

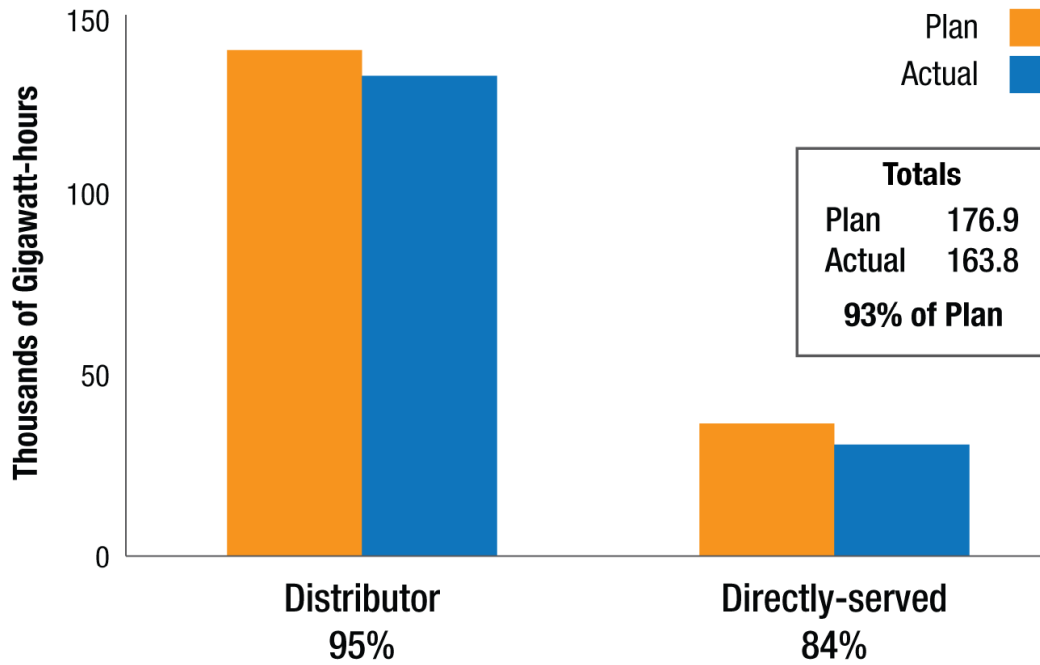
PRESIDENT'S REPORT



Operations and Financials

Power Sales

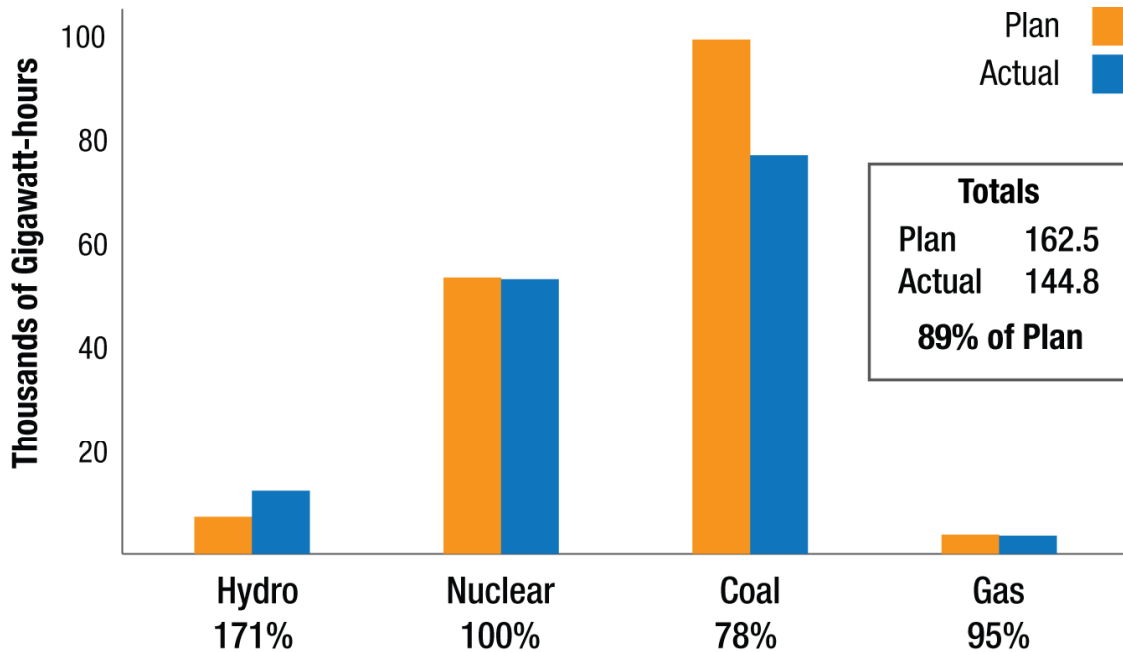
Fiscal Year 2009 Results



3

Generation

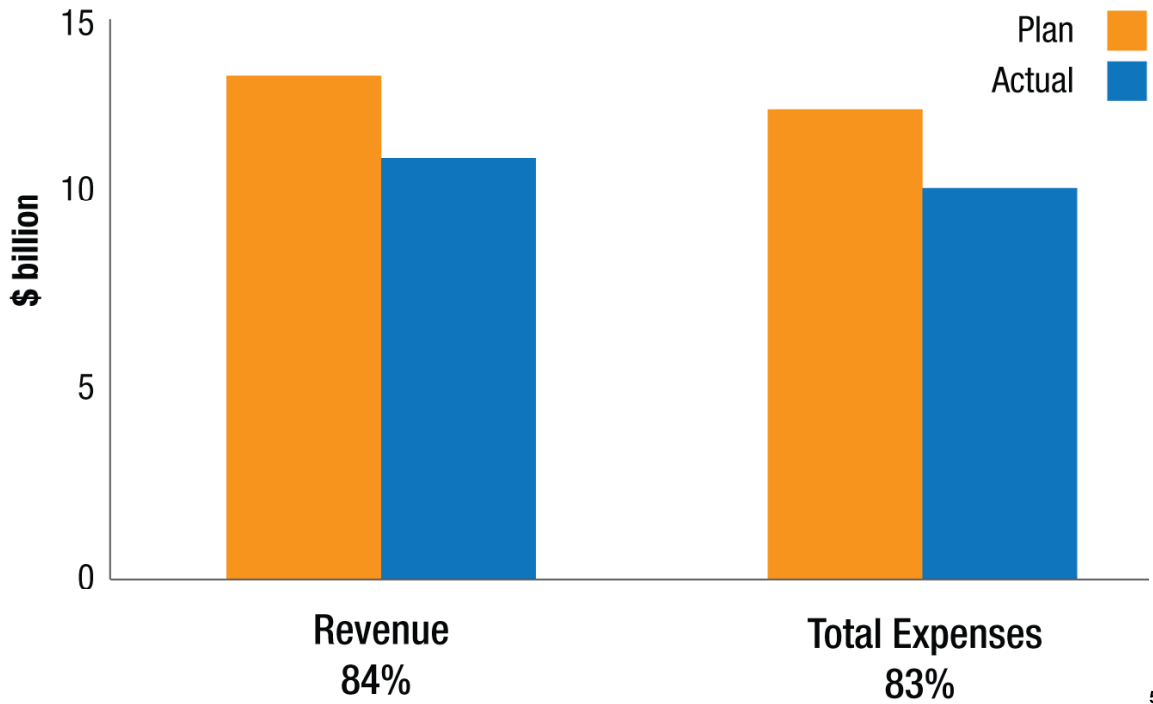
Fiscal Year 2009 Results



4

Financials

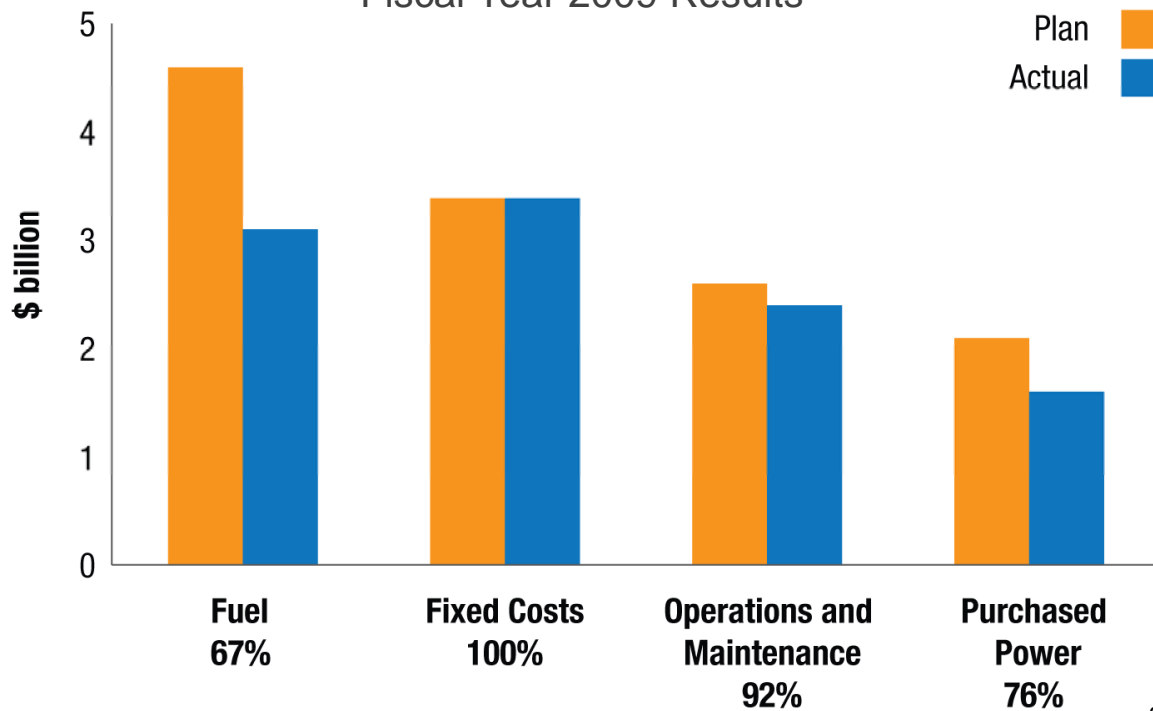
Fiscal Year 2009 Results



5

Financials

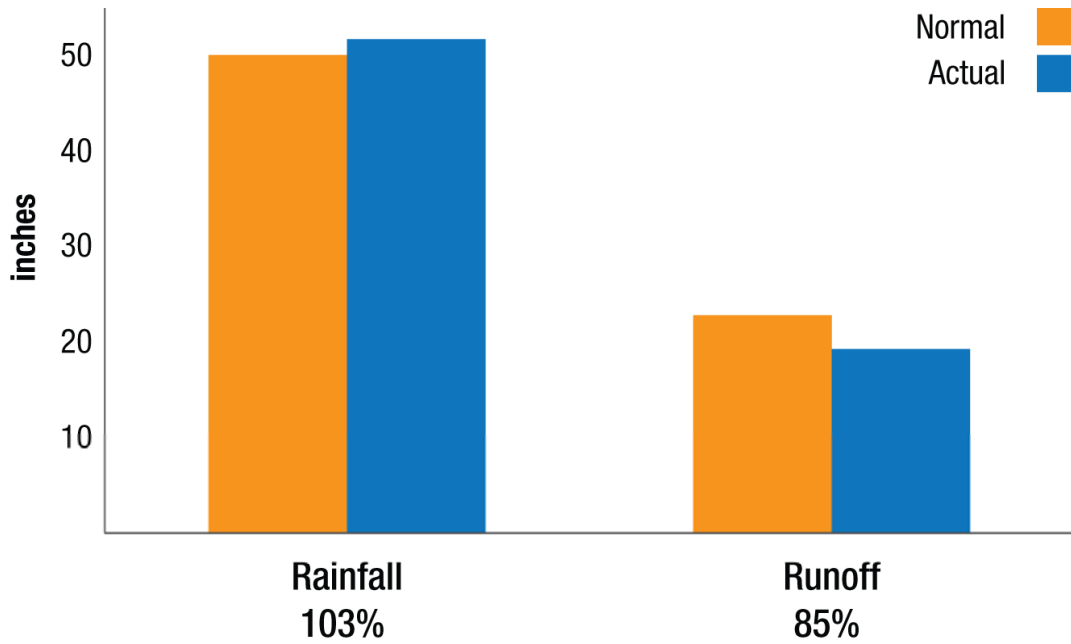
Fiscal Year 2009 Results



6

Rainfall and Runoff

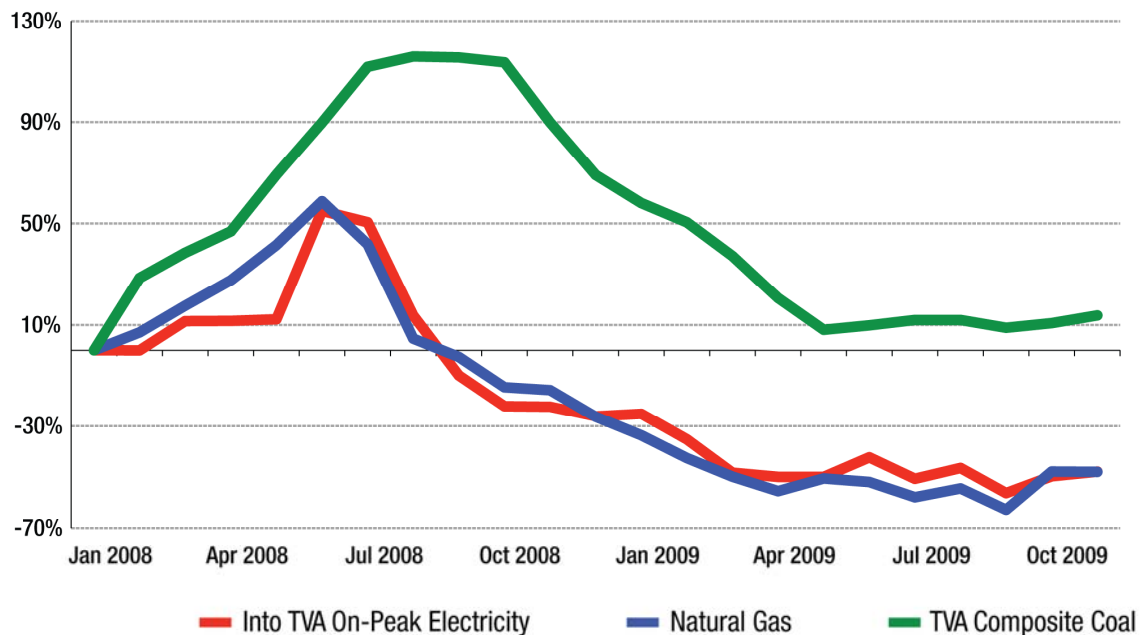
Eastern Valley Fiscal Year 2009 Results



7

Fuel and Purchased Power Spot Prices

Spot Price History
(Percent Change since January 2008)

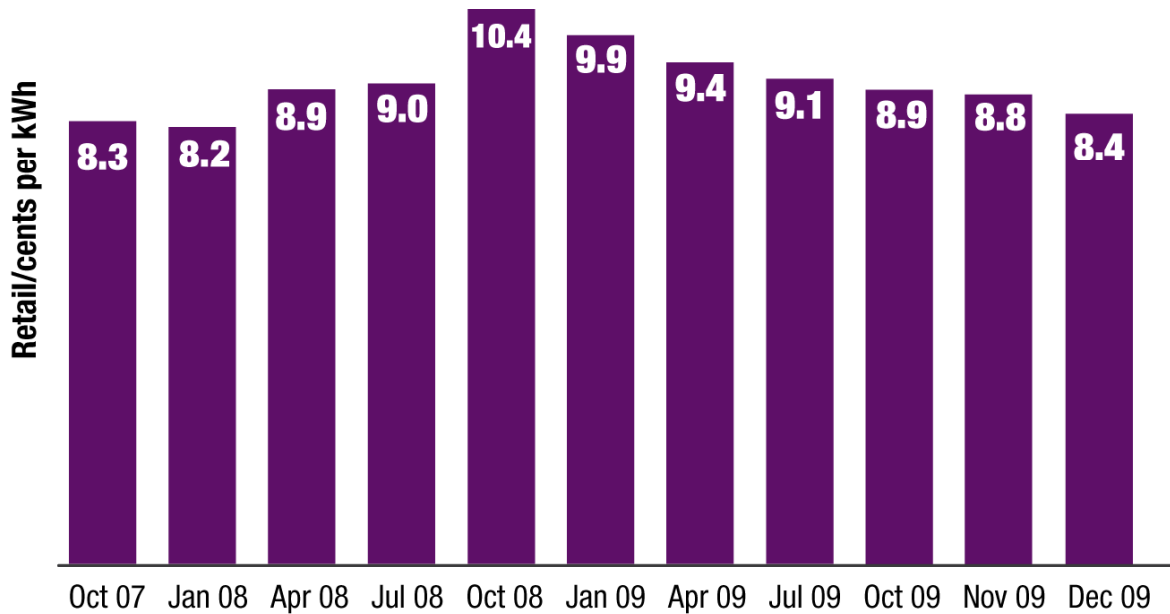


As of: 11/10/09

8

Rate Trends

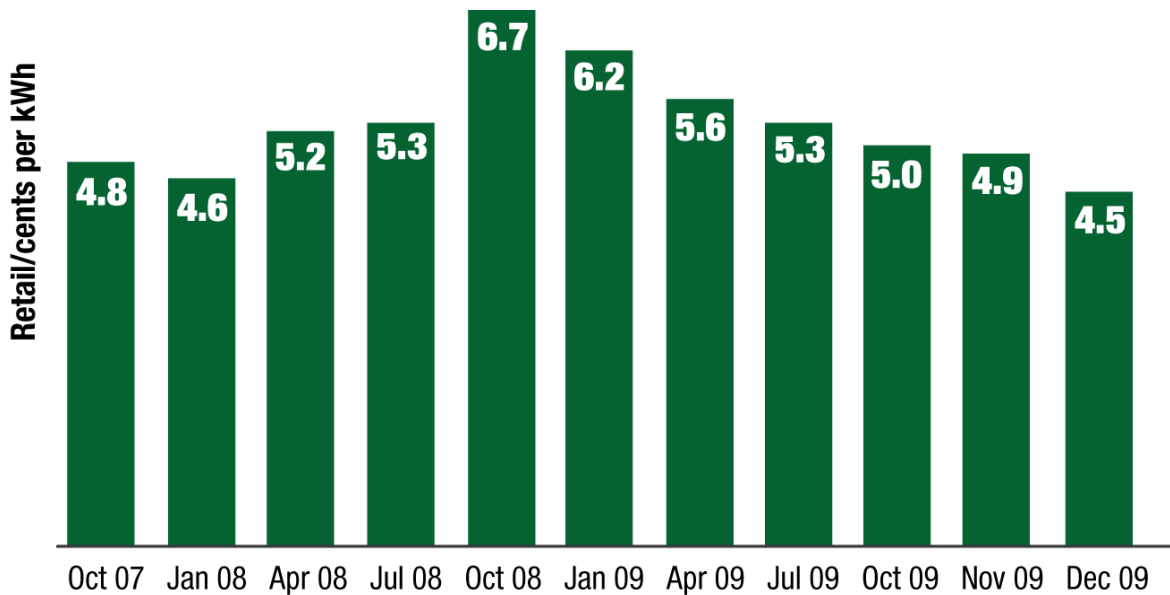
Average Residential Retail Rates



9

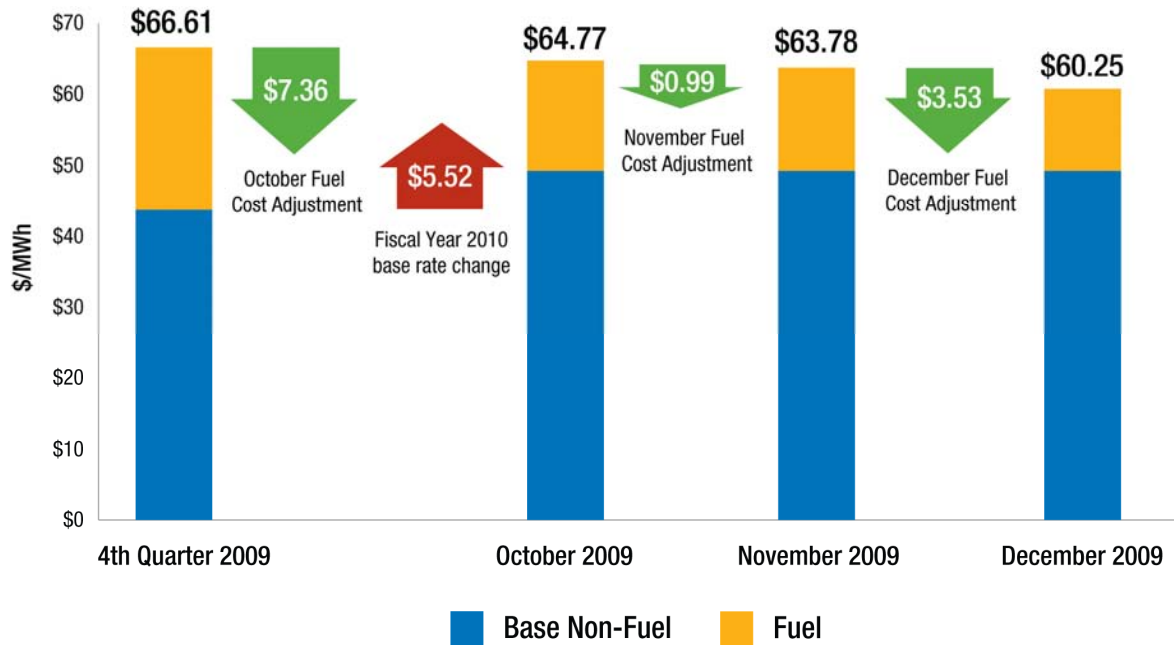
Rate Trends

Average Retail Rates for selected Industrial load
MSD customer, 30,000 kW at 80% load factor



10

Average Wholesale Rate Adjustment



Highlights

Highlights

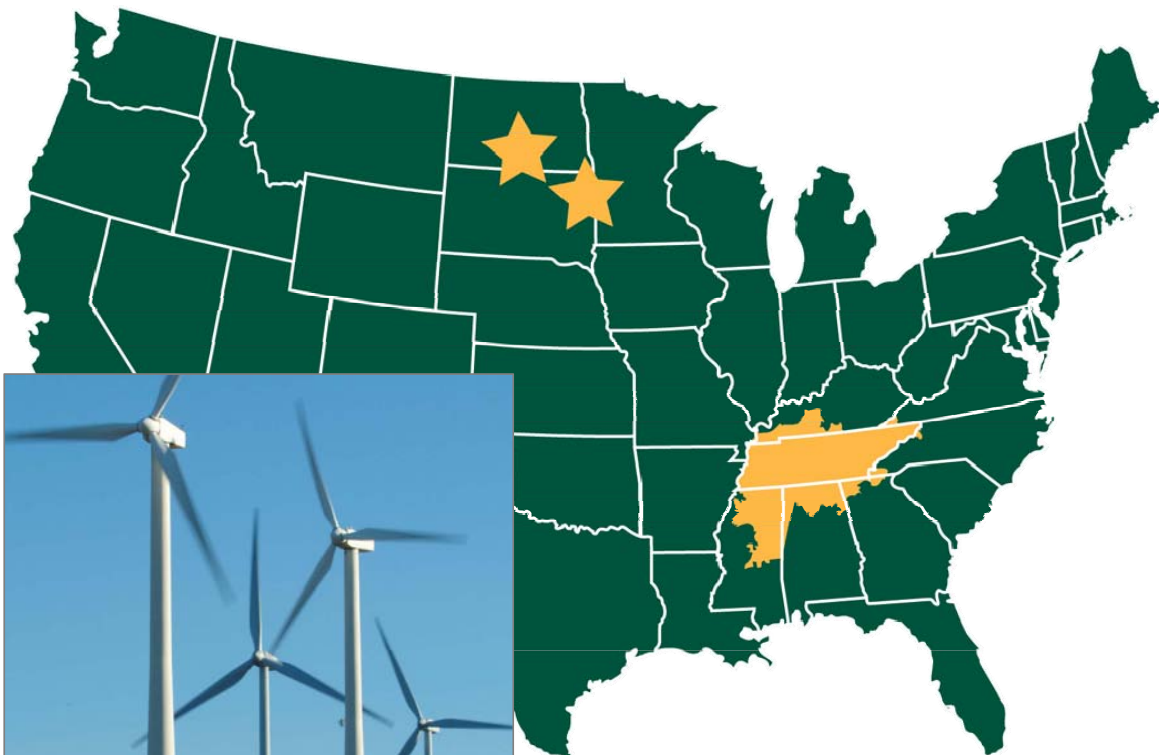
Achieved top decile safety performance

Achieved 99.999% transmission reliability for 10th straight year

Purchased 450 megawatts of wind power

13

Purchased Wind Power



14

Highlights

Achieved top decile safety performance

Achieved 99.999% transmission reliability for 10th straight year

Purchased 450 megawatts of wind power

Sequoyah 1 recognized as “world-class performer”

15

World-class nuclear performance

Sequoyah 1’s capacity factor ranked 6th among the world’s 439 units in 2009

Top 50 Units by Capacity Factor 2008

Nation	Plant	Utility	Type	Vendor	Gross MW	2008 Gross Generation	Capacity
U.S.	Calvert Cliffs-2	Constellation	PWR	CE	880	7,835,619	101.37
U.S.	Catawba-2	Duke Power	PWR	West	1,205	10,728,440	101.36
Japan	Ohi-2	Kansai EPC	PWR	West	1,175	10,444,137	101.18
Japan	Fukushima II-1	Tokyo EPC	BWR	Tosh	1,100	9,771,906	101.12
South Korea	Yonggwang-1	KHNP	PWR	West	985	8,737,294	100.97
U.S.	Sequoyah 1	TVA	PWR	West	1,186	10,500,842	100.80
South Korea	Ulchin-4	KHNP	PWR	KHIC-CE	1,045	9,236,080	100.61
Japan	Fukushima I-3	Tokyo EPC	BWR	Tosh	784	6,924,798	100.54
South Korea	Ulchin-5	KHNP	PWR	KHIC-CE	1,048	9,234,124	100.30
U.S.	Indian Point-3	Entergy	PWR	West	1,080	9,468,174	100.03

--Sources: Nuclear Energy Institute & McGraw-Hill

16

Highlights

Achieved top decile safety performance

Achieved 99.999% transmission reliability for 10th straight year

Purchased 450 megawatts of wind power

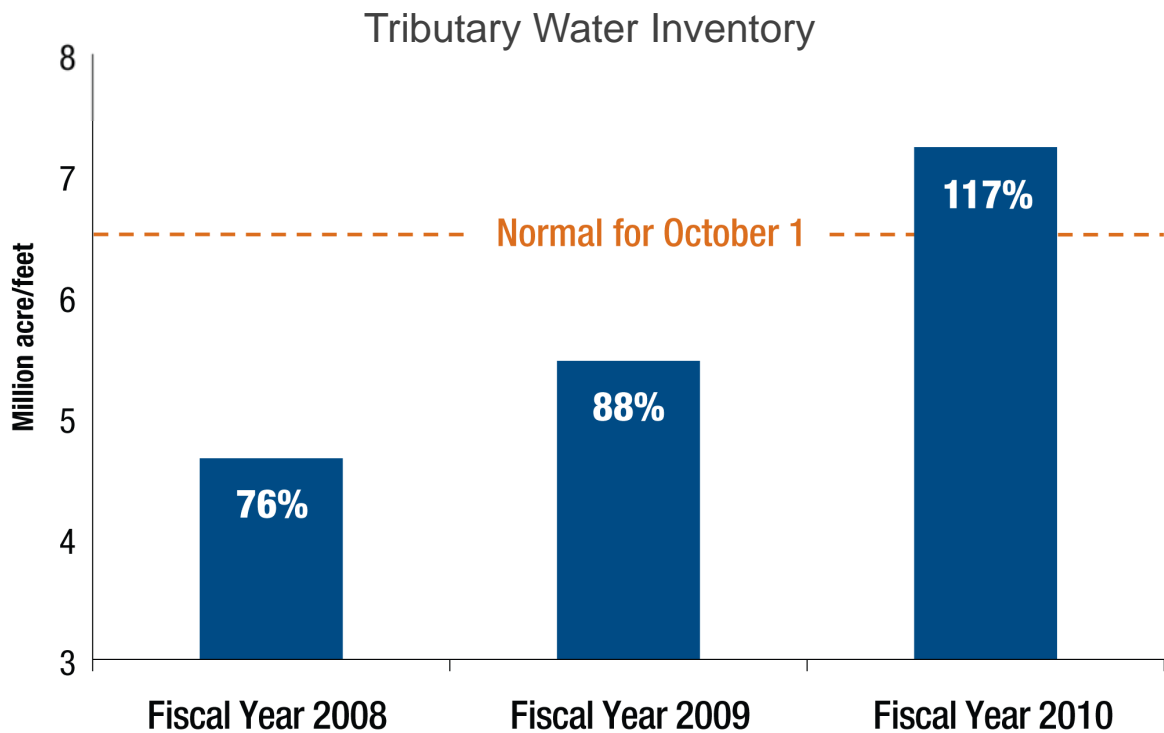
Sequoyah 1 recognized as “world-class performer”

Watts Bar outage completed in under 30 days

Hydro generation is having a positive impact on rates

17

A good start for hydro



18

Highlights

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Sequoyah 1 recognized as “world-class performer”

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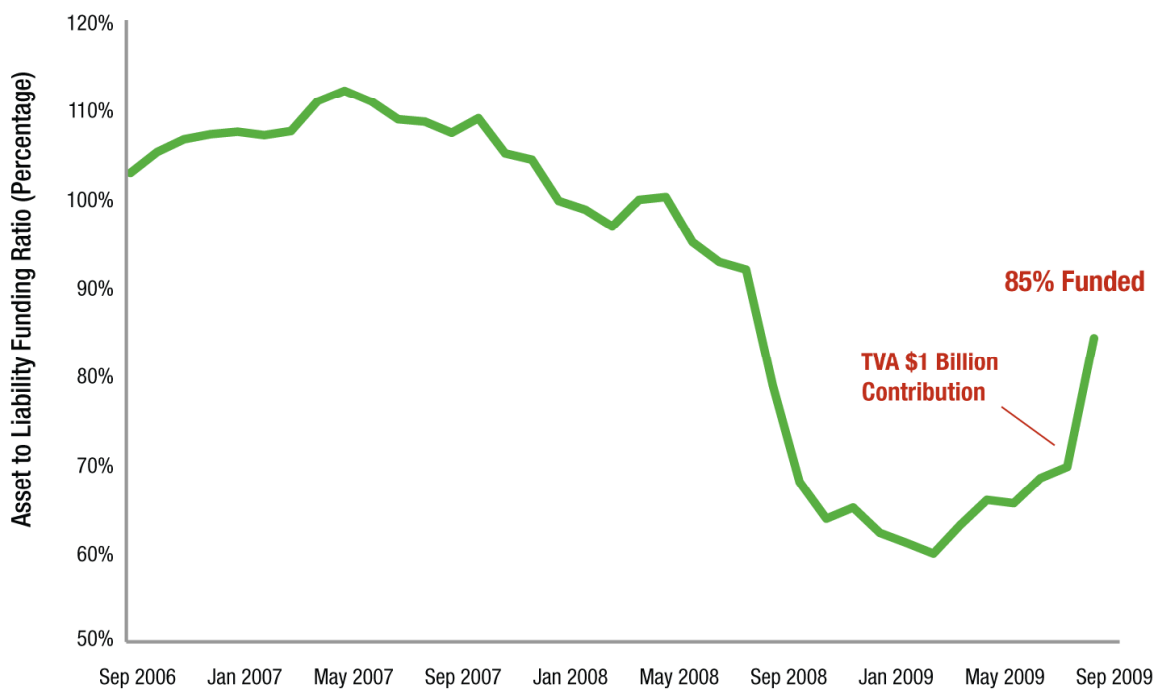
Hydro generation is having a positive impact on rates

Kingston—over half the ash in the river has been removed

Investment funds are recovering

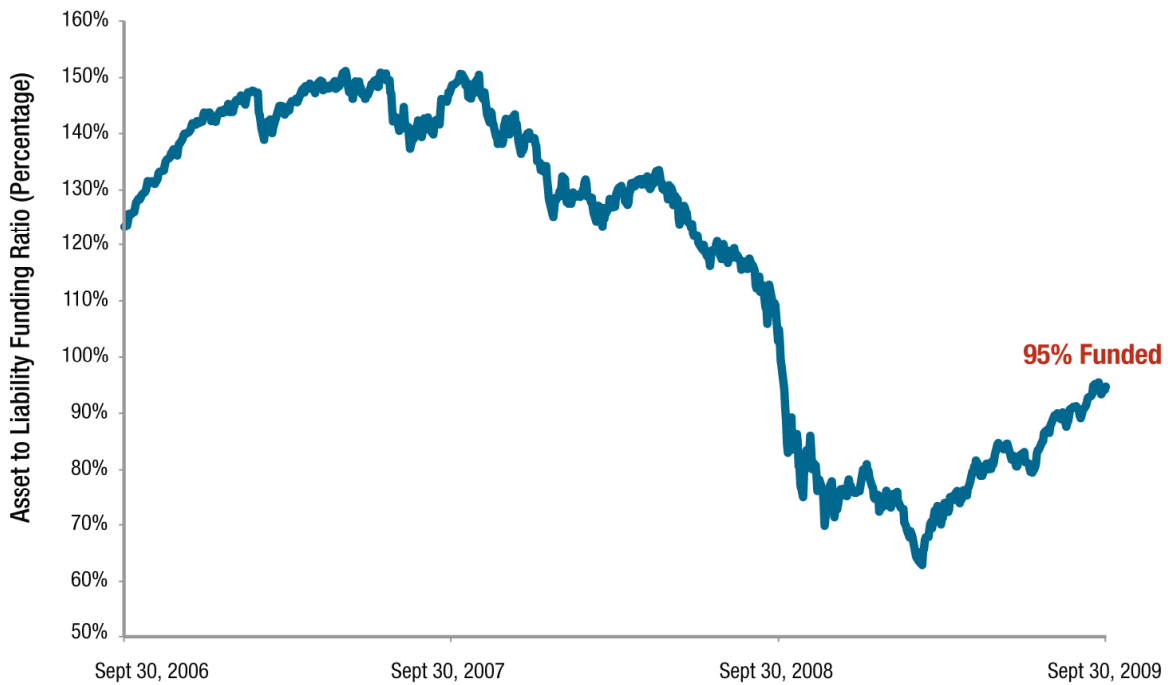
19

Recovering Retirement Fund



20

Nuclear Decommissioning Funding



21

Highlights

Achieved top decile safety performance

Achieved 99.999% transmission reliability for 10th straight year

Purchased 450 megawatts of wind power

Sequoyah 1 recognized as “world-class performer”

Watts Bar outage completed in under 30 days

Hydro generation is having a positive impact on rates

Kingston—over half the ash in the river has been removed

Investment funds are recovering

Test homes show energy efficiency benefits

22

Energy-Efficient Test Homes



Monthly Energy Use*

Standard House	1,508 kWh
Retrofit House	1,060 kWh
Advanced House	801 kWh

*Average consumption July-Sept. 2009

Monthly Energy Cost*

Standard House	\$147.03
Retrofit House	\$103.35
Advanced House	\$78.10

*Average cost July-Sept. 2009



Hard Spots

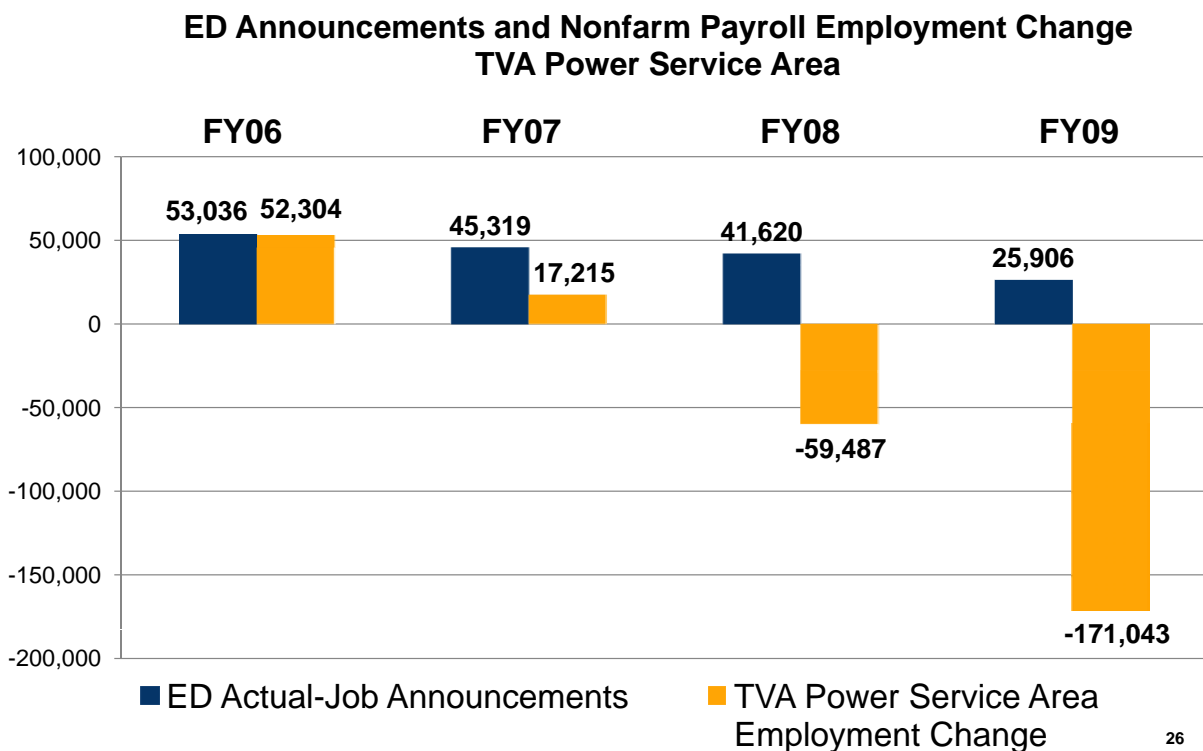
Hard Spots

Power sales and revenues are still down

Regional economy hit hard; slow to recover

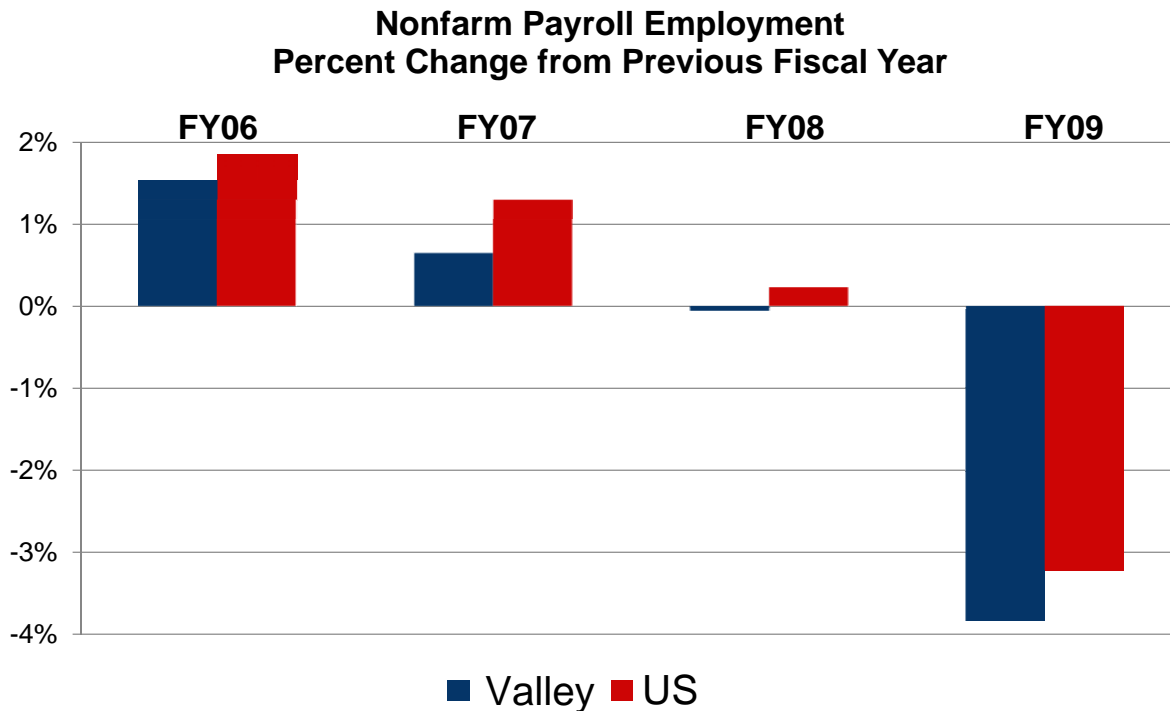
25

Announced Projects and Valley Economy



26

Employment – Valley and U.S.



27

Major 2009 Announcements/Expansions

Hemlock Semiconductor – Clarksville, Tennessee
500 jobs; \$1.2 billion investment

Wacker-Chemie – Charleston, Tennessee
500 jobs; \$1 billion investment

Carlisle Tire and Wheel – Jackson, Tennessee
440 jobs

Fruit of the Loom – Bowling Green, Kentucky
270 jobs

TVA featured in Site Selection's Top Economic Development Utilities for four consecutive years

28

Hard Spots

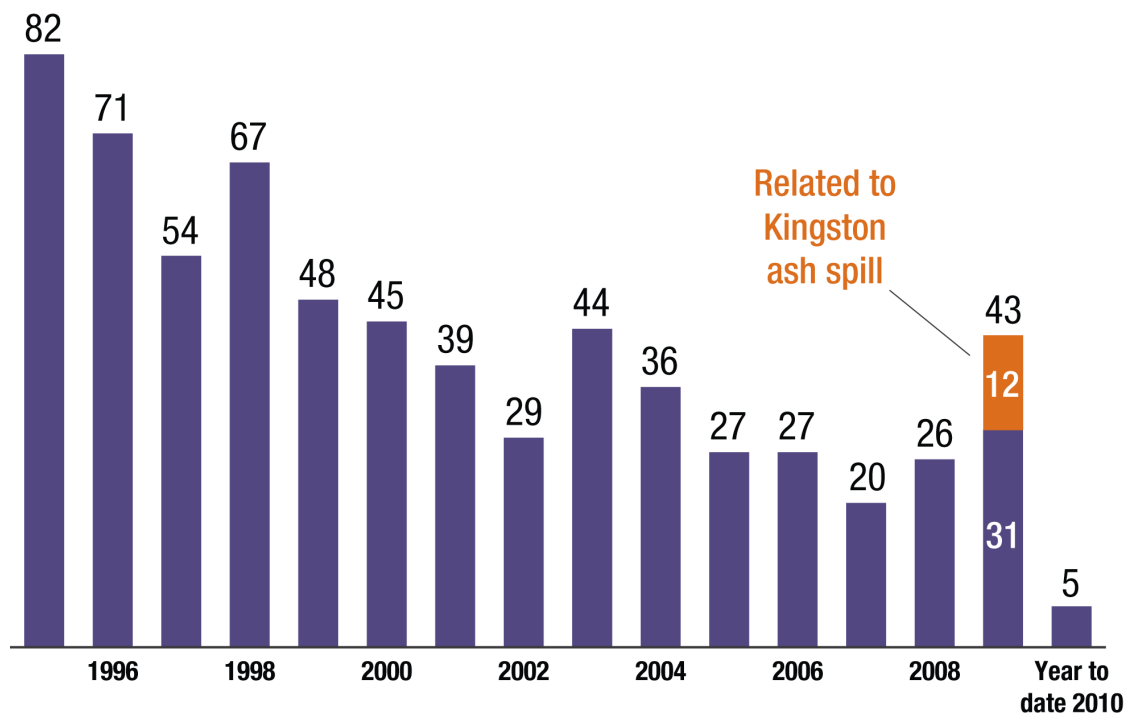
Power sales and revenues are still down

Regional economy hard hit; slow to recover

Higher than average reportable environmental events

29

Reportable Environmental Events



30

Hard Spots

Power sales and revenues are still down

Regional economy hard hit; slow to recover

Higher than average reportable environmental events

Legislative and regulatory uncertainties make planning difficult

Kingston Recovery

- Ash transportation slowed by rain
- Managing removal of ash

31





Update on Key Initiatives

Key Initiatives

Remediation plan for impoundments



Establish a compliance and performance assessment group



Remediation plan for organizational effectiveness



Review compliance functions for environment, health, and safety



Improve enterprise risk management



Institute a situational alert process



35

Remediation plan for impoundments

New organization in place for single point accountability for the management of coal combustion byproducts



Gap analysis findings in third party reports

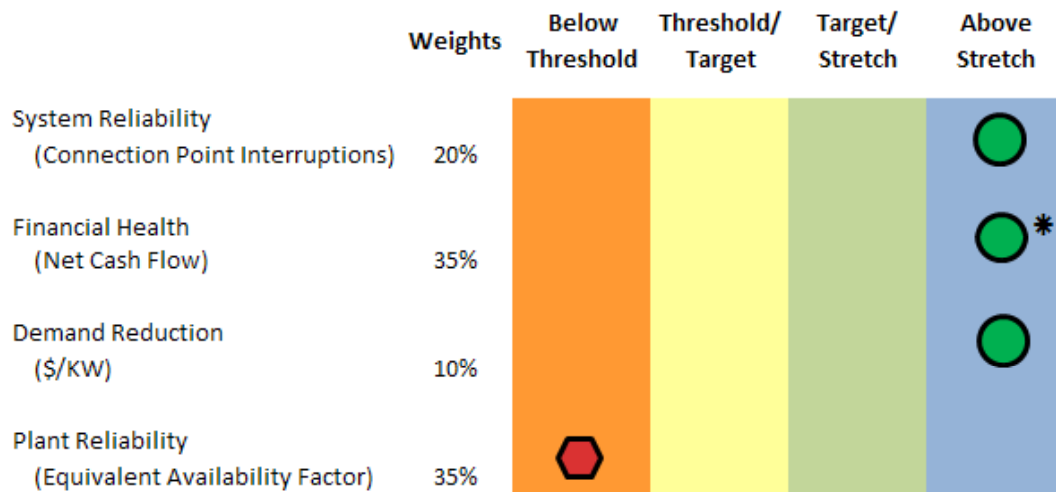


Third-party engineering assessment results being implemented at all impoundments



36

Winning Performance

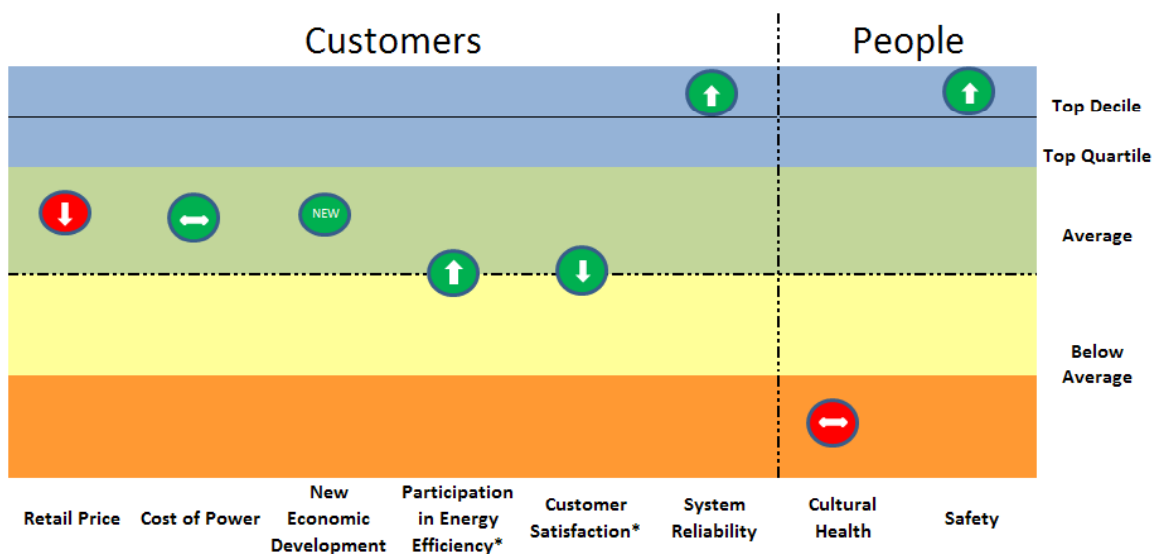


Exceeded performance targets on 3 of 4 measures resulting in \$250 million savings or 3% reduction in rate increase.

However, due to the Kingston event and the economy, payouts were reduced by 25% for all employees and more for top executives.

* Excludes impact of \$1 billion pension contribution

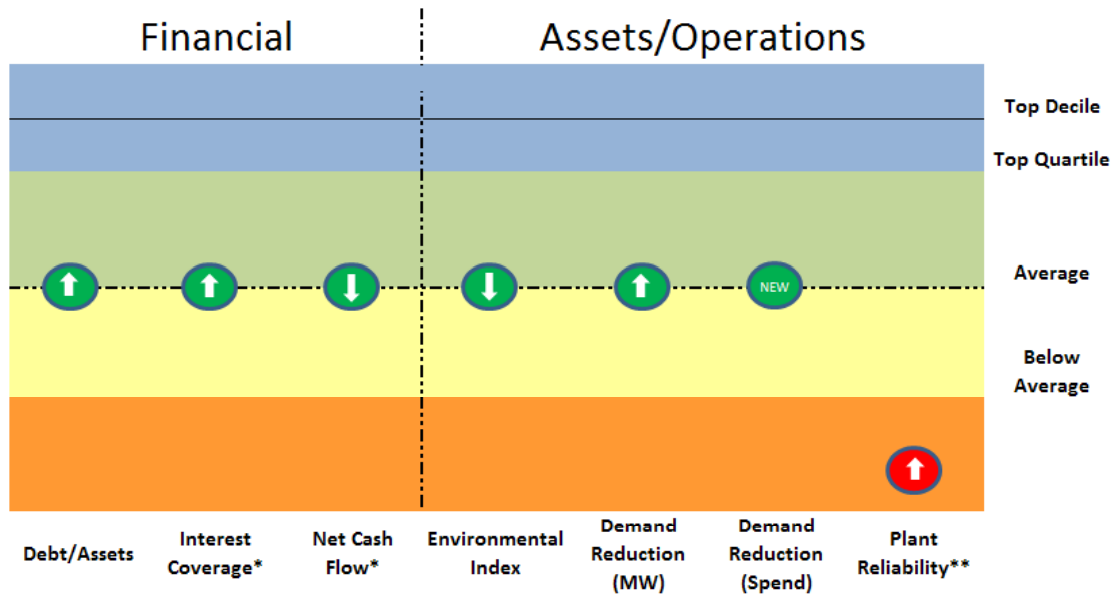
TVA Performance



Targets were met or exceeded on 6 of 8 customer and people focused performance goals.

* Metrics were not benchmarked.

TVA Performance



Targets were met or exceeded on 6 of 7 financial and operational focused performance goals.

* Excludes impact of \$1 billion pension contribution

** Only Plant Reliability was benchmarked

Summary

Year overshadowed by Kingston and economic downturn

Otherwise a good year

- Eight metrics are green and trending neutral/positive
- Four metrics are green but trending negative
- Three metrics are red

**FINANCE, STRATEGY,
RATES, AND
ADMINISTRATION**



**Tax Equivalent Payments
for Fiscal Year 2009 and
Estimated Payments for
Fiscal Year 2010**

Topic

The TVA Act requires that we make payments in lieu of taxes to states and counties in which TVA holds power property or sells power

For Board Consideration

Approval of the final tax equivalent payments to the states and counties for Fiscal Year 2009

Approval of the estimated tax equivalent payments to the states and counties for Fiscal Year 2010

43

Background

Section 13 of the TVA Act requires five percent of TVA's gross proceeds from power sales* to be redistributed as tax equivalent payments

The payments are determined by the following criteria:

- 50 percent from the states' book value of TVA power properties
- 50 percent from the states' power sales compared to TVA total power sales

*excluding federal sales

44

Background

TVA allocates its total tax payments between eight states:

- Alabama, Georgia, Mississippi, North Carolina, Kentucky, Tennessee, and Virginia, which comprise the states of the service territory; and
- Illinois, which holds coal reserves

45

TVA In Lieu of Tax Payments

(in millions)

State	2010 Estimated*	2009 Final **
Alabama	\$123	\$120
Georgia	9	8
Illinois	<1	<1
Kentucky	48	46
Mississippi	34	32
North Carolina	3	3
Tennessee	320	295
Virginia	<u>1</u>	<u>1</u>
Total	\$538	\$505

* Based upon preliminary financial data as of September 30, 2009

** Based upon audited financial data as of September 30, 2008

46

Recommendation

Approve the final tax equivalent payments to the states and counties for Fiscal Year 2009

Approve the estimated tax equivalent payments to the states and counties for Fiscal Year 2010

Management Compensation for Fiscal Year 2009

Board Action

Extend the CEO Long-Term Deferred Compensation agreement for an additional four years (2010 – 2013)

Delegate to the CEO authority to approve Executive Level IV salaries

49

**OPERATIONS,
ENVIRONMENT,
AND SAFETY**



Nuclear Fuel Enrichment Services

Topic

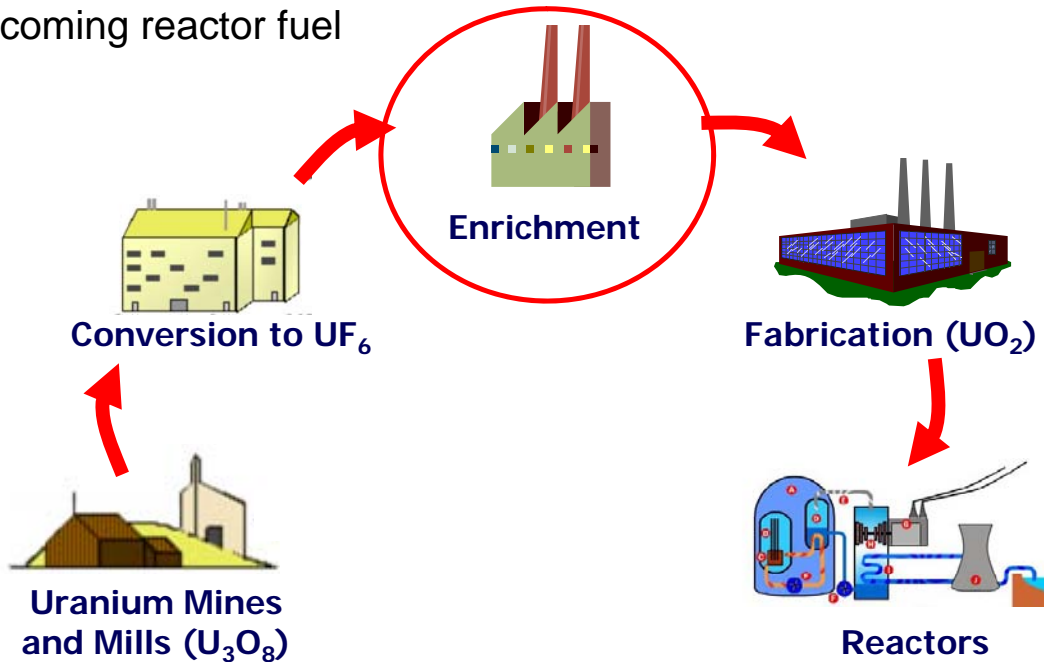
TVA must buy uranium enrichment services to ensure an adequate and uninterrupted supply of fuel for our nuclear reactors

For Board Consideration

Approve contracts with AREVA NC and Louisiana Energy Services, LLC (LES) for enriching uranium

Background

Uranium goes through several processing steps before becoming reactor fuel



53

Background

We invited proposals and received four offers

LES (New Mexico plant) and AREVA (Idaho plant) provided the best offers

- The contracts would provide 50 percent of TVA's enrichment needs from 2016 to 2025 and 20 percent from 2026 to 2030
- Total price: \$1.25 billion

54

Recommendation

Approve contracts with AREVA and LES for a total of \$1.25 billion to provide enrichment services for TVA from 2016 through 2030

55

**Turbine Generator Alliance
Fossil and Nuclear**

Topic

TVA's existing contracts for turbine generator parts and services for nuclear and large fossil units are based on individual plant outages; combining nuclear and fossil needs under alliance contracts would be more cost-effective and efficient

For Board Consideration

Approve new contracts with General Electric, Siemens, and Alstom to provide needed parts and services

57

Background

Units covered:

- Browns Ferry (1, 2, 3)
- Sequoyah (1, 2)
- Watts Bar (1)
- Cumberland (1, 2)
- Widows Creek (7, 8)
- Bull Run
- Paradise (1, 2, 3)
- Colbert (5)

TVA asked for proposals from qualified vendors in May 2009 and four proposals were received

Three vendors were selected

58

Scope of contracts

Proposed contracts have five-year terms with an option to extend up to five years

Contract values over initial five years:

GE	\$122 million	for 8 units
Siemens	\$70 million	for 4 units
Alstom	\$32 million	for 3 units

59

Recommendation

Approve contracts with General Electric, Siemens and Alstom to provide turbine generator parts and services for TVA nuclear plants and large fossil units

60

Fleet-Wide Maintenance/ Modification Contracts

Topic

TVA's four existing contracts to provide labor for maintenance and modifications services for the generating fleet will expire beginning in 2011

For Board Consideration

Approve new contracts with Day & Zimmerman NPS, Inc. and G•UB•MK Constructors to provide labor services for TVA generating plants

Background

The four existing contracts provide labor to supplement TVA workers at hydro, fossil and nuclear plants across the Valley

We asked for proposals from qualified providers who could provide these services across the fleet

Eight firms responded and two met all of the conditions of our request:

- Day & Zimmerman NPS, Inc.
- G•UB•MK Constructors

63

Contract details

Five years with an option to extend for five years

Contract ceiling (assuming initial five-year term):

- DZNPS \$700 million
- G•UB•MK \$950 million

No minimum amount of work is guaranteed

All work, budgets and performance targets will be approved by TVA in advance

64

Recommendation

Approve new contracts with Day & Zimmerman NPS, Inc. and G•UB•MK Constructors, as described, to provide maintenance and modification labor services across the TVA fleet

65

Fleet-Wide Managed Task Engineering Contracts

Topic

Our existing contracts for engineering design services will expire at the end of the year

For Board Consideration

Approve new contracts with qualified providers for engineering design services across the TVA fleet

Background

TVA asked for proposals from qualified vendors in April 2009

Twenty-five proposals were received and we are recommending the four representing the best value to TVA:

- Sargent & Lundy
- WorleyParsons
- Mesa Associates
- Burns & McDonnell Engineering

Contracts Details

The contracts have five-year terms with an option to extend up to five years

The estimated value of all four contracts over the initial five-year term is \$350 million

No minimum amount of work is guaranteed

TVA organizations can compete specific projects among the four suppliers for the best value

69

Recommendation

Approve contracts with Sargent & Lundy, WorleyParsons, Mesa Associates and Burns & McDonnell, as described, to provide engineering design services across the TVA fleet

70

AUDIT, GOVERNANCE, AND ETHICS



Consideration of PURPA Standards

Topic

The Board must determine whether new standards under the Public Utility Regulatory Policies Act (PURPA) are appropriate for the TVA region

For Board Consideration

A recommendation to approve two PURPA standards as written and two with modifications that address the purposes and objectives of the TVA Act and specific conditions in the Tennessee Valley

73

Background

Congress enacted PURPA in 1978 to encourage:

- Energy conservation
- Efficient use of facilities/resources
- Equitable rates

The Energy Independence and Security Act of 2007 established four new PURPA Standards:

- Integrated Resource Planning and Energy Efficiency
- Rate Design Modifications to Promote Energy Efficiency Investments
- Consideration of Smart Grid Investments
- Smart Grid Information

74

Background

The TVA Board serves as a regulatory authority and therefore it must determine if the new standards are suitable

TVA may

- Implement any standard as written
- Implement a modified standard
- Decide that a higher standard or another process addresses the issue

Decisions are required by December 19, 2009

75

Public Record

The recommendations that are before the Board today are based on a public record that was developed under a process set forth by TVA notices published in the Federal Register

That record consists of:

- A TVA staff evaluation of the standards, their benefits, and their impacts on the Tennessee Valley
- Public comment on both the standards and the TVA staff evaluation

76

Recommendation

Based on the public record, we recommend:

- Adopting the standards for Integrated Resource Planning and Energy Efficiency and Rate Design as written
- Adopting modified standards for Smart Grid Investments and Smart Grid Information while preserving the intent of PURPA

77

Selection of TVA's External Auditor

Topic

TVA must have an external auditor to audit its financial statements

79

Background

Under the TVA Act:

The AGE Committee, in consultation with the Inspector General, recommends to the Board a company to act as TVA's external auditor; and

The Board engages the services of TVA's external auditor

80

External Auditor

Ernst & Young LLP currently serves as TVA's external auditor

TVA staff and the Inspector General are pleased with the performance and professionalism of Ernst & Young

81

Recommendation

The Board select Ernst & Young to serve as TVA's external auditor for 2010

82

**AUDIT, GOVERNANCE,
AND ETHICS**



**COMMUNITY RELATIONS
AND ENERGY EFFICIENCY**



Guntersville Airport Easement

Topic

The city of Guntersville has requested an easement on Guntersville Reservoir to expand an existing airport

For Board Consideration

Grant a 30-year easement to the City for about 116 acres on Guntersville Reservoir without charge except for TVA administrative costs

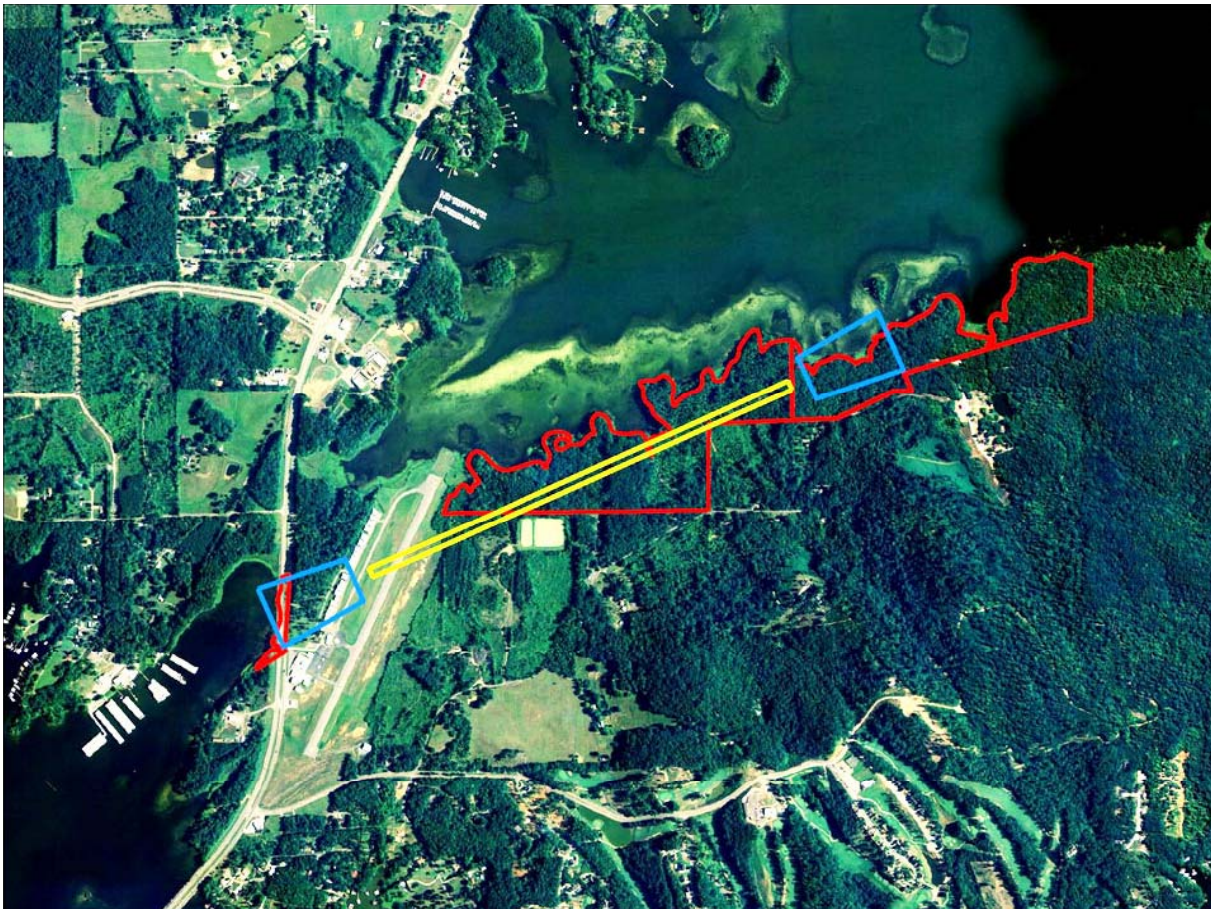
Background

The city and TVA previously identified 69 acres for a larger runway

To meet regulations for maintaining vegetation around runway approaches, an additional 47 acres are needed

The proposal is consistent with the Guntersville Land Management Plan

87



Recommendation

Grant a 30-year easement to the City for about 116 acres on Guntersville Reservoir without charge except for TVA administrative costs

Watts Bar Reservoir Land Management Plan

Topic

The 1988 Watts Bar Reservoir Land Management Plan is being updated as part of TVA's ongoing review of land management plans

For Board Consideration

Approve the Watts Bar Reservoir Land Management Plan

91

Scope of Plan

About 16,036 acres adjacent to Watts Bar Reservoir

Reservoir lands are located in Meigs, Rhea, Roane and Loudon Counties, Tennessee

The Watts Bar Reservoir property accounts for 2.3% of the total land within the four counties

Kingston ash spill acreage directly impacted and purchased (approximately 677 acres) are excluded and will be planned later

92

Timeline

September 2004

Public scoping meeting

May 2005

Draft Plan/Environmental Impact Statement (EIS) was made available to the public for review

June 2005

Public meeting to review Draft Plan/EIS

May 2006

Board issued moratorium on land requests

November 2006

TVA Land Policy implemented

January 2007

Restarted review of Plan/EIS

August 2007

Amended Draft Plan/EIS was made available to the public for review

August 2007

Public meeting to review the amended draft Plan/EIS

February 2009

Final Watts Bar Land Plan and EIS issued

93

Background

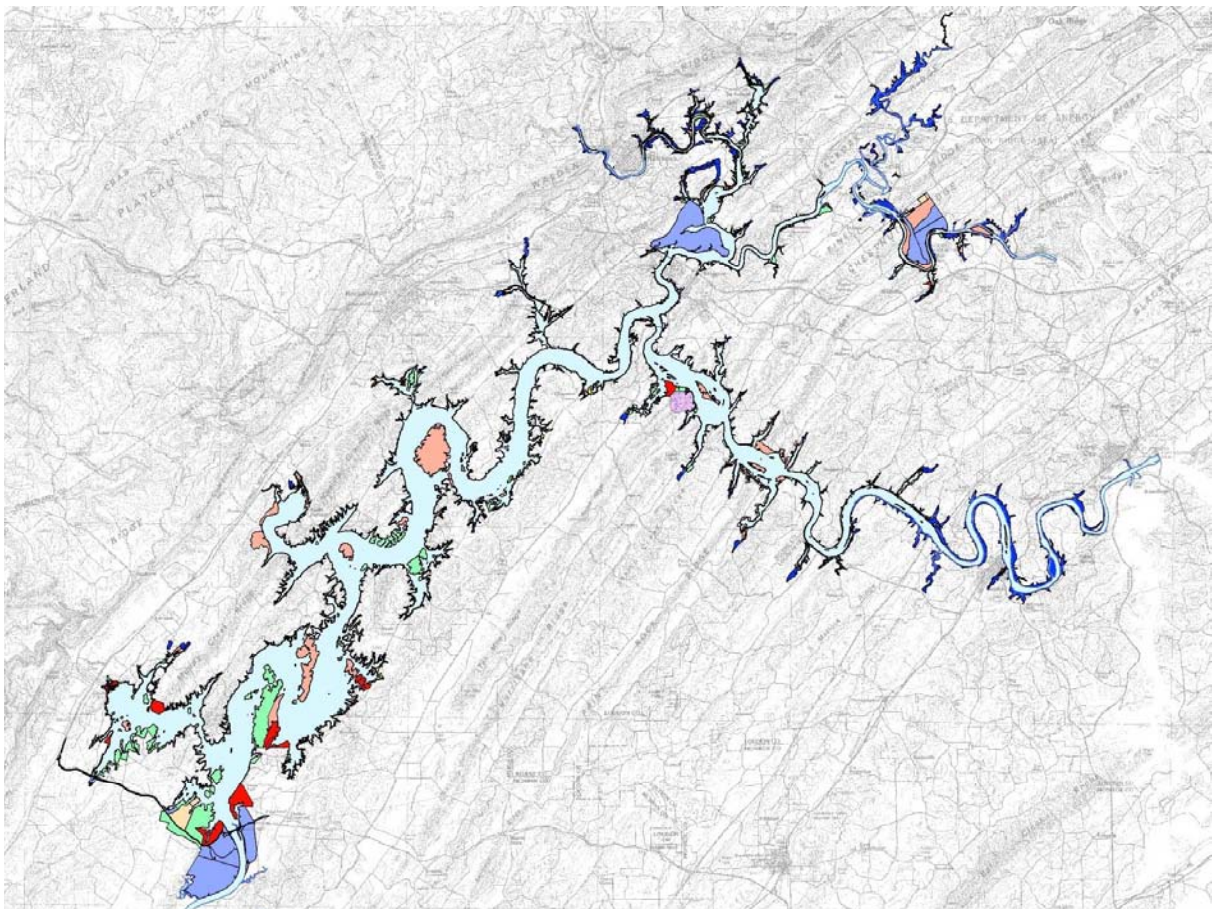
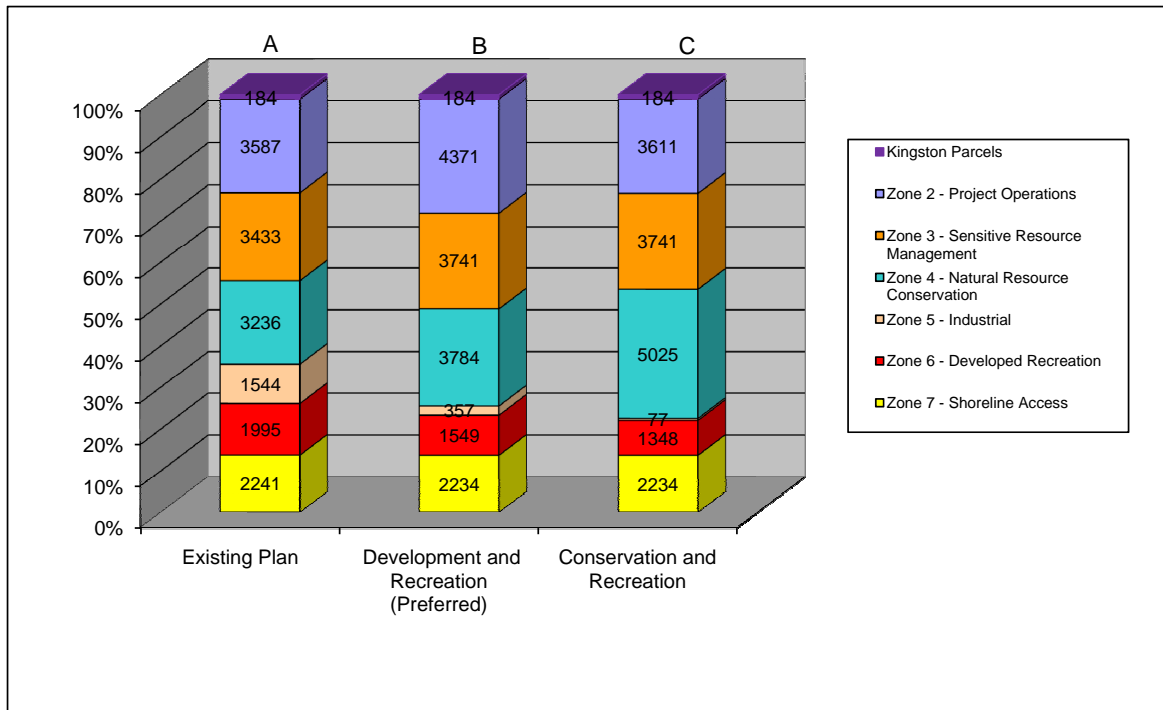
Three alternatives were considered:

- A. Continue managing under the existing plan
- B. Balance recreation and suitable development with environmental and cultural constraints
- C. Focus on recreation and natural resource conservation

Based on extensive internal and external review, alternative B is preferred

94

Comparison of Alternatives



Recommendation

Approve the Watts Bar Reservoir Land Management Plan implementing the preferred alternative (with the exception of the Kingston area)

Mountain Reservoirs Land Management Plan

Topic

The Board directed preparation of a Land Management Plan for Mountain Reservoirs consistent with the social, environmental and commercial conditions around each reservoir

For Board Consideration

Approve the Mountain Reservoirs Land Management Plan

Scope of Plan

About 6,273 acres adjacent to nine TVA mountain reservoirs – Apalachia, Blue Ridge, Chatuge, Fontana, Hiwassee, Nottely, Ocoee 1, Ocoee 2, Ocoee 3

Reservoir lands are located in eight counties in Georgia, North Carolina, and Tennessee

The Mountain Reservoir property accounts for 0.35% of the total land within the eight counties

Timeline

June 2007

Public scoping meeting

August 2008

Draft Plan/Environmental Impact Statement (EIS) was made available to the public for review

August 2008

Public meeting to review the Draft EIS

July 2009

Final Mountain Reservoirs Land Plan and EIS issued

101

Background

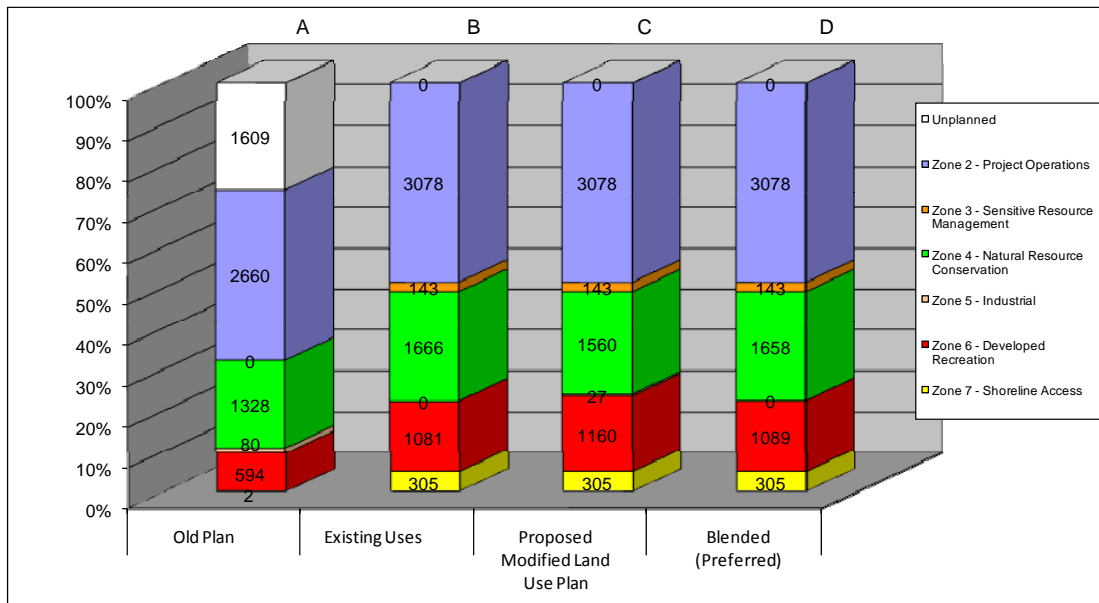
Four alternatives were considered:

- A. Continue managing under the current system
- B. Allocate property based on existing land use
- C. Allocate five parcels differently than in Alternative B, based on public scoping
- D. Blends Alternatives B and C and was developed in response to public comments on the Draft EIS and additional site suitability considerations

Based on extensive internal and external review, alternative D is preferred

102

Comparison of Alternatives



103

Recommendation

Approve the Mountain Reservoirs Land Management Plan implementing the preferred alternative

104

Energy Efficiency / Demand Response Update

Topic

To update the Board on our progress toward the target of achieving a 1,400 MW demand reduction by 2012 through Energy Efficiency and Demand Response programs that compete successfully with supply options

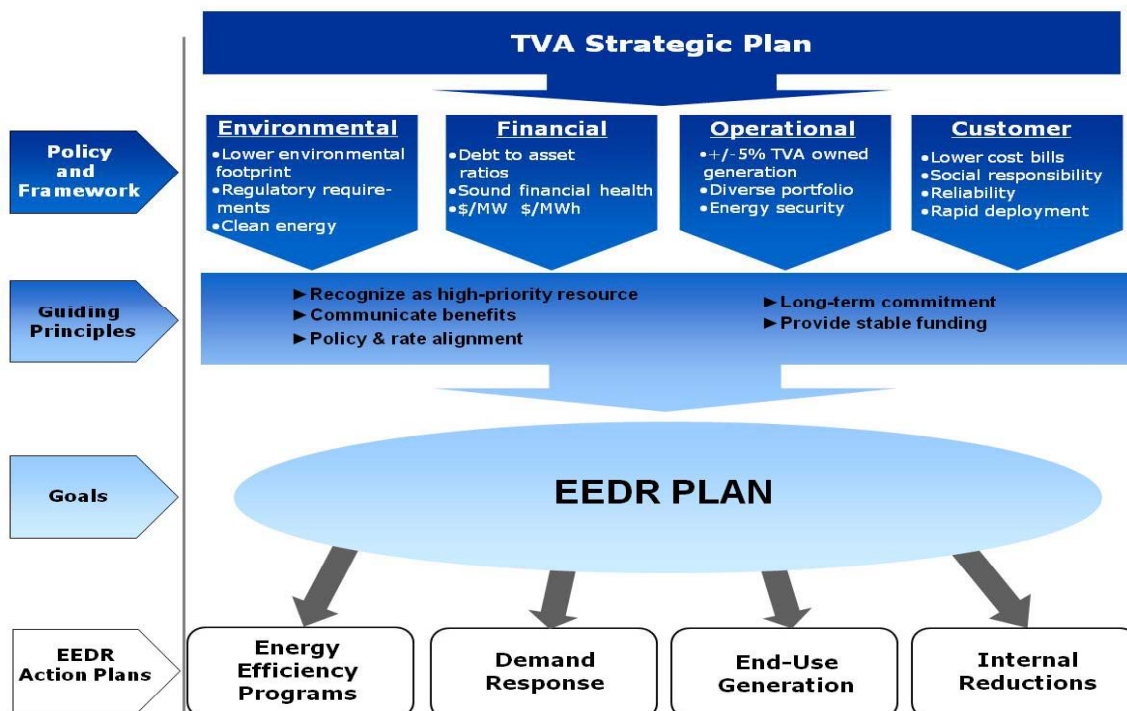
May 2007 – TVA Strategic Plan

Energy Efficiency Improvement and Peak Demand Reduction

“In partnership with others, TVA will strive to be a leader in energy-efficiency improvements and peak demand reduction over the next five years. **Improving energy efficiency and reducing peak demand** are significant actions that help slow demand growth in a cost-effective manner...

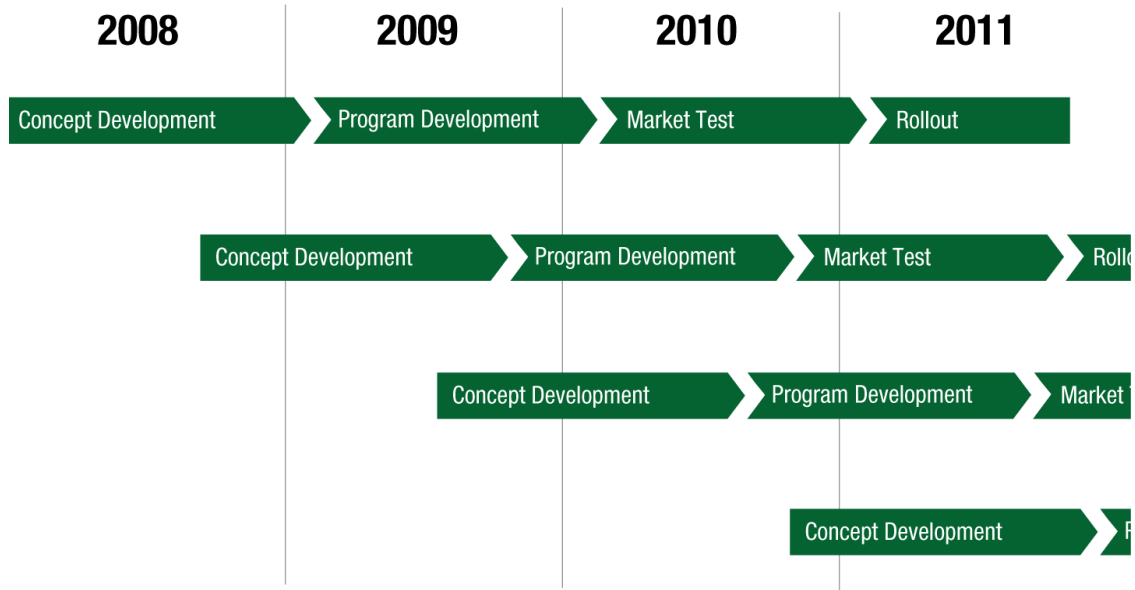
Efficiency, conservation, and peak-shaving, along with on-site generation (such as photovoltaics), are key components of TVA’s energy resource mix.”

107

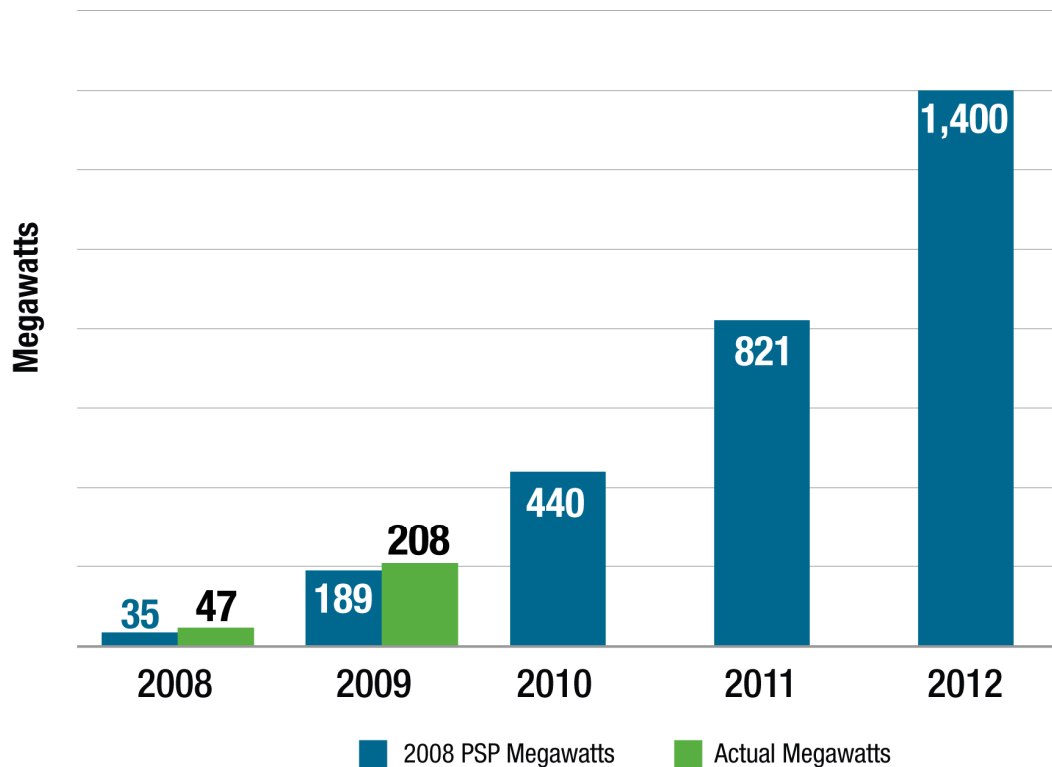


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EEDR High-Level Timeline



Energy Efficiency/Demand Response Progress



Summary

Results have exceeded goal and are under budget

Received good support from distributors

Product development process has been valuable