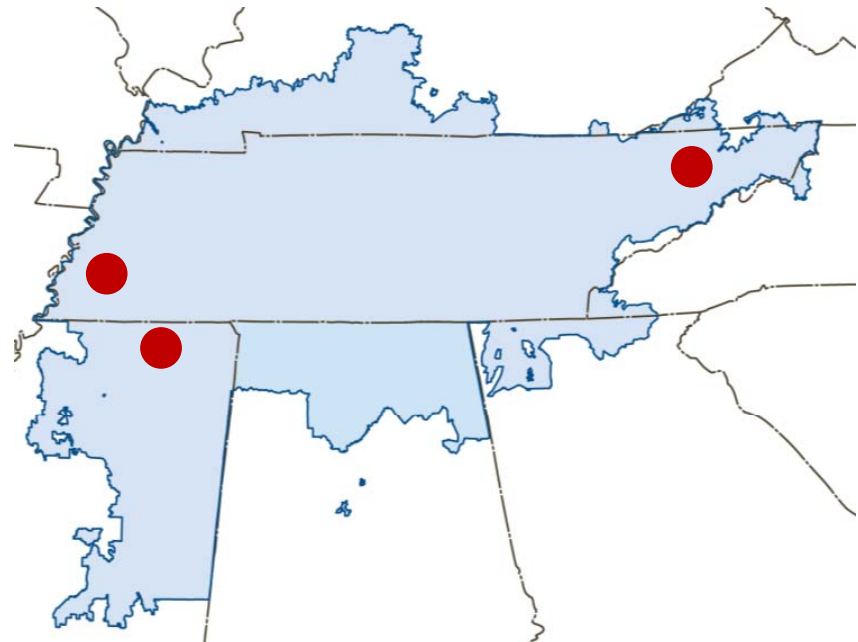


Portfolio Diversification

TVA has added three combined cycle generating facilities burning clean, low-priced, domestic natural gas

Lagoon Creek – Magnolia – John Sevier

- Generating Capacity of 2,329 Megawatts
- Anticipated FY2012 generation
 - 12.4 million kilowatt hours



\$425 million in potential savings in FY2012

Demand-Side Options - EnergyRight® Solutions

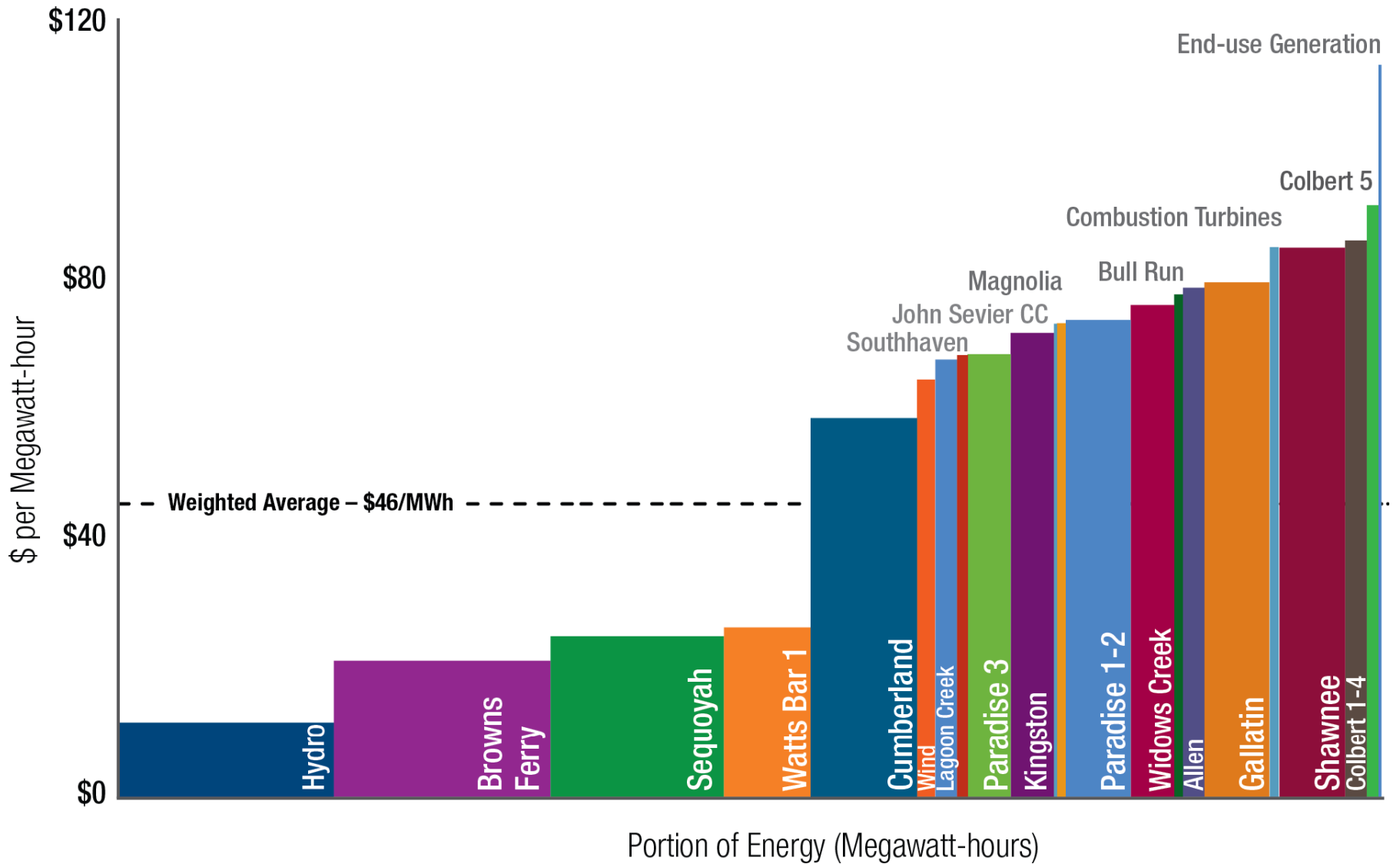
- Achieved 69 gigawatt hours of energy savings and 35 megawatts of demand reduction
- Performed 4,843 In-Home Energy Evaluations
- Completed more than 33,000 evaluations since April 2009
- Supported installation 1,719 heat pumps
- Supported completion of 174 commercial and industrial high-efficiency projects

Results are for 1st Quarter Fiscal Year 2012

Supply-Side Options - Renewable Energy Solutions

- TVA's Green Power Switch - Nationally Recognized for its Campus Outreach Program
Best Green Power Education Outreach Program
- Golden Triangle Regional Solid Waste Management Authority - A TVA Generation Partners project
2011 EPA Landfill Methane Outreach Program Project of the Year
- Renewable Power Additions
 - Wind contracts – Adding 535 megawatts
 - Solar sites dedicated - Generating about 43 kilowatts

Energy

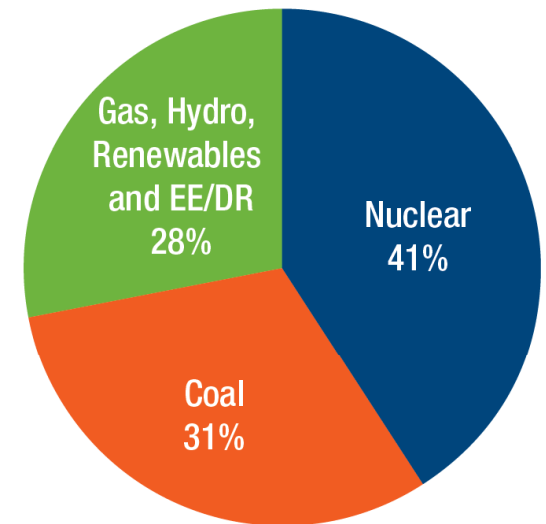
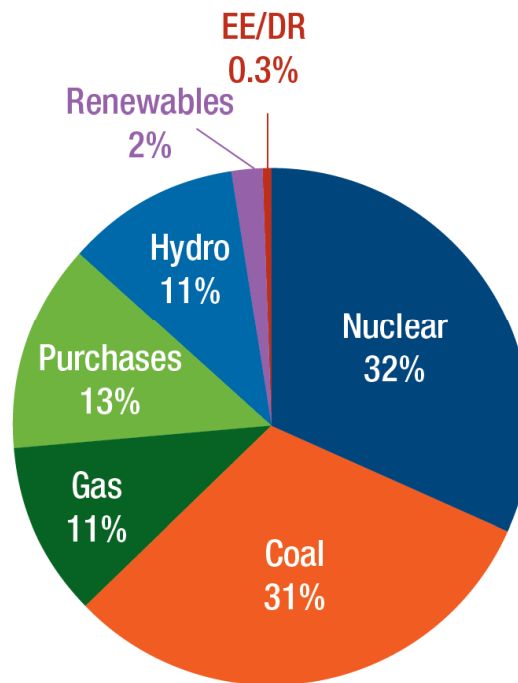
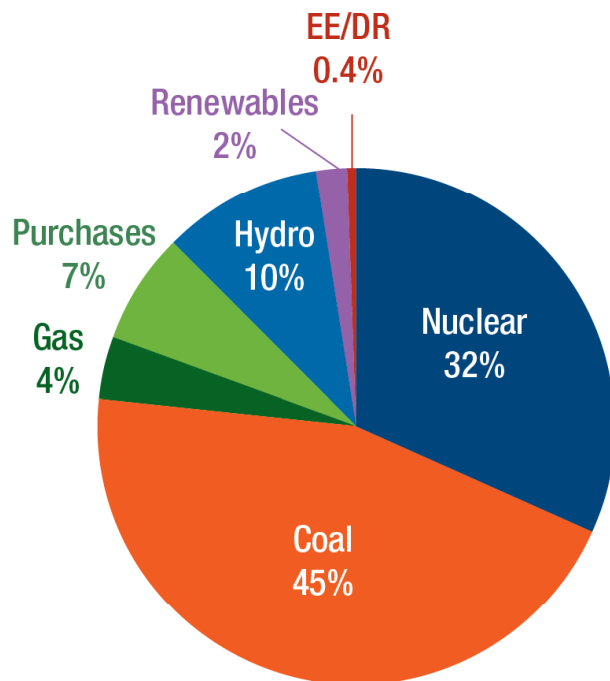


Generation Portfolio

IRP Direction

2012 Actual

2012 Budget



Small Manufacturing Credit Modification

For Board Consideration

Modify the Small Manufacturing (SM) Credit so the 1 megawatt threshold would be reduced by the amount of demand saved from participation in energy efficiency and demand response (EEDR) programs

Background

SM Credit is available to retail industrial customers with electricity demand greater than 1 megawatt

TVA also provides these customers EEDR programs

Customers could forego participation in EEDR programs that lower their demand below the 1 megawatt threshold and remove the benefit of the SM Credit

Proposed Modification

Applies to customers who qualify for the SM Credit prior to participating in an EEDR program

Reduces the 1 megawatt threshold by the amount of demand reduced by the EEDR program

The amount of the demand reduction would be determined consistent with TVA's measurement and verification process

Recommendation

Modify the Small Manufacturing Credit so the 1 megawatt threshold would be reduced by the amount of demand saved from participation in energy efficiency and demand response programs

Customer and External Relations Committee

External Relations

External relations covers a large number of interests:

- Distributors
- Direct-served industrials
- Government entities
- Other stakeholders

Committee also reviews strategies and policies of flood control, renewable energy, energy efficiency, and TVA's economic development

Nuclear Oversight Committee

Watts Bar Unit 2 Project Update

Cost and Schedule Issues

The approved Watts Bar Unit 2 Completion Project Plan will not reach completion as scheduled nor meet the budgeted cost estimate

Analysis thus far has determined causes to be:

- Leadership
- Original Cost Estimate
- Execution

New Estimate to Complete

- **Why Develop a New Estimate to Complete (ETC)**
 - Rigorous process resulting in high confidence results
- **How the ETC Is Developed**
 - Collaborative team approach considering outstanding work
 - Accurate estimates being incorporated
 - Independent assessments to improve level of confidence
- **ETC Results**
 - A range of probable costs based on a project risk ranking

ETC Will Be Higher Confidence

- **Applied labor (field work)**
 - Quantities
 - Unit rates
 - Applied Resources (i.e. manpower levels)
- **House load (non-field work)**
 - Engineering
 - Field non-manual

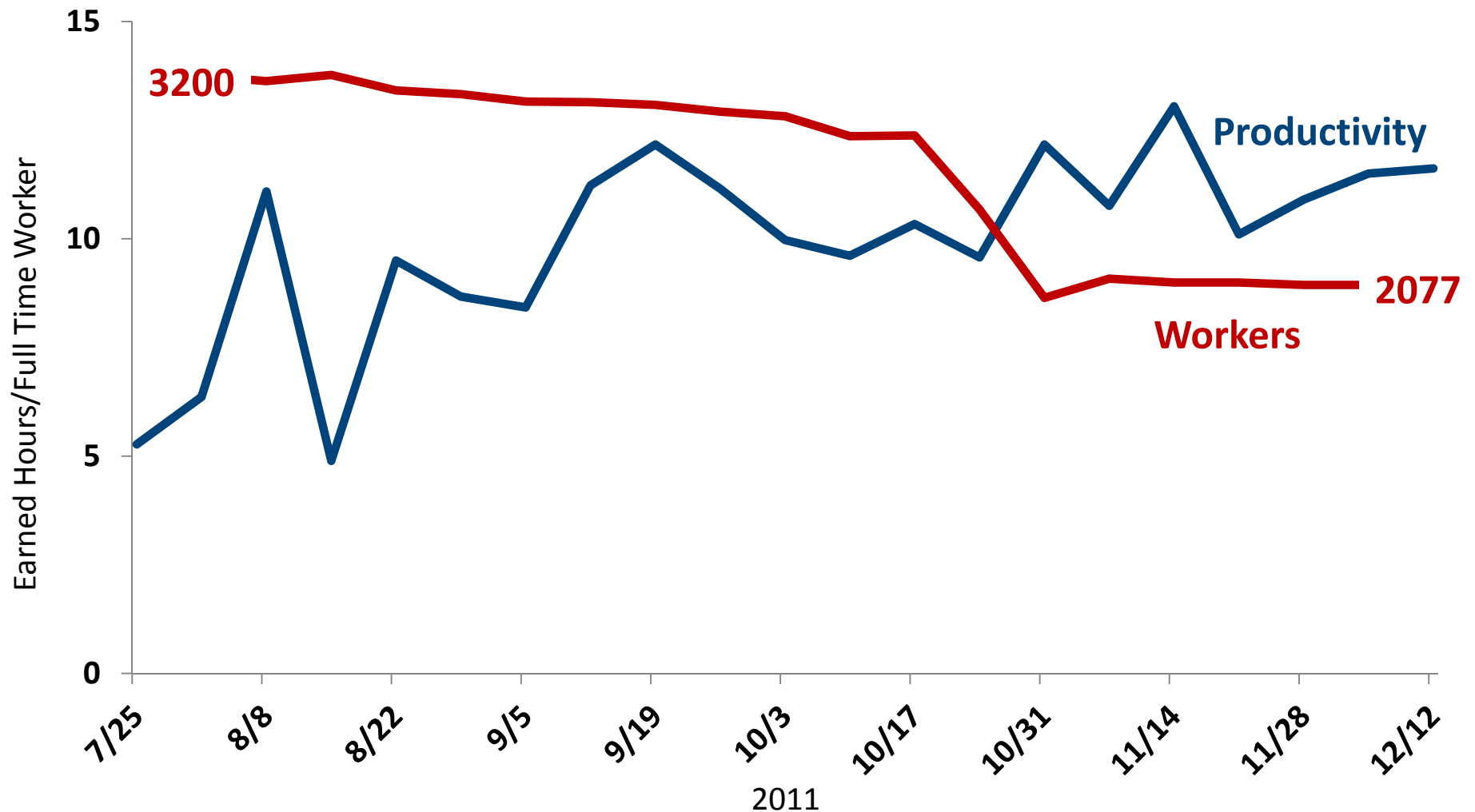


Targeted Areas of Improvements

- Project Management
- Organizational Structure
- Work Flow Improvements
- Better Planning and Estimates
- New Leadership Team

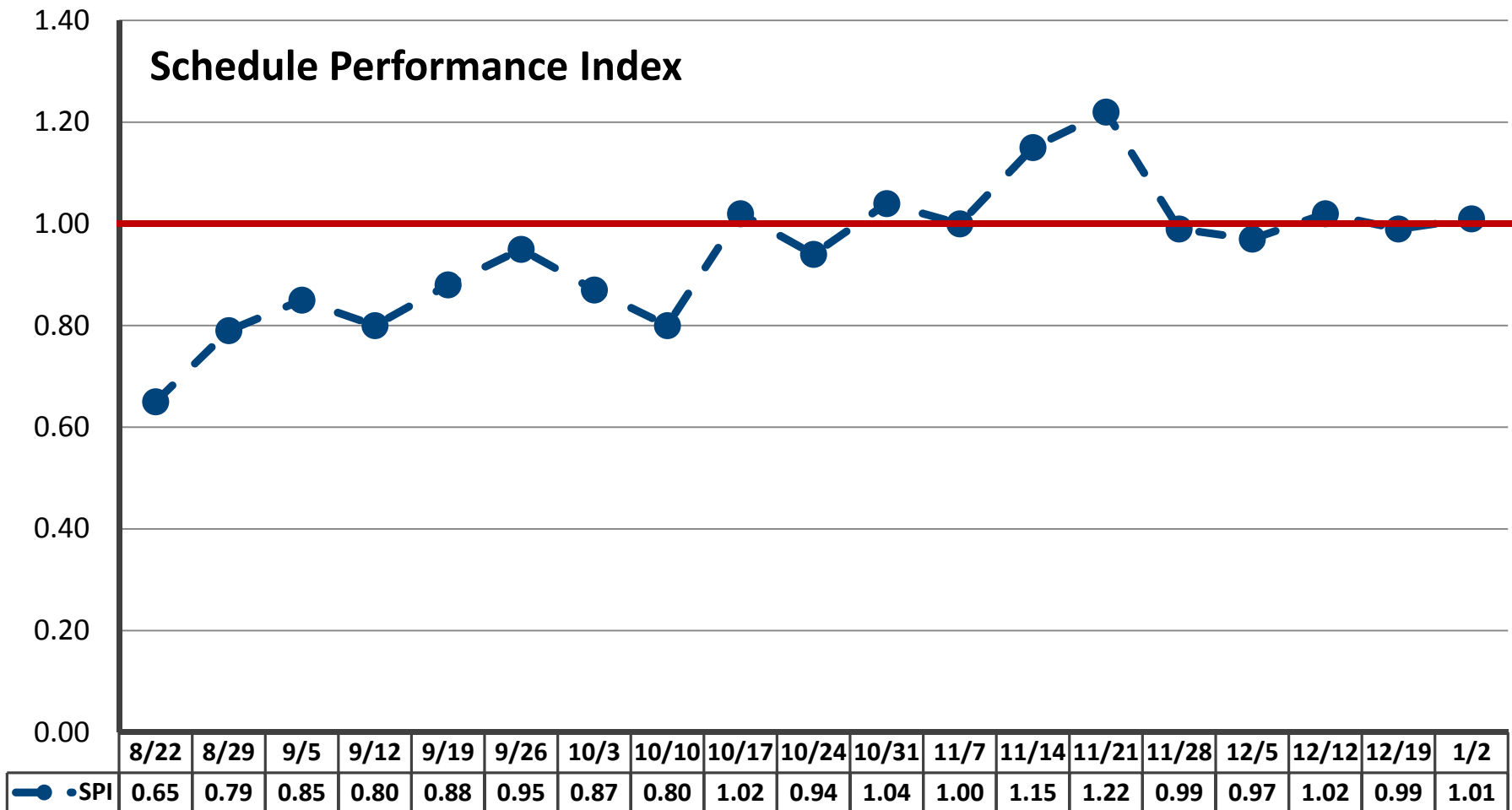
Productivity

Productivity levels have improved despite fewer workers



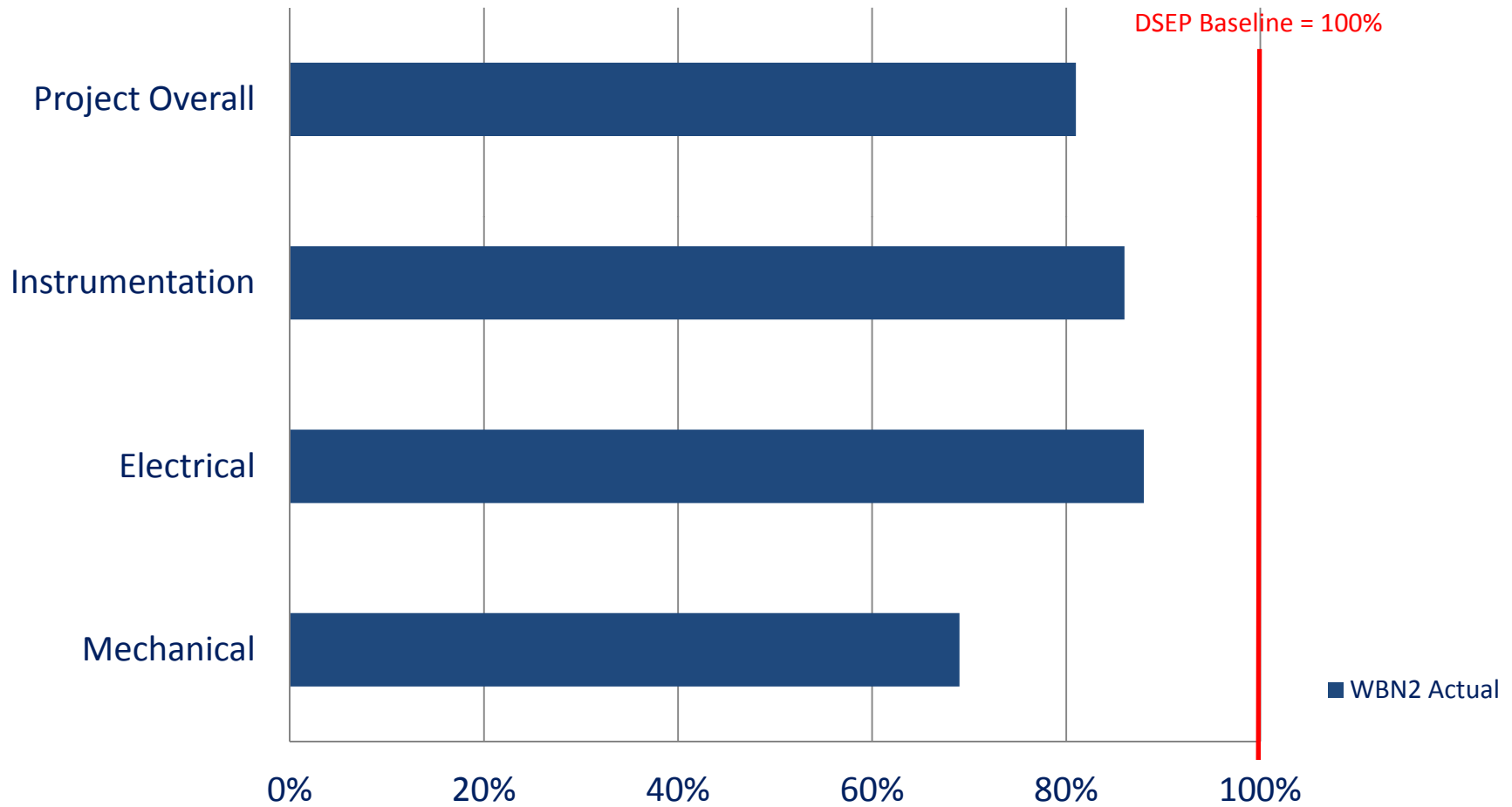
Effectiveness of Corrective Actions

SPI has shown continuous improvement



Quantities

Unit Rate Comparison v. DSEP



Next Steps

Final ETC Reached in April 2012

Review results upon completion

Immediate implementation of the ETC after Board approval

Summary

- Safe, cost-effective completion supports Integrated Resource Plan and Vision

Nuclear Oversight Committee

Audit, Risk, and Regulation Committee

People and Performance Committee