

No. 12-01

Approved by the Board of Directors  
at its April 26, 2012, meeting:



Executive Vice President, General  
Counsel and Secretary

MINUTES OF MEETING  
OF  
THE BOARD OF DIRECTORS  
TENNESSEE VALLEY AUTHORITY  
FEBRUARY 16, 2012

A meeting of the Board of Directors of the Tennessee Valley Authority was held in the Missionary Ridge Auditorium at TVA's Chattanooga Office Complex, 1101 Market Street, Chattanooga, Tennessee, on February 16, 2012. The meeting was called to order at 10:06 a.m. (EST) after a ten-minute break following the listening session which began at 9:00 a.m. (EST). The meeting was announced to the public on February 10, 2012. The meeting was open to public observation.

All current Board members were in attendance, as follows: Director and Chairman William B. (Bill) Sansom, and Directors Marilyn A. Brown, William H. Graves, Barbara S. Haskew, Richard C. Howorth, and Neil G. McBride.

Also present were TVA officers including Tom Kilgore, President and Chief Executive Officer; John M. Thomas, Executive Vice President and Chief Financial Officer; Ralph E. Rodgers, Executive Vice President, General Counsel and Secretary; Kimberly S. (Kim) Greene, Executive Vice President and Chief Generation Officer; and Michael D. (Mike) Skaggs, Senior Vice President, Nuclear Construction.

Chairman Sansom presided over the meeting which was duly called, notice to each Director having been delivered pursuant to section 1.2 of the Bylaws governing meetings of the Board of the Tennessee Valley Authority. A quorum was present.

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Chairman Sansom called the meeting to order.

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**12-01-1. Welcome**

Chairman Sansom welcomed all in attendance and those watching on the TVA web site, then thanked the Chattanooga Electric Power Board and other area distributors for hosting an early breakfast. The Chairman stated that he and other Board members learn a lot during such events, acknowledged that the distributors are TVA's customers, and expressed the Board's appreciation for their business. Chairman Sansom recognized Jack Simmons, President of the Tennessee Valley Public Power Association, who spoke briefly and introduced other distributor

representatives in the audience. Chairman Sansom also recognized John Van Mol, who spoke briefly, and Pete Mattheis, both of the Tennessee Valley Industrial Committee. The Chairman then stated that for this meeting the Board had asked staff to give particular focus to financial performance and TVA's generation portfolio.

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### **Old Business**

The Board approved the minutes of the meeting held November 17, 2011.

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### **New Business**

#### **12-01-2.                   President's Report**

Tom Kilgore, President and Chief Executive Officer, presented his report in the context of TVA's Vision to be one of the nation's leading low cost providers of cleaner energy by 2020. Mr. Kilgore reported that as of October 2011, TVA's rates were ranked 41st among the top 100 utilities but, with the exception of a slight bump in November, rates had come down each month since. Mr. Kilgore discussed the various elements of cost contributing to TVA's rates and provided a brief status for each. Mr. Kilgore attributed the current decrease in sales primarily to the weather, but also to a slow economy. He stated that TVA is soliciting ideas from its people

on what it can do without, and added that TVA needs to eliminate what it can, forego unnecessary purchasing, and look hard at everything it does.

Mr. Kilgore gave TVA a “blue,” or highest, rating with regard to reliability. He stated that plant reliability has been good, purchased power has been available when needed, and system reliability has been good. Mr. Kilgore mentioned that Electric Light and Power had recently published data on the Top 20 electrical plants in various categories, and had recognized Browns Ferry Nuclear Plant for the amount of power generated, Watts Bar Nuclear Plant for operating at a ninety-nine percent capacity factor, and Bull Run Steam Plant for heat rate, or its efficiency in converting coal to electricity.

With regard to responsibility, Mr. Kilgore discussed continued progress with the Kingston clean-up, recent positive results of economic development efforts, and TVA employee support for charitable activities in the Valley. Mr. Kilgore also had a positive report regarding cleaner air and noted the completed installation of clean air improvements at Kingston, including scrubbers that remove approximately ninety-eight percent of the sulfur dioxide from emissions, and the addition of power from four mid-western wind farms as of January, 2012.

Mr. Kilgore moved on to the new nuclear element of the Vision and gave TVA a “red,” or lowest, rating with regard to this element. In particular, he referenced the Watts Bar 2 report that would be presented later in the agenda and the previous red finding at Browns Ferry Nuclear Plant. Mr. Kilgore also touched on the replacement of the steam generator at Sequoyah Unit 2 during the upcoming fall, and the fact that refueling outages are planned for five TVA nuclear units this year.

Finally, with regard to energy efficiency, Mr. Kilgore reported that TVA's efforts have saved \$200 million since 2007. Mr. Kilgore emphasized the Energy Efficiency Forum scheduled in Nashville during the week of February 20, which will feature speakers from all over, including Director Brown. Mr. Kilgore noted that part of TVA's energy efficiency program is getting its prices right in order to influence use, and that Off-Peak Pricing, a limited pilot program approved at the last Board meeting, has proven to be a good program.

Copies of the slides used in Mr. Kilgore's report are filed with the records of the Board as Exhibit 2/16/12A.

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**12-01-3. Report of the Finance, Rates, and Portfolio Committee**

Director Haskew, on behalf of the Finance, Rates, and Portfolio Committee, reported that the Committee had spent significant time reviewing financial performance, then requested and received reports from: John Thomas, Executive Vice President and Chief Financial Officer, regarding Minute Item No. 12-01-4; and, Kim Greene, Executive Vice President and Chief Generation Officer, regarding Minute Item No 12-01-5 and Minute Item No. 12-01-6.

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**12-01-4                      Financial Report**

John Thomas, Executive Vice President and Chief Financial Officer, gave a financial report for the first quarter of Fiscal Year 2012. Mr. Thomas reported that sales and revenue were below plan due to mild weather and a sluggish economy, and that overall net cash flow for the quarter was \$43 million less than expected. He noted that fuel costs are favorable, in particular natural gas prices, and this is affecting purchased power rates which are very low as well. He also stated that there has been quite a bit of rainfall and significantly more runoff than anticipated, resulting in enough hydroelectric generation to help rates and fuel costs overall. In turning to spending, Mr. Thomas stated that operations and maintenance, and base capital spending, are favorable, to some extent due to the timing of projects being implemented. Mr. Thomas cautioned, however, that in light of revenue pressures going forward, TVA will need to take advantage of any opportunity to conserve spending.

Looking ahead at the remainder of Fiscal Year 2012, Mr. Thomas stated that non-fuel revenue is expected to be \$150 million to \$550 million below plan and that expected highlights for Fiscal Year 2012 are continued low interest rates, stable fuel and purchased power prices, and a continuance of active management of spending. Hard spots expected are a reduced sales outlook for the rest of the year, increasing capital spending needs, and potential market volatility around TVA's investments.

Copies of the slides used in Mr. Thomas's report are filed with the records of the Board as Exhibit 2/16/12B.

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**12-01-5                      Portfolio Report**

Kim Greene, Executive Vice President and Chief Generation Officer, gave a report comparing expected Fiscal Year 2012 generation, broken down by source, with actual generation by source so far in Fiscal Year 2012. Ms. Greene noted that there are considerable variances between the plan and actuals and attributed this in part to lower natural gas prices and lower demand. Ms. Greene explained that while nuclear generation has provided the percentage expected and hydro generation has been only slightly above plan, there have been significantly more purchases and gas-fired generation than planned, and that has been displacing coal. Ms. Greene stated that the Integrated Resource Plan approved last year contemplated a more flexible portfolio in Fiscal Year 2012 and, as intended, allowed TVA to ebb and flow with market changes, all with the goals of reducing environmental impacts and maintaining low cost power. Ms. Greene noted that the current situation affects TVA in many ways, and that in particular TVA needs a flexible coal fleet with plants that can ramp up and down quickly, be turned on and off quickly, and that can be ready to be brought online after not being run for a while. Ms. Greene stated these issues are not unique to TVA, and that TVA is working with its peer companies and EPRI (Electric Power Research Institute) to make sure TVA is ready to deal with the challenges these issues bring.

Ms. Greene then discussed TVA's agreement with the federal Environmental Protection Agency, stating that it aligned with TVA's Vision in that some coal units were uneconomic to clean up, and went on to state that TVA will move forward with the planned retirements under that

agreement over time. Ms. Greene then addressed several ongoing evaluations and decisions with regard to specific generating assets. In closing, Ms. Greene reported on energy efficiency, demand reduction and renewables efforts and noted that first quarter demand reduction efforts have saved 35 MW of demand and have achieved 69 GWh in energy savings.

Copies of the slides used in Ms. Greene's report are filed with the records of the Board as Exhibit 2/16/12C.

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**12-01-6. Small Manufacturing Credit**

Kim Greene, Executive Vice President and Chief Generation Officer, gave a brief presentation on modification of the Small Manufacturing Credit program to allow continued participation by those manufacturers that drop below the current minimum demand requirement for participation due to demand reduction resulting from their participation in TVA's energy efficiency programs. The Board adopted the following resolution as recommended in a memorandum from the Group President, Strategy and External Relations, dated January 25, 2012, and filed with the records of the Board as Exhibit 2/16/12D:

WHEREAS TVA provides credits to small manufacturing customers meeting certain specified requirements in months when the customer's total demand exceeds 1,000 kW; and

WHEREAS TVA and TVA distributors, through various programs, encourage and incentivize customers to undertake specific energy efficiency and demand reduction measures that will improve the efficiency of customer electric power and energy use; and



WHEREAS implementation of recommended energy efficiency and demand reduction measures by customers that currently qualify for the small manufacturing credit can reduce monthly usage below the monthly total demand threshold of 1,000 kW; and

WHEREAS a Memorandum from the Group President, Strategy and External Relations, dated January 25, 2012, a copy of which is filed with the records of the Board as Exhibit 2/16/12D, recommends that the Board approve a modification to the small manufacturing credit program to address the interaction of TVA and distributor energy efficiency and demand reduction (EEDR) programs with small manufacturing credit monthly eligibility;

BE IT RESOLVED, That after review of said Memorandum, the Board of Directors finds it to be appropriate and in the interest of TVA to approve the recommended modification to the small manufacturing credit program described in the Memorandum under which a customer's monthly demand threshold to qualify for credits would be reduced by the amount of load reduction attributable to participation in an EEDR program.

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**12-01-7. Report of the Customer and External Relations Committee**

Director Howorth, Chairman of the Customer and External Relations Committee, reported the Committee had considered revising its charter at the Committee's last meeting and would be presenting minor amendments for the Board's consideration. Director Howorth noted that the Committee has a role in overseeing TVA's external relations, including relations with its distributors, direct serviced industrial consumers, other governmental entities, and various stakeholders including a vast number of recreation users. In addition, Director Howorth stated the Committee reviews TVA's stewardship activities, its corporate citizenship programs, and its work in technology, energy efficiency and renewables.

Director Howorth stated the proposed charter amendments are not substantive changes to these areas of oversight, but language changes to provide additional clarity. As an example, Director Howorth mentioned an amendment proposed to clarify that the Committee would review and oversee TVA's communications plan for distributors, direct served industrial customers, and other stakeholder groups. Director Howorth stated the Committee is also proposing to simplify the title of the Committee to "External Relations" to reflect the large number of external issues covered under the Committee. Director Howorth then moved to have the Board approve amendments to the charter of the Committee, as set forth in Minute Item No. 12-01-8. Director Howorth closed by stating that the Committee had reviewed the recent energy efficiency potential study conducted by Global Energy Partners and would continue to review TVA's progress on energy efficiency.

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**12-01-8. Amendment to Customer and External Relations Committee Charter**

The Board adopted the following resolution:

WHEREAS, at its August 20, 2010 meeting the Board adopted the existing charter for the Customer and External Relations committee of the Board of Directors;

WHEREAS the Customer and External Relations Committee has reviewed the charter and recommends amendments to the charter to provide greater clarity and alignment, and a copy of the proposed amended charter is attached and designated as Exhibit 2/16/12E;

WHEREAS the Customer and External Relations Committee also proposes to simplify and amend the name of the committee to the External Relations Committee;

BE IT RESOLVED, that the Board hereby adopts the proposed amended charter and changing the name of the committee to the External Relations Committee.

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**12-01-9. Report of the Nuclear Oversight Committee**

Director Brown, Chairman of the Nuclear Oversight Committee, reported that the Committee had met and toured the Watts Bar Nuclear Plant during the prior week along with the Committee's outside advisors, Bernie Beasley and Sam Collins. Director Brown then requested and received a report from Mike Skaggs, Senior Vice President Nuclear Construction, regarding Minute Item No. 12-01-10.

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**12-01-10. Watts Bar Unit 2 Project Update**

Mike Skaggs, Senior Vice President, Nuclear Construction, reported that completion of Watts Bar Unit 2 will not occur on schedule or within the previously approved budget, and stated that an analysis had concluded that the three main causes were leadership, for example an underestimation of the complexity of the project; the original estimated cost, which Mr. Skaggs stated was conservative; and, ineffective or inadequate execution. Mr. Skaggs reported that a new estimate to complete is being developed using a collaborative approach based on actual performance to date, and stated that the new estimate will provide a range for cost and schedule based on risk ranking of the quantities of work and tasks left to be completed.

Mr. Skaggs stated that as a part of the new estimate, areas had been identified where work could be done to improve performance. Areas identified included: project management;

organizational structure; work flow; planning and estimates; and, a new leadership team.

Mr. Skaggs gave several examples of how the new focus on these areas has already started working. Mr. Skaggs emphasized that during the period of implementing measures to improve performance the quality of all work performed has been maintained above industry target levels. In looking to next steps, Mr. Skaggs stated that the new estimate to complete can be expected in April, and will be fully implemented after Board approval.

Copies of the slides used in Mr. Skaggs' report are filed with the records of the Board as Exhibit 2/16/12F.

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**12-01-11. Report of the Audit, Risk, and Regulation Committee**

Director McBride, Chairman of the Audit, Risk, and Regulation Committee, reported the Committee had been engaged in a number of tasks, including a review of TVA's quarterly report filed with the Securities and Exchange Commission on February 3. Director McBride stated the Committee had also received reports from management and TVA's external auditor, Ernst & Young, regarding financial statements, internal controls and TVA's disclosures. In addition, Director McBride stated the Committee had received an update on TVA's Enterprise Risk Program and how management reviews and mitigates risk, and had also received a report from the Office of the Inspector General regarding its ongoing audits and reviews.

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**12-01-12. Report of the People and Performance Committee**

Director Graves reported that the Committee had discussed a number of items, including TVA's organizational health, and had reviewed the most recent pulse survey of organizational health conducted in January. Director Graves reported this pulse survey had shown continued improvement, particularly in the area of knowledge sharing and understanding of TVA's vision, values and transformation. Director Graves stated the Committee had also reviewed an update on TVA's Winning Performance through the first quarter of 2012, and while low sales due to mild weather and the economy affected first quarter revenue, TVA is generally on track to meet its Winning Performance target at this time. Director Graves also reported that the Committee had reviewed internal organizational changes to improve performance and productivity, and had received a briefing on improvements to TVA's Employee Concerns Program.

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The meeting was adjourned at 11:46 a.m. EST.