

# Budget Proposal and Management Agenda



For the Fiscal Year Ending  
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## Introduction

The Tennessee Valley Authority (“TVA”) serves the nation and nearly nine million people of the Tennessee Valley region in the three major areas of TVA’s mission — energy, the environment, and economic development. A corporation of the federal government, TVA operates like a business. TVA is self-funded from the sale of electricity and financings that provide capital for the power program. In fact, through fiscal year (“FY”) 2011, TVA expects to have returned to the U.S. Treasury approximately \$3.6 billion, including interest, on the government’s appropriation investment in TVA’s power program of \$1.4 billion. Established by Congress in 1933, TVA provides navigation, flood control, agricultural and industrial development, and electric power.

### Power Program

TVA provides power through local power distributors and sells power directly to large industries and government entities. As the nation’s largest public power system, TVA is committed to meeting the region’s growing needs for reliable, affordable, and environmentally sound energy. The TVA system includes three nuclear, 11 fossil, 29 hydroelectric, 11 combustion turbine sites, and one pumped storage plant. TVA’s renewable energy program, Green Power Switch®, includes 15 solar sites, one wind-energy site, and a methane gas facility. In FY 2009, TVA sold nearly 164 billion kilowatt-hours of electricity.

As of September 30, 2009, the coal-fired generating facilities of TVA’s Fossil Power Group have 14,711 megawatts of net summer capability. They have been the backbone of the power system since the 1950s, when TVA first began using coal to make electricity for the Tennessee Valley. The eleven fossil plants generated about 53 percent of the electricity TVA produced for its customers. TVA’s fossil system also includes 93 generators powered by combustion turbines with a total net summer capability of 6,871 megawatts. These generators can be quickly started and are vital for meeting peak electricity demands.

TVA operates six nuclear units at three sites with a combined net summer capability of 6,624 megawatts. These units generated nearly 53 billion kilowatt-hours in FY 2009, or 37 percent of TVA’s power, an increase of more than 3 percent from 2008.

In FY 2009, about 8 percent of TVA’s generation was from hydroelectric power and overall about 45 percent of TVA’s generation was from clean energy sources which TVA defines as low or zero carbon emitting resources including hydro, renewables, nuclear and demand reduction. TVA is striving to have low and zero carbon emission sources comprise at least 50 percent of its generation portfolio by FY 2020.

### Transmission System

The 2,437 miles of 500kV lines in TVA’s approximately 15,954-mile transmission system are a critical link for the movement of electricity throughout the eastern United States. TVA continues to strengthen system reliability with technology that gives a clearer picture of grid conditions over a wider area at any given time.

### Natural Resource Stewardship

Another vital part of TVA’s mission is management of the Tennessee River system, the fifth-largest river system in the United States. TVA primarily funds resource stewardship services from power receipts. User fees are also used but to a much smaller extent. The 652-mile-long river, the 42,000 miles of streams and tributaries, and the 49 dams and 14 navigation locks operated by TVA are a vital part of the nation’s navigation system, providing for the shipping of over 50 million tons annually. In addition to commercial navigation, TVA’s management of the river system includes reducing flood risk, producing hydro power, and providing cooling water for TVA’s fossil and nuclear plants. Encompassing 41,000 square miles, the river and its 12 tributary watersheds touch 125 counties in portions of seven states. In addition, TVA has direct stewardship responsibility for, 11,000 miles of shoreline, 293,000 acres of public land, and 650,000 reservoir surface acres available for recreation.

### Economic Development

TVA serves as a catalyst for sustainable economic development by assisting states, communities, and distributor customers in recruiting and retaining targeted businesses and industries that provide high economic impact, while balancing TVA’s anticipated future system needs. By providing technical and community development related services to TVA’s various stakeholders, TVA’s economic development activities strive to help create and retain quality, high-paying jobs and increase the capital investment in the business community to the benefit of the community and the Valley.

## Budget and Challenges

TVA is governed by the TVA Board which is responsible for approving an annual budget. The information included in this document is based on the FY 2010 annual budget which was approved by the TVA Board in August 2009. The following challenges were considered in preparing the FY 2010 annual budget:

Kingston Fossil Plant Ash Spill. During the first quarter of FY 2009, an event at the Kingston Fossil Plant ("Kingston"), which TVA operates pursuant to the TVA Act, was reportable to federal, state, and local environmental and emergency response agencies. On December 22, 2008, a dike failed at Kingston located near Kingston, Tennessee, allowing approximately five million cubic yards of water and coal fly ash to flow out onto approximately 300 acres. Only approximately 8 acres of this land was not managed by TVA. Some of the material flowed into the nearby Watts Bar Reservoir at Emory River mile 2.5. TVA currently estimates the ash removal will be completed in 2013. TVA has recorded an estimate in the amount of \$933 million in connection with the current expected cleanup costs related to the event. Costs incurred through September 30, 2009, totaled \$231 million. Due to actions of the TVA Board in August 2009, the TVA Board reclassified the amount as a regulatory asset during the fourth quarter of 2009 and will be charged to expense as it is collected in future rates over 15 years, beginning October 1, 2009.

Due to the uncertainty at this time of the final methods of remediation, a range of reasonable estimates has been developed by cost category and either the known amounts, most likely scenarios, or the low end of the range for each category has been accumulated to determine the total estimate. The range of estimated costs varies from approximately \$933 million to approximately \$1.2 billion. This range could change significantly depending on factors including whether new coal ash laws and regulations are implemented at the state or federal level. Items not currently in the estimates above include future regulatory actions, litigation, fines or penalties that may be assessed, final remediation activities, or other settlements because TVA cannot estimate the costs associated with these items at this time. Also, all of the regulatory requirements for the final closure of the site, the continued ground water monitoring requirements, and any ongoing environmental impact studies that may be required are not known at this time and are not included in the estimate. As ash removal continues, it is possible that other environmentally sensitive material potentially in the river sediment before the ash spill may be uncovered. If other materials are identified, additional remediation not included in the above estimates may be required.

Case Brought by North Carolina Alleging Public Nuisance. On January 30, 2006, North Carolina filed suit against TVA in the United States District Court for the Western District of North Carolina alleging that TVA's operation of its coal-fired power plants in the states of Tennessee, Alabama, and Kentucky constitute public nuisances. North Carolina asked the court to impose caps on emissions of certain pollutants from TVA's coal-fired plants that North Carolina considers to be equivalent to caps on emissions imposed by North Carolina law on North Carolina's two largest electric utilities. On January 13, 2009, the court held that emissions from the Bull Run Fossil Plant ("Bull Run"), the Kingston Fossil Plant ("Kingston"), the John Sevier Fossil Plant ("John Sevier"), and the Widows Creek Fossil Plant ("Widows Creek") constitute a public nuisance. The first three plants are located in Tennessee, and Widows Creek is located in Alabama. The court declined to order any relief as to the remainder of TVA's coal-fired plants, holding that their emissions did not significantly impact North Carolina. TVA currently estimates that the total cost of taking all of the actions required by the court would be approximately \$1.7 billion through 2014. Of this amount, TVA was already planning to spend approximately \$0.6 billion before the court issued its order. There could be other cost impacts, including fuel, variable operation and maintenance ("O&M"), and fixed O&M, and those costs are under evaluation. On May 29, 2009, TVA appealed the district court's decision to the United States Court of Appeals for the Fourth Circuit.

Decreased Electric Power Demand. The effects of the economic downturn are resulting in less demand for electric power by certain customer types. Sales of electricity in the twelve months ended September 30, 2009, were about seven percent below 2008 levels for the same period and could decline further if commercial and industrial employers continue to reduce production in response to the downturn. In the twelve months ended September 30, 2009, directly served industrial sales were down approximately 17 percent compared to the same period of 2008, while municipal and cooperative sales experienced a nearly five percent decline compared to the same period of 2008. The sales decline is impactful on the operating budget due to the reduction in fixed cost recovery through power sales. The timing of economic recovery estimated as occurring through 2010-11 in the Valley will significantly influence the magnitude of the revenue impacts from decreased sales.

Investment Performance. The performance of debt, equity, and other markets in 2008 and 2009 negatively impacted the asset values of investments held in TVA's pension system and nuclear decommissioning trust ("NDT").

At its August 20, 2009 meeting, the TVA Board approved a contribution to the TVA Retirement System of \$1.0 billion on September 24, 2009 that constitutes an advance on its contributions for FY 2010 through FY 2013 to help stabilize the TVA Retirement System for the short-term and strengthen it for the future. The TVA Retirement System Board also implemented a temporary change in the cost of living adjustment which will decrease the TVA Retirement

System's liability approximately \$300 million. The \$1 billion contribution, along with the liability reductions, has improved the system's funded status.

Lower Commodity Prices and Effects on Fuel Cost Adjustment. TVA's electricity rates are adjusted as fuel and purchased power costs increase or decrease. The fuel cost adjustment is referred to as the "FCA". Due to falling commodity prices across domestic and international markets, TVA experienced lower-than-budgeted costs in short-term markets for natural gas, fuel oil, coal, and electricity during FY 2009.

Although the FCA provides a mechanism to regularly alter rates to reflect changing fuel and purchased power costs, there is a lag between the occurrence of a change in fuel and purchased power costs and the reflection of the change in rates. As a result, TVA's cash flows can be positively or negatively affected by the FCA. As of September 30, 2009, TVA had collected excess revenues to offset fuel and purchased power costs. The excess revenue was driven by market commodity prices being lower than those forecasted. At September 30, 2009, TVA recognized a short-term regulatory liability of \$822 million because of the change in market conditions and no long-term regulatory liability related to the FCA. These regulatory liabilities represent amounts collected to date in rates that will be refunded to customers in the future through FCA rate reductions.

On August 20, 2009, the TVA Board approved a change to the FCA mechanism from a quarterly to a monthly calculation. This should result in more frequent and more accurate forecasting of fuel and purchased power costs, as well as less dramatic swings in the FCA amounts.

Weather Conditions. Rainfall in the eastern Tennessee Valley was 103 percent of normal and runoff was 85 percent of normal for the twelve month period ended September 30, 2009. This resulted in a 64 percent increase in conventional hydroelectric generation during the period compared to the same period in 2008, which partially offset less economical fossil-fueled generation. While TVA's conventional hydroelectric generation has increased since 2008, it is at 85 percent of normal for the twelve month period ended September 30, 2009.

Debt Ceiling. The TVA Act specifies that TVA's Bonds may not exceed \$30 billion outstanding at one time. As of September 30, 2009, TVA had \$22.8 billion of Bonds outstanding (not including noncash items of foreign currency valuation loss of \$30 million and net discount on sale of Bonds of \$224 million). Increased future capital expenditures along with a debt ceiling may challenge TVA's ability to maintain low and competitive power rates.

Environmental Regulation. TVA expects increased environmental regulation in the future, including but not limited to the regulation of mercury and the emission of greenhouse gases such as carbon dioxide. TVA has considered, and intends to continue considering, fuel mix in making decisions about additional generation. The restart of Browns Ferry Unit 1, the decision to complete Watts Bar Unit 2, the filing of a Combined Construction and Operating License Application for two new units at the Bellefonte Nuclear Plant ("Bellefonte"), and the reactivation of the construction permits for existing Bellefonte units are examples of TVA's activities to pursue or consider generation sources that do not emit greenhouse gases. The nature or level of future regulation of greenhouse gases is unclear at this time. Accordingly, the costs associated with such regulation are currently unknown but could be substantial. TVA would have to recover such costs in rates or pursue some other action which, among other options, might include removing some coal-fired units from service.

Renewable Portfolio. There is currently pending federal legislation involving renewable energy and energy efficiency. Depending on the bill that gets enacted, TVA might have to ensure that, over the CY 2011 to CY 2039 timeframe, anywhere from 3 percent to 20 percent of the electricity it sells is produced by renewable sources (as defined by Congress), or make alternative compliance payments for any deficiencies. In addition, H.R. 2454, American Clean Energy and Security Act of 2009, which was passed by the House of Representatives, would cut U.S. greenhouse gas emissions 17 percent by CY 2020 from CY 2005 levels and 83 percent by CY 2050. Utilities are a source of greenhouse gas emissions and would likely be impacted by such legislation. Under most proposed legislation, renewable power generation resources include solar, wind, incremental hydroelectric, biomass, and landfill gas. Generating power with renewable sources instead of coal-fired plants could help reduce the carbon dioxide intensity of TVA's generation. Power generated using renewable sources, with current technologies, may not be economically competitive compared to existing power generation assets. Technology advancements will be needed to address some of the operational issues associated with renewable energy, such as energy storage to address intermittency and interconnection technologies to address onsite, non-grid connected renewables and efficiencies.

Most renewable energy resources are geographically specific. Some regions of the United States have an abundance of wind and solar resources whereas other regions have hydroelectric resources. Regional differences and limitations play a primary role in the types and amount of renewable and clean energy developed across the country. Within the area served by TVA, two of the most abundant renewable resources are hydroelectric and biomass. Feasible wind energy in this region is primarily associated with mountain top and ridgeline installations, and the total potential capacity is limited when compared to other parts of the nation where wind energy is more

abundant. If TVA is required to increase its use of renewable resources and the cost of doing so is greater than the costs of other sources of generation, TVA's costs may increase significantly.

In accordance with TVA's 2008 Environmental Policy, TVA is working towards obtaining 50 percent of its power supply from clean (low or zero carbon-emitting) or renewable sources by 2020. TVA defines its clean energy portfolio as energy that has a zero or near-zero CO2 emission rate, such as nuclear. TVA defines renewables as energy production that is sustainable and often naturally replenished. In terms of reaching this goal, TVA also counts items such as, energy efficiency improvements including demand reduction, or waste heat recovery.

In October 2009, TVA entered into two 20-year contracts for the purchase of up to 450 MW of renewable wind energy from wind farms located in North Dakota and South Dakota. Power under these contracts is scheduled to be delivered beginning in CY 2012. In November 2009, TVA entered into two additional contracts for the purchase of renewable wind energy. The two contracts will provide a total of up to 350 megawatts from wind projects at the White Oak Energy Center in McLean County, Illinois, and the Bishop Hill Energy Center in Henry County, Illinois, both beginning in January 2012. In December 2009, TVA entered into two more contracts for the purchase of renewable wind energy. One of these contracts will provide up to 165 megawatts of wind energy from the Cimarron project in Gray County, Kansas, beginning as early as January 2012. The other contract is for the delivery of up to 300 megawatts from Illinois, starting in mid-2010. Construction is scheduled or under way on all of these projects. With the execution of these contracts, TVA now has 1,265 MW of power under contract. Power delivery is subject to applicable environmental requirements and firm transmission paths being secured.

## Budget Overview

### Power Program

TVA's power program is entirely self-financing and does not receive any federal appropriations. The power program budget is, however, included in the Consolidated Budget of the United States Government. TVA is experiencing significant levels of uncertainty relative to the weather, the economy and other factors. TVA's financial information includes estimates which are affected by these changing conditions.

TVA projects revenue to exceed \$12 billion in FY 2011, which includes the estimated impacts of the FY 2010 rate adjustment and fuel cost adjustment. In FY 2011, TVA projects to invest \$2.7 billion in capital projects for the power system, including \$297 million for clean air projects and \$228 million for transmission system projects. TVA's debt and debt-like obligations increased by \$99 million in FY 2009 and are expected to increase \$931 million in FY 2010, and \$533 million in FY 2011.

TVA power sales have increased an average of one percent annually during the past decade. To keep pace with this growth, TVA has added 8,497 megawatts of generating capacity over the past ten years and entered into purchase power agreements with independent power generators. TVA has also upgraded its transmission system to maintain reliability and added new customer delivery points to serve the growing load. Despite a recent decline in power sales, TVA expects power demand in the Valley to grow at approximately 1.1 percent annually through FY 2029, and will continue to explore the full range of options available to meet the growing demand. Between FY 2006 and FY 2008, the TVA Board authorized the purchase of three combustion-turbine generating plants and one combined-cycle plant, executed a fifteen-year operating lease on a second combined-cycle plant and approved construction of two more combined cycle plants; one for 2010 and one for 2012 operation. Including the 2010 and 2012 plants, the actions add an additional 1,813 megawatts of winter peaking capacity and 3,354 megawatts of intermediate winter capacity to the TVA system. Additionally, Browns Ferry Nuclear Plant Unit 1 returned to service in May of 2007 and currently supplies additional generating capacity of approximately 1,150 megawatts with an eventual expected supply of 1,280 megawatts. On August 1, 2007, the TVA Board approved completing the construction of Watts Bar Unit 2. When completed, Watts Bar Unit 2 is expected to provide 1,150 megawatts of capacity. In June 2009, the TVA Board approved construction of a combined-cycle gas plant in northeastern Tennessee. The 880 megawatt facility, which is scheduled to be in service in 2012, should provide TVA with the flexibility to meet future power needs in the Tennessee Valley while maintaining transmission reliability in the eastern part of its service area.

TVA's FY 2011 annual interest expense is expected to be \$669 million lower than in FY 1997. Annual net interest expense that once consumed 34 percent of TVA's revenue has been reduced to only 11 percent in FY 2009 and is expected to remain at 11 percent in FY 2010 and FY 2011.

### Water and Land Stewardship

TVA meets its obligation to operate and maintain its system of dams, reservoirs, and adjacent lands. Based on the provisions in the Energy and Water Development Appropriations Act of 1998, TVA funds its traditional essential water and land stewardship activities with power revenues, user fees, and sources other than appropriations. No appropriations have been received by TVA for Water and Land Stewardship since FY 1999, and none are requested for FY 2011. Long-term TVA funding levels for these activities are expected to continue at about the same level as in FY 1999. FY 2009 stewardship expenditures were approximately \$93 million, and FY 2011 funding of this program is estimated at \$90 million.

## Budget Details

### TVA Operating Budget

(millions of dollars)

	FY 2009 Actual	FY 2010 Estimate	FY 2011 Estimate
Revenue	\$ 11,255	\$ 10,998	\$ 12,278
Operating Expenses			
Fuel & Purchased Power	(4,745)	(3,816)	(4,947)
Operating, Maintenance, & Other	(2,395)	(3,043)	(3,015)
Depreciation & Amortization	(1,598)	(1,635)	(1,723)
Tax Equivalents*	<u>(544)</u>	<u>(502)</u>	<u>(588)</u>
Total Operating Expenses	<u>(9,282)</u>	<u>(8,996)</u>	<u>(10,273)</u>
Operating Income	1,973	2,002	2,005
Other Income	25	21	23
Interest Expense	<u>(1,272)</u>	<u>(1,253)</u>	<u>(1,334)</u>
Net Income	<u>\$ 726</u>	<u>\$ 770</u>	<u>\$ 694</u>

\*Tax equivalents are based on the prior year's base revenue and current year fuel cost adjustment ("FCA") revenue.

Note 1: Included budget estimates are subject to change by the TVA Board. The TVA Board approved the FY 2010 budget August 20, 2009.

Note 2: The above budget information includes estimates with significant uncertainty relative to the weather, the economy, fuel prices, etc. which are subject to changing conditions.



## Budget Details

(continued)

### Capital Budget & Cash Flow

(millions of dollars)

	FY 2009 Actual	FY 2010 Estimate	FY 2011 Estimate
Operating Activities			
Net Income	\$ 726	\$ 770	\$ 694
Items not requiring cash	<u>1,415</u>	<u>1,079</u>	<u>1,925</u>
Total Cash Provided from Operating Activities	2,141	1,849	2,619
Cash Used in Capital Budget			
Capital Projects			
Nuclear	(113)	(129)	(125)
Fossil	(226)	(412)	(509)
Hydro	(50)	(60)	(64)
Transmission	(41)	(35)	(39)
Other Capital	<u>(150)</u>	<u>(107)</u>	<u>(129)</u>
Subtotal	(580)	(743)	(866)
Clean Air	(171)	(145)	(297)
Watts Bar Unit 2	(477)	(681)	(635)
Capacity Expansion	<u>(537)</u>	<u>(683)</u>	<u>(916)</u>
Total Capital Projects	(1,765)	(2,252)	(2,714)
Other Sources (Requirements)	<u>(497)</u>	<u>(643)</u>	<u>(561)</u>
Total Cash Used in Capital Budget	(2,262)	(2,895)	(3,275)
Cash Payments to U.S. Treasury	<u>(33)</u>	<u>(37)</u>	<u>(36)</u>
<b>Net Cash Available for Statutory Debt Reduction/(Increase)</b>	<b><u>\$ (154)</u></b>	<b><u>\$ (1,083)</u></b>	<b><u>\$ (692)</u></b>
<b>Reduction/ (Increase) in Debt and Debt-Like Obligations</b>	<b><u>\$ (99)</u></b>	<b><u>\$ (931)</u></b>	<b><u>\$ (533)</u></b>
Receipts Less Disbursements*	<u>\$ 55</u>	<u>\$ 894</u>	<u>\$ 498</u>

\*For Federal reporting purposes Payments to U.S. Treasury are not considered disbursements.

Note 1: Included budget estimates are subject to change by the TVA Board. The TVA Board approved the FY 2010 budget August 20, 2009.

Note 2: The above budget information include estimates with significant uncertainty relative to the weather, the economy, fuel prices, etc. which are subject to changing conditions.

## Oversight, Governance and Financial Performance

### Oversight and Governance

TVA is committed to conducting business in an open and forthright manner. Investors in TVA securities benefit from oversight, auditor independence, corporate responsibility, and TVA's commitment to timely, accurate, and comprehensive financial disclosure.

In December 2004, the President signed the Consolidated Appropriations Act, 2005, which amends the Securities Exchange Act of 1934. Section 37 of this act requires TVA, a non-accelerated filer under Securities and Exchange Commission ("SEC") rules, to file financial reports with the SEC, beginning with the 2006 Annual Report on Form 10-K, as well as periodic, current, and supplementary information, documents, and reports. As an SEC filer, the following actions are required:

- The management reporting requirements of Section 404 of the Sarbanes Oxley Act became effective for TVA for FY 2008, and
- The auditor reporting requirements of Section 404b of the Sarbanes Oxley Act are effective for FY 2010. However, TVA implemented the auditor reporting requirements of Section 404b in FY 2009 – a year earlier than required.

### TVA Oversight – A Different Mission with Different Oversight

TVA is a government-owned corporation, and its mission is fundamentally different than that of publicly traded companies. TVA is governed by the TVA Board. The TVA Board has up to nine part-time members, two of whom may reside outside the TVA service area. TVA Board members are appointed by the President of the United States with the advice and consent of the U.S. Senate. The TVA Board, among other things, establishes broad goals, objectives, and policies for TVA; establishes long-range plans to carry out these goals, objectives, and policies; approves annual budgets; establishes and oversees rates; and establishes a compensation plan for employees.

Chief Executive Officer – Tom Kilgore was named President and Chief Executive Officer ("CEO") in October 2006 after having served as President and Chief Operating Officer since joining TVA in March 2005.

Audit Committee – The TVA Board established the Audit, Governance, and Ethics Committee. The committee is responsible for recommending an external auditor to the TVA Board, overseeing the auditor's work, and reviewing reports of the auditor and Inspector General, among other activities.

Independent Auditor – An independent auditor audits TVA's financial statements in accordance with standards of the Public Company Accounting Oversight Board (United States) and with *Government Auditing Standards* issued by the Comptroller General of the United States. The auditor also provides an opinion on whether those statements are presented in conformity with U.S. Generally Accepted Accounting Principles ("GAAP").

Independent Inspector General – An independent Office of Inspector General ("OIG") conducts ongoing audits of TVA's operational and financial matters in accordance with *Government Auditing Standards*, which incorporate the American Institute of Certified Public Accountants ("AICPA") generally accepted auditing standards. The OIG's staff has about 104 employees, including more than 50 auditors. TVA's Inspector General is appointed by the President of the United States. The OIG provides semiannual reports to Congress on the results of its audit and investigative work.

As required by the Inspector General Reform Act of 2008 (Pub. L. No. 110-409), the TVA OIG made an aggregate budget request of \$20.4 million for FY11, which includes \$120,000 for OIG training and \$45,000 in support of the Council of the Inspectors General on Integrity and Efficiency. TVA's 2011 budget assumes OIG activities at the level requested. TVA received no additional comments from the OIG with respect to the budget proposal.

Congressional Oversight – Congress provides formal oversight of TVA through two committees, the U.S. House of Representatives Transportation and Infrastructure Committee and the U.S. Senate Environment and Public Works Committee. The audit arm of Congress, the Government Accountability Office ("GAO"), also conducts audits of various TVA activities and programs, generally at the request of members of Congress.

Executive Branch – TVA routinely submits budget information to the Office of Management and Budget ("OMB"), and TVA's budget is included in the consolidated budget of the U.S. Government. Additionally, TVA's financial results are included in the federal government's financial statements, which are coordinated with the U.S. Treasury and are subject to audit by the GAO.

The TVA Act – TVA’s congressional charter, the TVA Act of 1933, as amended, defines the range of TVA’s business activities. TVA is also subject to the Government Performance and Results Act (“GPRA”), which requires that a strategic plan and annual performance reports be submitted to Congress.

Other Regulatory Oversight – In aspects of its operations, TVA is subject to regulations issued by other governmental agencies, including the Environmental Protection Agency, state environmental agencies, the SEC, and the Nuclear Regulatory Commission. TVA also complies with applicable regulations of other federal agencies, such as the Department of Labor’s Occupational Safety and Health Administration. Additionally, while TVA is generally not subject to regulations issued by the Federal Energy Regulatory Commission (“FERC”), FERC has some regulatory authority over TVA activities. Other organizations with major influence on TVA and others in the electric utility industry include the North American Electric Reliability Council and the industry-based Institute of Nuclear Power Operations.

#### **Auditor Independence – Providing Assurance to Stakeholders**

The TVA OIG conducts an annual audit of the work of TVA’s independent auditor to help ensure compliance with generally accepted government auditing standards. Additionally, a peer review audit of the OIG is conducted every three years by another federal Inspector General’s office.

#### **Accounting and Financial Reporting**

TVA’s financial transactions are subject to audit by the Comptroller General under various statutes. Further, TVA’s financial statements are annually audited by independent auditors. TVA also submits financial information to OMB, the U.S. Treasury, Energy Information Agency, Nuclear Regulatory Commission, and others, in accordance with regulatory and statutory requirements. As required by the TVA Act, TVA maintains its accounting records in accordance with the FERC’s Uniform System of Accounts for Public Utilities. In addition, TVA presents its financial statements and related disclosures in conformity with GAAP promulgated by the Financial Accounting Standards Board.

#### **Financial Reporting and Disclosure**

TVA publishes an annual report that contains audited financial statements and an opinion letter from the independent auditors. TVA’s annual report also includes comparative financial information. In 2003, TVA began including its complete Information Statement with its annual report. In December 2006, TVA filed its first Annual Report on Form 10-K with the SEC and now files all annual reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K with the SEC.

#### **Monthly Reporting Process**

Internal financial performance reporting is done on a monthly basis at all levels within the enterprise and on a weekly basis within some business units. The monthly financial performance reports contain analysis for the income statement, cash flow statement and statement of capital expenditures. The reports also include a balance sheet analysis detailing significant changes during the reporting period. TVA also performs agency-wide financial forecasts on a monthly basis in order to anticipate and respond to events that may have a significant impact on financial performance during the year.

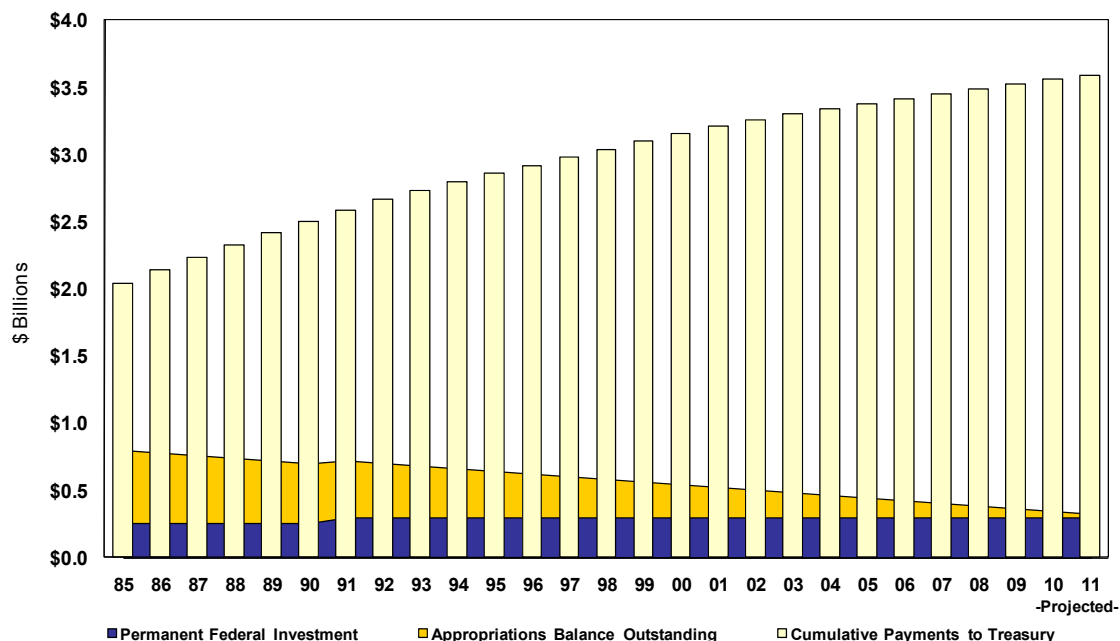
#### **Enterprise Risk Management**

TVA has a designated Enterprise Risk Management organization within its Financial Services organization, responsible for (1) coordinating risk assessment efforts at TVA organizations, (2) facilitating enterprise risk discussions at all levels of the organization, and (3) developing and improving risk governance structure and risk assessment processes and methodologies.

Enterprise Risk Management at TVA is an ongoing and evolving process to protect the value of the enterprise and realize opportunities for stakeholders by promoting the efficient and effective management of risk across TVA. TVA is committed to the management of risk using an enterprise-wide approach. The TVA Enterprise Risk Management Policy provides overarching guidance on all risk management activities within TVA, including but not limited to personnel safety, operational contingency, risk control and financial hedging.

TVA has cataloged major short-term and long-term enterprise level risks across the organization. TVA will further integrate risk management practices into all aspects of the business as Enterprise Risk Management continues to evolve in a manner best suited to support TVA’s mission.

### Power Program Appropriation Repayment



#### Financing the Business

For more than 40 years, TVA’s power program has provided a positive cash flow to taxpayers by repaying the government’s appropriation investment in the TVA power program along with a yearly return on appropriation payment. Through FY 2011, these payments are expected to total an estimated \$3.6 billion on the federal government’s investment of \$1.4 billion. Under the TVA Act, the government will retain permanent equity in TVA.

TVA uses a debt service coverage (“DSC”) methodology for calculating its revenue requirement. The DSC methodology provides for recovery of normal operating costs, debt service (i.e., both annual principal and interest payments), and other required costs (e.g., decommissioning, pension contributions) necessary to maintain TVA’s credit quality. TVA also uses a cost of service methodology. Many of these costs, such as fuel and purchased power expense, and nuclear security measures, experience fluctuations that are largely beyond the control of TVA.

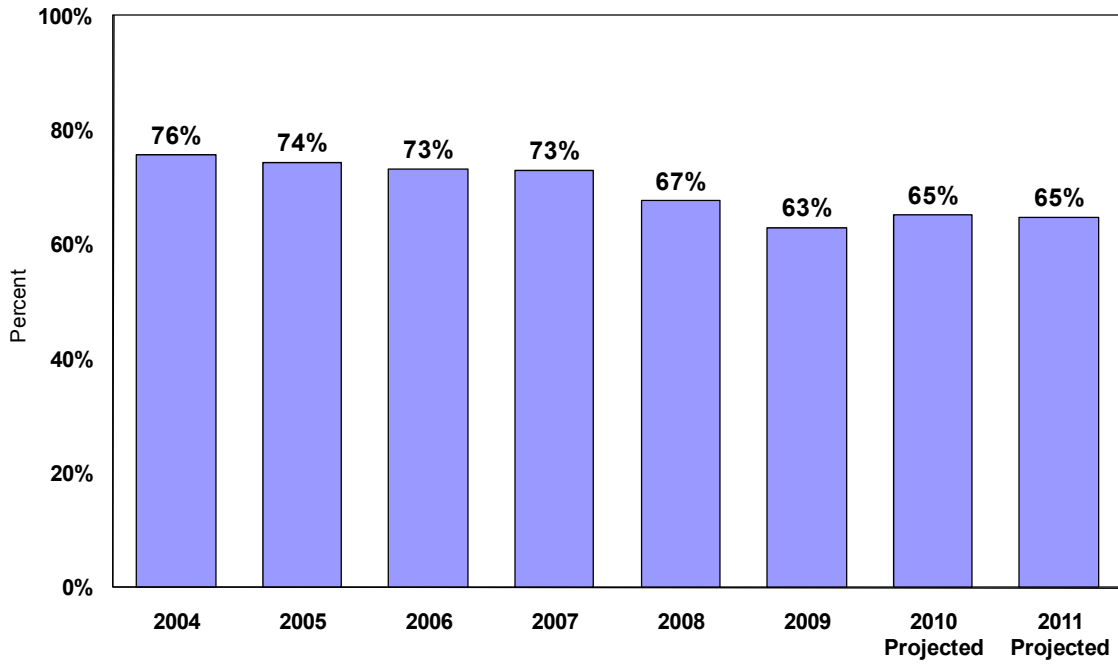
#### Financial Health

TVA’s financial information includes estimates with significant uncertainty relative to the weather, the economy, fuel prices, etc. which are subject to changing conditions. TVA is self-funded from the sale of electricity and financings that provide capital for the power program. Unlike investor-owned utilities that issue stock, TVA’s sources of capital are more limited. Maintaining TVA’s AAA credit rating is a key component of TVA’s financial strategy. This strategy is centered on applying sound decision criteria to new investments; retiring debt before the associated assets are retired; improving the balance sheet by improving the ratio of financing obligations to total assets; and improving cash return on total assets for the purpose of debt payment, asset investment and investments to improve environmental performance. TVA plans to continue to make decisions necessary to further its sound financial performance. TVA’s liquidity is enhanced by several factors. The TVA Board has the ability to adjust rates on a quarterly basis, if needed. Additionally, the fundamentals of TVA’s business and high credit rating allow ready access to capital markets when needed, while TVA’s discount-note program provides TVA the short-term capital it needs to fund daily operations. TVA plans to:

- Invest in new capital projects and leases when economically justified or needed to meet regulatory requirements, such as clean air compliance;
- Pay down new financial obligations through revenue or savings generated from the investments they were used to fund; and
- Retire financial obligations before the value of the associated assets in the portfolio is depleted.

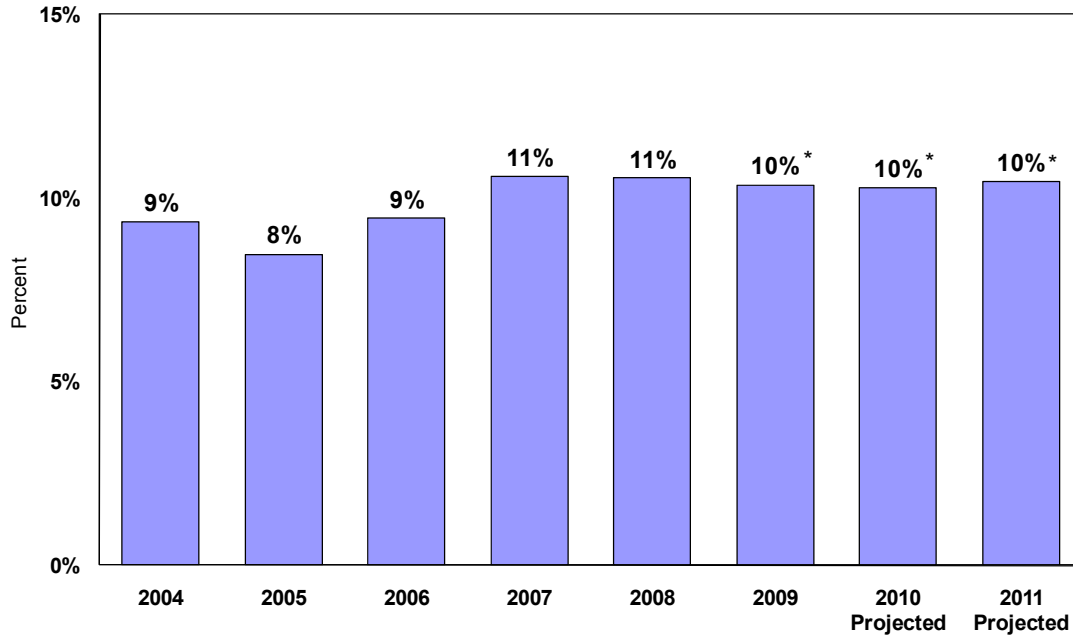
These actions will allow TVA to maintain a balance of financing obligations that is manageable and commensurate with its level of assets. TVA will track its financial health by measuring Total Debt and Debt-Like Obligations as a percent of Total Assets.

**Total Debt and Debt-Like Obligations / Total Assets %**



In addition to sound criteria for new investments, improving non-fuel O&M expenses is a central component of TVA's operations strategy and a key aspect of achieving cash return on assets. The measure of this goal will be a ratio of Earnings before Taxes, Interest, and Depreciation and Amortization ("EBITDA") to Total Assets. See Appendix for a reconciliation of EBITDA, which is a non-GAAP measure, to the most directly comparable GAAP measure.

**Earnings Before Interest, Taxes, Depreciation,  
Amortization (EBITDA)\* / Total Assets %**

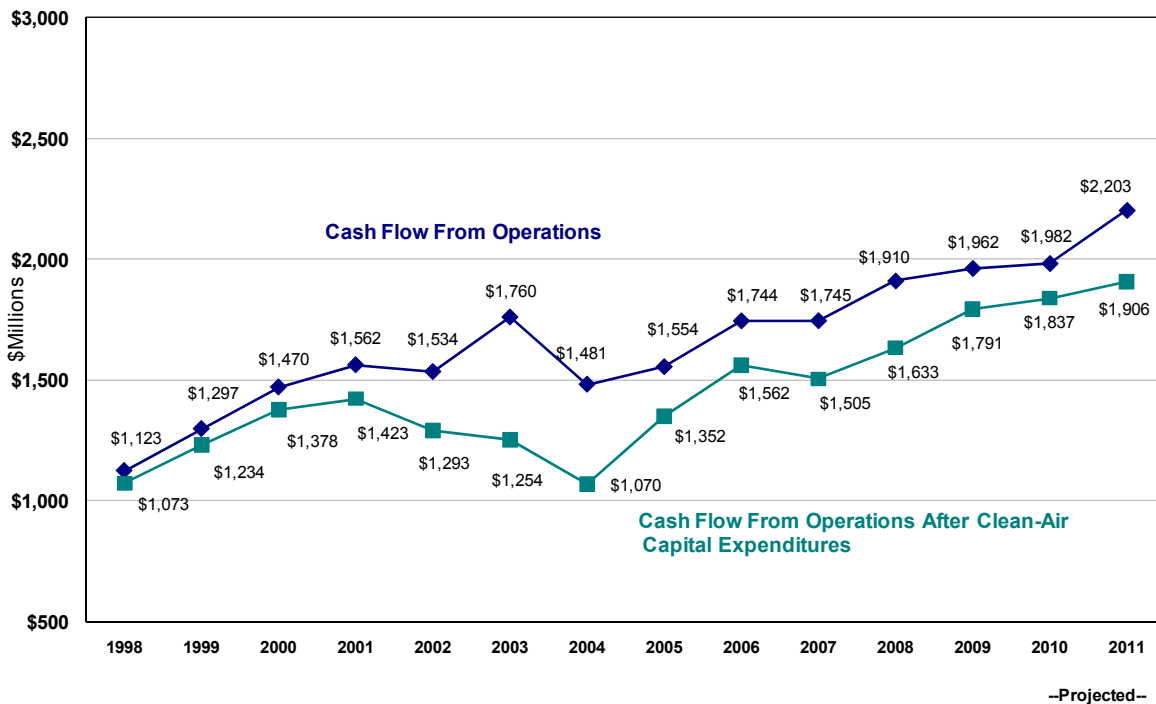


\*See Appendix for a reconciliation of EBITDA to the most directly comparable GAAP measure.

**Cash Flow from Operations (3-Year Trailing Average)**

The amount of cash that TVA generates from its operations during the year – operating cash flow – is one of the best ways to measure TVA’s ability to meet its short-term obligations. Because power revenues and cash flow are greatly affected from year to year by weather and economic conditions, TVA uses a three-year average cash flow to provide a measure of its financial health.

**Cash Flow From Operations**  
3-Year Trailing Average

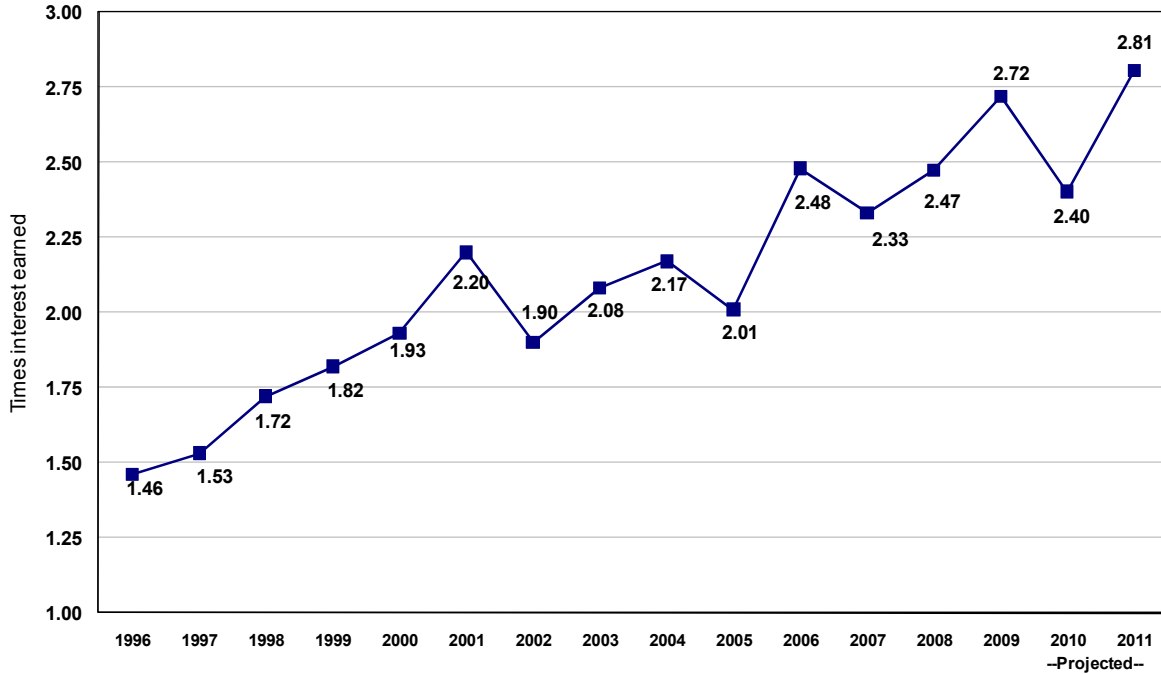


**Interest Coverage**

TVA's ability to service its statutory debt, measured by the degree to which annual cash flow covers interest obligations, has also improved over the past several years as annual cash flow has generally increased and debt has been reduced.

TVA's interest coverage sharply improved in FY 2009 due to the large FCA liability balance recognized at September 30, 2009. This liability will be refunded to customers in FY 2010 reducing the ratio to approximately the FY 2008 level. Interest coverage for FY 2011 is higher than historical trends due to increased cash flow.

**Interest Coverage Ratio**

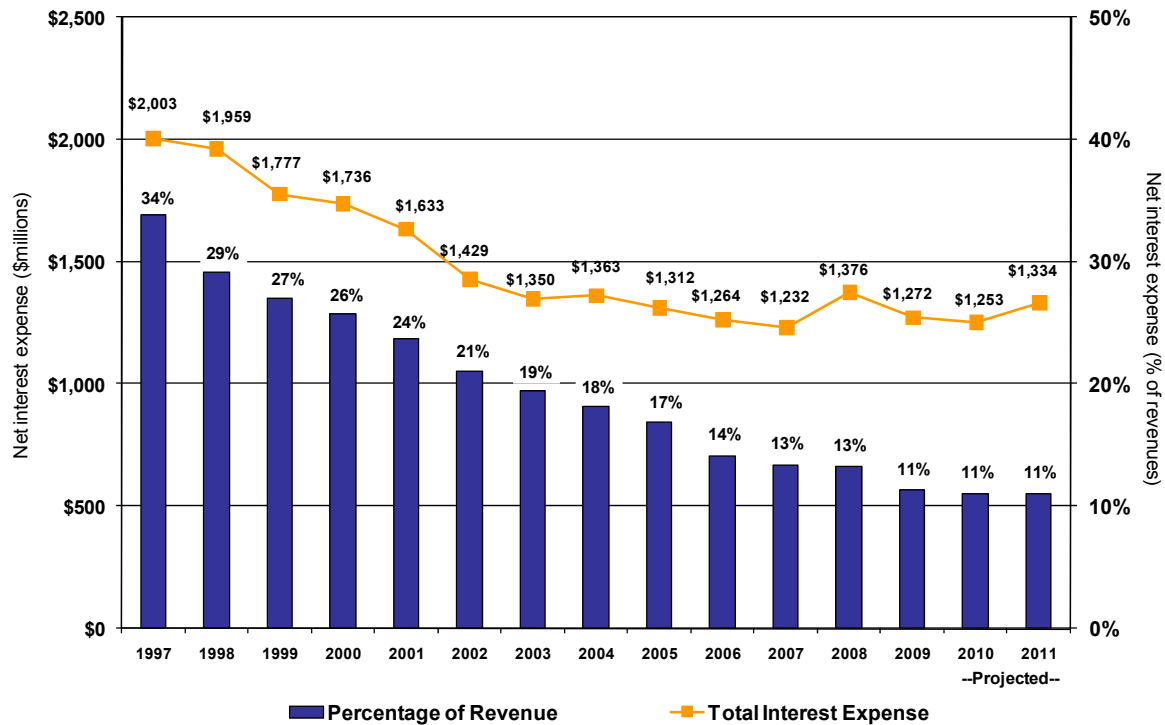




**Interest Expense**

TVA intends to continue to manage fixed costs including interest expense. Annual interest expense was more than \$2 billion at its peak. This amount has declined 37 percent, to \$1.3 billion in FY 2009. In FY 1997, annual net interest expense as a percentage of total revenues was 34 percent. That figure has been reduced to only 11 percent of revenues for FY 2009 and is expected to remain at 11 percent in FY 2010 and FY 2011.

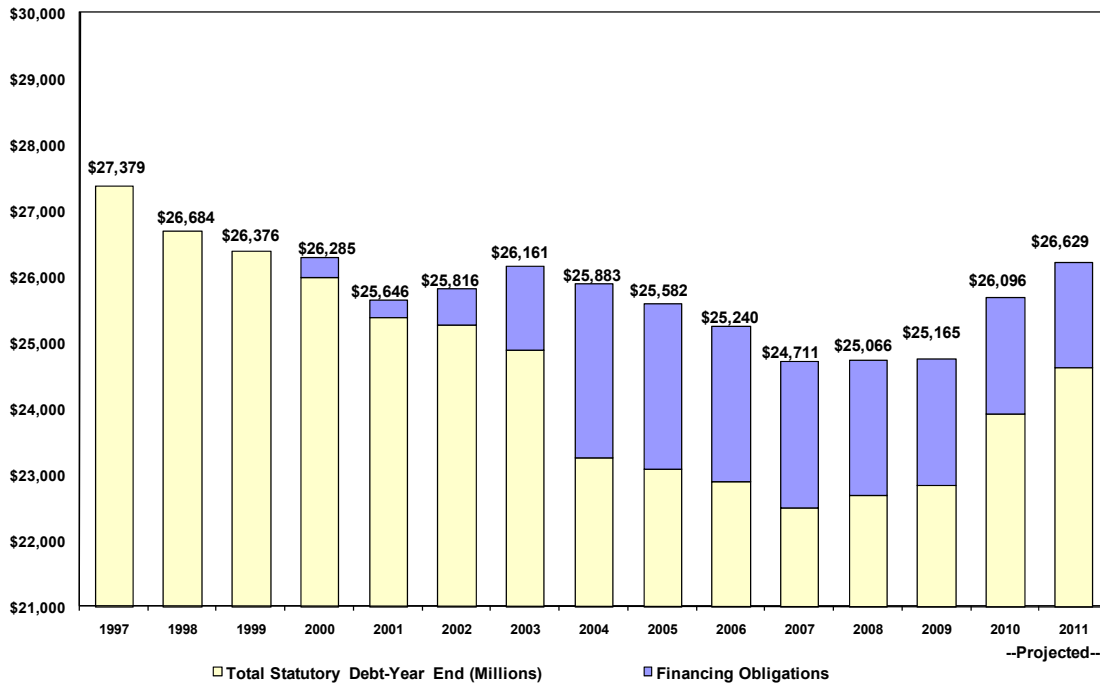
**Interest Expense**



**Financing Obligations**

From FY 1997 through FY 2009, TVA has reduced its Total Debt and Debt-Like Obligations, which include both statutory debt and alternative financing mechanisms such as certain lease obligations and prepaid energy obligations, by more than \$2.2 billion. This includes a net reduction of statutory debt of approximately \$4.6 billion during that same period. Total Debt and Debt-Like Obligations are expected to increase in FY 2010 and FY 2011 to fund capacity expansion and the Kingston ash spill recovery.

**Total Debt and Debt-Like Obligations at Year End**  
(in millions)



**Credit Facilities**

The TVA Board has approved TVA entering into a credit facility or facilities not to (collectively) exceed \$5 billion. Thus far, TVA has entered into two such facilities, which allow TVA to borrow up to \$2.0 billion. This is not intended to be used as a tool to manage daily cash operations or as a primary source of funding. Any outstanding obligations on the facilities count towards TVA’s statutory debt limitation. TVA has not borrowed any money under the credit facilities, although TVA has arranged for a letter of credit to be issued under one of the credit facilities.

In December 2008, TVA and the U.S. Treasury replaced a \$150 million note with a memorandum of understanding under which the U.S. Treasury provided TVA with a \$150 million credit facility. There were no outstanding borrowings under the facility at September 30, 2009.

# Performance Goals and Results

## Goal 1: Supplying Low-Cost, Reliable Power

### Power Sales and Revenue

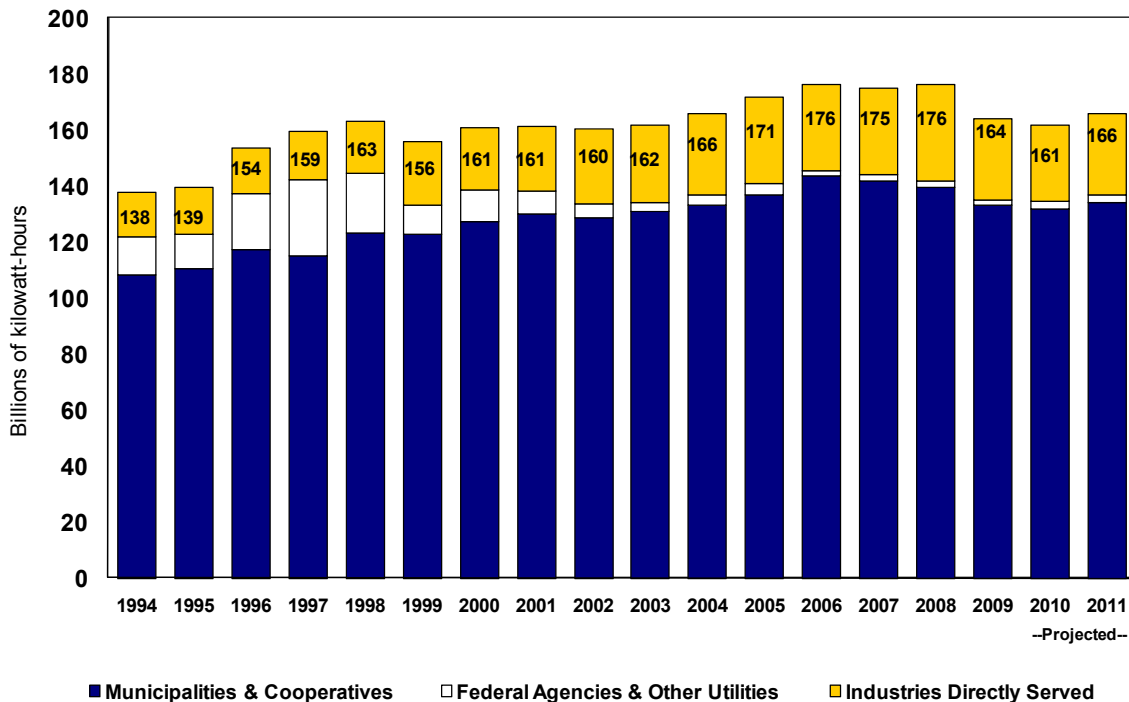
TVA sells electricity to three main customer groups:

Municipalities & Cooperatives: TVA delivers power to wholesale customers, which include municipal utility companies and cooperatives, who resell that power to consumers. The municipal utilities make up the largest block of TVA customers. Cooperatives are customer-owned companies, many of which were originally formed to bring electricity to the farthest reaches of the Tennessee Valley. These municipal and cooperative distributors represent the majority of TVA's business.

Industrial Directly Served Customers: TVA also sells power directly to industrial customers, consisting of customers with large or unusual loads.

Federal Agencies and Others: TVA sells power directly to Federal Agencies. Included in other is Off-System sales. TVA is authorized under the TVA Act to sell power under exchange power agreements to certain neighboring systems. Sales to these companies typically represent less than 1 percent of TVA's total power sales.

**TVA Total Sales**



### Demand in the Valley

In FY 2009, TVA sold 164 billion kilowatt-hours of electricity and is estimated to sell 161 billion kilowatt-hours in FY 2010 and 166 billion kilowatt-hours in FY 2011. Most of TVA's sales growth in the past several years has come from customers who are municipal and cooperative distributors of TVA power, which has offset reduced demand from industrial customers. Demand for electricity in the TVA region grew at approximately 2 percent annually from FY 1995

through FY 2009. By FY 2011, the population of the TVA service region is expected to surpass 9 million, growing at a rate slightly higher than the national average.

<b>TVA System Capability</b>		
<i>Net summer dependable (MW) at September 30, 2009</i>		
<b>Fossil</b>	<b>14,711</b>	<b>40%</b>
<b>Nuclear</b>	<b>6,624</b>	<b>18%</b>
<b>Hydro</b>	<b>5,494</b>	<b>15%</b>
<b>Combustion Turbine (owned or leased)</b>	<b>6,871</b>	<b>19%</b>
<b>Power Purchase Agreements</b>	<b>2,774</b>	<b>8%</b>
<b>Other*</b>	<b><u>16</u></b>	<b><u>&lt;1%</u></b>
<b>Capacity**</b>	<b>36,490</b>	<b>100%</b>

\* Other includes 13 MW of Diesel Generator capacity and 3 MW of Renewable Resources Owned by TVA.

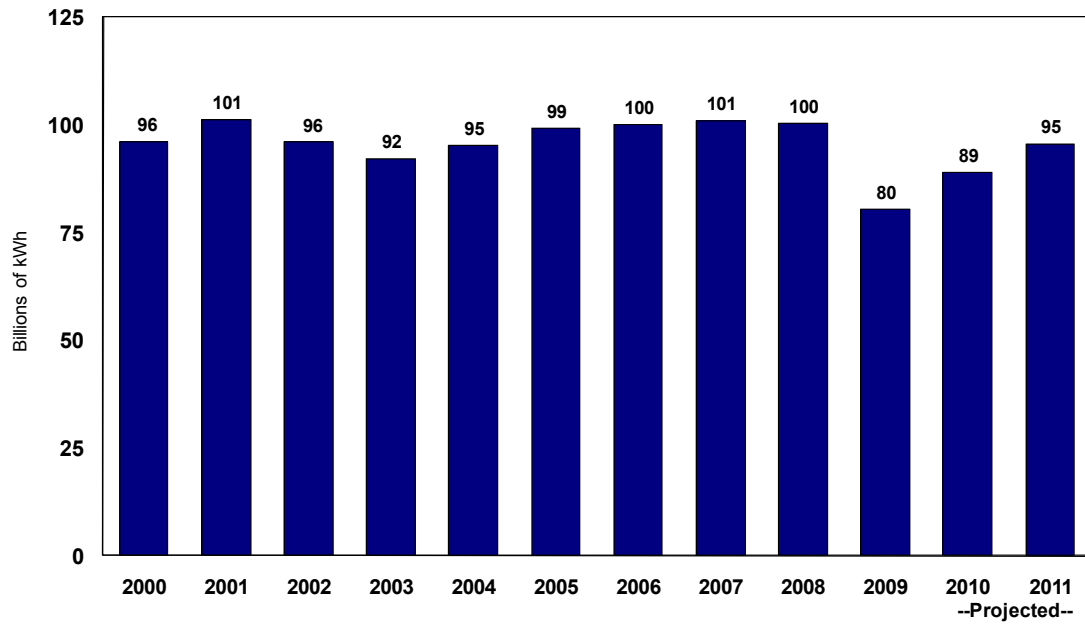
\*\*Includes 440 MW of capacity contracted by TVA from the two-unit Red Hills Generation Plant owned by Choctaw Generation, LP. Hydro capacity represented includes pumped-storage.

### **Operational Performance**

#### Fossil Power Highlights

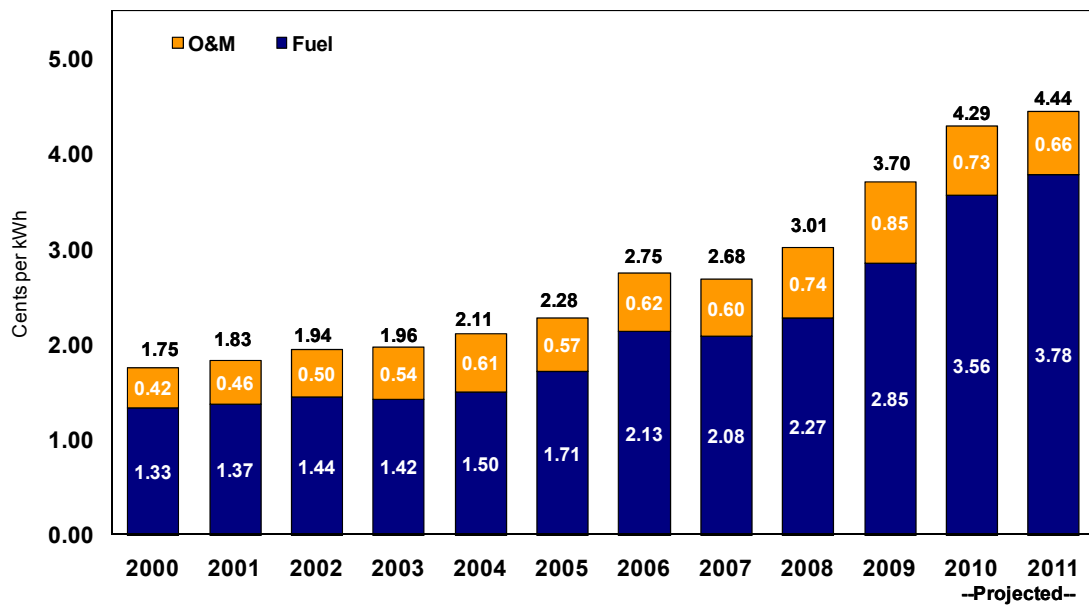
The mainstay of TVA's power production portfolio is its fleet of 11 coal-fired fossil plants, which represent a combined 14,711 megawatts of net summer capability. TVA's fossil system also includes 87 simple-cycle combustion turbine units at eight different plant sites and six natural gas combined-cycle units. The simple-cycle combustion turbine sites are peaking sites that are designed to start quickly and help meet demand for electricity during peak operating periods. Operation and maintenance costs are projected to decrease.

### TVA Fossil Power Generation



TVA's fossil power generation declined in FY 2009 due to reduced demand and significant increases in coal prices.

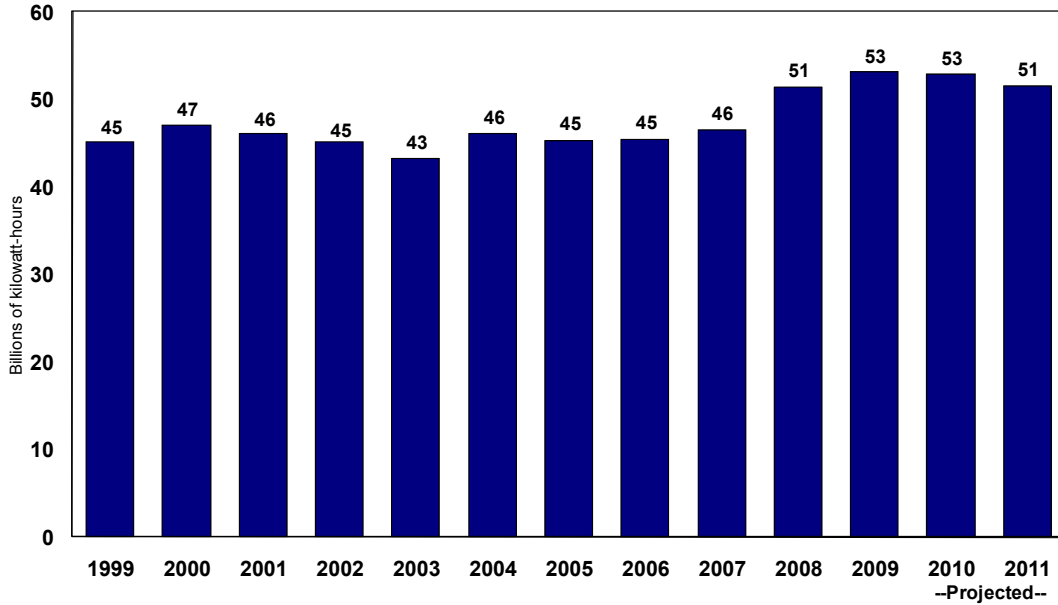
### Fossil Power Production Expense



Nuclear Power Group Highlights

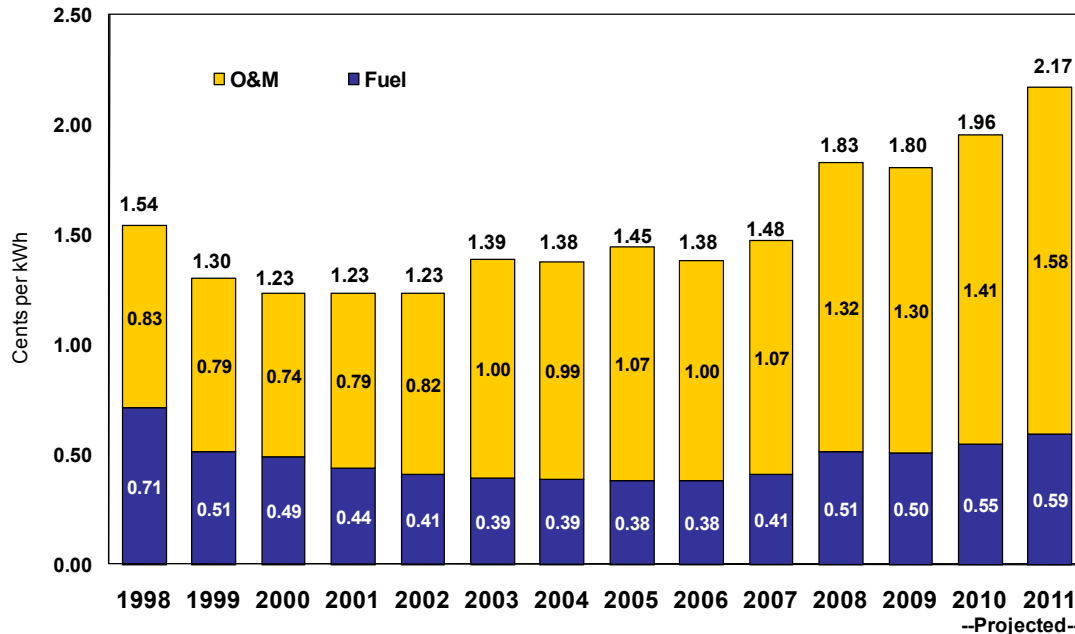
TVA's nuclear operations are critical to meet the region's power needs. In FY 2011, TVA's nuclear units are expected to generate 51 billion kilowatt-hours of electricity, which should represent approximately 33 percent of TVA's total net generation.

**TVA Nuclear Generation**



TVA's total nuclear production expense on a per-kilowatt-hour basis is expected to increase in 2011 due to higher fuel costs and higher operation and maintenance costs due to the timing of outages.

**Nuclear Power Production Expense**

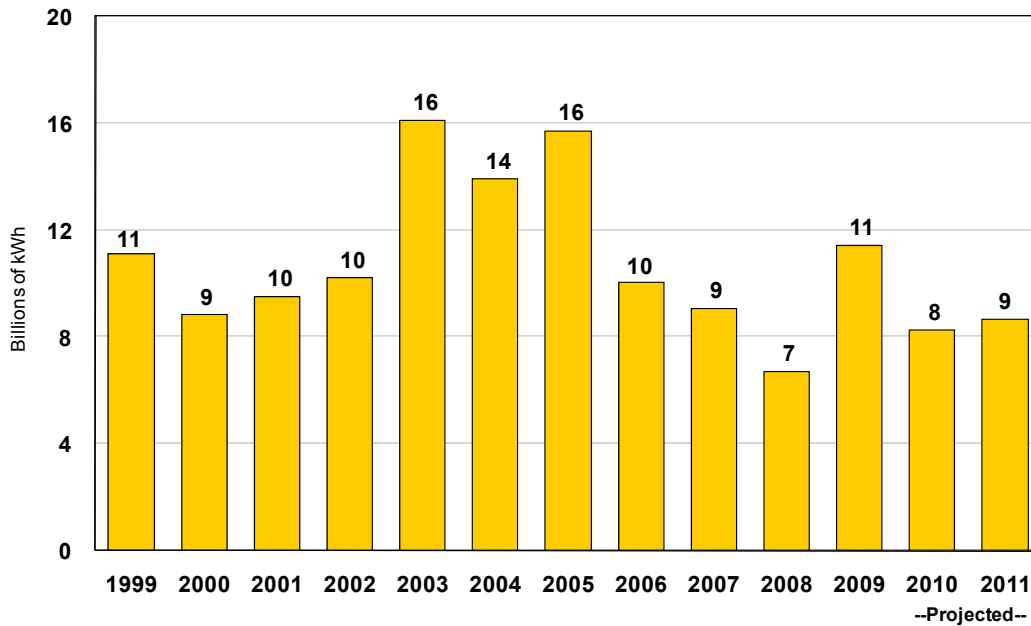


Hydroelectric Power Highlights

In FY 2009, TVA’s integrated hydroelectric power system of dams and pumped-storage units generated approximately 11.4 billion kilowatt-hours of electricity – approximately 8 percent of TVA’s total net generation, and in FY 2011 it is estimated to produce approximately 9 billion kilowatt-hours – approximately 5 percent of TVA’s total net generation. Generation in FY 2009 increased approximately 71 percent from FY 2008 due to a return to more normal rainfall and run-off levels. FY 2011 generation is lower than FY 2009 because of the uncertainty around weather conditions. While hydroelectric power represents a smaller amount of total net generation than other sources, hydroelectric power represents a very important element in TVA’s total portfolio.

TVA’s hydroelectric facilities have very low operating costs and can be used as base-load, intermediate, or peaking units, depending on water availability and system needs. TVA’s Raccoon Mountain pumped-storage facility allows TVA to store electricity in the form of potential energy by using inexpensive off-peak electricity to pump water to a mountain-top reservoir. This water is then used to generate electricity on-peak when power is more expensive or otherwise unavailable.

**TVA Hydro-System Net Power Generation**



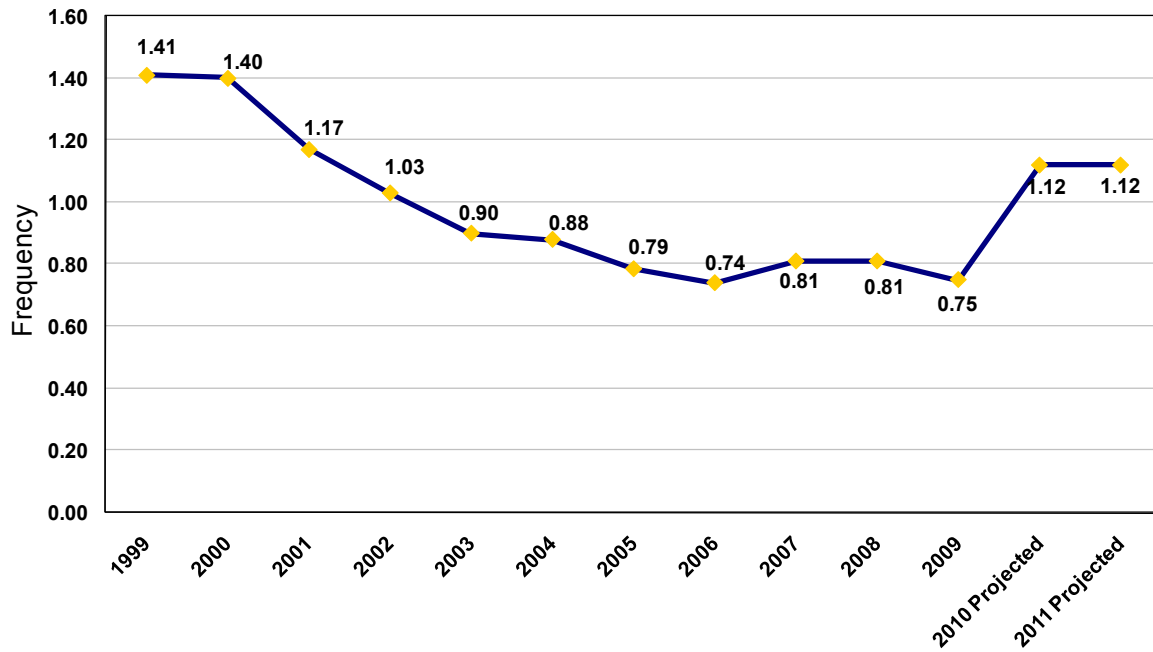
**TVA Transmission Highlights**

The TVA transmission system, one of the largest in North America, delivered more than 164 billion kilowatt-hours of electricity sales in FY 2009 and maintained 99.999 percent reliability over the past ten years for delivering electricity to its local power distributors and direct served large industrial and government customers. In FY 2011, the transmission system is expected to deliver nearly 166 billion kilowatt-hours of electricity sales. This system is comprised of approximately 15,954 circuit miles of transmission lines, including 2,437 miles of extra-high-voltage (500,000 volt) transmission lines, 487 substations, power switchyards and switching stations, 1,086 individual interchange and customer connection points, and 235,000 right-of-way acres.

The TVA transmission organization offers transmission services, similar to those offered by other transmission operators, in accordance with standards of conduct that separate its transmission functions from TVA’s marketing functions.

Connection point interruptions are driven primarily by weather, and it can be particularly difficult to reduce the number of interruptions across large transmission systems such as TVA's, which has thousands of miles of lines crossing rural areas. However, the impact of lightning strikes on TVA's transmission system, the single-largest cause of transmission interruptions in the TVA region, has been reduced by investing in more than 165 lightning mitigation projects. These projects have helped reduce connection point interruptions caused by lightning by more than 50 percent since FY 1995. The projection for FY 2010 and FY 2011 assumes an industry top quartile metric and is not representative of TVA's efforts to maintain its current level of performance.

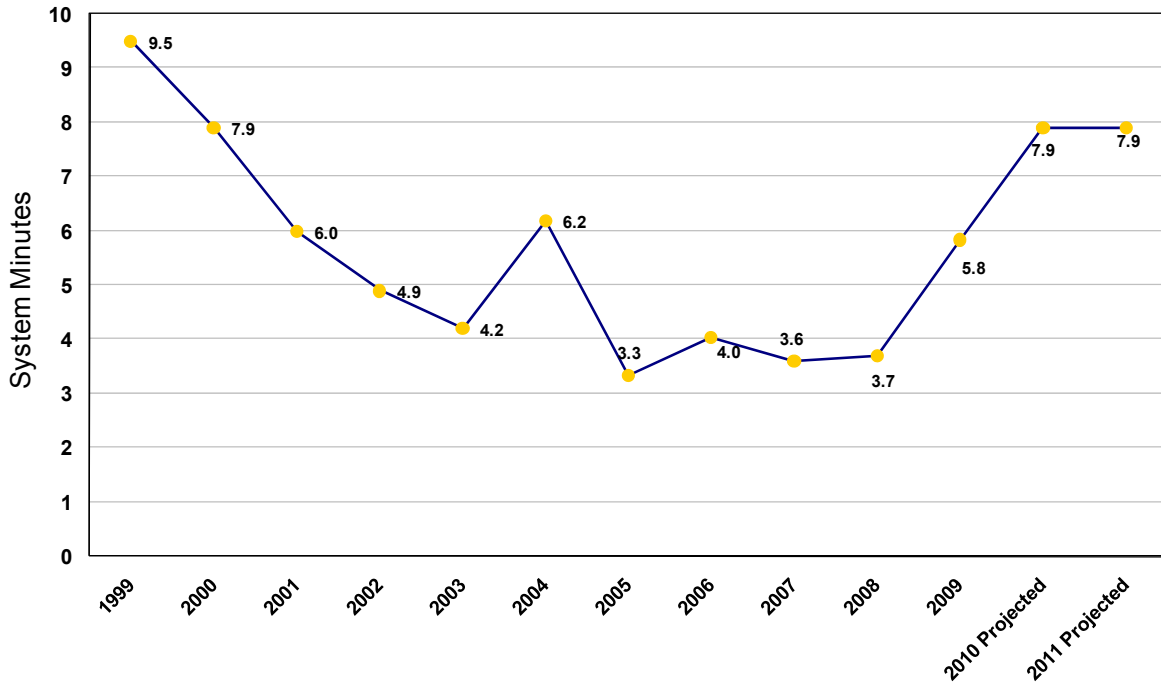
### Connection Point Interruptions





Another measure of reliability is Load Not Served (“LNS”), which is a measure of the magnitude and duration of interruptions that affect TVA customers. LNS applies to interruptions that exceed one minute and is calculated by multiplying the percentage of total load not served (in megawatt-hours) by the number of minutes in the fiscal year. TVA is taking proactive steps to maintain an improved level of LNS by (1) working on its transmission preventative maintenance program, (2) identifying equipment that is nearing the end of its service life and replacing it before failure and (3) rapid recovery from interruptions. The projection for FY 2010 and FY 2011 assumes an industry top quartile metric and is not representative of TVA’s efforts to maintain its current level of performance.

### Load Not Served (LNS)



## Goal 2: Environmental Stewardship and Supporting a Thriving River System

TVA manages the Tennessee River system to provide public benefits including navigation, flood damage reduction, power production, water supply, and recreation. TVA routinely involves the public in its environmental decision-making. Due to the increasing level and complexity of environmental requirements and expectations, TVA completed a new high-level environmental policy to align with and execute the direction in the TVA Strategic Plan. The Environmental Policy was approved by the TVA Board in 2008, and is intended to identify environmental objectives that will allow TVA to produce cleaner and still-affordable electricity.

TVA anticipates future federal legislation and regulations requiring reductions in emissions of greenhouse gases and conventional air pollutants, as well as mandatory increases in power generation from renewable resources. In light of an increasing national focus on renewable and clean energy, TVA's Environmental Policy calls for TVA to derive at least 50 percent of its generation from low-carbon and zero-carbon sources by 2020. TVA's Environmental Policy also aims to stop the growth in volume of greenhouse gas emissions and reduce the rate of emissions by 2020. The TVA Board also has approved guiding principles for an Energy Efficiency and Demand Response Plan and a Renewable and Clean Energy Plan. The Energy Efficiency and Demand Response Plan seeks to slow the current rate of growth in the region's power demand by providing opportunities for residential, business, and industrial consumer groups to use energy more efficiently. In the short term, the plan proposes reducing the growth in peak demand by up to 1,400 megawatts by the end of FY 2012. The Renewable and Clean Energy Plan strives to add clean energy resources to TVA's generating mix to help reduce carbon emissions and maintain a reliable power supply. The Plan advises TVA to reduce the carbon intensity of the power generation in a cost-effective manner through the implementation of conservation measures, preferentially reviewing regional renewable and clean energy supply options, and considering technology innovations to address intermittency issues associated with renewable options.

As a result of the 2008 Environmental Policy, TVA is currently conducting two significant reviews of the options and methods for meeting the objectives outlined within the Policy. The Integrated Resource Plan, TVA's Environmental and Energy Future, is a comprehensive study of alternatives to achieve a sustainable future and meet the electricity needs of the Tennessee Valley over the next 20 years. This will be done by analyzing various combinations of supply side and demand side management options. The goals of the Environmental Policy not closely tied to energy production and use are being considered through a separate, focused Natural Resource Plan ("NRP"). The NRP is studying various ways in which TVA can address future natural resource stewardship needs of the Tennessee Valley. It will evaluate the implementation of TVA's reservoir lands planning, natural resource management, water resources management, and recreation processes and strategies.

### River System

TVA has federal jurisdiction for managing the Tennessee River and its tributaries —America's fifth-largest river system— to deliver multiple benefits, including year-round navigation, reduced flood damage, affordable and reliable electricity, recreation opportunities, adequate water supply, improved water quality, and economic growth. TVA has direct stewardship responsibility for 293,000 acres of public land, 11,000 miles of shoreline, and 650,000 acres of reservoir water surface available for recreation and other purposes. TVA reservoirs and public lands provide outdoor recreation opportunities for millions of visitors each year.

Navigation on the Tennessee River—made possible by the system of dams and locks operated by TVA—provides significant contributions to the regional economy. Construction of a new lock at the Chickamauga Dam above Chattanooga is essential to maintaining navigation on the upper Tennessee River. TVA will eventually need to close the existing lock due to safety issues stemming from concrete growth. Work on the new lock is being done by the U.S. Army Corps of Engineers.

TVA also manages the river system to provide water for hydro generation and cooling water for TVA nuclear and fossil power plants. Other water supply activities include issuing permits for water intake structures and promoting regional water supply planning and project implementation.

TVA has installed and is upgrading equipment at its dams to help provide the flows and oxygen levels needed for a healthy aquatic community in tail waters (the areas immediately downstream from dams). In managing the watershed, TVA balances water quality protection with other demands for water use, and implements a number of activities such as the Targeted Watershed Initiative Program, Tennessee Valley Clean Marina Initiative, Tennessee Growth Readiness Program, Strategic Partnership Initiative, and Shoreline Stabilization Program. TVA performs year-round monitoring and analysis of the 41,000-square-mile watershed and reports to the people of the Valley on the health of the river system.

**TVA and Air Quality in the Tennessee Valley**

The latest annual air-quality trends report issued by the Environmental Protection Agency shows air quality in the nation has steadily improved, with a 54 percent decline in collective emissions (from 1980 to 2008) of all six principal pollutants: sulfur dioxide, nitrogen dioxide, ozone, carbon monoxide, particulate matter, and lead. Air quality data for the Tennessee Valley region also shows reductions in all of these pollutants. TVA is significantly reducing emissions from its coal-fired plants while continuing to supply affordable, reliable electric power. Over the past several years, TVA has made notable efforts to enhance its environmental performance, and TVA is continuing to make further improvements. As of September 30, 2009, TVA spent \$5.3 billion on clean air controls at its 11 coal-fired power plants. TVA estimates that spending on emission controls for SO<sub>2</sub>, NO<sub>x</sub>, and mercury in the decade beginning in 2011 will cost approximately \$4.2 billion.

### Goal 3: Stimulating Economic Growth

Demonstrating leadership in sustainable economic development in the Tennessee Valley means helping communities recruit and retain quality jobs and making the Valley a better place to live and work.

TVA Economic Development's goal is to be a source for economic development information and services across the seven-state Tennessee Valley region. TVA's effective partnerships with its customers and communities have helped produce quality jobs and resulted in significant capital investments in new and existing companies. Economic development efforts are performed in partnership with various private and public organizations, including regional and state agencies. TVA helps meet the needs of its stakeholders to achieve the bigger picture of regional economic development that results in a better life for Tennessee Valley residents today and into the future. TVA's innovative programs and services combine to create powerful tools for sustainable economic development. These programs and services include the following:

#### **Global Business and Community Development**

##### Industrial Recruiting Services

TVA works with distributor customers and local, state, and regional economic development organizations to recruit industrial prospects through an integrated package of economic development resources.

##### Regional Development

A regional development specialist with economic development expertise is assigned to serve counties in a specific TVA region to create, sustain, and foster job growth.

##### Community Development

TVA helps communities increase their competitiveness in attracting investment and creating jobs by delivering training to local community leaders and by providing economic and market research that better prepares them for receiving industrial prospect visits, being competitive and taking advantage of opportunities.

#### **Business Resources**

##### Existing Industry Support

An array of products and services are geared to meet the expansion and retention needs of existing industries. These include financial support, technical services, and industry consulting services.

##### Economic Development Loan Fund

These funds are designed to stimulate job creation and leverage capital investment in the TVA power service region. The loan funds are open to primary manufacturing companies and other institutions in the Valley, including TVA customers, communities, and nonprofit economic development corporations.

##### Special Opportunities Counties ("SOC") Loan Fund

This revolving loan fund is available to the Valley's most economically distressed counties. Loans are made to assist with industrial expansion, job creation, and site/building improvements.

##### Business Incubation Network

Business incubators provide the support that many companies need to survive the challenging early stages of business start-up. Over the years, TVA has provided financial and technical assistance to help communities establish incubators where clients can share services, equipment, and building space.

##### Consumer Connection

Consumer Connection is an economic development program that links Valley communities with business opportunities, expansions, and retentions.

##### Diversity Alliance

TVA helps the Tennessee Valley's high-growth sectors of woman-owned and minority-owned businesses to increase their job creation and capital investment opportunities by providing business tools and opportunities that help grow and sustain these targeted businesses.

##### Valley Investment Initiative for Existing Customers

This economic development incentive program offers financial incentives to existing Valley companies that contribute to the economic development of the Tennessee Valley region and complement TVA's power system.

**Technical Services**

Engineering and Design Assistance

TVA offers general engineering design services to help industrial prospects make sound location decisions.

Appalachian Regional Commission Project Administration

TVA serves as the lead agency to administer grants for the Appalachian Regional Commission in the Tennessee Valley.

## Current Management Initiatives

### Organizational Effectiveness

In August 2009, TVA launched an Organizational Effectiveness Initiative to strengthen the organizational capabilities to deliver on TVA's mission and strategy and to improve organizational effectiveness, cooperation, and engagement within the organization. The goal of this initiative is to be recognized by customers, employees, and the broader Valley community as a great company. The initiative will consist of a comprehensive assessment of TVA's organizational effectiveness including the following organizational elements: (1) Governance and accountability, (2) Organizational structure, (3) Operating policies and procedures, (4) Skill sets (institutional capabilities), (5) Rewards and recognition, (6) Change-management effectiveness and (7) Communications.

### Integrated Resource Plan

On June 15, 2009, TVA began the preparation of a new Integrated Resource Plan ("IRP") entitled *TVA's Environmental and Energy Future*. The purpose of the IRP is to analyze alternative ways of addressing the Tennessee Valley's electricity needs for the next 20 years. The IRP builds on the energy resource portfolio that resulted from TVA's 1995 IRP. The alternative portfolios developed for this effort will be evaluated using several criteria including capital and fuel costs, reliability, possible environmental impacts including climate change, compliance with existing and anticipated future regulations, and other factors. The process will provide opportunities for the public to provide input and TVA expects to issue a final IRP in early CY 2011.

### Cyber Security

Security Governance is an integral part of TVA's enterprise governance. This strategic alignment is accomplished through the implementation of a Cyber Security Governance council comprised of TVA executives. TVA strategically aligns security with business strategy and processes to support organizational objectives.

TVA centralizes security financial management to improve accountability, visibility, and tracking. TVA is developing and maintaining an integrated five-year security strategic plan covering all security functions. TVA is integrating security controls into TVA business processes. TVA has established security standards, training, and metrics that enable timely, coordinated, effective, and efficient execution across TVA. TVA's security program assigns clear accountability for all security activities throughout TVA. To sustain enterprise security, the organization is moving towards a security management process that is strategic, systematic, and repeatable, with efficient use of resources and effective, consistent achievement of goals. To address this business challenge, Enterprise IT Security was established in February 2008 to develop and govern a common and sustainable Agency Security Program.

### New Nuclear Generation

TVA is developing options for completing a new nuclear unit at its Bellefonte site. One option being considered is completing Bellefonte Units 1 or 2. The NRC has reinstated the construction permits on Units 1 and 2 and has placed them in "Deferred" status. Further reviews by TVA, approval by the TVA Board of Directors, and notice to the NRC are required before construction can resume. The second option being developed is the construction of a new nuclear unit at the Bellefonte site. The unit would have a Westinghouse Advanced Passive 1000 reactor. TVA submitted, in October 2007, a Combined Construction and Operation License Application ("COLA") to the NRC. Contentions have been filed with respect to the Bellefonte Units 3 and 4 COLA.

*Tennessee Valley Authority*

**GPRRA Annual Performance Plan**

for FY 2011

*Submitted*  
September 2009



## Foreword

The Tennessee Valley Authority's Strategic Plan was approved by the TVA Board of Directors in 2007. TVA's Board and executive leadership recognized the need to articulate TVA's overall strategic direction for the next decade as a result of market trends, a new national energy policy, rising fuel costs and other changes since the previously issued strategic plan. The Strategic Plan outlines actions TVA must accomplish to align with this direction. The Strategic Plan also identifies aspects of TVA's current business structure that must be fine-tuned for TVA to strengthen its ability to continue to serve the people of the Tennessee Valley region.

This document is TVA's GPRA Annual Performance Plan for FY 2011. It contains the specific information that is required by the Government Performance and Results Act. This FY 2011 GPRA Annual Performance Plan builds upon the strategic objectives and critical success factors identified in the Strategic Plan and describe the metrics that will be used to monitor TVA's performance toward achieving successful implementation of its strategy.



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## 1. TVA Mission Statement

The mission statement approved in 2007 states that “[t]he mission of TVA is to improve the quality of life in the Tennessee Valley through its work in three key areas: energy, the environment, and economic development. TVA provides reliable, competitive power; manages the Tennessee River system and associated lands to meet multiple needs; and partners with Valley communities and states for economic development. For nearly 75 years, TVA’s unique mission has served as the foundation of its business endeavors and provided the context for its business objectives and internal processes.”

### Energy

#### ***Provide electric power to the Tennessee Valley***

- TVA supplies reliable, affordable electricity to the Tennessee Valley. It strives to meet the changing needs of power distributor customers and directly served industrial customers for electricity and related products and services in a dynamic marketplace.

### Environment

#### ***Act as steward of the Valley’s water resources and associated public lands***

- To fulfill its environmental stewardship mission, TVA manages water resources and associated public lands in the Valley for the benefit of the region and the nation. It manages the Tennessee River system and associated public lands to reduce flood damage, maintain navigation, support power production and recreational uses, improve water quality and supply, and protect shoreline resources.

### Economic Development

#### ***Serve as a catalyst for sustainable economic development***

- TVA works with its power distributor customers; state, regional, and local economic development organizations; and other federal agencies to build partnerships that help bring jobs to the Tennessee Valley and make the economy stronger to benefit the people of the region.

## 2. Strategic Objectives and Critical Success Factors

In its 2007 Strategic Plan, TVA identified five broad strategic objectives on which it will focus as it moves forward, and twenty-four corresponding critical success factors that support those objectives. These strategic objectives, along with their corresponding critical success factors, are as follows:

**CUSTOMER:** Maintain power reliability, provide competitive rates, and build trust with TVA's customers

Critical Success Factors:

- Strengthen relationships and trust by being responsive to stakeholder needs
- Develop a portfolio of product and pricing structures that more accurately reflect the costs of serving load at different times and levels of use
- Partner with distributors and directly served customers to encourage conservation, promote energy efficiency, and reduce peak demand
- Partner with customers to limit volatility in rates and participate in power supply through shared generation ownership
- Assist states, communities, and distributors in sustaining economic development programs

**PEOPLE:** Build pride in TVA's performance and reputation

Critical Success Factors:

- Safeguard the health and safety of employees and the public
- Strengthen workforce knowledge and skills and management processes to motivate performance and successfully implement the strategic objectives
- Treat employees, customers, and other stakeholders with integrity and respect
- Communicate clearly and consistently

**FINANCIAL:** Adhere to a set of sound guiding financial principles to improve TVA's fiscal performance

Critical Success Factors:

- Apply sound economic and financing practices to new investments
- Pay financing obligations before assets are fully depreciated
- Strengthen TVA's balance sheet by improving the ratio of financing obligations to total assets
- Improve TVA's cash return on total assets in order to service debt, preserve existing assets, reinvest in new assets, and improve environmental performance
- Achieve top-quartile performance in non-fuel operation and maintenance ("O&M") expenses and then hold increases to be less than unit sales growth ("kWhs")

**ASSETS:** Use TVA's assets to meet market demand and deliver public value

Critical Success Factors:

- Balance TVA's production capabilities and load by adding assets (buy, build or through long-term contracts) and encouraging the use of energy in ways that reduce the need for new generation
- Preserve, maintain, repower or retire existing assets where appropriate
- Manage land and water resources to provide multiple benefits to the Valley
- Reduce fuel supply risk with a diverse portfolio of generation assets

**OPERATIONS:** Improve performance to be recognized as an industry leader

Critical Success Factors:

- Deliver reliable electric power generation and transmissions products and services
- Benchmark the industry's best performers to develop metrics for top-quartile performance
- Make nuclear safety the overriding priority for each nuclear facility and for each individual associated with it
- Continue to reduce the impacts of TVA's operations on the environment
- Serve as a responsible steward of the Tennessee River system
- Apply science and technological innovation to improve operational performance

### 3. Program Evaluations - Tracking Progress Against the Goals

#### 3.1 Corporate Level Metrics

The 2007 Strategic Plan outlined the Board of Directors' policy-level direction for TVA over the next decade and highlighted several actions that are needed for successful implementation of the strategy. In support of the strategic objectives and critical success factors outlined in the Strategic Plan, sixteen corporate-level metrics were in place to monitor TVA's FY 2009 performance toward achieving successful implementation of its strategy (Exhibit 1). These metrics are reviewed and systematically updated annually to maintain alignment with the strategic focus. TVA's scorecard, with its performance metrics, clearly demonstrates that no one single organizational unit has complete responsibility for implementing strategy.

The TVA-wide performance metrics are as follows:

- (1) **Retail Price (¢ / kWh Sales )** = distributor reported retail power revenue and directly served power revenue divided by distributor reported retail power sales and directly served power sales

*Calculation:*

$$\frac{\text{Distributor reported power revenue} + \text{Directly Served power revenue}}{\text{Distributor reported sales} + \text{Directly Served power sales}}$$

- (2) **Delivered Cost of Power Excluding FCA Costs (\$ / MWh Sales)** = TVA's total costs in dollars per MWh of power sold to customers

*Calculation:*

$$\frac{\text{Total Income Statement Expenses (Excluding FCA Costs) +/- Other Income, net}}{\text{Total Sales Volume (MWh)}}$$

- (3) **FCA Costs (\$ / MWh Sales)** = TVA's FCA expenses per MWh of power sold

*Calculation:*

$$\frac{\text{FCA Costs}}{\text{Total Sales Volume (MWh)}}$$

- (4) **Economic Health Index (Percent)** = percentage growth of the weighted average wage of jobs created and/or retained in the Valley as compared to the percentage growth of the weighted average wage of all states in the Southeast

*Calculation:*

$$\frac{\text{TVA Project Average Wage}}{\text{Southeastern Average Wage}}$$

- (5) **Participation in Energy Efficiency & Peak Shaving Initiatives (Percent)** = quarterly measure of distributors' participation in Demand Side Management programs and pilots

*Calculation:*

$$\frac{\text{\# of Distributor Customers Participating in DSM initiatives}}{\text{Total \# of Distributors}}$$

- (6) **Customer Satisfaction Survey (% Satisfied)** = quarterly measure of distributors' and directly served customers' satisfaction with TVA in a variety of areas including wholesale/retail supplier, performance of local TVA customer service staff, and power quality and reliability of transmission service, pricing, contracts, and power supply mix

*Calculation:*

$$\left[ \left( \sum \text{PD survey questions ( \% satisfied )} \right) * \left( 1/14 \right) * \left( 0.85 \right) \right] + \left[ \left( \sum \text{DSI survey questions ( \% satisfied )} \right) * \left( 1/13 \right) * \left( 0.15 \right) \right]$$

- (7) **Connection Point Interruptions (Interruptions / Connection Points)** = tracks interruptions of power, including momentary, at connection points caused by the transmission system

*Calculation:*

$$\frac{\text{Number of interruptions}}{\text{Number of connection points}}$$

- (8) **Cultural Health Index ("CHI")** = measures alignment, capability and engagement of the employee work force

*Calculation:*

Measured by the percent favorable responses (agree or strongly agree) on the CHI. Item favorabilities are averaged within each respective dimension (alignment, capability, engagement). The CHI score is the average of the dimension favorability averages.

- (9) **Safe Workplace (Injuries / Hours Worked)** = a rate-based measure of employee safety as measured by the number of OSHA recordable injuries resulting in either a fatality, days away from work/lost time, restricted duty / job transfer, medical treatment, loss of consciousness, other significant work-related injury/illness diagnosed by a physician or other licensed health care professional per 200,000 employee-hours worked by both TVA employees and Staff Augmentation contractors

*Calculation:*

$$\frac{\text{ORIR} \times 200,000}{\text{Number of Hours worked during time period}}$$

NOTE: Hearing loss events are reported as recordable injuries on the OSHA 300 Log, but are excluded from the TVA Winning Performance Safe Workplace indicator.

- (10) **Debt-like Obligations / Asset Value (Percent)** = TVA's flexibility in a competitive market place

*Calculation:*

$$\frac{\text{Statutory debt} + \text{lease obligations} + \text{prepaid energy obligations}}{\text{Total Assets}}$$

- (11) **Funds From Operations / Interest (Ratio)** = credit quality

*Calculation:*

$$\frac{(\text{Net Income} + \text{Depreciation} + [\text{Other Non-Cash Items} - \text{AFUDC}] - \text{Changes in Working Capital} + [\text{Interest Expense} + \text{AFUDC}] + \text{Industry Defined Pension Adjustment})}{([\text{Interest Expense} + \text{AFUDC}] + \text{Industry Defined Pension Adjustment})}$$

- (12) **Net Cash Flow from Operations less Investing (\$ Millions)** = management's ability to control net cash flow (in millions) during the year by focusing attention on both cash inflows and outflows being balanced throughout the year

*Calculation:*

$$(\text{Cash Flow from Operations}) + (\text{Investing Cash Flow}) - (\text{Net Cash Flow from Change in FCA Deferral Account})$$

- (13) **Key Environmental Metrics (Index)** = a composite of the following environmental performance factors: Air (three elements); Water (two elements); Clean Water Act ("CWA") Nonconformances, Notices of Violation, and Office Recyclables (one element each)

*Calculation:*

The sum of six element scores. The six elements are: CO2, NOx, SO2, CWA nonconformances, Notices of Violation, and office recyclables. The six element scores are the result of percent of target performance met. This percentage is determined by dividing the actual performance by the target or vice versa based on whether the

preferred performance is declining or increasing. If threshold performance is achieved, the appropriate number of points are obtained. The maximum number of points which can be achieved are the points assigned to meeting the stretch performance.

- (14) Megawatt Demand (“MW”) Reduction (MW Reduced)** = total incremental MW demand reduction potential from TVA-initiated energy efficiency and demand reduction activities, programs, projects, and pilots

*Calculation:*

$$[ ( \text{Individual product kW impacts} ) * ( \text{FY 11 individual product installations} ) / 1000 ] + [ ( \text{Individual FY 11 project kW impacts} ) / 1000 ] + ( \text{Individual FY 11 pilot kW impacts} ) / 1000 ] + \text{FY 11 Demand Response MW reduction}$$

- (15) Demand Reduction (\$ / kW Reduced)** = quarterly measure of cumulative annual expenditures for energy efficiency and demand response activities divided by cumulative annual demand reduction potential identified

*Calculation:*

$$\frac{\text{YTD EE\&DR Expenditures}_{\text{qtr}}}{\text{Monthly potential demand reduction reported YTD}_{\text{qtr}}}$$

- (16) Equivalent Availability Factor - Coal, CC, & Nuclear (Percent)** = a ratio of actual available generation from all TVA Coal, Combined Cycle & Nuclear generating assets in a given period compared to maximum availability

*Calculation:*

$$\frac{\sum \text{of all Coal, Combined Cycle \& Nuclear units } ((\text{AVH} * \text{NMC}) - \text{MWhL} - \text{SchMWhL}) * 100}{\sum \text{of all Coal, Combined Cycle \& Nuclear units } (\text{PH} * \text{NMC})}$$

AVH = Available Hours (Includes Economic Load Reduction and Not in Demand Hours)

PH = Period Hours

NMC = Net Maximum Capacity = Winter NDC for Thermal Units

MWhL = MWh Losses due to forced outage or derating

SchMWhL = MWh Losses due to scheduled outages (planned or maintenance) or derating

### 3.2 The Winning Performance Process

The Winning Performance process keeps TVA focused on the strategic objectives. It identifies the things that must be accomplished to be successful, measures and tracks our performance in these areas, and provides the incentives and feedback to employees to see the direct connection. Employees' involvement in Winning Performance enables them to understand how their day-to-day performance contributes to TVA's performance and success.

TVA's Winning Performance Team Incentive Plan (“WPTIP”) is a pay-for-performance program similar in structure to incentivized performance-based profit-sharing programs used by private companies. The program is based on the principle that operational and process improvements, reduced costs, and improved revenues can be obtained by applying appropriate management focus and offering appropriate monetary incentives.

Employees can see how their work contributes to the direction set by their SBU's performance plan and how that contributes to TVA's overall successful implementation of the agency's strategy (Exhibit 2). Additionally, employees have line-of-sight from their individual performance objectives, developed as a part of the Integrated Performance Management process, to TVA's strategic objectives and critical success factors.

All full time employees are eligible to participate in WPTIP, except those approved by the Board of Directors or delegate(s) to participate in the Executive Annual Incentive Program. WPTIP is a compensation plan (lump sum payment) tied to performance results based on scorecard metrics at the TVA, SBU, and BU levels. The SBUs are Fossil Power Group, Nuclear Generation, Development and Construction, Nuclear Power Group, Power Supply & Fuels, Power System Operations, and River Operations.

The TVA scorecard represents at least 30 percent of each employee's potential payout. The remaining potential employee payout is tied to the performance of an employee's SBU or BU scorecards, whichever is applicable. Corporate organizations are incented based off of a weighted average of TVA's SBU and BU scorecards as they support multiple groups. Executives also have performance incentives linked to the same scorecards.

### **3.3 TVA's Balanced Scorecard**

The TVA, SBU, and BU scorecards contain targets at three levels, corresponding to different incentive payouts: Threshold, Target, and Stretch.

The scorecard basis sheets contain the year-to-date actual values of the metrics, as well as historical and future forecasts, where applicable. Adverse trends and improvement plans are discussed during normal reviews with executive management.

Performance is monitored on each of the metrics, and the scorecards are updated to reflect actual results and updated forecasts. These updates are available to employees through their organizations and TVA's intranet.

## **4. Strategy Implementation**

### **4.1 TVA's Mission and Strategic Plan**

The five strategic objectives identified in the TVA Strategic Plan focus on the general steps TVA must take to preserve its core mission. The outcomes are areas that TVA must focus on to continue fulfilling its mission within the evolving business environment.

### **4.2 Principles of a Strategy Focused Organization**

TVA follows the five Principles of a Strategy Focused Organization<sup>1</sup> to implement its strategy throughout the operations of the organization. The five principles have been successfully used by both public and private sectors and are defined as follows:

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<sup>1</sup> Robert S. Kaplan and David P. Norton, The Strategy-Focused Organization, Harvard Business School Press, Cambridge, Massachusetts, 2000.



1. Mobilize the organization through visible, executive leadership. The TVA Board approves the strategic plan, budgets, and performance targets. Executive leadership endorses the Strategic Plan and takes responsibility for ensuring its operational implementation.
2. Translate the strategy into operational terms. A key vehicle for translating TVA's strategy into operational terms is TVA's Business Planning Process. These objectives translate strategy into operational terms by identifying TVA-level strategic objectives and critical success factors.
3. Align the organization around the strategy. TVA achieves strategy alignment by developing a balanced scorecard, which defines measurable corporate-level and ultimate business-unit goals consistent with the strategic plan.
4. Motivate to make strategy everyone's job. Strategic awareness is created by "line of sight" mapping—aligning individual performance goals with critical success factors and by TVA's balanced scorecard which ties incentive compensation to the achievement of goals.
5. Govern to make strategy a continual process. TVA, SBU, and BU scorecards are updated monthly as described in section 3.3.

#### **4.3 Translating the Strategic Plan into Operational Terms**

TVA's mission and strategic objectives must be translated into operational terms to align the actions of management and employees. Defining the critical success factors ("CSFs") is the first step. CSFs define the key factors and capabilities needed to generate sustainable performance consistent with the business themes of the mission and the priorities identified by the Strategic Plan.

Performance goals identify specific, tangible objectives for measuring achievement. TVA develops a strategy in the context of the mission, maps the strategy into operational initiatives, and ultimately develops performance plans for each part of the organization and scorecards for measuring success.

#### **4.4 Annual Goals, Long Term Goals and the Strategic Plan**

Developing corporate short-term and long-term plans are key to achieving the goals outlined in the Strategic Plan. TVA's Long-Term Plans cover a minimum of 5 years and maximum of 20 years. These plans include:

- Shorter Term (1-3 Year) Plans
  - Bi-Annual Power Supply Plan
  - TVA Business Plans (3-year outlook with Quarterly reviews)
- Longer Term (5-20 Years) Plans
  - Bi-Annual Long-Term Power Supply Plan (20-year forecast)
  - Long-Range Financial Plans (10 years or more), and associated risk analyses
  - Capital Project Plans (5-year outlook)
  - Enterprise Risk Assessments (5-year outlook)

At a minimum, quarterly briefings are held with the Board of Directors, which include a review of corporate performance. The strategic issues, the scorecard and financial outlook are tracked and reviewed. Annually these reviews include 3-year trending and 3-year forecast.

## **5. Key Factors External to TVA that Could Significantly Affect the Achievement of General Goals**

Given the long lead times needed to build new generation and transmission facilities, the electricity business is subject to forecast error, and planning under uncertainty is inherent. Normal planning uncertainties include those associated with projections about:

- growth in the regional economy and its impact on electricity demand
- changes in the cost of fuel used to generate electricity
- changes in laws and regulations, particularly those related to environmental compliance, reliability, and security
- technological change
- changes in market interest rates
- change in operating and maintenance cost

In addition to these uncertainties in electric power planning, the electric utility industry continues to evolve in ways that could have wide-ranging impacts on TVA, the way it achieves its mission and its ability to achieve the goals outlined in the Strategic Plan. Given the potential for change in the industry and the high potential for significant forecast error, TVA planning evolves as more information becomes available.

## **6. Resources and Skills Needed To Achieve Goals**

### **6.1 Financial Resources**

The TVA Act gives the TVA Board both the authority and the requirement to set electric rates at a level to cover all power system costs while being responsible to the Act's objective that power be sold at rates as low as feasible. The Energy and Water Development Appropriations Bill of 1998 directed TVA to use power revenues to pay for essential stewardship activities previously funded by federal appropriations.

### **6.2 Physical Resources**

TVA's success in carrying out its mission requires that TVA retain management and operational responsibility for the Tennessee River system and other federal assets crucial to its statutory responsibility.

### **6.3 Management and Human Resources**

TVA will need to maintain its existing skills and processes related to power supply, resource stewardship, and economic development while also developing a number of new processes and skills. Major initiatives include the following:

- Continued efforts across the organization to improve efficiency. The activities involved include not only benchmarking best-in-class performers, but also raising the bar on TVA's own performance related to reliability, forced outage rates, and overall cost.

- Continued training to develop a multi-skilled workforce to improve labor productivity.
- Developing new tools to support the development of products and services, including new methods for determining TVA's cost to provide different types of service and evaluating and quantifying risk.
- Developing new methods for evaluating future investments in generation that reflect the uncertainty in future revenue available to recover those investments.

## Exhibit 1. TVA Strategic Plan Corporate Level Metrics

<i>Winning Performance</i>								
FY 2009 TVA Balanced Scorecard								
Customers	Weight	Status	Actual YTD	Plan YTD	YE Actual	Threshold	Target	Stretch
<a href="#">TVA Retail Price (\$ / kWh Sales)</a>		■	8.49	8.40	8.49	8.40		
<a href="#">TVA Delivered Cost of Power Excluding FCA Costs (\$ / MWh Sales)</a>		■	37.10	35.89	37.10	35.89		
<a href="#">TVA Fuel Cost Adjustment Costs (\$ / MWh Sales)</a>		●	21.99	33.85	21.99	33.85		
<a href="#">TVA Economic Health Index (Percent)**</a>		●	111	100	111	100		
<a href="#">TVA Participation in Energy Efficiency &amp; Peak Shaving Initiatives (Percent)**</a>		●	99	98	99	98		
<a href="#">TVA Customer Satisfaction Survey (% Satisfied)**</a>		●	83	82	83	82		
<a href="#">TVA Connection Point Interruptions (Interruptions / Connection Point)</a>	0.0%	●	0.75	1.12	0.75		1.12	0.78
People	Weight	Status	Actual YTD	Plan YTD	YE Actual	Threshold	Target	Stretch
<a href="#">TVA Cultural Health Index**</a>		■	64.6	66.3	64.6	66.3		
<a href="#">TVA Safe Workplace (Injuries / Hours Worked)</a>		●	0.82	1.62	0.82	1.62		
Financial	Weight	Status	Actual YTD	Plan YTD	YE Actual	Threshold	Target	Stretch
<a href="#">TVA Debt-like Obligations / Asset Value (Percent)</a>		●	62.8	67.3	62.8	67.3		
<a href="#">TVA Funds From Operations / Interest (Ratio)</a>		■	2.4	2.6	2.4	2.6		
<a href="#">TVA Net Cash Flow from Operations less Investing (\$ Millions)**</a>	0.0%	■	-975	-163	-975	-292	-163	-113
Assets / Operations	Weight	Status	Actual YTD	Plan YTD	YE Actual	Threshold	Target	Stretch
<a href="#">TVA Key Environmental Metrics (Index)**</a>		●	101	100	101	100		
<a href="#">TVA Megawatt Demand Reduction (MW Reduced)</a>		●	172	154	172	154	162	170
<a href="#">TVA Demand Reduction (\$ / kW Reduced)**</a>	0.0%	●	217	643	217	643	611	582
<a href="#">TVA Equivalent Availability Factor - Coal, CC &amp; Nuclear (Percent)</a>	0.0%	■	85.6	85.8	85.6	85.8	87.1	88.0

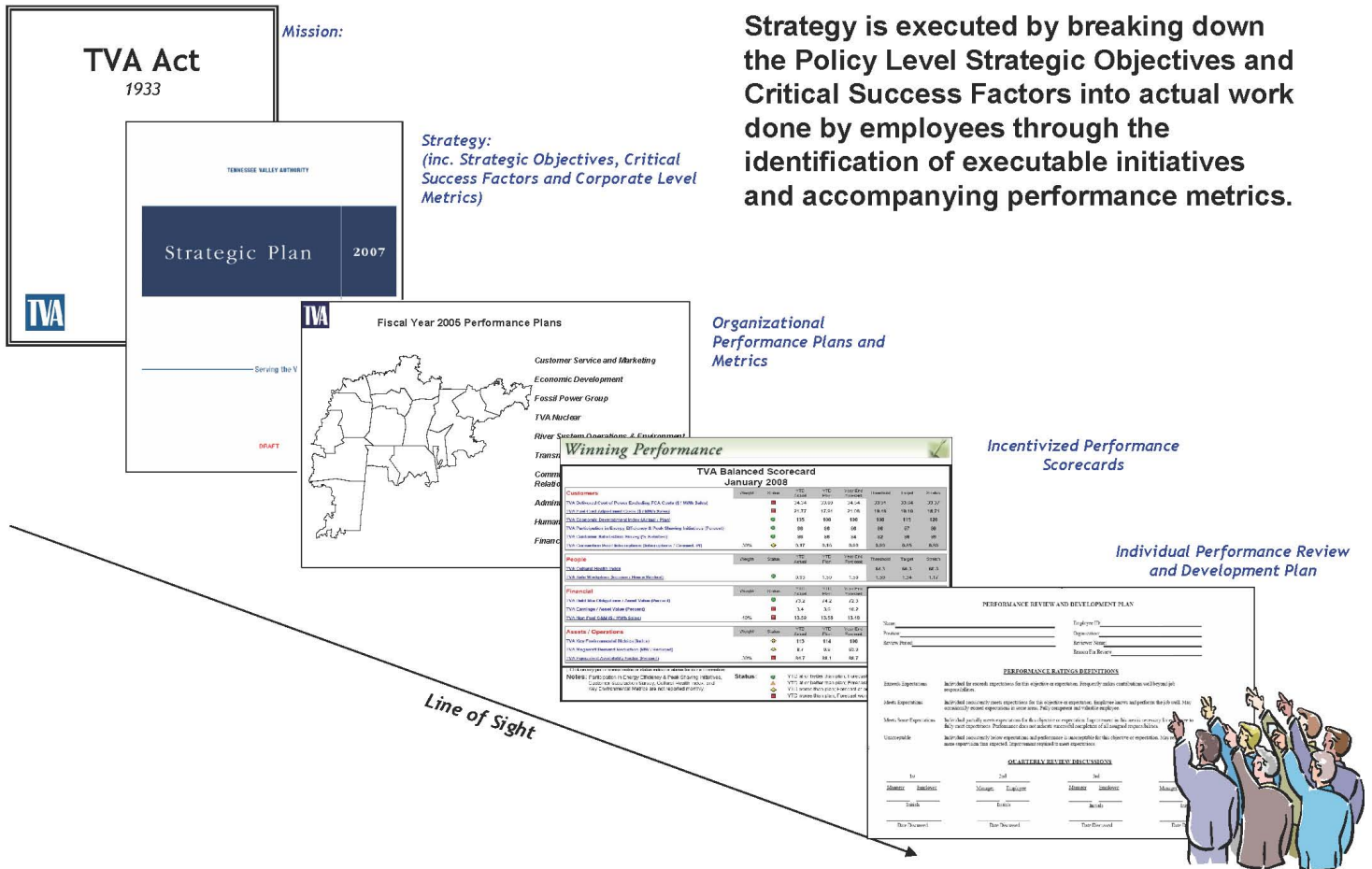
† Click on any metric or status indicator above for more information.  
 Note: \*\* Not reported monthly

Status:

- Actual YTD at or better than Plan YTD; Year End Actual at or better than Threshold
- ▲ Actual YTD at or better than Plan YTD; Year End Actual worse than Threshold
- ◆ Actual YTD worse than Plan YTD; Year End Actual at or better than Threshold
- Actual YTD worse than Plan YTD; Year End Actual worse than Threshold

# Exhibit 2. Translating Strategy into Operational Terms

## Line Of Sight



## Appendix

EBITDA is a financial measure that, although commonly used, is not calculated and presented in accordance with U.S. generally accepted accounting principles ("GAAP"). EBITDA represents net income before interest, taxes, depreciation, and amortization. TVA presents EBITDA because it considers EBITDA an important indicator of TVA's fiscal health and performance. EBITDA should be considered in addition to, and not as a substitute for, TVA's other measures of performance that are reported in accordance with GAAP. A reconciliation of net income to EBITDA follows:

### TENNESSEE VALLEY AUTHORITY Unaudited Reconciliation of Net Income to EBITDA (in millions)

	2004	2005	2006	2007	2008	2009	2010 Projected	2011 Projected
Net Income	\$ 386	\$ 85	\$ 113	\$ 423	\$ 817	\$ 726	\$ 770	\$ 694
Add back:								
Interest Expense	1,363	1,312	1,264	1,232	1,376	1,272	1,253	1,334
Tax Equivalents	338	365	376	451	491	544	502	588
Depreciation & Amortization	1,115	1,154	1,500	1,473	1,224	1,598	1,635	1,723
Total EBITDA	<u>\$ 3,202</u>	<u>\$ 2,916</u>	<u>\$ 3,253</u>	<u>\$ 3,579</u>	<u>\$ 3,908</u>	<u>\$ 4,140</u>	<u>\$ 4,160</u>	<u>\$ 4,339</u>



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