

TVA Update

Presentation to the Financial Community

June 15, 2012





Safe-Harbor Statement

This presentation contains forward-looking statements relating to future events and future performance. All statements other than those that are purely historical may be forward-looking statements. In certain cases, forward-looking statements can be identified by the use of the words such as "may," "will," "should," "expect," "anticipate," "believe," "intend," "project," "plan," "predict," "assume," "forecast," "estimate," "objective," "possible," "probably," "likely," "potential," or other similar expressions. Although TVA believes that the assumptions underlying the forward-looking statements are reasonable, TVA does not guarantee the accuracy of these statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things: New or changed laws, regulations, and administrative orders, including those related to environmental matters, and the costs of complying with these new or changed laws, regulations, and administrative orders, as well as complying with existing laws, regulations, and administrative orders; The requirement or decision to make additional contributions to TVA's pension or other post-retirement benefit plans or to TVA's Nuclear Decommissioning Trust ("NDT"); Events at a TVA nuclear facility, which, among other things, could result in loss of life, damage to the environment, damage to or loss of the facility, and damage to the property of others; Events at a nuclear facility, whether or not operated by or licensed to TVA, which, among other things, could lead to increased regulation or restriction on the construction, operation, and decommissioning of nuclear facilities or on the storage of spent fuel, obligate TVA to pay retrospective insurance premiums, reduce the availability and affordability of insurance, increase the costs of operating TVA's existing nuclear units, negatively affect the cost and schedule for completing Watts Bar Nuclear Plant ("Watts Bar") Unit 2 and Bellefonte Nuclear Plant ("Bellefonte") Unit 1, or cause TVA to forego future construction at these or other facilities; Significant delays, cost increases, or cost overruns associated with the construction of generation or transmission assets; Fines, penalties, natural resource damages, and settlements associated with the Kingston Fossil Plant ("Kingston") ash spill; The outcome of legal and administrative proceedings; Significant changes in demand for electricity; Addition or loss of customers; The continued operation, performance, or failure of TVA's generation, transmission, and related assets, including coal combustion residual ("CCR") facilities; Modernizing aging coal-fired generating units and installing emission control equipment to meet existing and anticipated emissions reduction requirements which could render continued operation of many of these units not cost-effective and result in their removal from service, perhaps permanently; Disruption of fuel supplies, which may result from, among other things, weather conditions, production or transportation difficulties, labor challenges, or environmental laws or regulations affecting TVA's fuel suppliers or transporters; Purchased power price volatility and disruption of purchased power supplies; Events involving transmission lines, dams, and other facilities not operated by TVA, including those that affect the reliability of the interstate transmission grid of which TVA's transmission system is a part, as well as inadequacies in the supply of water to TVA's generation facilities; Inability to obtain regulatory approval for the construction or operation of assets; Weather conditions; Catastrophic events such as fires, earthquakes, solar events, floods, hurricanes, tornadoes, pandemics, wars, national emergencies, terrorist activities, and other similar events, especially if these events occur in or near TVA's service area; Restrictions on TVA's ability to use or manage real property currently under its control; Reliability and creditworthiness of counterparties; Changes in the market price of commodities such as coal, uranium, natural gas, fuel oil, crude oil, construction materials, reagents, electricity, and emission allowances; Changes in the market price of equity securities, debt securities, and other investments; Changes in interest rates, currency exchange rates, and inflation rates; Rising pension and health care costs; Increases in TVA's financial liability for decommissioning its nuclear facilities and retiring other assets; Limitations on TVA's ability to borrow money which may result from, among other things, TVA's approaching or reaching its debt ceiling and changes in TVA's borrowing authority; An increase in TVA's cost of capital which may result from, among other things, changes in the market for TVA's debt securities, changes in the credit rating of TVA or the U.S. government, and an increased reliance by TVA on alternative financing arrangements as TVA approaches its debt ceiling; Changes in the economy and volatility in financial markets; Inability to eliminate identified deficiencies in TVA's systems, standards, controls, and corporate culture; Ineffectiveness of TVA's disclosure controls and procedures and its internal control over financial reporting; Problems attracting and retaining a qualified workforce; Changes in technology; Failure of TVA's assets to operate as planned and the failure of TVA's cyber security program to protect TVA's assets from cyber attacks; Differences between estimates of revenues and expenses and actual revenues earned and expenses incurred; and Unforeseeable events. New factors emerge from time to time, and it is not possible for management to predict all such factors or to assess the extent to which any factor or combination of factors may impact TVA's business or cause results to differ materially from those contained in any forward-looking statement. TVA undertakes no obligation to update any forward-looking statement to reflect developments that occur after the statement is made.



Agenda

- **Business Strategy Overview**
- **Nuclear Program Overview**
- **Financial Update**
- **Financing Program Update**





BUSINESS STRATEGY OVERVIEW

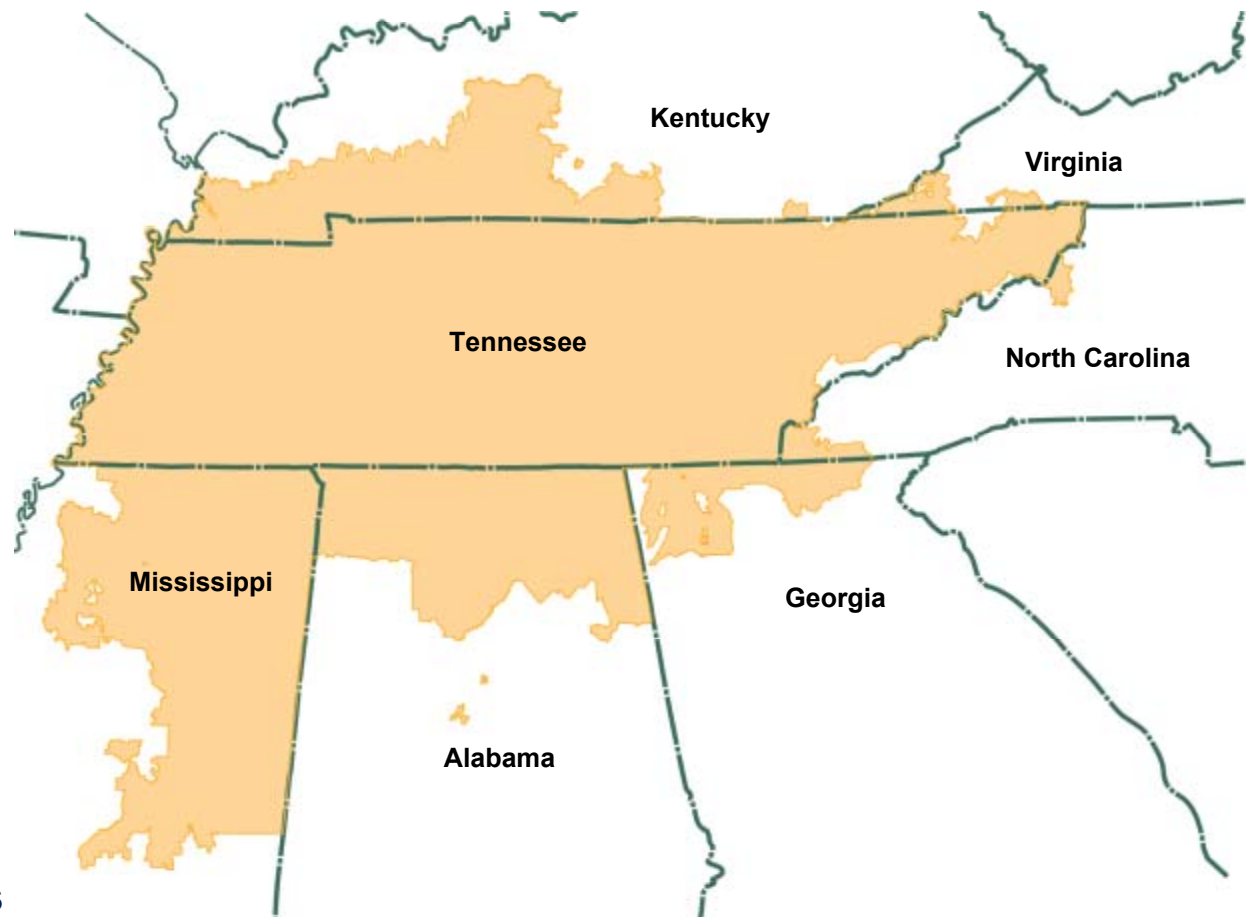
John Thomas, EVP & Chief Financial Officer



America's Largest Public Power Provider

- Wholly owned agency of the U.S. government
- Profit-neutral, self-funded
- AAA/Aaa/AA+ ratings
- 9 million area population
- 155 muni/co-op distributors
- 55 direct customers
- 80,000 sq. mile service area (covering parts of 7 states)
- 37,300 MW power capacity
- 167.7 billion kWh sales
- \$11.8 B annual revenues
- \$46.2 B total assets
- 12,900 employees
- TN Valley region would rank as 29th largest economy in the world

The TVA Power Service Area



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



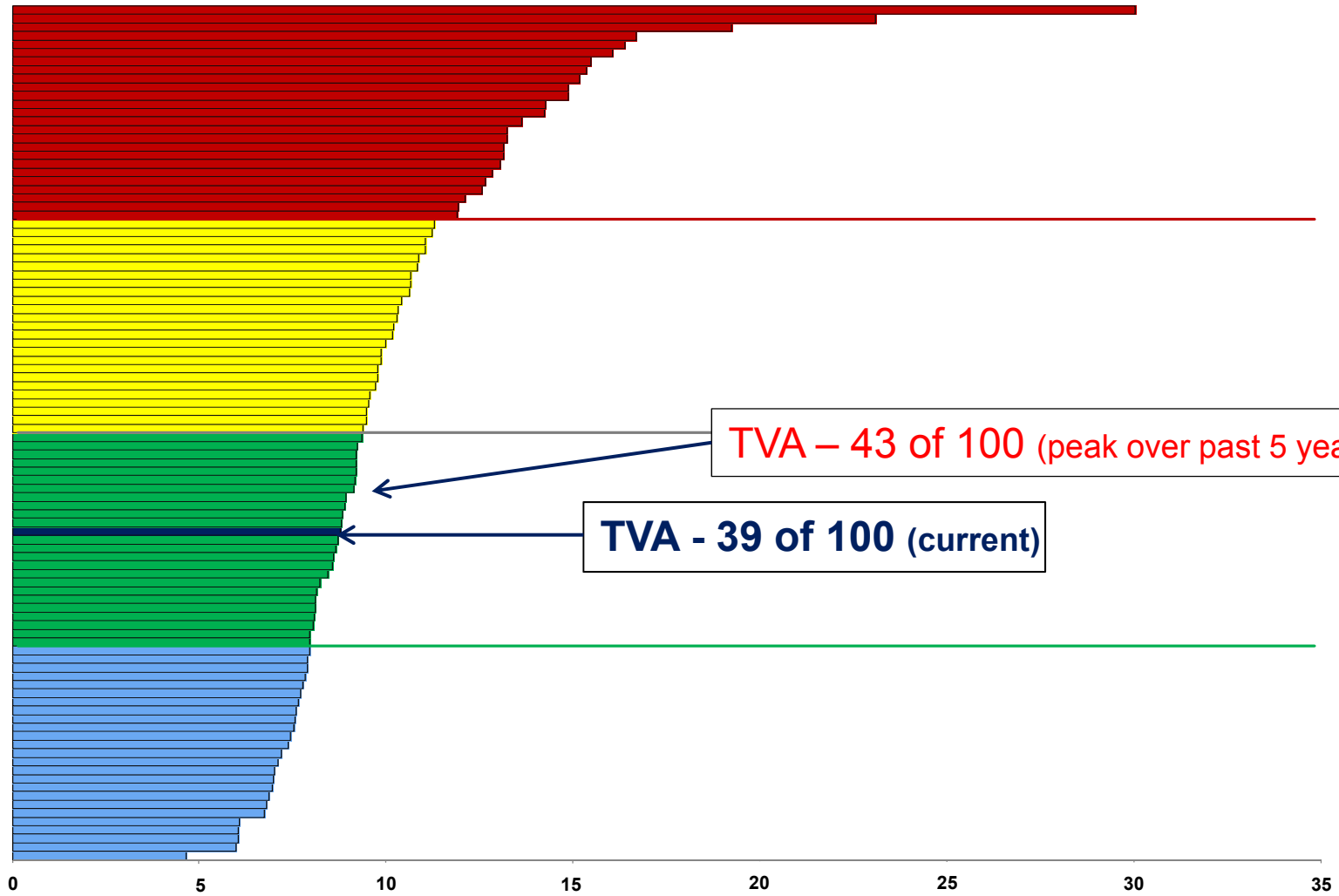
Greater Energy Efficiency

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



Low Power Rates

Top 100 Utilities' Retail Rates

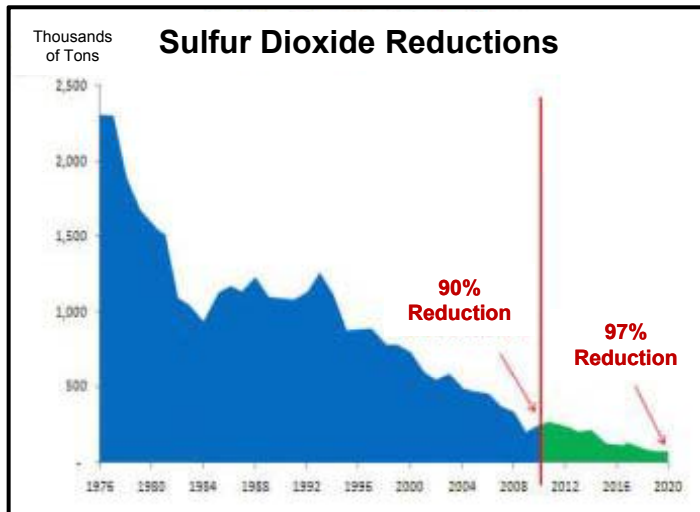
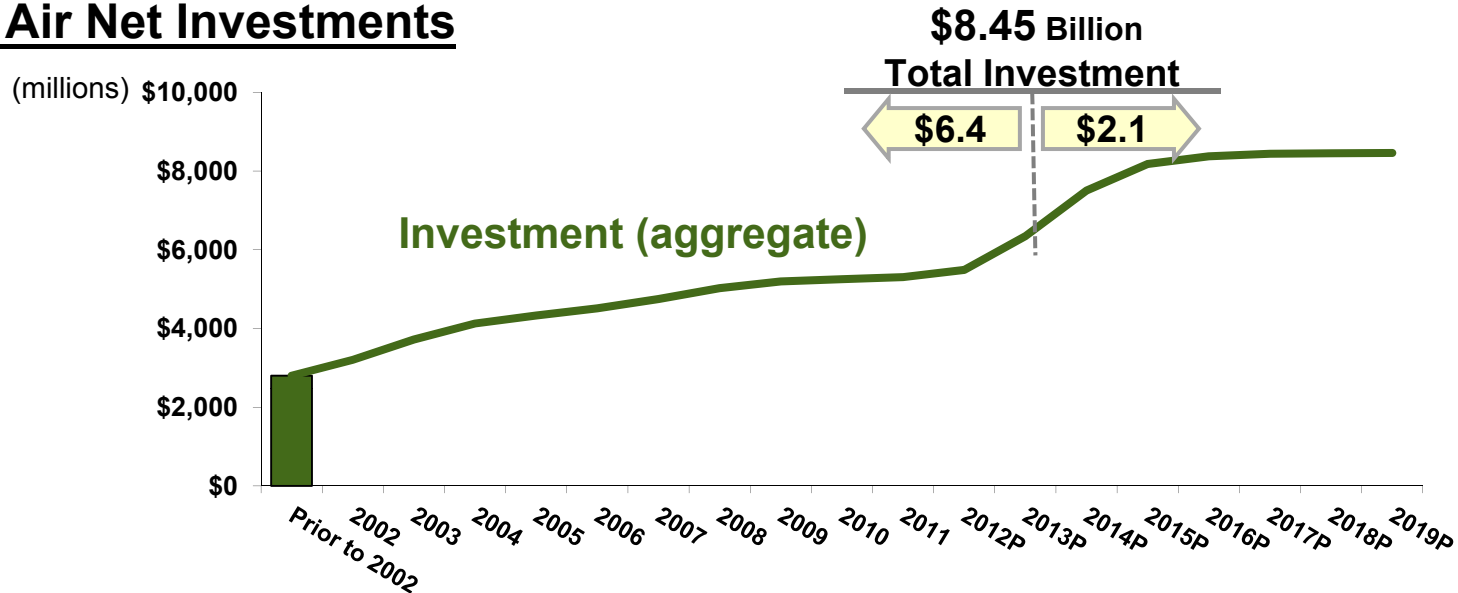


Mar 2011 – Feb 2012 (Source: EIA-826 & ESS)

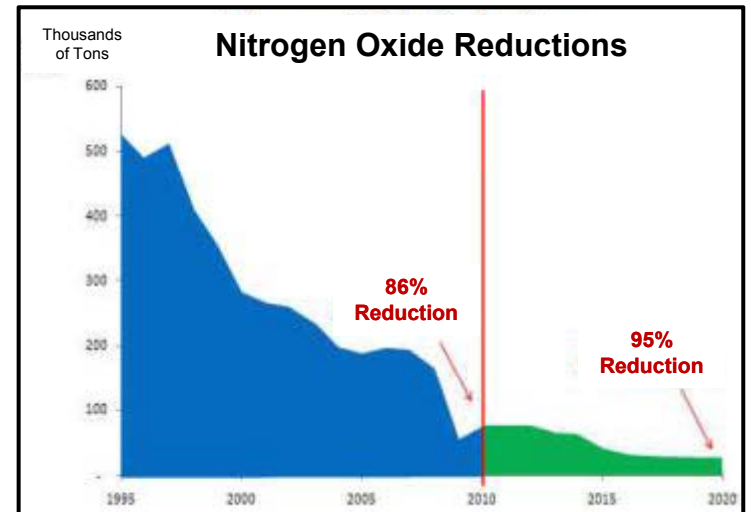


Cleaner Air

Clean Air Net Investments

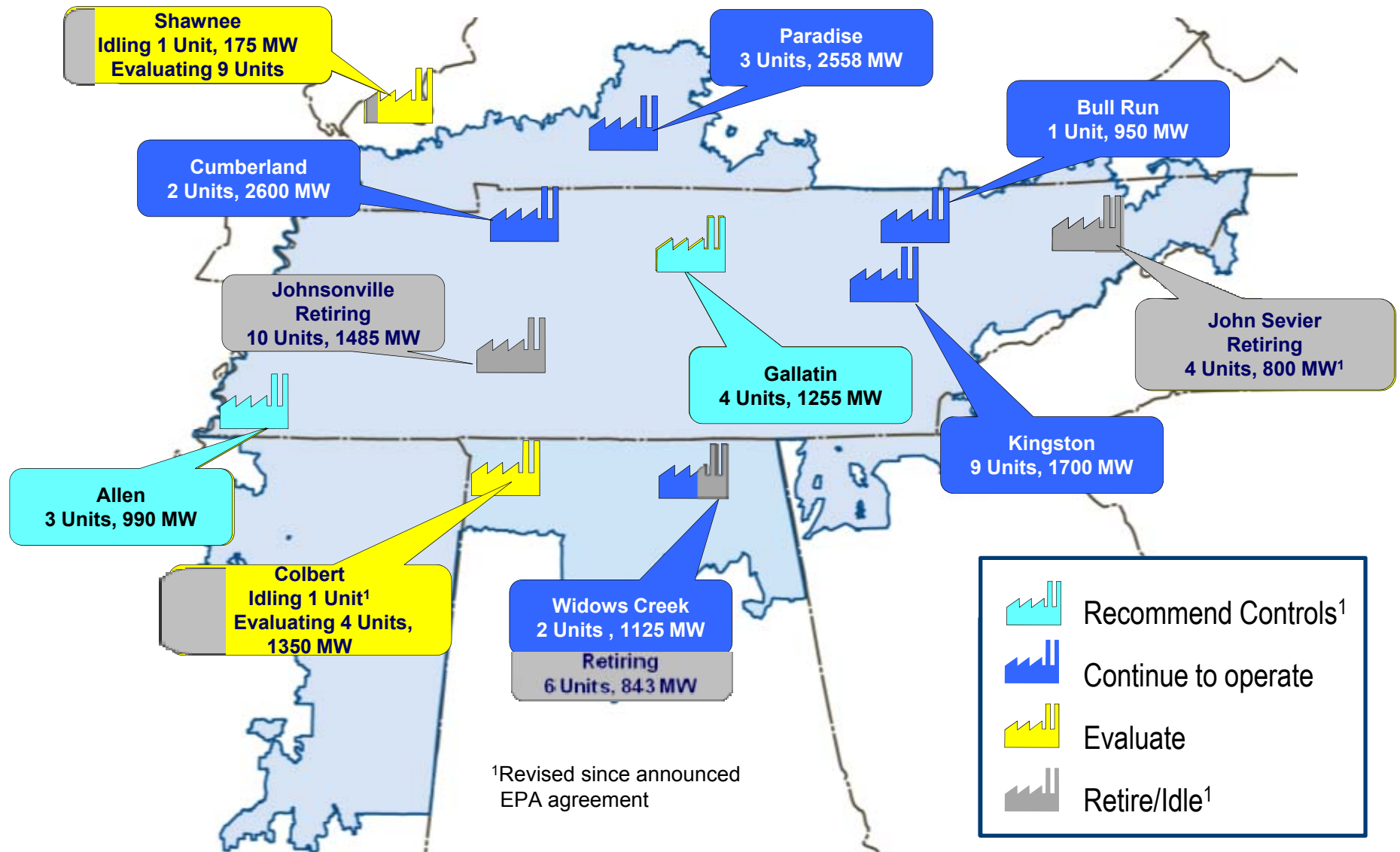


Expected TVA reductions of SO₂ by 97% and NO_x by 95% from peak emissions levels by 2020





Plans For Coal Fleet





Responsibility

Promoting Economic Development

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



FYTD 2012* Results

Investment by others: \$4.5 billion

New and Retained Jobs: 28,300

* As of May 31, 2012



High Reliability

TVA's 12th consecutive year of delivering superior dependability by operating with 99.999 percent reliability

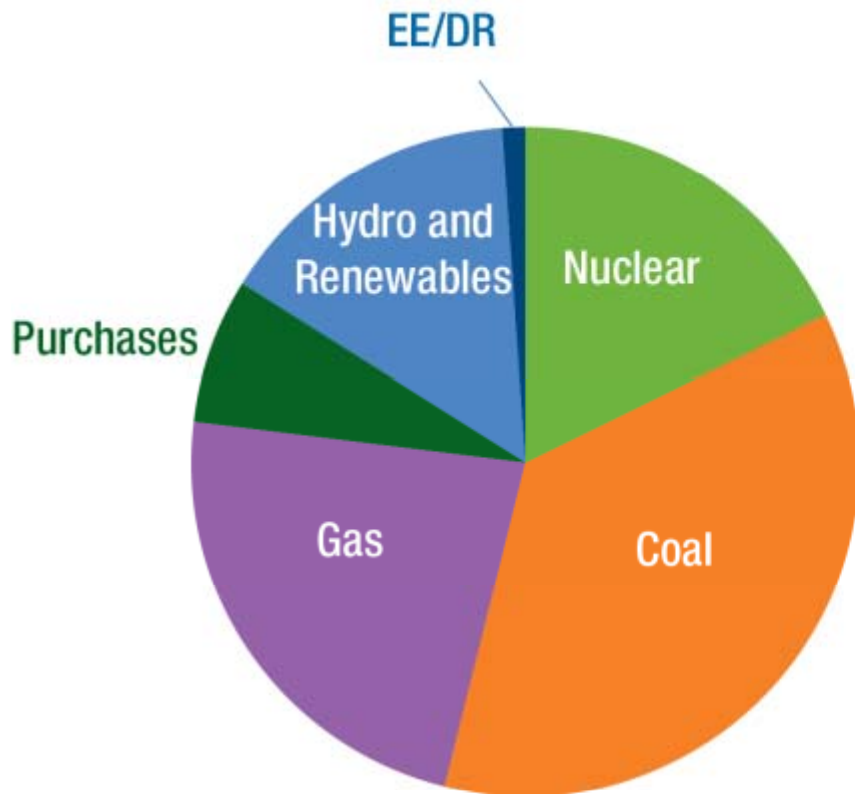


**Browns Ferry Nuclear Plant Sets 3-Unit Continuous Run Record:
114 days**

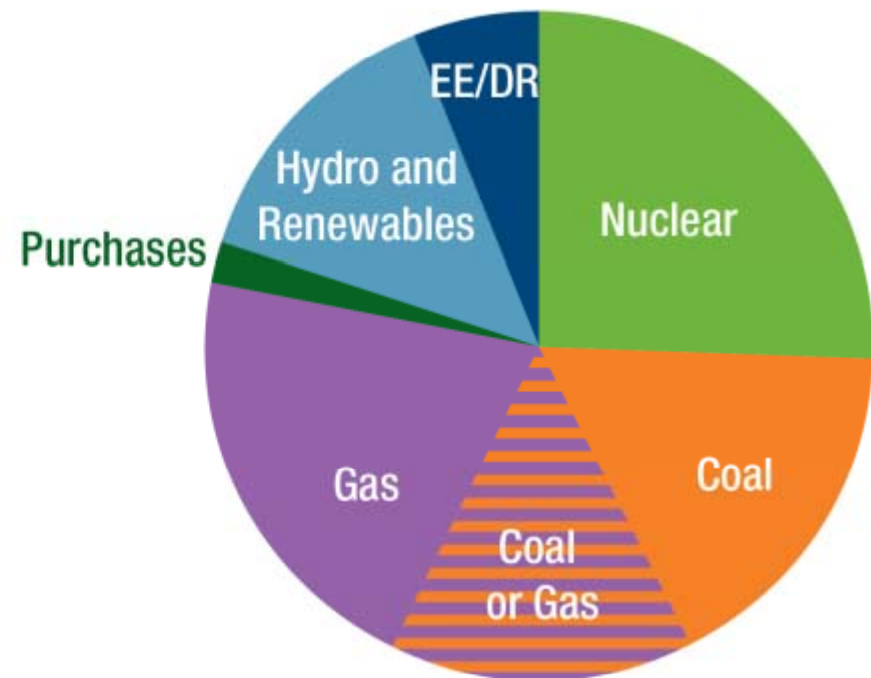


Moving Toward A Balanced Portfolio

Current



Future





John Sevier Combined Cycle Plant

- 880 MW
- COD: April 30, 2012 - ahead of schedule
- \$790 million: Cost - 4% below plan
- Facilitates retirement of adjacent coal-fired plant
- 5th such facility in TVA fleet



Executing on the Vision toward a cleaner, more balanced, low-cost generation portfolio



NUCLEAR PROGRAM OVERVIEW

Preston Swafford, EVP & Chief Nuclear Officer



Conditions we had a few years ago...

- Recurring equipment problems and poor plans to correct it
- Lack of alignment and poor talent management
- Performance indicators on the decline
- “Siloed” From the Industry
- Poor Human Performance



Approach

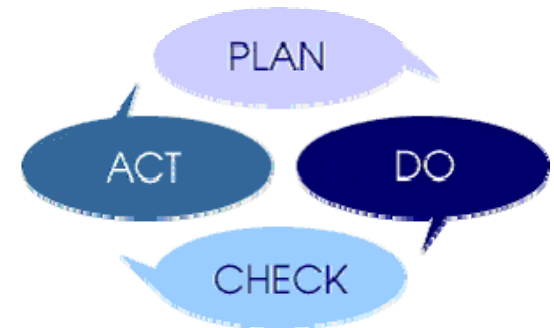
- Re-vamped the organization
- Central governance model
- Established CNO Strategy, Nuclear Operating Model, and Business Plan
- Introduction of fundamentals and the five focus areas





Five Focus Areas

- 1) Corrective Action and Human Performance
- 2) Equipment Reliability
- 3) Work Management and Outage Execution
- 4) Governance, Oversight, and Support
- 5) Training





Corporate Governance & Oversight

- Driving and sustaining industry best performance across the nuclear fleet
- Standardized Processes and Programs
- Clear Expectations for Corporate Roles and Responsibilities
- More Intrusive Corporate Monitoring of Performance
- Establishing Strong Corporate Functional Area Manager
- Engagement of Line Organizations into Quality Assurance
- Corporate Ownership of Large, Strategic Projects
- Proactive Regulatory Interface Model



Nuclear Performance

- We are currently a recovery organization with reduced regulatory margin and increased regulatory oversight
- Browns Ferry: Policy Note 14, NRC red finding, and 95-003 inspections
- Safety system recovery work indicates increasing margin and improving performance
- Three units continuous run record at Browns Ferry





Nuclear Performance

- Moving to normal regulatory response column 1 (green) at Sequoyah
- Higher Operating Capacity Factor (Year over year)
- Completion of Nuclear Operating License Training
- Improving fleet Equipment Reliability Index across the fleet





FINANCIAL UPDATE

John Thomas, EVP & Chief Financial Officer



Fiscal Year To Date 2012 Summary

Highlights

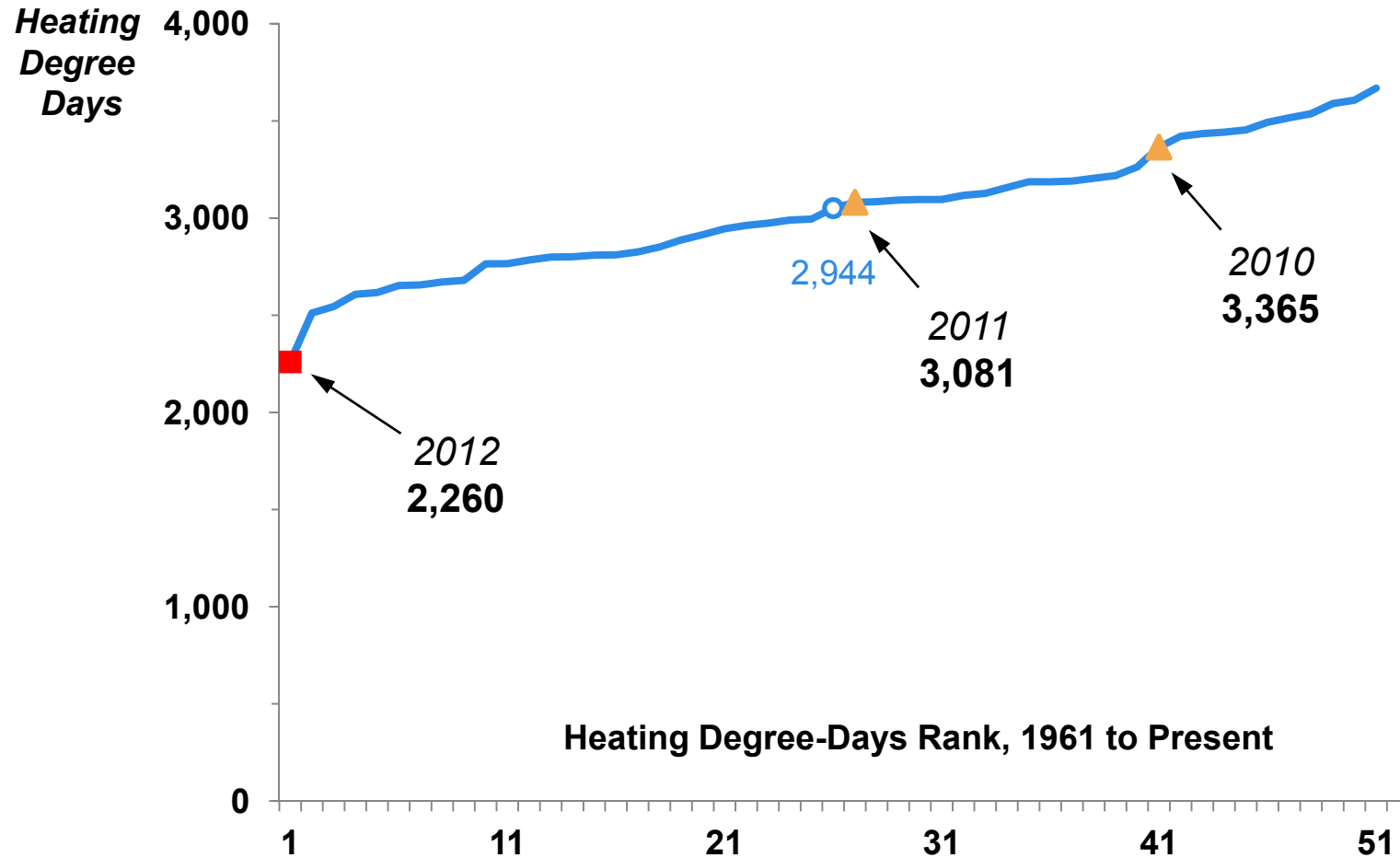
- Lower rates for customers
- Low commodity prices
- “Diet and Exercise”
- Project cash flows
- Low interest rates
- John Sevier CC Facility

Hard Spots

- Mild weather significantly impacting demand
- Sluggish economy
- Regulatory maintenance
- Watts Bar Unit 2
- Pension



Warm Weather Impacted Sales



**Winter 2012 Named 4th Warmest on Record
March 2012 Warmest on Record since 1961**

Represents November 2011 through March 2012



Summary Income Statement

(Unaudited March 31, 2012)

(in millions)	YTD Actual	YTD Budget	Variance
Operating Revenue	\$ 5,172	\$ 5,808	\$ (636)
Base Revenue	3,419	3,847	(428)
Fuel Revenue	1,753	1,961	(208)
Operating Expenses	\$ 4,789	\$ 5,056	\$ 267
Fuel & Purchased Power	1,812	2,003	191
Operations & Maintenance	1,743	1,830	87
Depreciation, Amortization	934	913	(21)
Tax Equivalents, Other	300	310	10
Operating Income	\$ 383	\$ 752	\$ (369)
Other Income (Expense), Net (investments, external business)	(5)	3	(8)
Net Interest Expense	645	707	62
Net Income (Loss)	\$ (267)	\$ 48	\$ (315)



Diet & Exercise Efforts

Diet & Exercise Supports Our Strategy of Achieving Top Quartile Rates while maintaining Reliability and Responsibility

Diet - eliminating costs and activities that are not core to maintaining or improving TVA's competitiveness; immediate cost savings.

Exercise - changing behaviors and sustaining efficiencies that improve TVA's performance.





Diet & Exercise: Expansion Projects

Expect \$500 Million of Cash-Flow Savings from Debt-Funded Expansion Projects

Project	Comments
Bellefonte Unit 1	Decrease in spending due to Watts Bar Unit 2 delay
John Sevier CC	Timing of activities; no impact to cost / schedule
Transmission	Customer delays on new connection points
CT Equipment Deferral	Slower system growth
Environment / Clean Air	Delay certain projects
Other	Managed capital not released



Diet & Exercise: Productivity Initiatives

Estimated Amount: \$400 Million

Area	Comments
Efficiency/ Productivity	Category management Reprioritizing projects Reduced travel & personal devices
Financing	Lower interest rates and less alternative financing
Labor & Related	Reduced layers, increased span of control Reduced positions
External/ Auxiliary Labor	Reduced contractors & consultants



Effective Rates Lower

Customer Rates Favorable to Prior Year

	FY12 Thru March	FY11 Thru March	Year over Year
Base Rate	4.25	4.46	-4.6%
Fuel Rate	2.21	2.37	-6.5%



Summary Cash Flow Statement

(Unaudited March 31, 2012)

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	867	1,179	(312)
Cash Flow from Investing Activities	(1,359)	(2,143)	784
Cash Flow from Financing Activities	356	751	(395)
Net Change in Cash & Cash Equivalents	\$ (136)	\$ (213)	\$ 77
Ending Cash and Short-term Investments	\$ 371	\$ 287	\$ 84



Maintaining Financial Health

TVA has:

- Effective financial guiding principles
- Competitive power rates
- Diversified generation portfolio
- Strong liquidity resources
- Low installed costs
- Low fuel and purchased power costs
- Competitive capital structure
- Competitive capital costs





Financial Guiding Principles

- Retire debt over the useful life of assets
- Only increase debt level to fund new assets
- Use regulatory accounting treatment for specific unusual events
- Rate increases as necessary to fund operational spending
- Evaluate rate actions to avoid significant rate volatility



Peer Group Composition

- 1) Ameren
- 2) American Electric Power
- 3) Dominion
- 4) Duke Energy
- 5) Entergy
- 6) Exelon
- 7) NextEra Energy
- 8) PPL Electric Utilities
- 9) Progress Energy
- 10) Southern Company

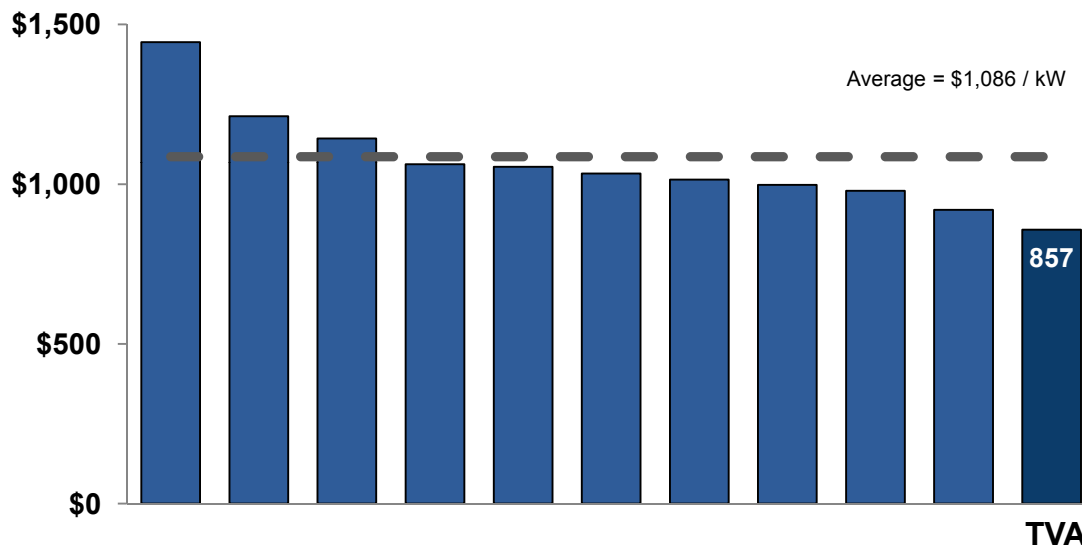


Low Installed Cost

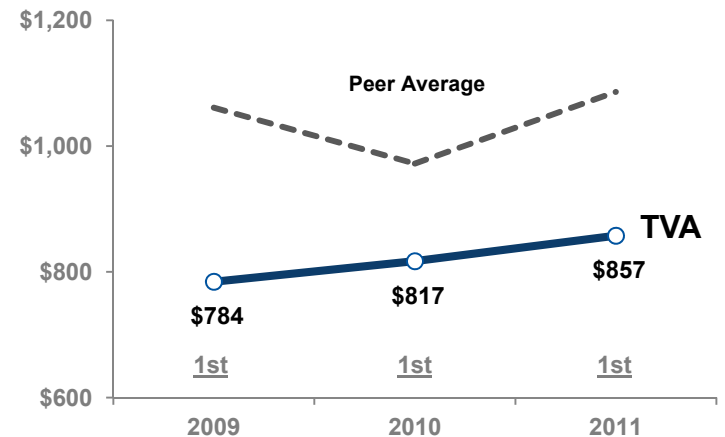
Net Book Value per Installed Capacity

versus Investor Owned Utilities

2011



Trend



Calculation: (Net Property, Plant, and Equipment * 1000) / Capacity (MWh)

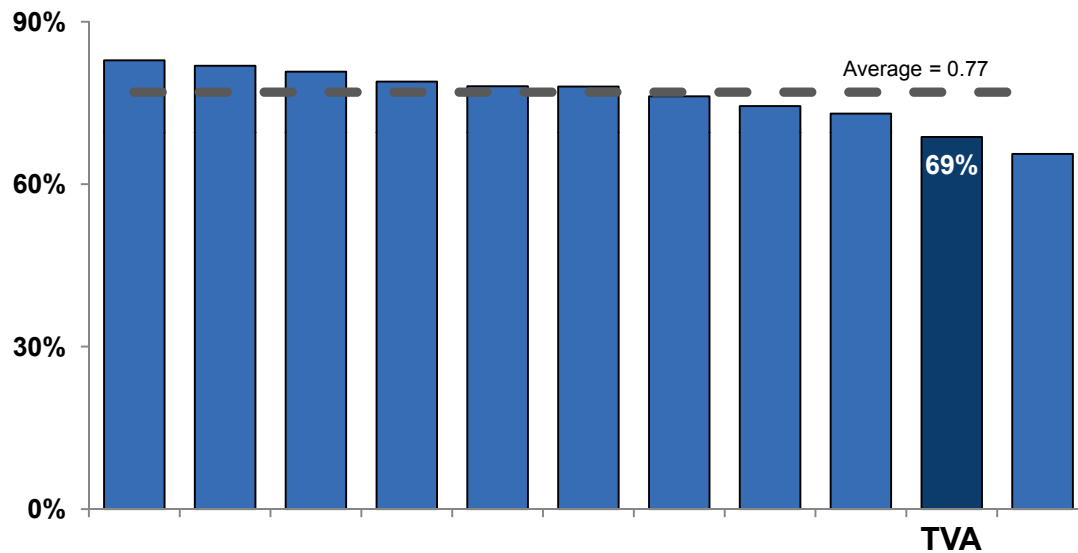


Competitive Capital Structure

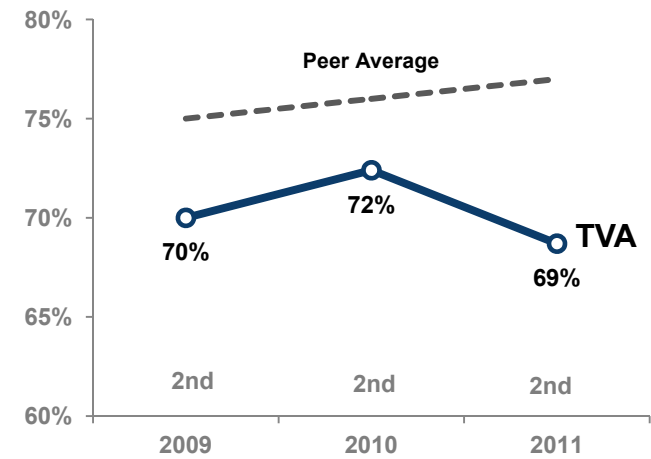
Total Capitalization to Total Assets

versus Investor Owned Utilities

2011



Trend



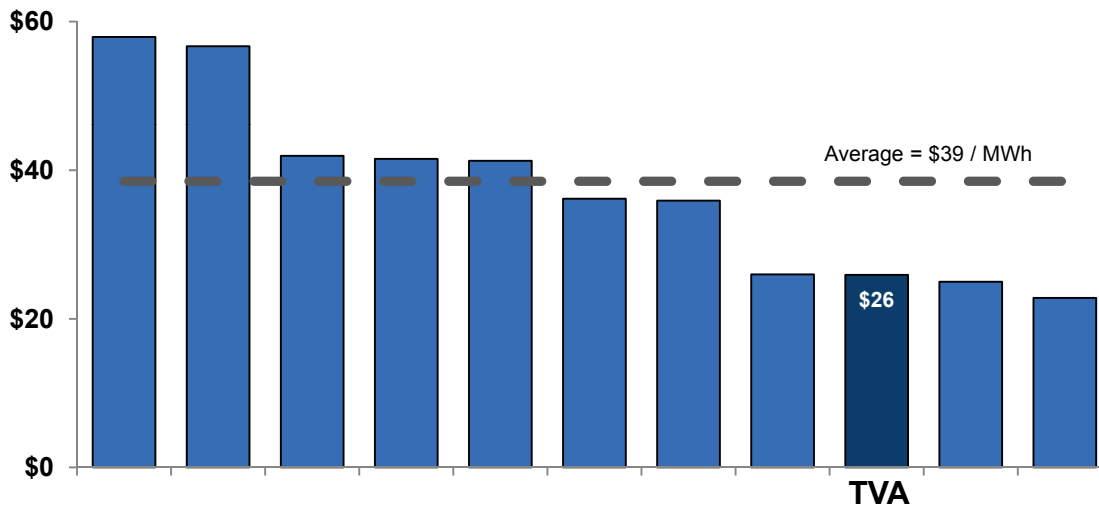


Low Fuel & Purchased Power Costs

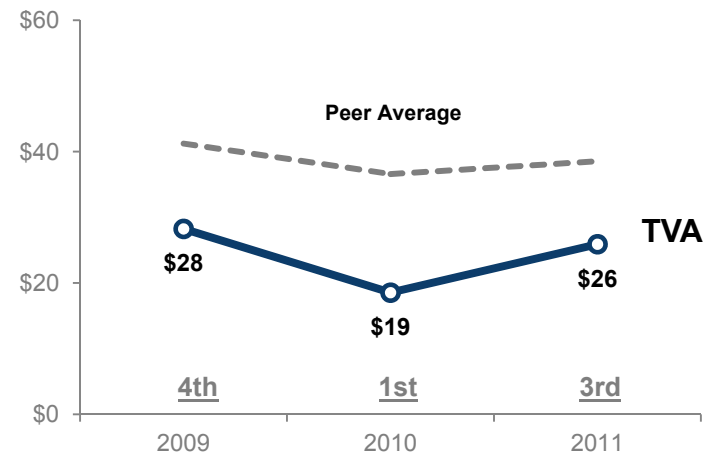
Fuel & Purchased Power Cost

versus Investor Owned Utilities

2011



Trend



Calculation: $(\text{Fuel Cost} + \text{Purchased Power Cost} * 1000) / \text{Electric Sales (kWh)}$



Competitive Capital Costs

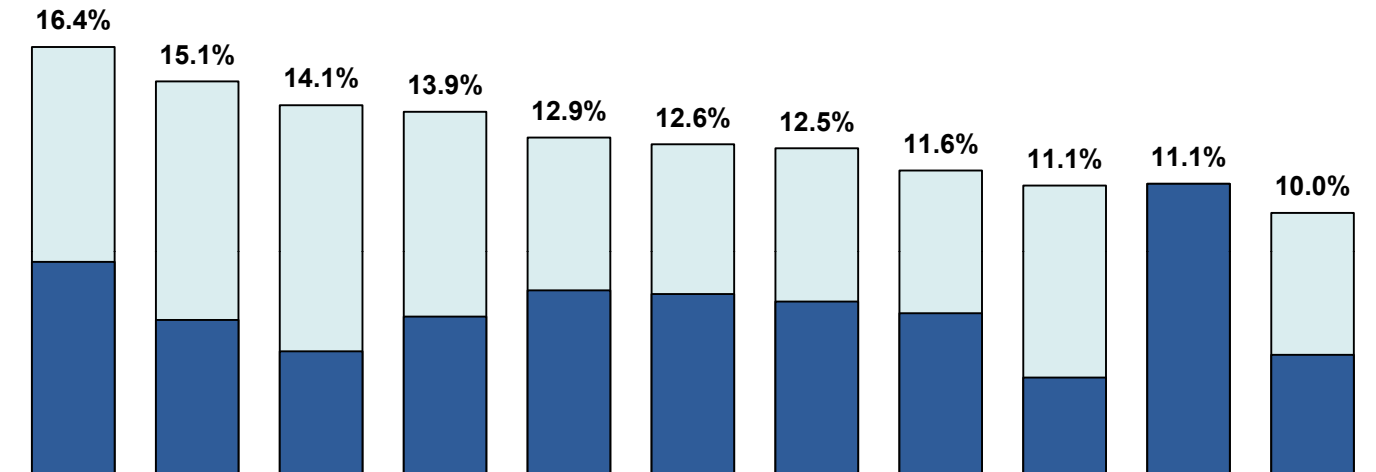
Comparison of Financing Expense

versus Investor Owned Utilities

2011

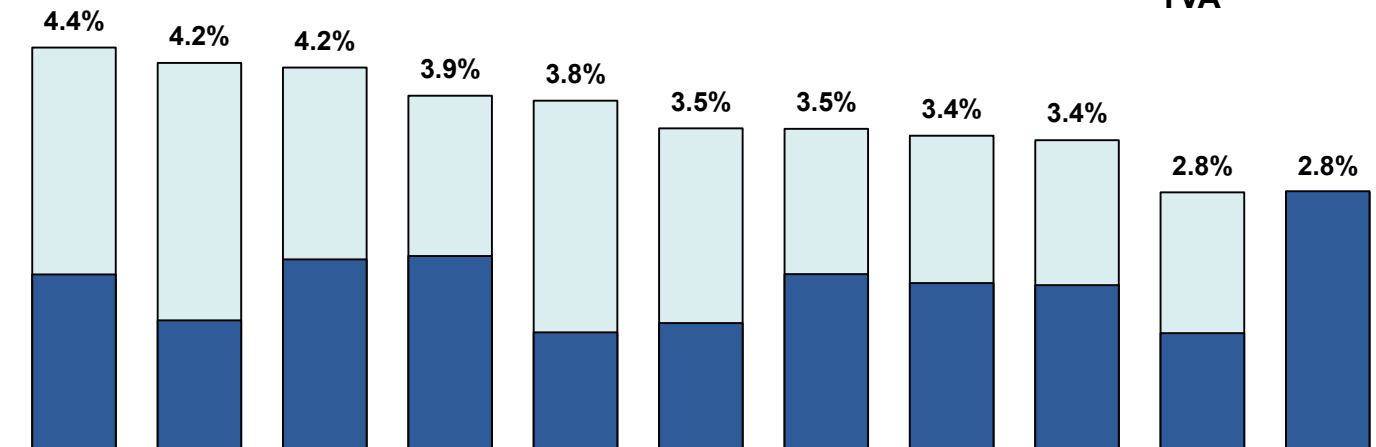
% of Revenue:

□ Dividends
■ Interest Expense



TVA

% of Assets:



TVA

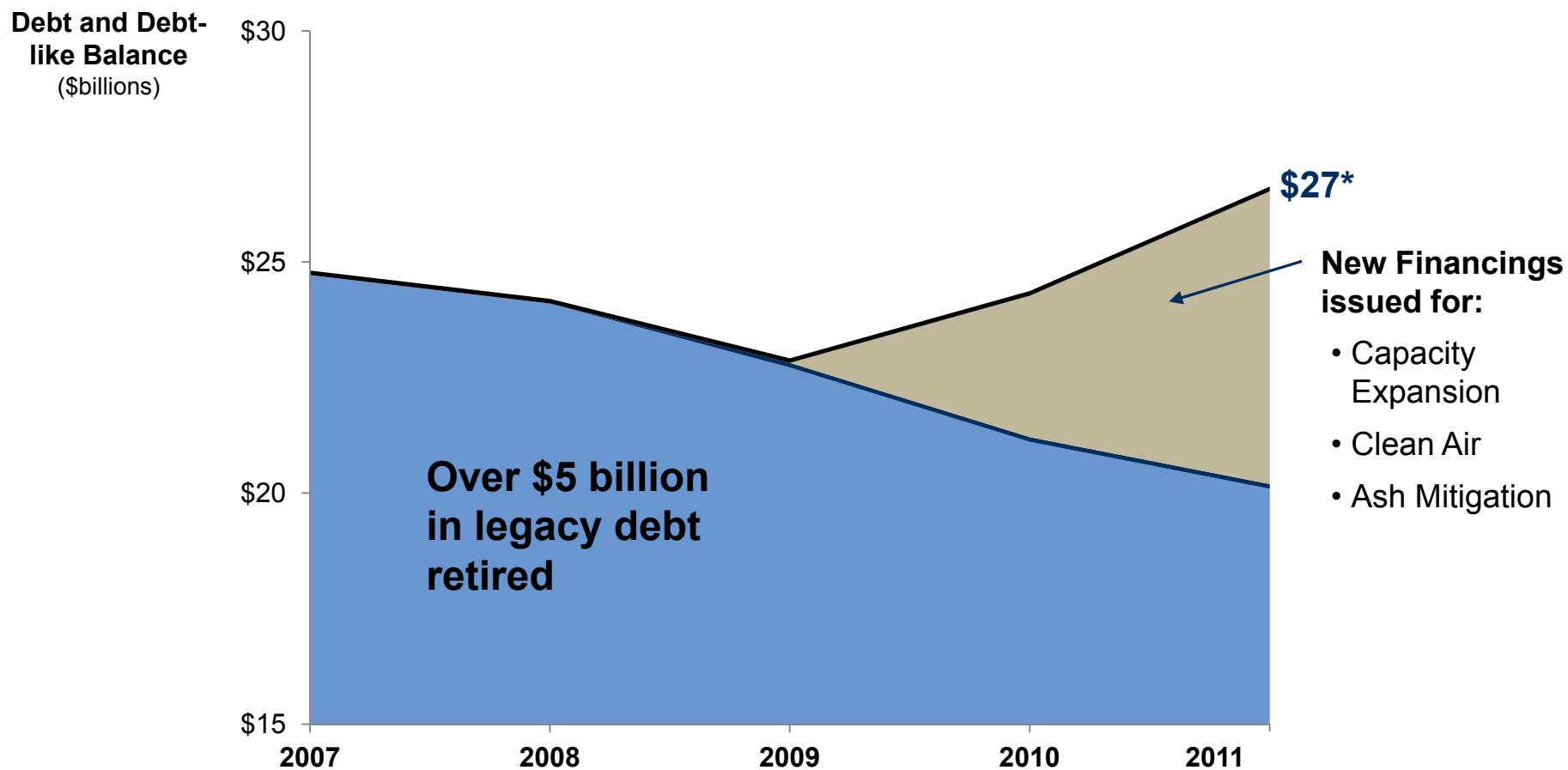


Maintaining Appropriate Flexibility

- Capital expenditures for new generation and clean air are a challenge, but manageable
- Investment capital expenditures of \$6-7 billion over next three years
- Challenge being met with a combination of:
 - Remaining bond financing capacity
 - Strategic use of alternative financing (leasing, prepays, etc.)
 - Revenues collected for legacy debt management (capital offset)
 - Maintaining appropriate liquidity



Paying Down Legacy Debt, Funding New Requirements



*As of March 31, 2012. Includes bonds and notes, leaseback and prepayment obligations.



2012 Outlook and Key Takeaways

- Providing reliable electricity with competitive rates
- Stable fuel and purchased-power prices
- Active expense reductions (“Diet & Exercise”)
- Favorable interest rate environment
- Moving towards a more balanced generation portfolio
- Taking actions to maintain financial health
- Maintaining appropriate financial flexibility
- Improving project execution



FINANCING PROGRAM UPDATE

John Hoskins, SVP & Treasurer



TVA Compared to GSEs and Others

TVA is a Wholly Owned U.S. Government Corporation, Not a GSE:

- All TVA directors appointed by the President (U.S. Senate confirmed)
- Holds real property as an agent for the United States
- TVA is completely self-funded and does not receive government appropriations

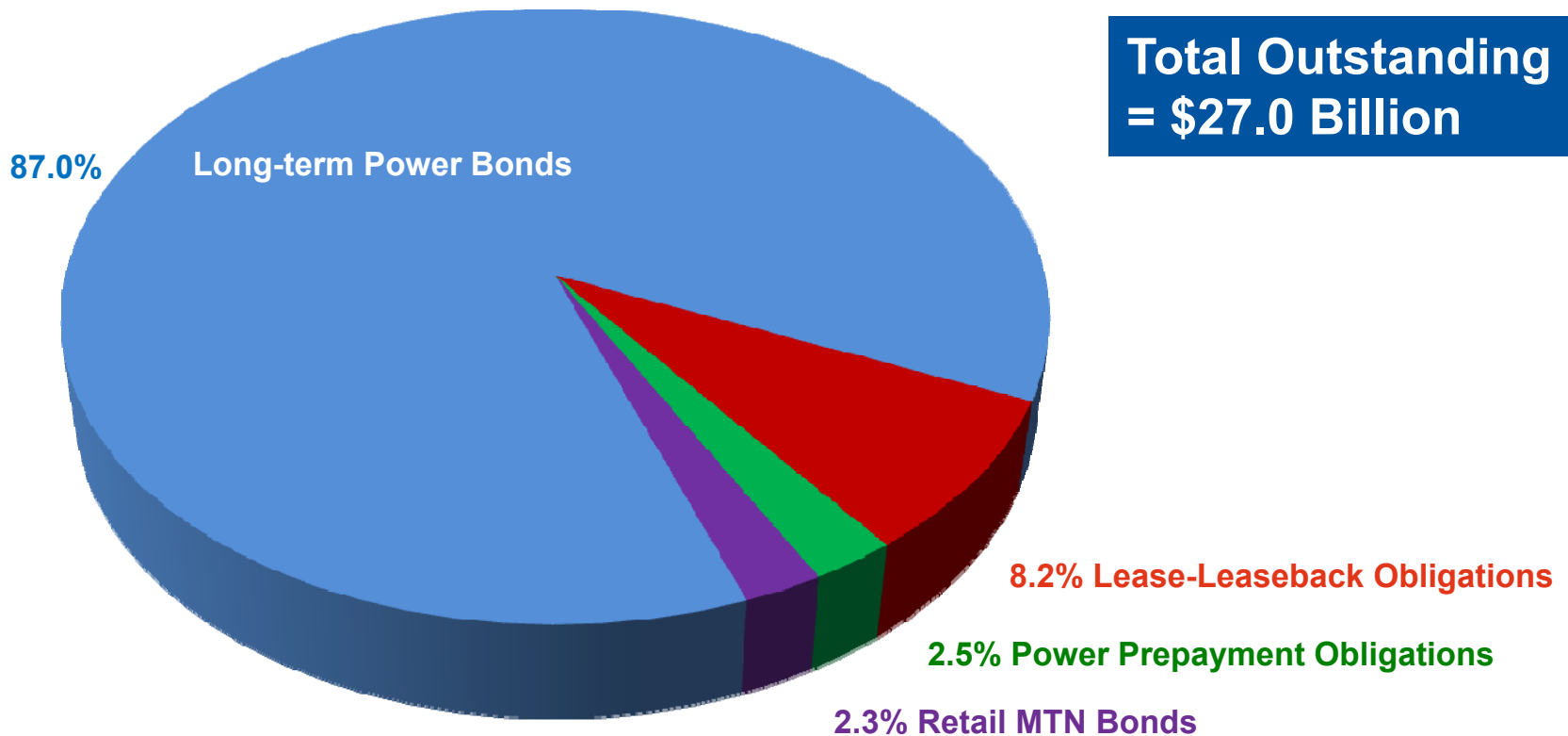
TVA Bonds Provide Diversity Opportunity in the GSE/Agency Space:

- Business model not tied to mortgage markets
- Bonds backed by net power proceeds of TVA's power system (composed of tangible, cash-producing assets)
- Vital commodity service (electricity) provider that 9 million Americans use on a daily basis



Financing Portfolio Composition

March 31, 2012

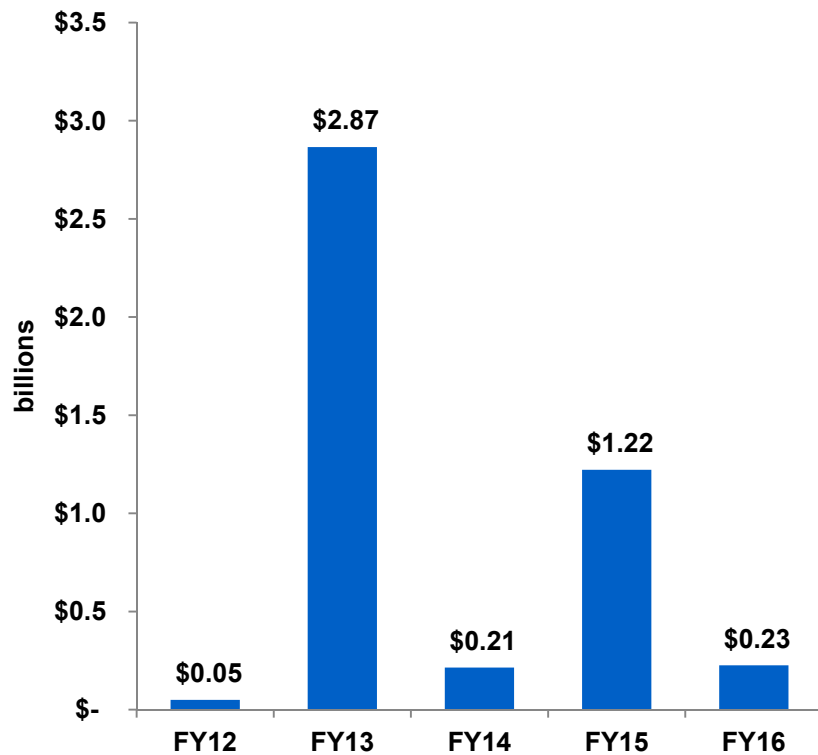




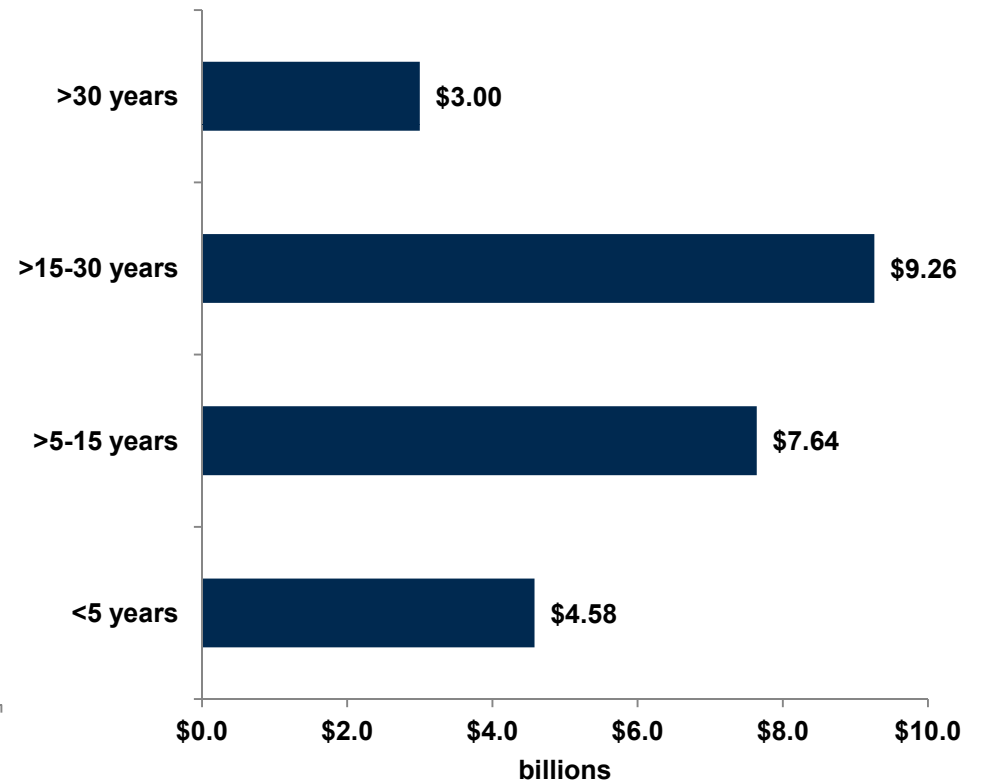
Financing Portfolio Maturities

Upcoming Maturities

As of May 31, 2012



Maturity Tiers



Excludes Short-term debt



QUESTIONS