

# **PRESIDENT'S REPORT**





























# 2010 Weather















Hottest Summer on record 5<sup>th</sup> Coldest Winter on record










# TVA Performance Summary

		Vs. Plan	Vs. Last Year
Rates	Net Cash Flow		
	Retail Rates		
	Sales		
	Fuel & Purchased Power		
	Operations & Maintenance		
	Capital Investment		
Reliability	Plant Reliability		
	System Reliability		
	Runoff		
	Hydro Generation		
Responsibility	Safety		
	Environmental (REE)		
	Organizational Health		










# Rates

Performance Measures	Performance	Actual	Plan
Retail Rates (Average Retail Rate ¢/kWh)		7.73	8.60
Weather Impact on Sales (Heating & Cooling Degree Days)		6,058	5,267
Sales (Gigawatt-hours)		173,777	161,460
Non-Fuel Revenue (\$ Millions)		\$7,842	\$7,377
Fuel & Purchased Power Expense (\$ Millions)		\$4,105	\$4,419
Fuel & Purchased Power Expense (\$/MWH)		\$24.80	\$27.73
Non-Fuel Operating & Maintenance Expense (\$ Millions)		\$3,082	\$2,846
Non-Fuel Operating & Maintenance Expense (\$/MWH)		\$17.70	\$17.68
Delivered Cost of Power (\$/MWh)		\$62	\$67
Capital Expenditures (\$ Millions)		\$2,103	\$2,354
Total Financial Obligations (\$ Millions)		\$25,803	\$26,368
Net Cash Flow (\$ Millions)		\$339	(\$384)

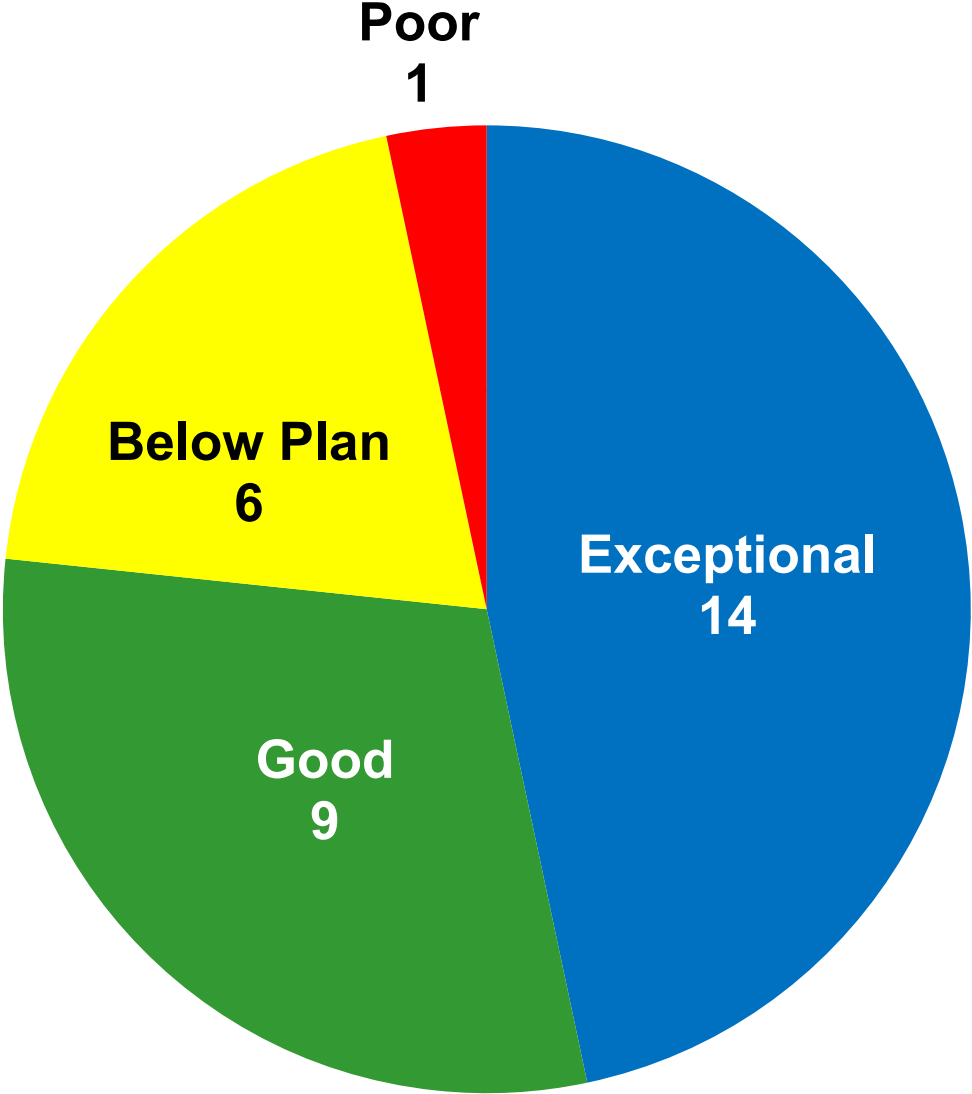
# Reliability

Performance Measures	Performance	Actual	Plan
System Load Not Served (System Minutes)		4.1	5.9
System Connection Point Interruption Frequency		0.673	1.120
Coal Equivalent Availability Factor		82.9%	84.7%
Nuclear EAF		90.6%	89.8%
Combined Cycle EAF		92.0%	89.4%
River Operations - Conventional EAF		92.9%	90.8%
River Operations - Pumped Storage EAF		82.5%	85.8%
Hydro Generation (GWh)		14,013	8,214
Purchased Power (GWH)		28,782	15,022

# Responsibility

Performance Measures	Performance	Actual	Plan
Safety (Recordable Incident Rate)		0.72	1.41
Reportable Environmental Events		53	51
Stakeholder Response (Days to Respond)		5.7	5.0
Positive News Tone		50%	N/A
Organizational Health		52	N/A
Turnover (Annualized Rate)		5.8%	N/A
Diversity Hires (% Ethnic and Gender)		28%	28%
Compliance (OIG Audit/Inspection Response Timeliness)		90%	90%
Corporate Reputation (Favorability Rating)		74.4	N/A

# 2010 Performance Summary



# Our VISION



ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020



Low Rates



Cleaner Air



High Reliability



More Nuclear Generation



Responsible Stewardship



Greater Energy Efficiency





# Our VISION

ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020



Low Rates

Cleaner Air



High Rates

More Nuclear Generation



Responsible Stewardship

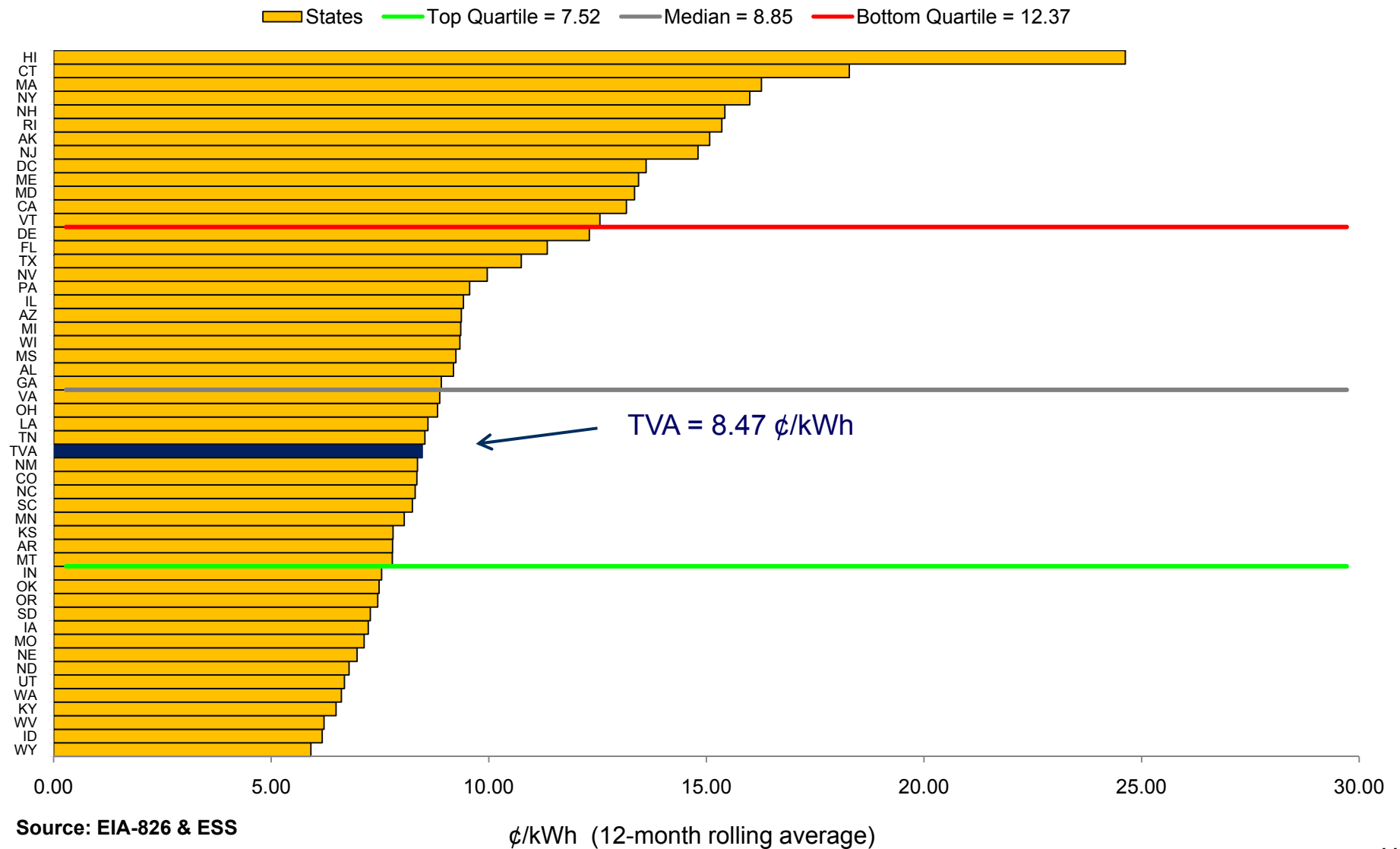
Greater Energy Efficiency



# Low Rates

# Low Rates—by State (2009)

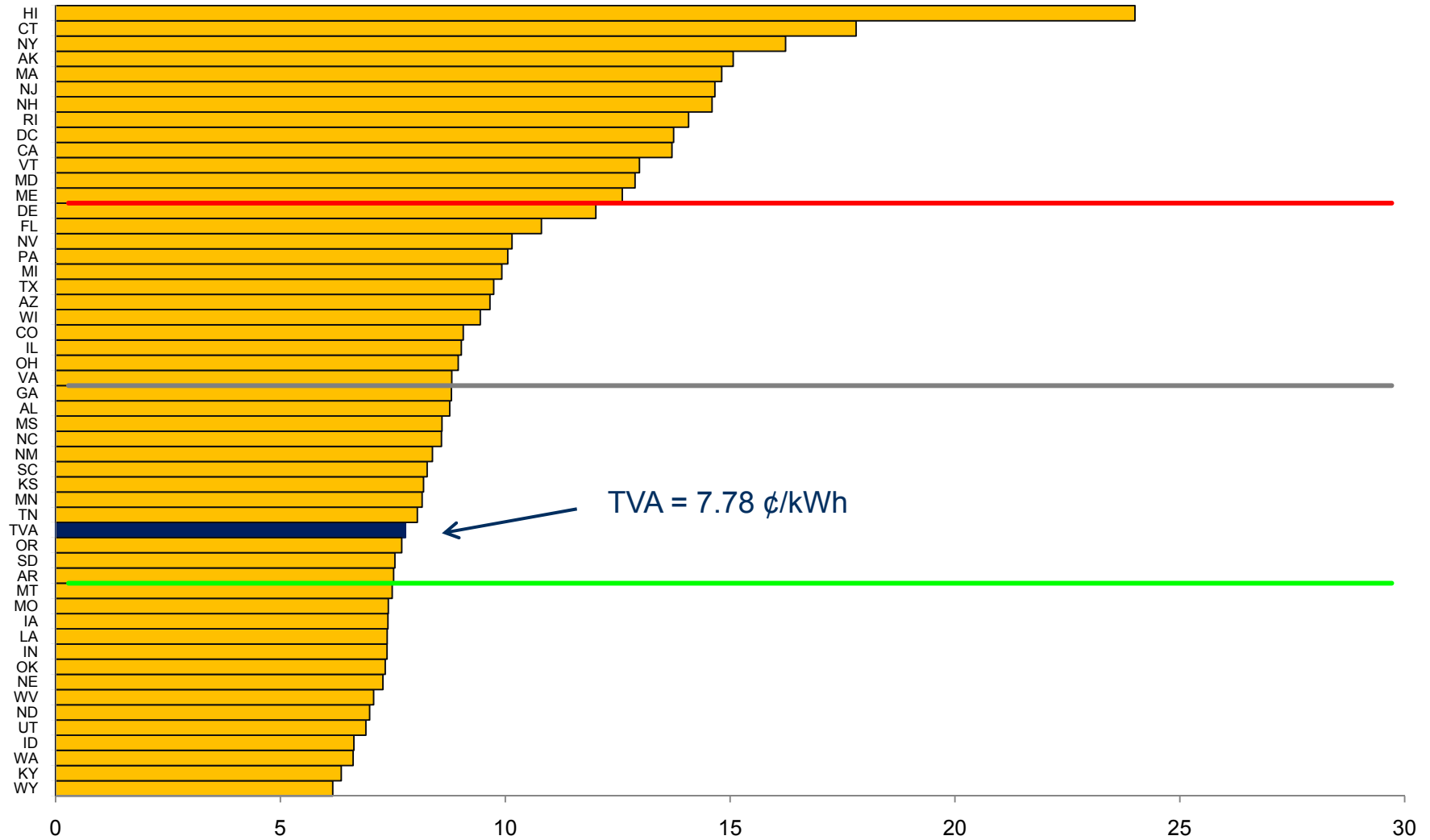
12 Months Ending July 2009



# Low Rates—by State (2010)

12 Months Ending July 2010

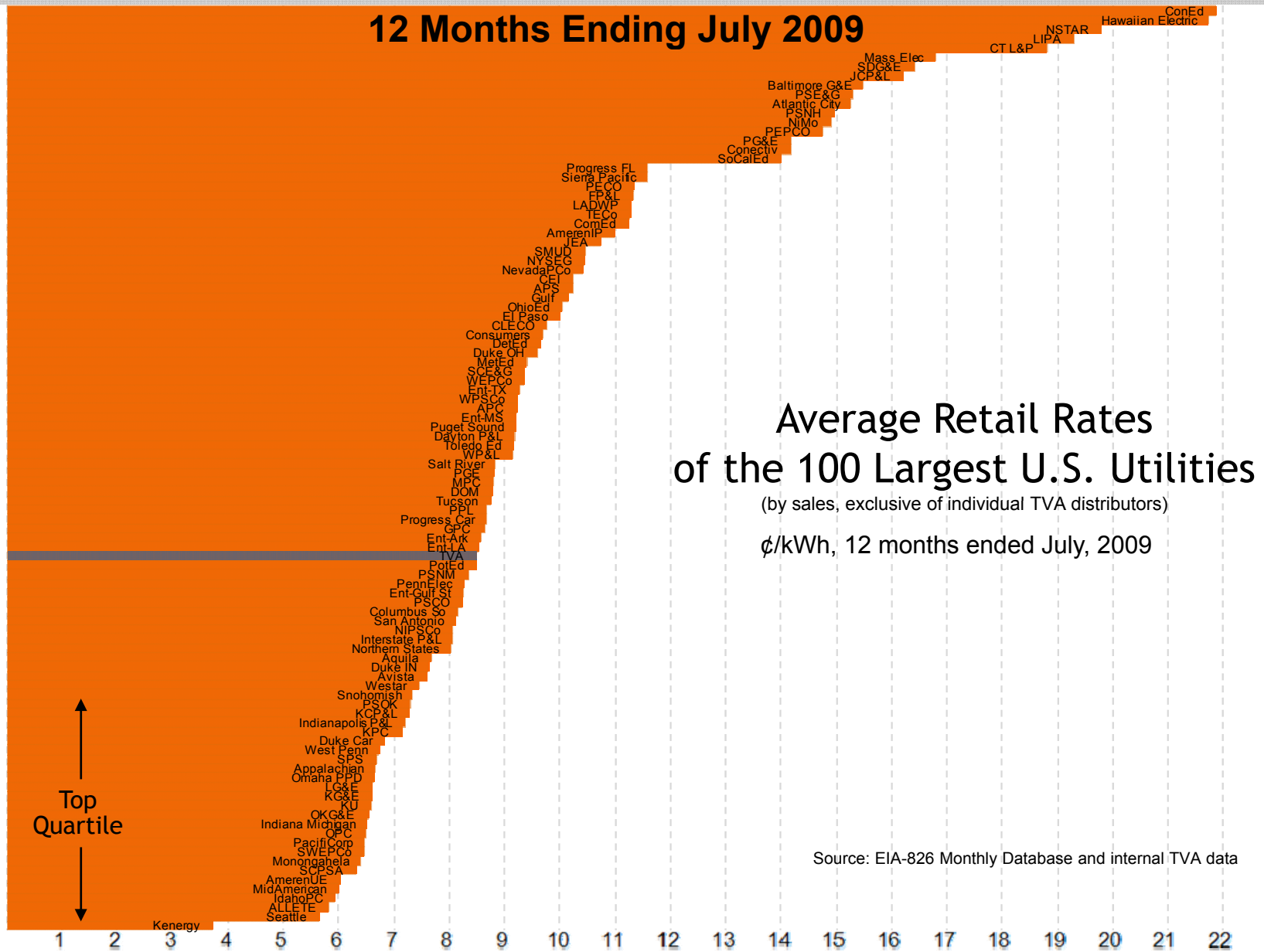
States Top Quartile = 7.47 Median = 8.78 Bottom Quartile = 12.16



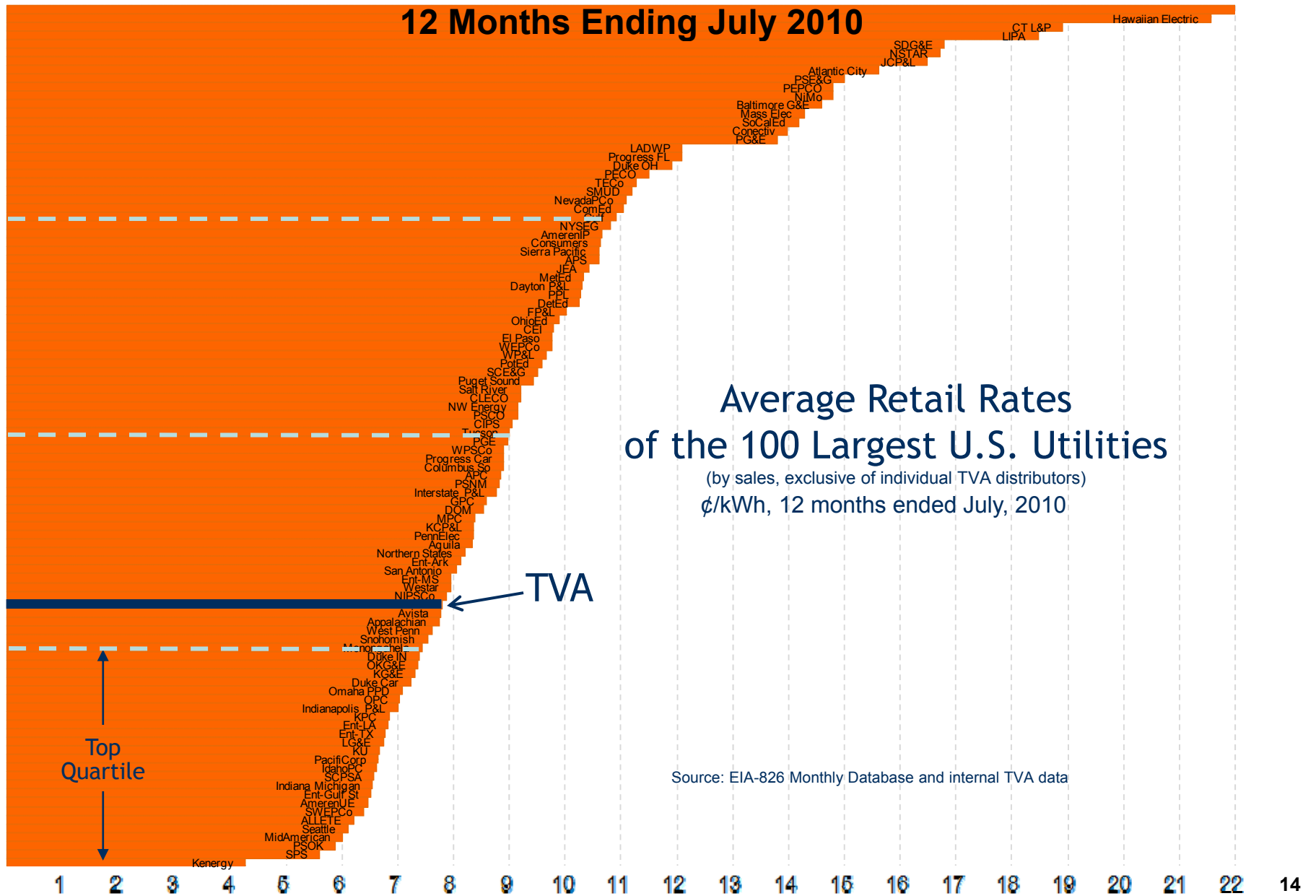
Source: EIA-826 & ESS

¢/kWh (12-month rolling average)

# Low Rates—vs. Top 100 Utilities (2009)

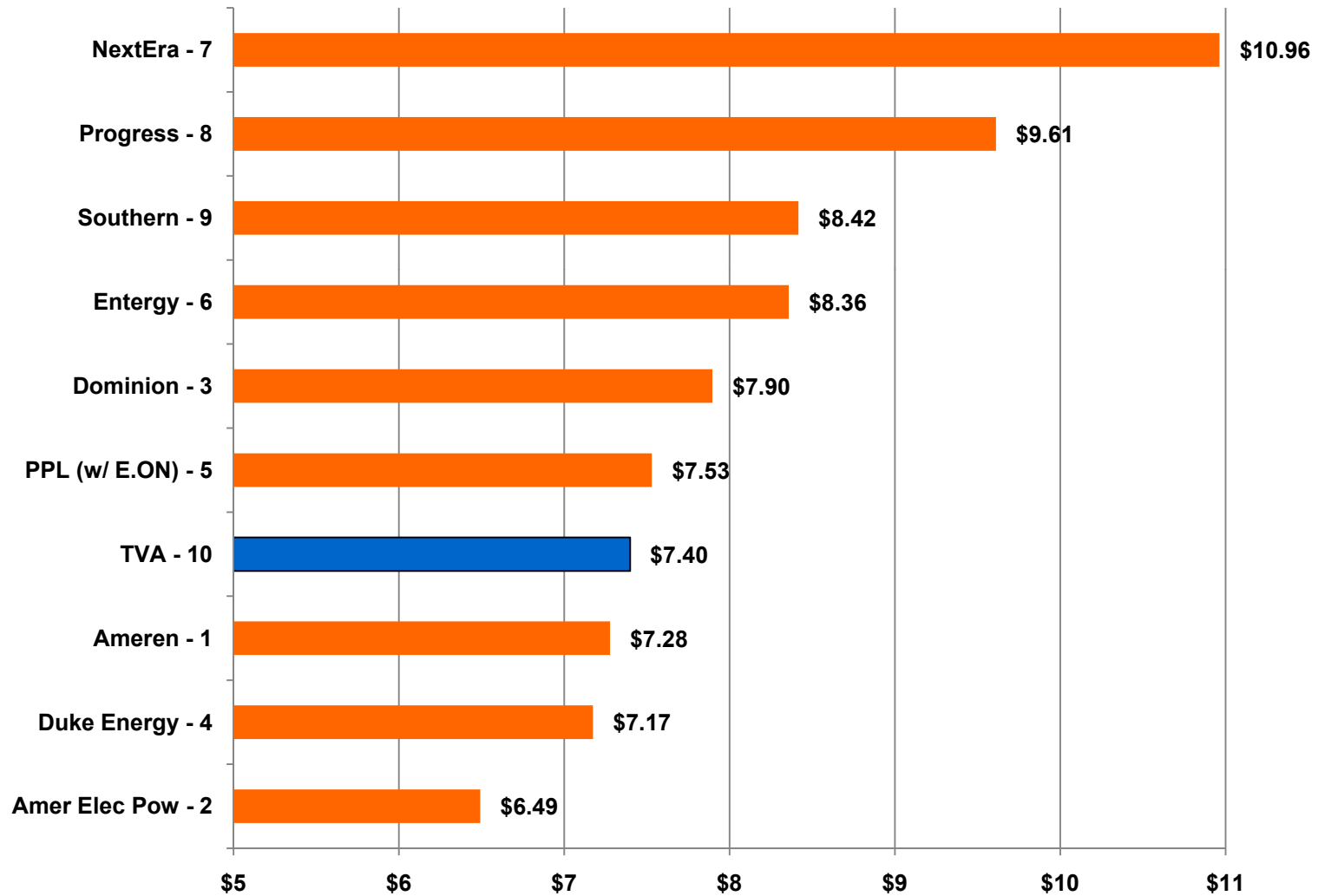


# Low Rates—vs. Top 100 Utilities (2010)



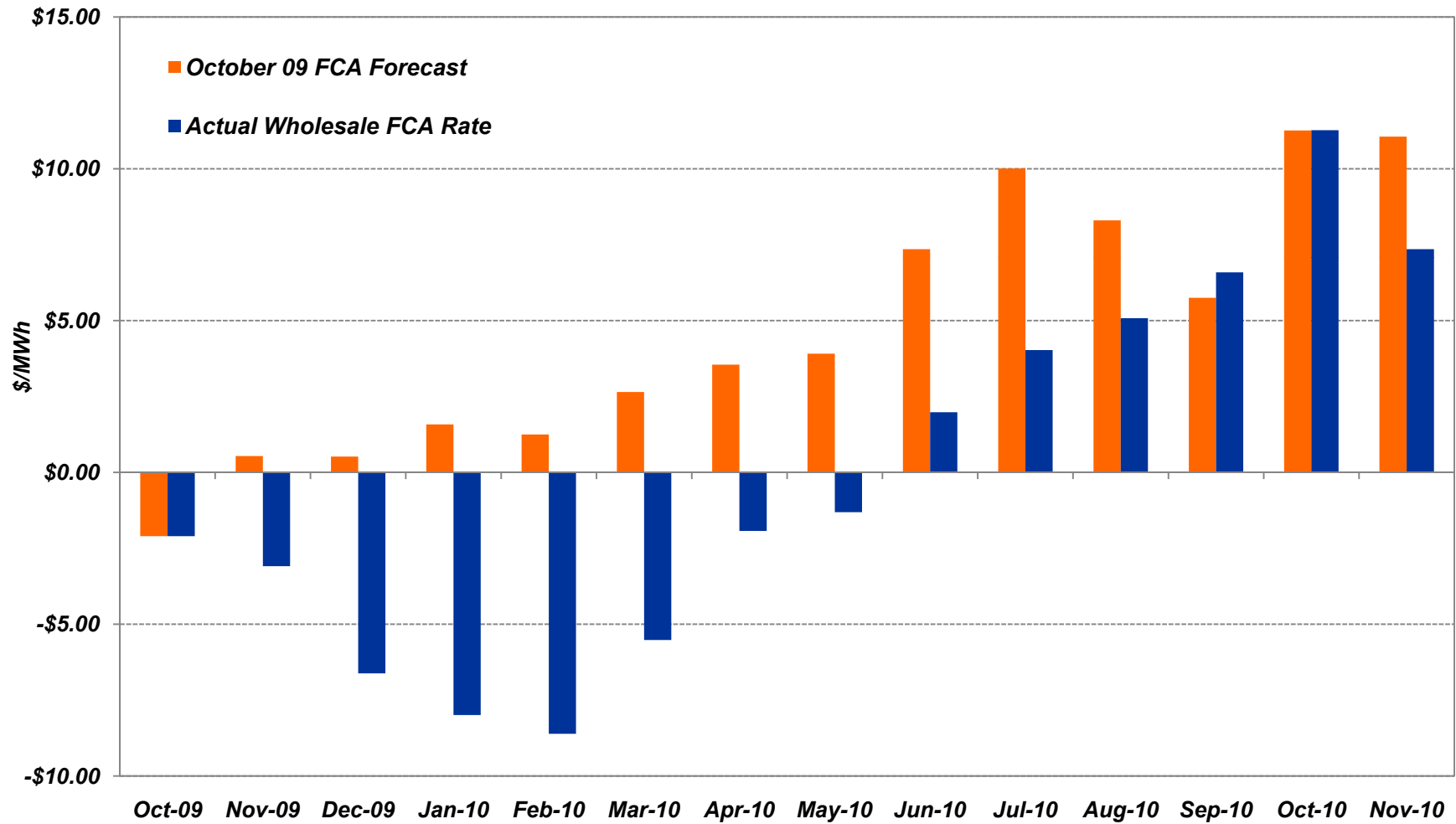
# Low Rates—vs. Neighboring Utilities

Retail Rate -2007-2009



# Fuel Cost Adjustment Trend

*Forecast vs. Actual*



# Our VISION



ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020



Low Rates



Cleaner Air



High Reliability



More Nuclear Generation



Responsible Stewardship



Greater Energy Efficiency





# Our VISION

ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020



Low Rates

Cleaner Air



High Reliability

More Nuclear Generation



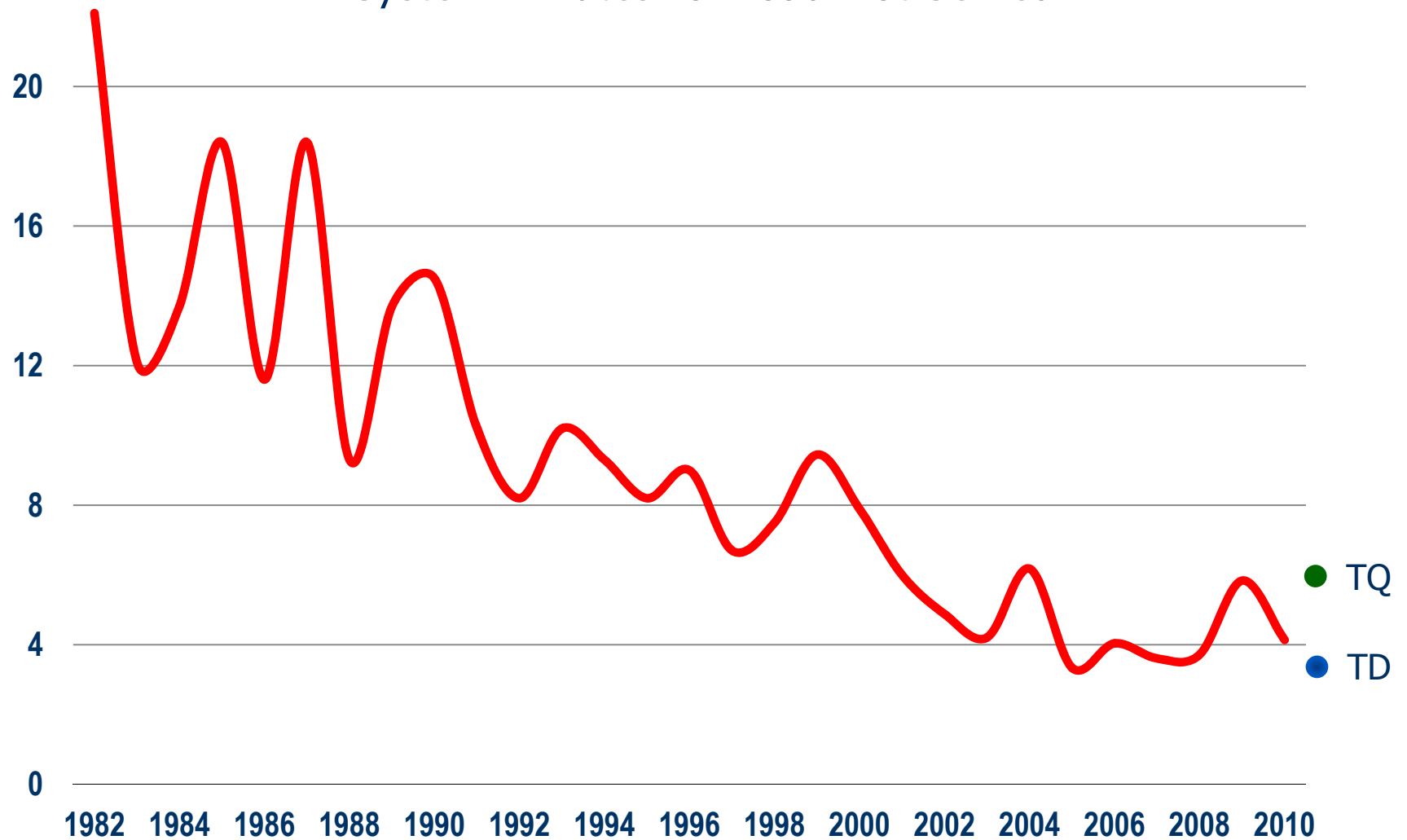
Responsible Stewardship

Greater Energy Efficiency

# High Reliability

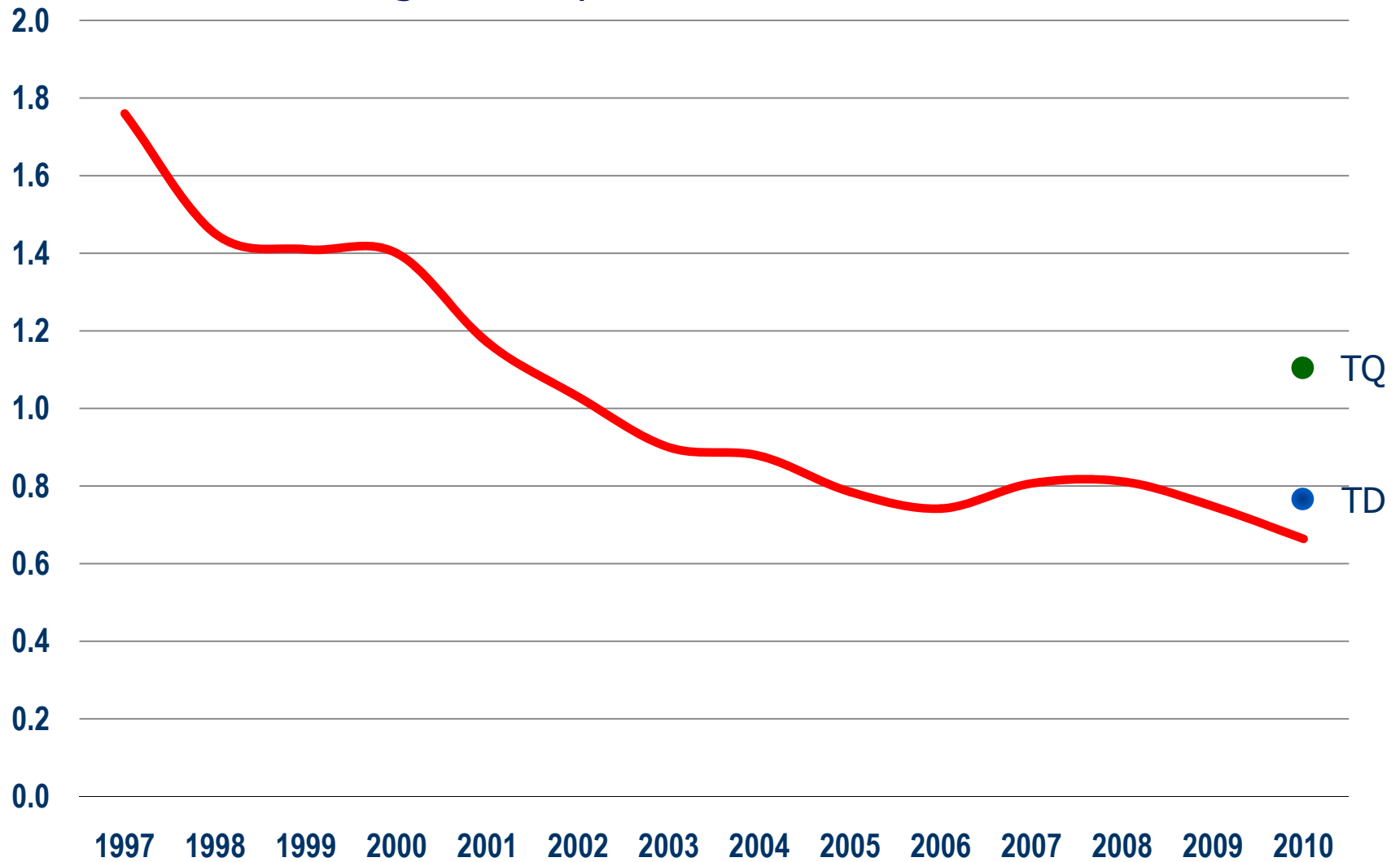
# Interruption Duration

"System Minutes" of Load-Not-Served



# Interruption Frequency

Avg. Interruptions/Connection Point



# Storms Threaten Reliability



# New Turbine for John Sevier Plant



# New Gas Plant Joins the Fleet



# Our VISION



ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020



Low Rates



Cleaner Air



High Reliability



More Nuclear Generation



Responsible Stewardship



Greater Energy Efficiency



# Our VISION

ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020



Low Rates

Cleaner Air



High Reliability

More Nuclear Generation



Responsible Stewardship

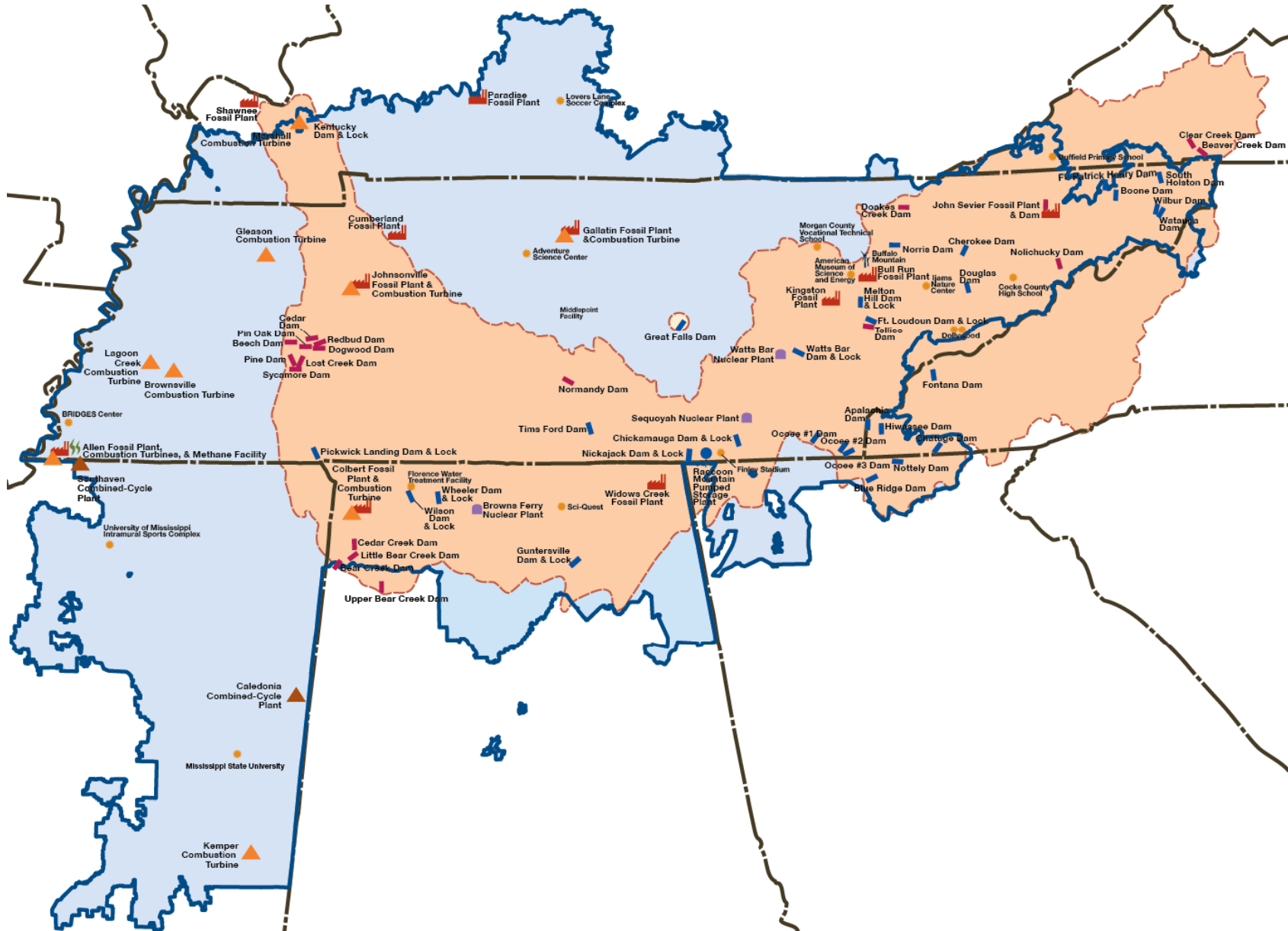
Greater Energy Efficiency



# Responsible Stewardship



# TVA's Broad Responsibilities



# How We Approach Our Responsibilities

## Environmentally Responsible

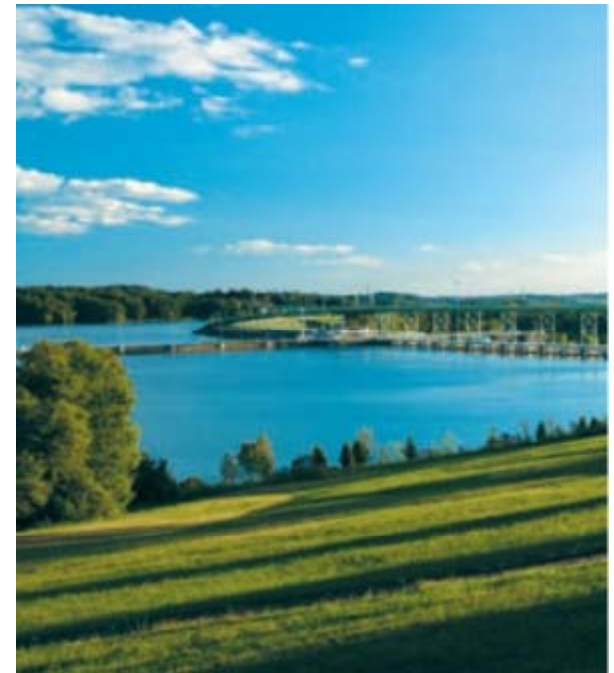
- Protecting the air, water and land
- Reducing consumption and waste

## Economically Valuable

- Promoting sustainable growth
- Attracting high-value businesses

## Accountable

- Integrating customer/stakeholder priorities
- Transparent, seeking public input & building trust

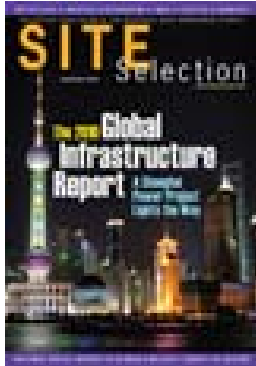


# Balancing Responsibilities



Browns Ferry reduced generation and lowered discharge temperatures during the hottest days of the summer to protect the river.

# Economic Development



For the fifth year in a row, TVA has been named one of the top utilities in North America by Site Selection magazine

The award is based on TVA's economic development achievements in 2009

TVA is one of only three utilities to earn the top 10 recognition in each of the last five years

	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
Jobs	57,728	53,036	45,319	41,620	25,906	40,899
Capital Investment (in billion)	\$3.6	\$4.2	\$5.6	\$5.5	\$4.2	\$4.3

# Measuring Our Reputation

<b>Favorability of TVA</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Customers</b>	<b>84.7</b>	<b>83.1</b>	<b>85.4</b>
<b>General Public</b>	<b>74.8</b>	<b>69.7</b>	<b>71.7</b>
<b>Business/Community Leaders</b>	<b>82.7</b>	<b>76.4</b>	<b>79.3</b>
<b>Economic Developers</b>	<b>85.7</b>	<b>79.4</b>	<b>82.9</b>

# Our VISION



ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020



Low Rates



Cleaner Air



High Reliability



More Nuclear Generation



Responsible Stewardship



Greater Energy Efficiency



# Our VISION

ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020



Low Rates

Cleaner Air



High Reliability

More Nuclear Generation



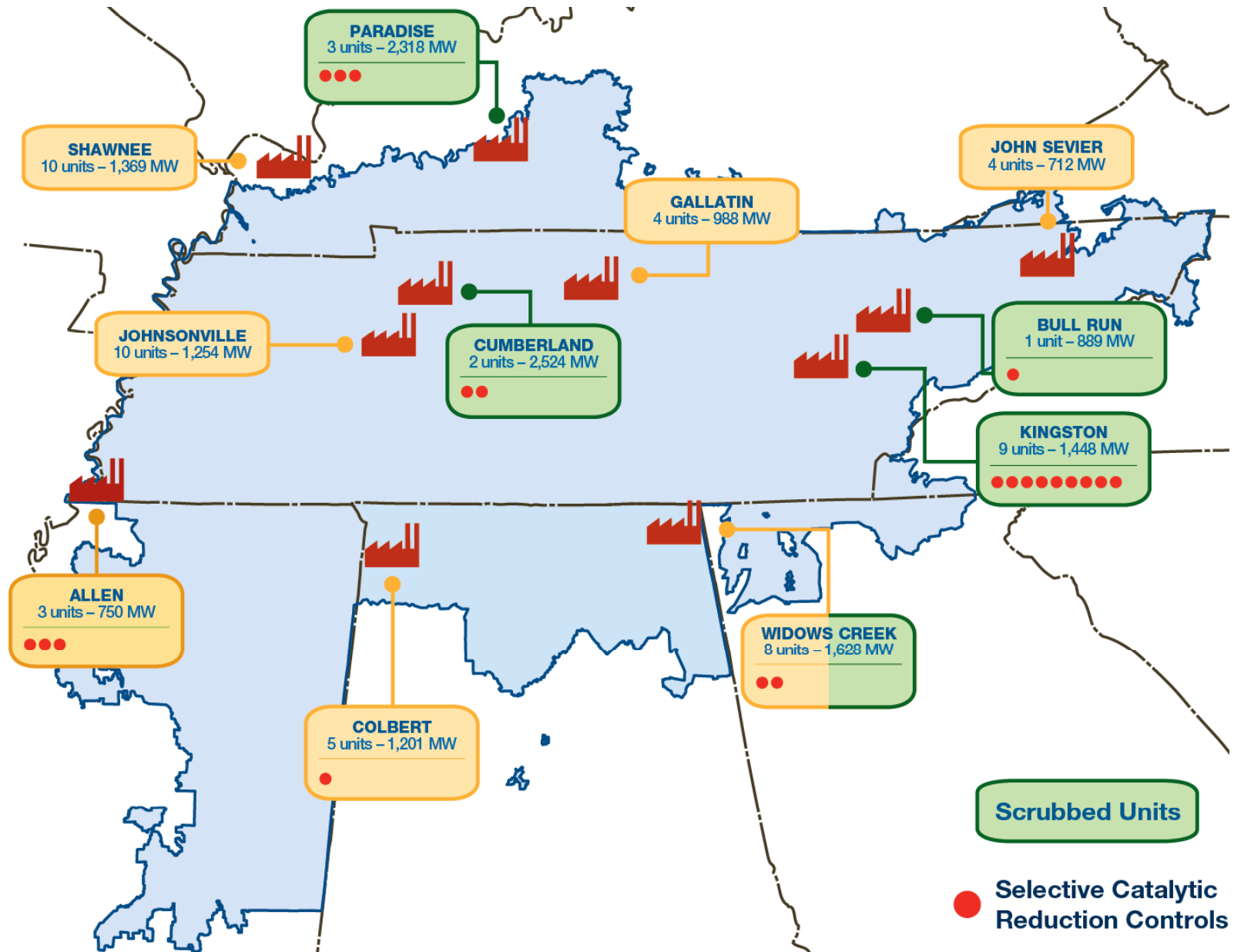
Responsible Stewardship

Greater Energy Efficiency



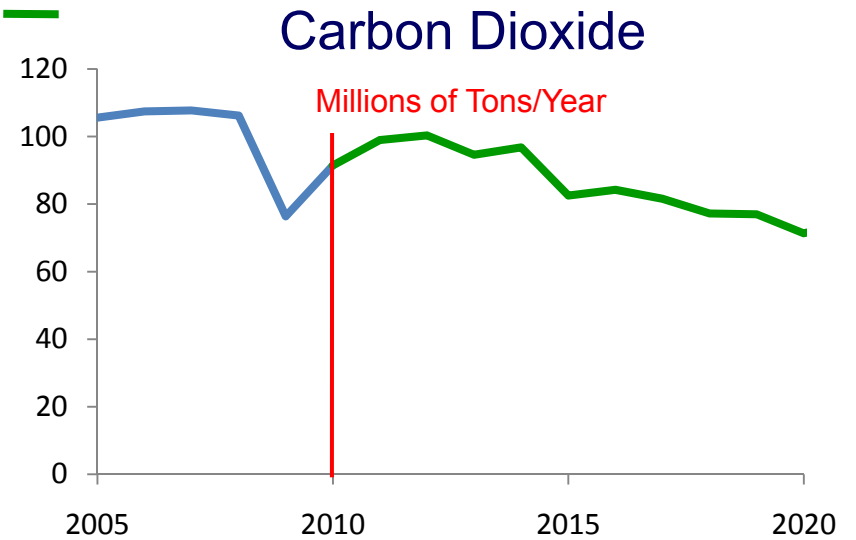
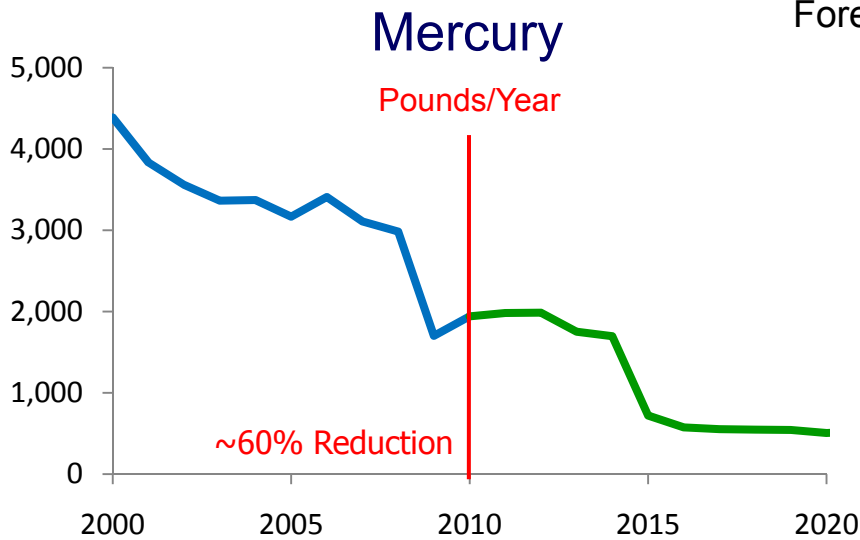
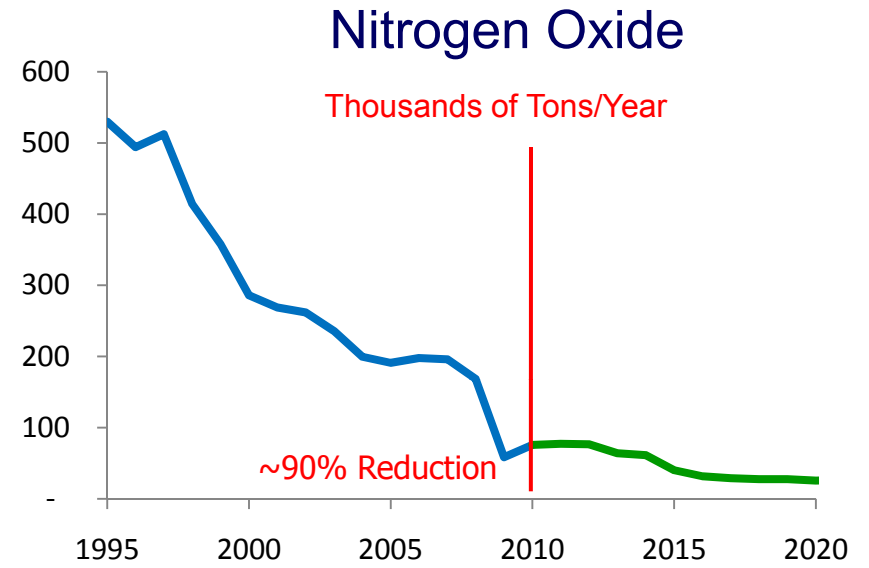
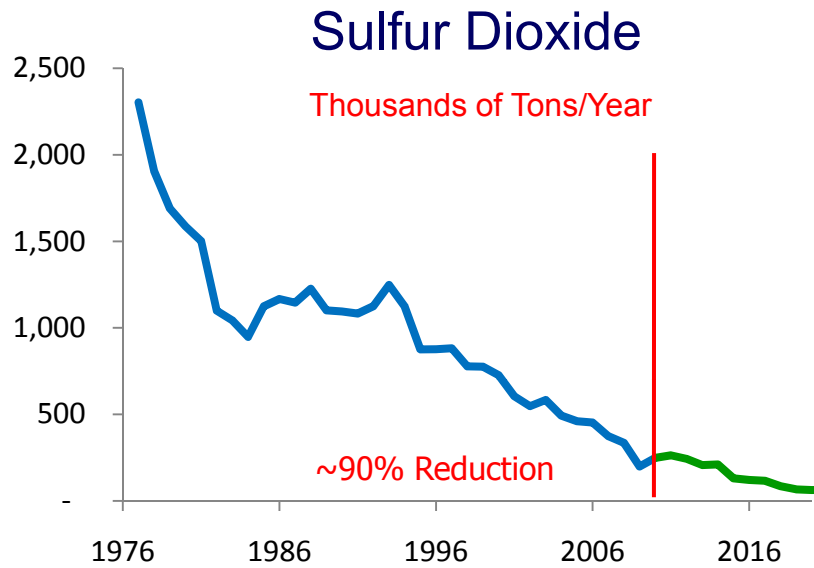
# Cleaner Air

# TVA's Emission Controls





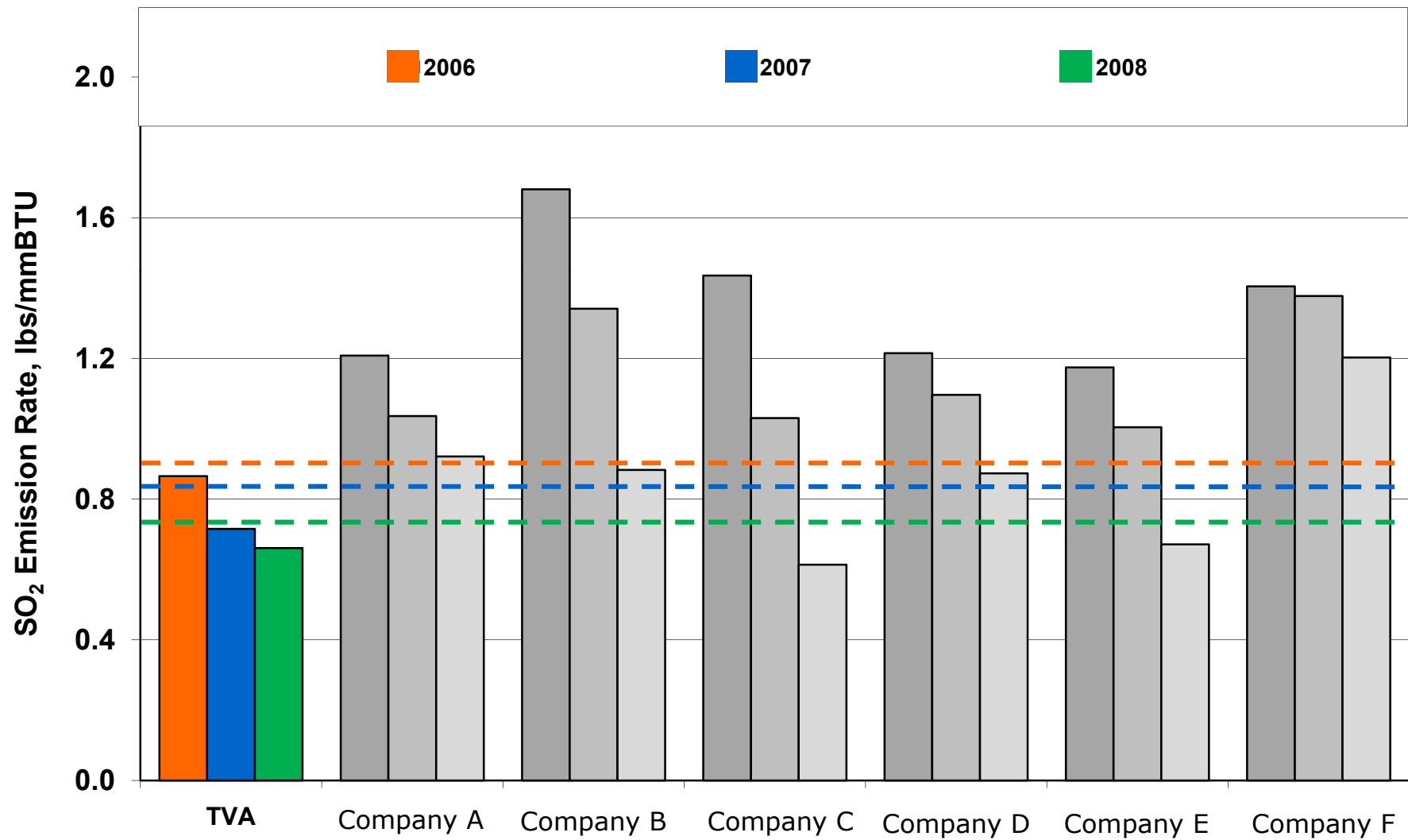
# Total Emission Reductions



Historical —  
Forecast —

# Comparing Emission Rates

## Sulfur Dioxide



# Our VISION



ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020



Low Rates



Cleaner Air



High Reliability



More Nuclear Generation



Responsible Stewardship



Greater Energy Efficiency



# Our VISION

ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020



Low Rates

Cleaner Air



High Reliability

More Nuclear Generation



Responsible Stewardship

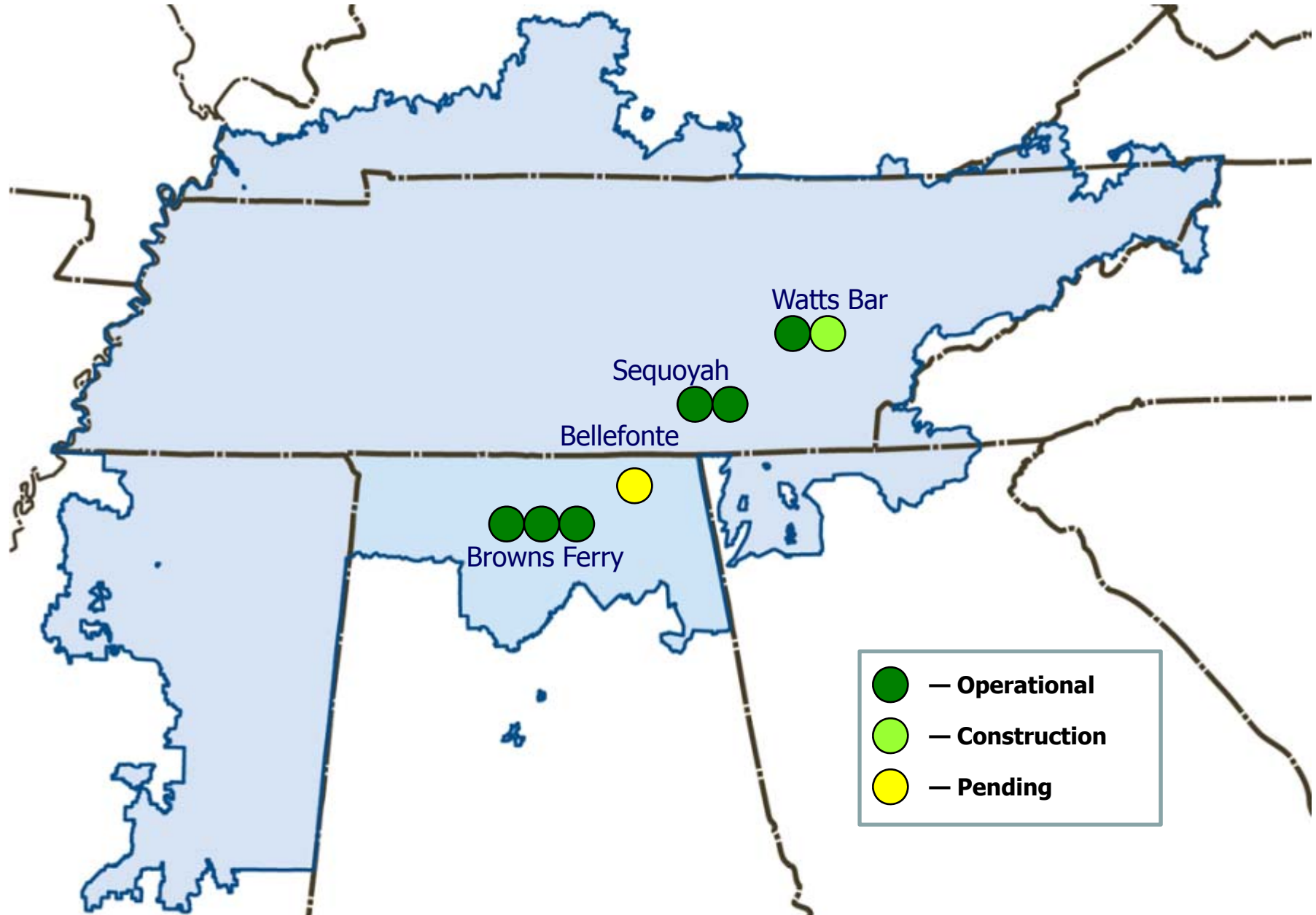


Greater Energy Efficiency

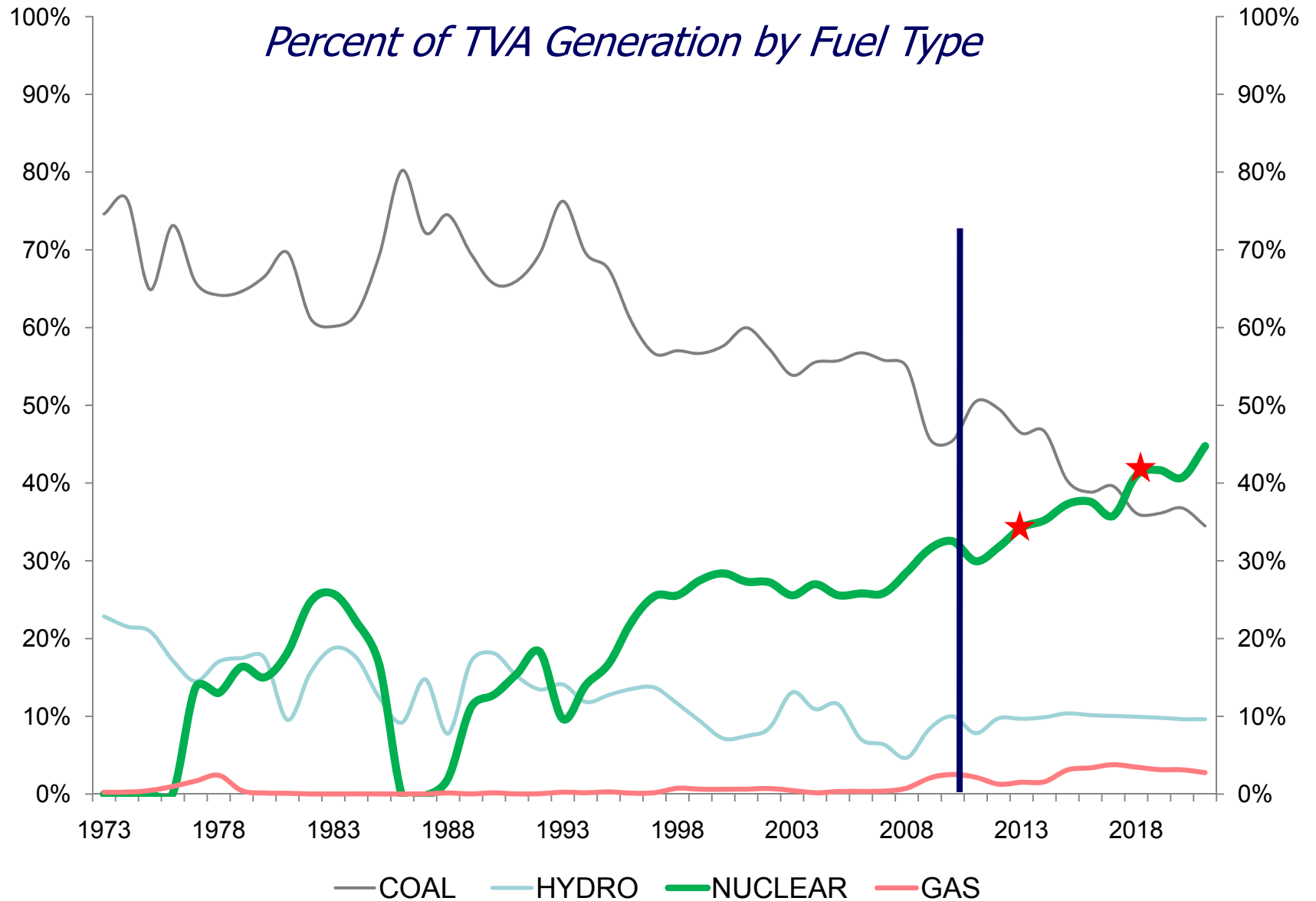


# More Nuclear Generation

# More Nuclear Generation

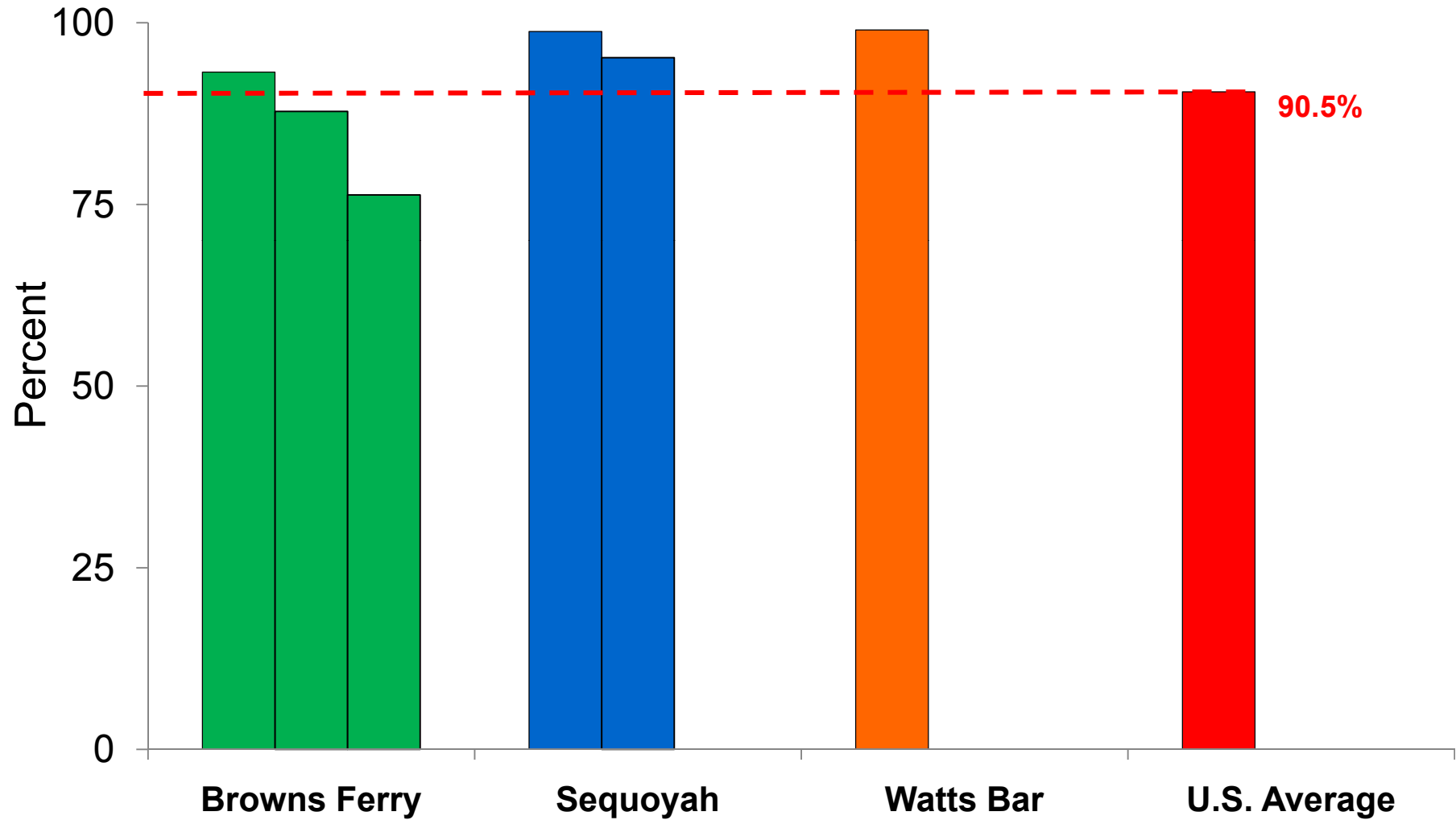


# Nuclear Power's Increasing Role



# Nuclear Capacity Factors

January through September, 2010



—NEI, September, 2010

# Watts Bar Status

On time and within budget

Total cost – \$2.5 billion

Current staffing – 3,200



*High Pressure Turbine delivery*



*Unit 1 in Commercial Operation*



*Moisture Separator Reheaters  
Installation in the Turbine Building*

*Unit 2 will add 1,180 MW of reliable, economical  
base load generating capacity to the TVA system*



# Bellefonte Status

## *Developing Nuclear Options For Future Generation*

**BLN 1 and 2**



**Babcock & Wilcox (Areva)**

- Construction permits reinstated in deferred status
- Preserving existing asset

**BLN 3 and 4**

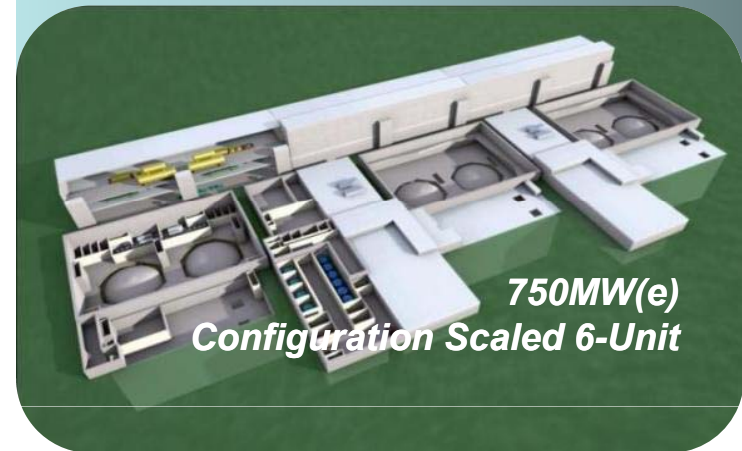
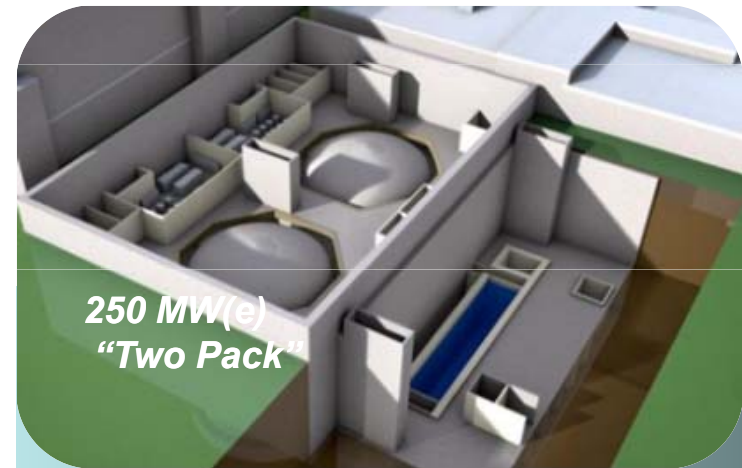


**Westinghouse**

- Pursuing combined operating licenses
- Standardization of plant design and licensing

# Small Modular Reactors

- Simplified passive design
- Underground containment
- Scalable (125 MWe)
- Shop-built, shipped by rail
- 60-year spent fuel storage
- Financing advantages
- Expanded site options
- Re-power aging fossil sites



# Browns Ferry Accomplishments



- Unit 1 completed a 586-day run
- Successful NRC inspection
- Improved operations training
- Notable improvements in plant equipment and safety systems



# Our VISION



ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020



Low Rates



Cleaner Air



High Reliability



More Nuclear Generation



Responsible Stewardship



Greater Energy Efficiency



# Our VISION

ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020



Low Rates

Cleaner Air



High Reliability

More Nuclear Generation



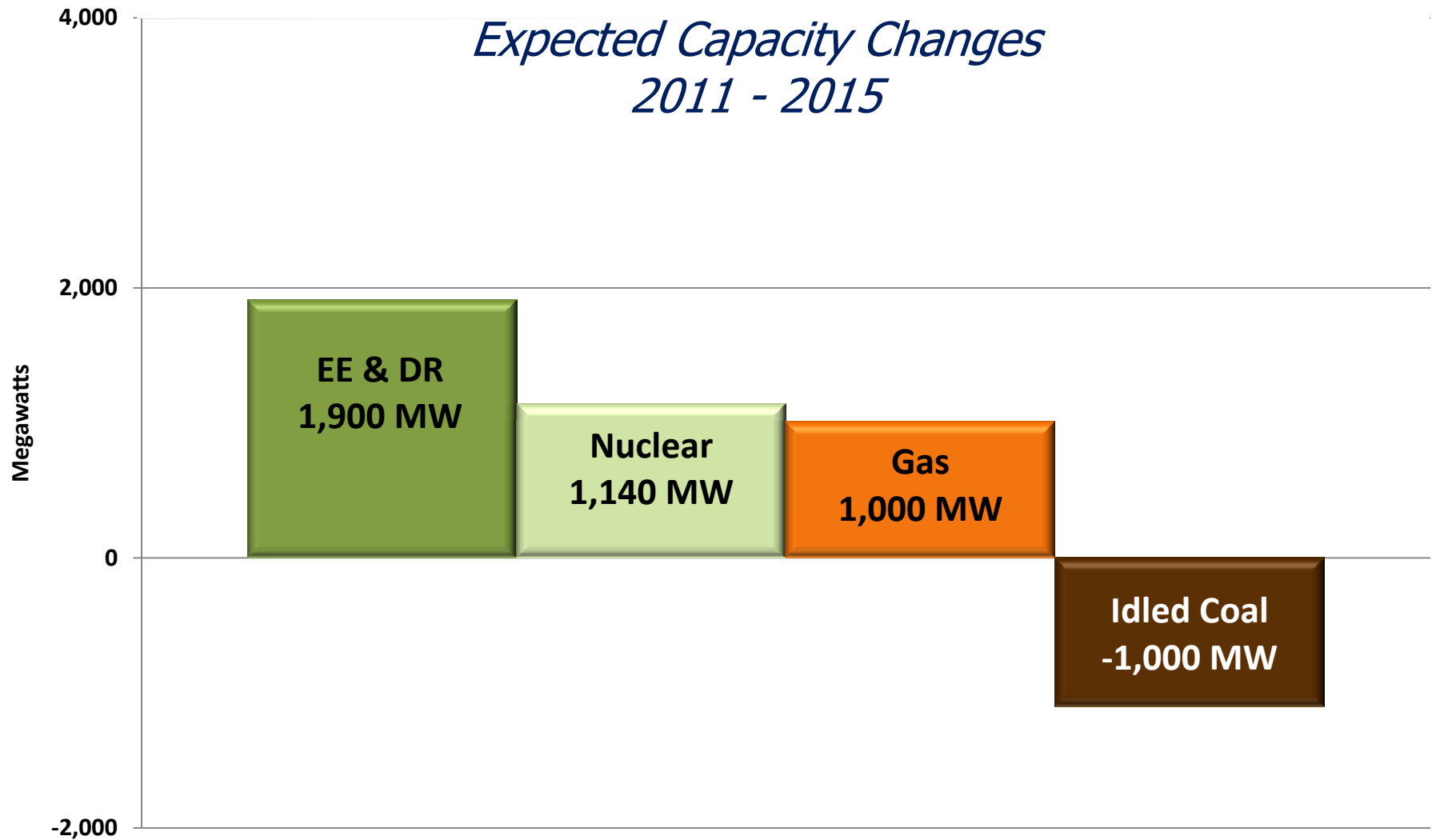
Responsible Stewardship

Greater Energy Efficiency



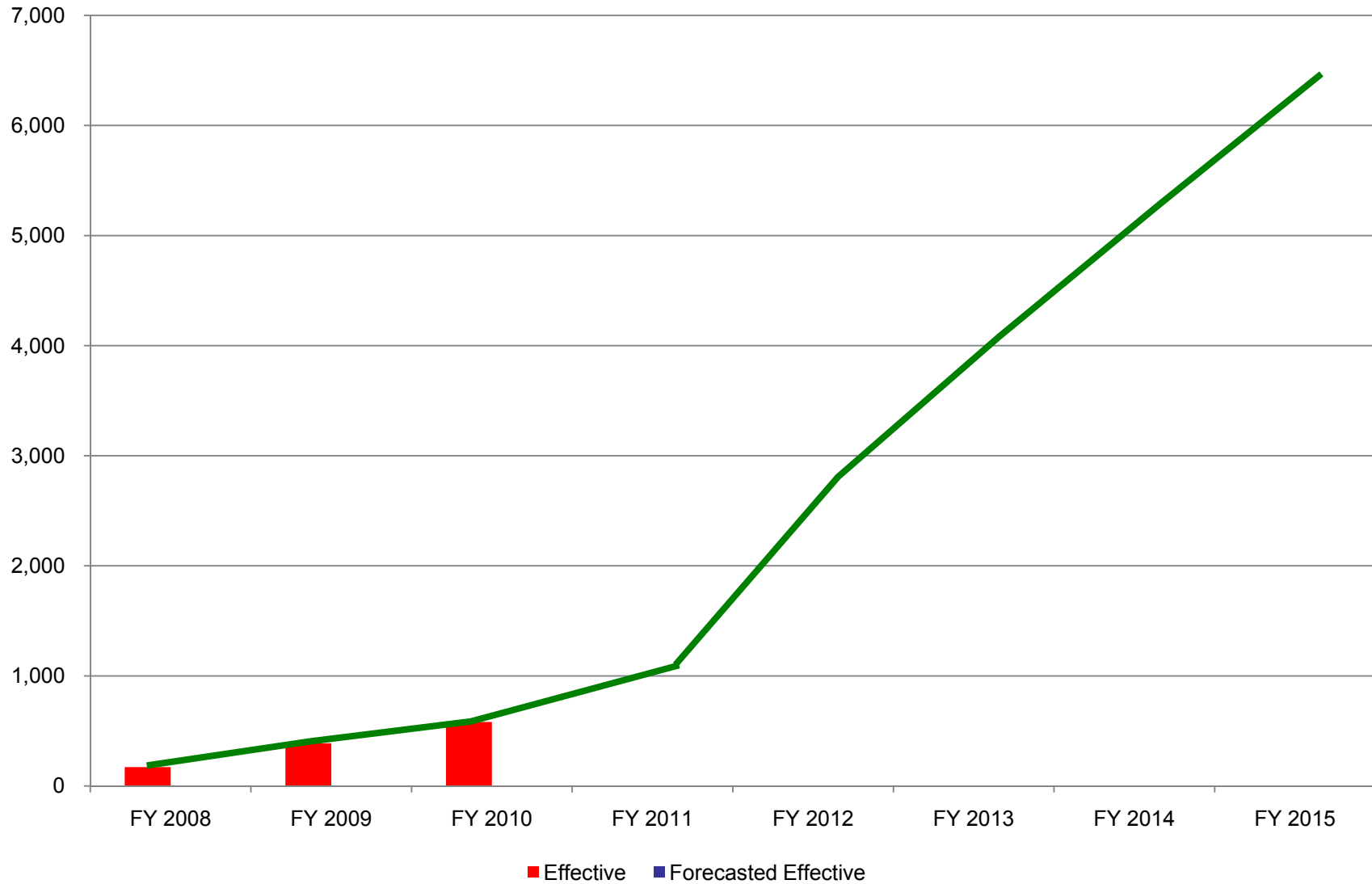
# Greater Energy Efficiency

# A New Emphasis on Efficiency



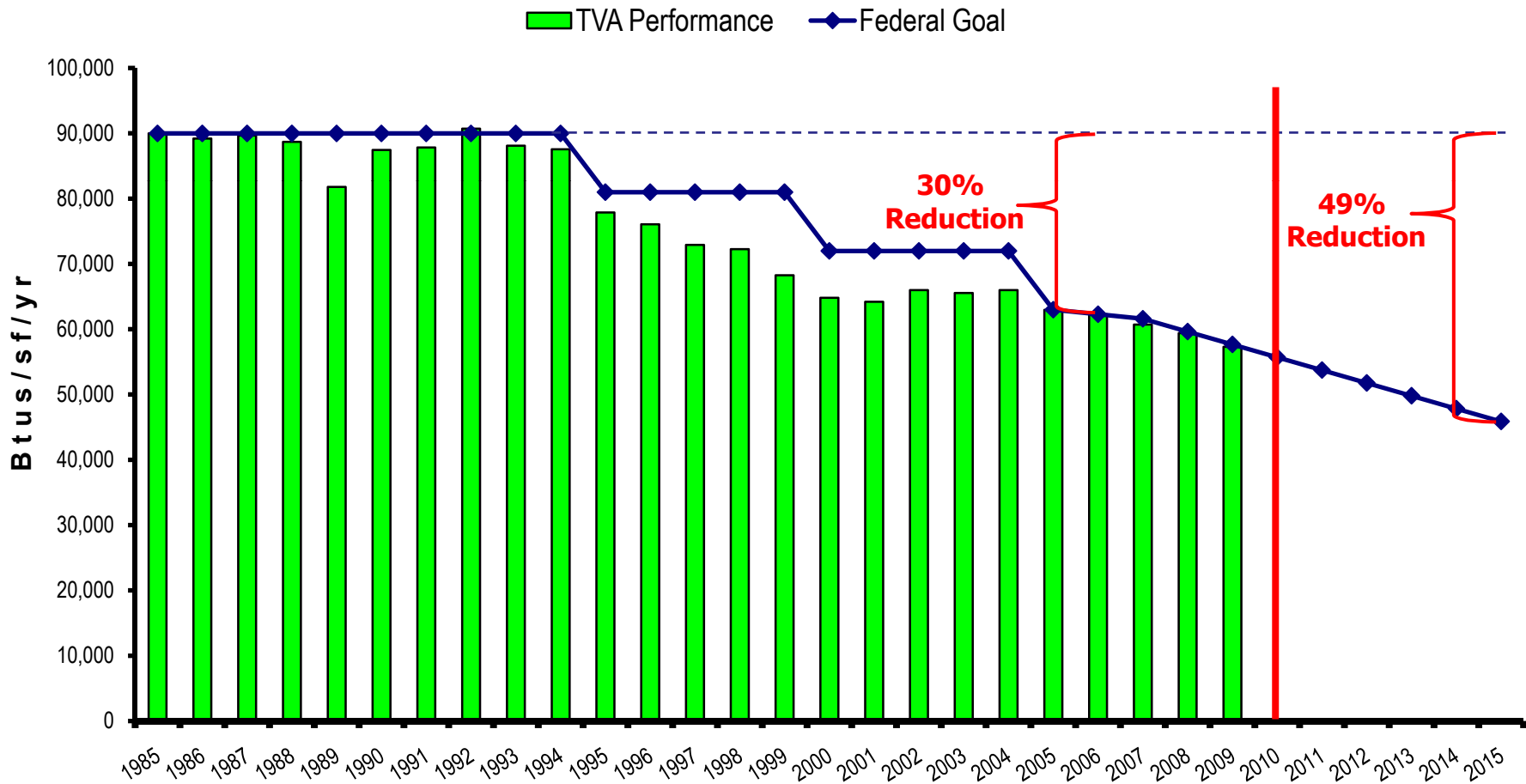
# Meeting Our Efficiency Goal

## EEDR Savings in Gigawatt-hours



# Energy Efficiency in TVA Buildings

*Goal: Cut Energy Use in Half*





# Electric Transportation



**TVA SMART Station – creating the base design to effectively link electric vehicles and the power grid**

**eFuels Solution Forum – promoting a national transition to electric transportation**



# **Industry News**

# Industry News

## *Announced or Considering Idling Coal Capacity*

	<u>Megawatts</u>
American Electric Power	4,300
Progress Carolinas	3,751
Duke Carolinas	1,525
Georgia Power	1,200

## Industry News

North Carolina approved a monthly surcharge to fund a state renewable portfolio standard

Exelon is buying over 1,500 megawatts of wind projects located in several mid-western states

The NRC has issued a draft Environmental Impact Statement for two planned Georgia Power reactors at Plant Vogtle

A federal judge ordered Southwestern Electric Power Co. to stop construction on a coal fired power plant

# **Recognition of TVA's Engineer of the Year**



# Chairman's Report



**Creation of the  
TVA Board Nuclear  
Oversight Committee**



# **Committee Membership Assignments**



# **Audit, Risk, and Regulation**



# **Selection of TVA's External Auditor for Fiscal Year 2011**



# People and Performance



# **Long Term Incentive Plan Performance and Performance Goals**

# Topic

Long-Term Incentive programs form the basis for evaluating and rewarding executives for meeting TVA's long-term performance, typically three years

## **For Board Consideration**

Approve proposed goals and targets for the 2011-2013 Long-Term Incentive Plan

Approve an adjustment to the Organizational Health goal and targets for the 2010-2012 Long-Term Incentive Plan



# Proposed Long-Term Incentives Goals FY 13 Payout

(Fiscal Year 2011-2013 Performance Period)

	<b>Weight</b>	<b>Threshold</b>	<b>Target</b>	<b>Stretch</b>
<b>Retail Rates</b> (Relative Position)	40%	3rd	2nd	1st
<b>System Reliability</b> (Load Not Served)	30%	7.8	5.9	3.8
<b>Responsibility</b>				
Organizational Health	20%	61.0	66.0	71.0
Stakeholder Survey	10%	79.0	81.3	83.3

# Proposed Long-Term Incentive Goals Fiscal Year 2012

(Fiscal Years 2010-2012 Performance Period)

	<b>Weight</b>	<b>Threshold</b>	<b>Target</b>	<b>Stretch</b>
<b>Responsibility</b>				
Organizational Health	10%	55	58	61

## Recommendation

Approve proposed goals and targets for the 2011-2013 Long-Term Incentive Plan

Approve an adjustment to the Organizational Health goal and targets for the 2010-2012 Long-Term Incentive Plan

# **Fiscal Year 2011 CEO Compensation**

**Salaries in Excess of Executive  
Schedule Level IV for  
Fiscal Year 2011**

# Medco Contract Extension

## Topic

TVA-sponsored employee and retiree medical plans include prescription-drug benefits

Pharmacy benefits management services are critical to effective management of TVA's medical-plan costs

# Background

Current contract with Medco Health expires December 31, 2010 and allows for extension

Medco continues to meet performance requirements and provide satisfactory service

Renewal proposal includes improved pricing terms, resulting in projections of significant savings over current contract terms

External review of renewal proposal found it to be competitive in pricing and costs



# Recommendation

Approve a three-year extension of the current contract with Medco Health for pharmacy benefits management services



# Finance, Rates, and Portfolio



**Section 13 Tax Equivalent  
Payments for Fiscal Year 2011**

# 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 2010

Approval of the estimated tax equivalent payments to the states and counties for Fiscal Year 2011

# 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

# Illustration

## Historical Tax Equivalent Payment Data (in millions)

State	Final FY 2006	Final FY 2007	Final FY 2008	Final FY 2009	Final FY 2010	Estimated FY 2011
Alabama	\$ 93	\$ 112	\$ 112	\$ 120	\$ 125	\$ 114
Georgia	6	7	7	8	9	8
Illinois	<1	<1	<1	1	1	1
Kentucky	33	38	43	46	49	46
Mississippi	20	24	26	32	35	32
North Carolina	2	2	3	3	3	3
Tennessee	221	263	265	295	327	315
Virginia	<1	<1	<1	<1	1	1
<b>Total</b>	<b>\$ 376</b>	<b>\$ 447</b>	<b>\$ 457</b>	<b>\$ 505</b>	<b>\$ 550</b>	<b>\$ 520</b>

# Recommendation

Approval of the final tax equivalent payment allocations to the states and counties for Fiscal Year 2010

Approval of the estimated tax equivalent payment allocations to the states and counties for Fiscal Year 2011



# **Corporate insurance contract with Marsh**

## Topic

### Current Insurance Broker Contract and Board Delegation of Authority are Expiring

- Current contract with insurance broker expires September 30, 2011
- Current delegation of authority from TVA Board to Treasurer expires December 31, 2010

# Background

TVA carries a variety of insurance policies to mitigate risk, including property, liability, and project-specific

A contract with a broker is necessary to secure and pay for selected insurance policies in the commercial insurance marketplaces

A Request for Proposal was issued on April 12, 2010, to select a broker based on qualifications, experience, and price

Following commercial evaluation, Marsh's proposal was the highest rated based on the Request for Proposal criteria

## Recommendation

Enter into contract with Marsh to provide insurance broker services for TVA for a period of 10 years

Delegation of authority to the CEO to approve all associated contracts and undertake other actions necessary for the implementation of the integrated risk insurance program up to a \$500 million limit

# **Browns Ferry Nuclear Plant Cooling Capacity Project**

## Topic

Browns Ferry cooling towers do not have enough capacity to support 3-unit operation at 100% power

This condition has resulted in operation at reduced power levels for significant time periods during the hot summer months in order to maintain the plant discharge within environmental limits

# Background

Browns Ferry is committed to environmental limits on its cooling water discharge to the Tennessee River

Hot summer months and low river flow conditions challenge the plant's ability to maintain environmental limits

For 2010, operation at reduced power levels resulted in \$50 million higher costs to our customers

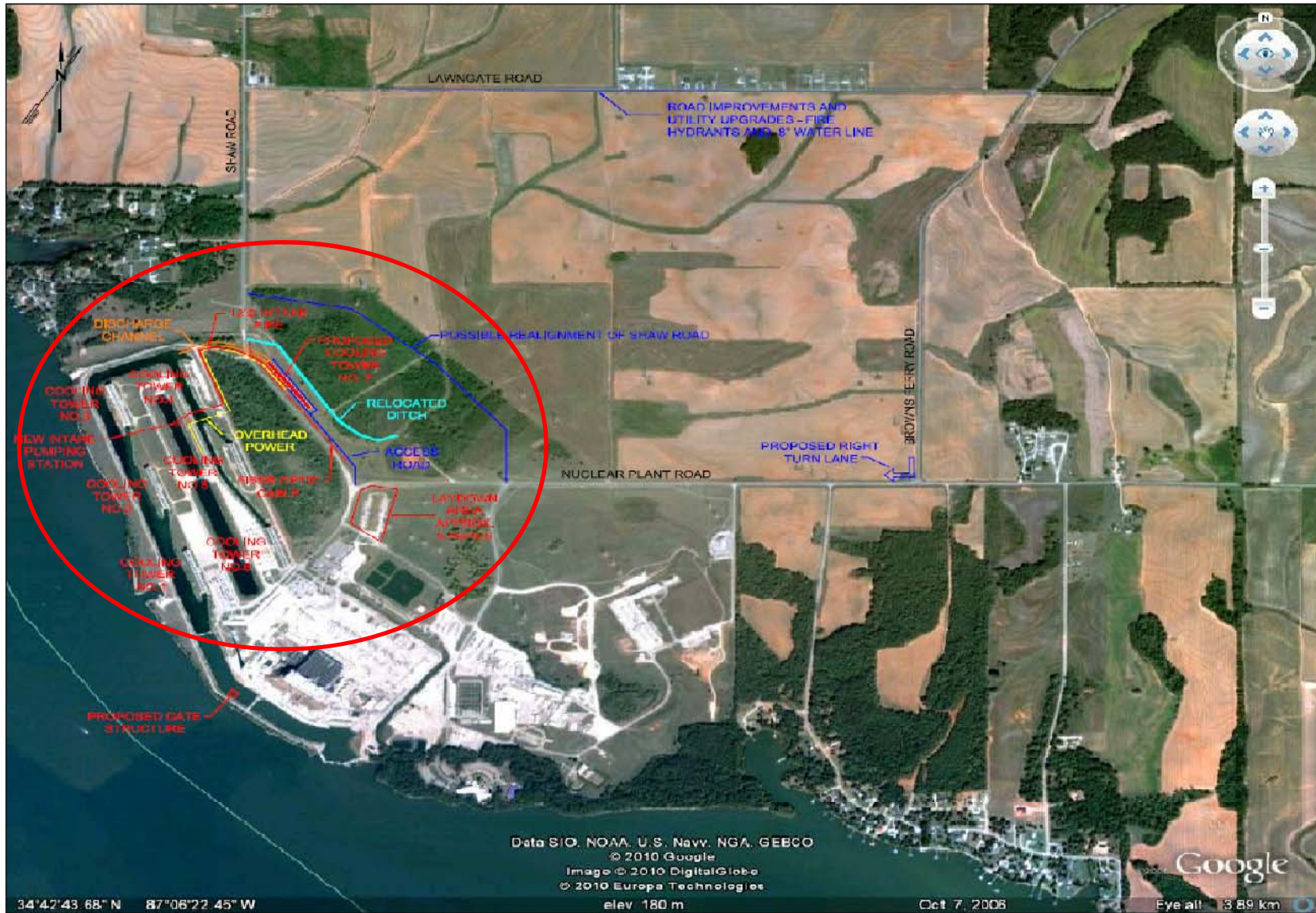
# Recommendation

Increase Browns Ferry Cooling Tower capacity:

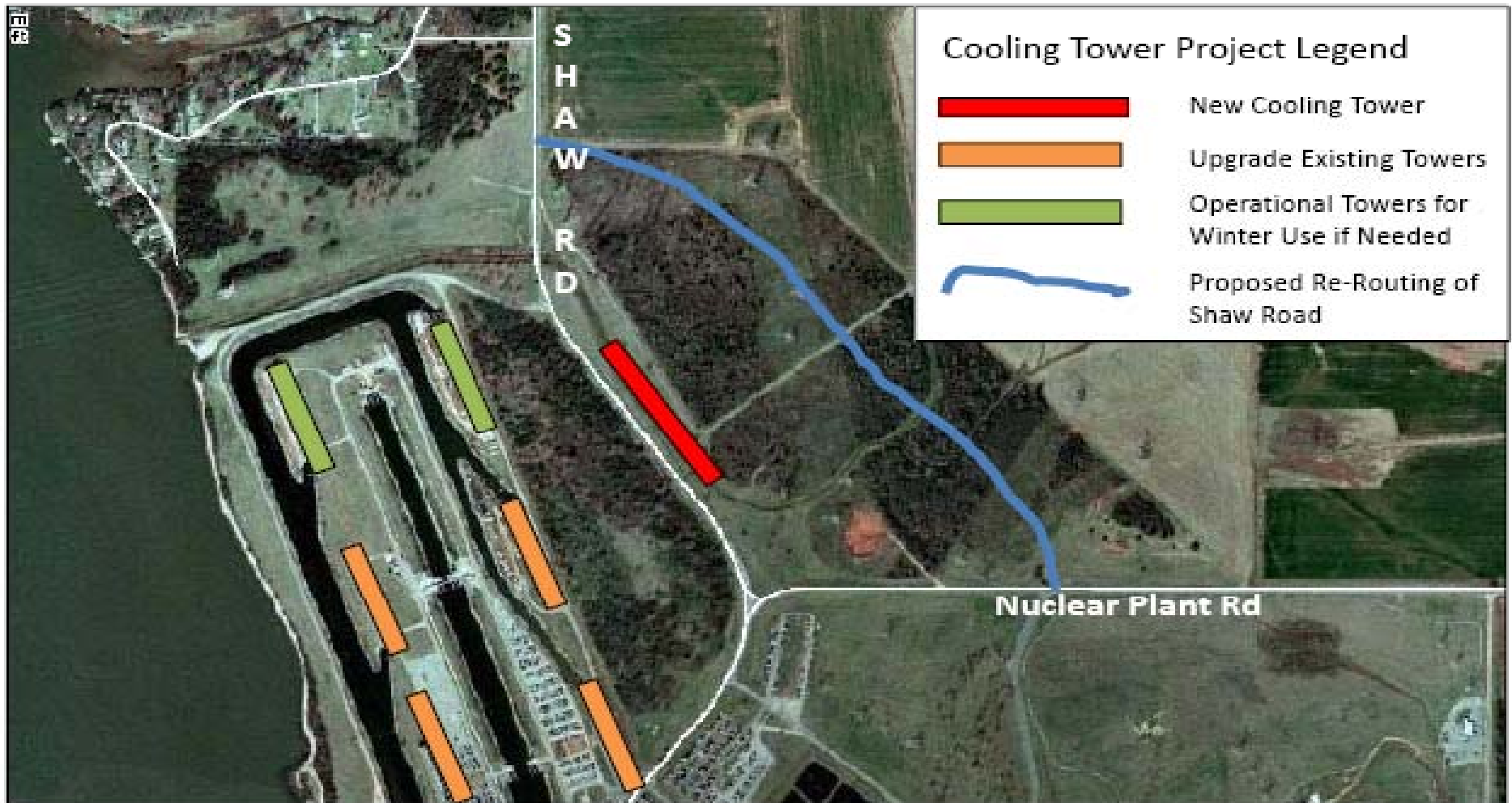
- Construct a new 28-cell cooling tower
- Replace 4 existing towers
- Upgrade the Power Distribution as required
- Total project costs not to exceed \$160M
- Project schedule to complete in Fiscal Year 2013



# Browns Ferry Nuclear Plant



# Browns Ferry Nuclear Plant





# Customer and External Relations



# **Revised Policy on Renewable Energy Standards**

## Topic

A revision to TVA's policy on Renewable Portfolio Compliance for Customers is requested to cover state law renewable energy standard requirements

The existing policy only addresses federal renewable energy standard requirements

# Background

The current renewable energy standard policy does not address state law renewable energy requirements

In September 2009, the TVPPA Board adopted a resolution requesting TVA to share costs of renewable energy requirements among all TVA customers

It is proposed that TVA would treat any costs associated with meeting both federal and state renewable energy requirements as costs incurred on behalf of all distributors and directly served customers

# Recommendation

Approve the revision of TVA's policy on renewable energy standards to address state law renewable requirements



**Transfer of the Monticello-East  
Kentucky 69-KV transmission  
line and associated easements**

# Vicinity Map

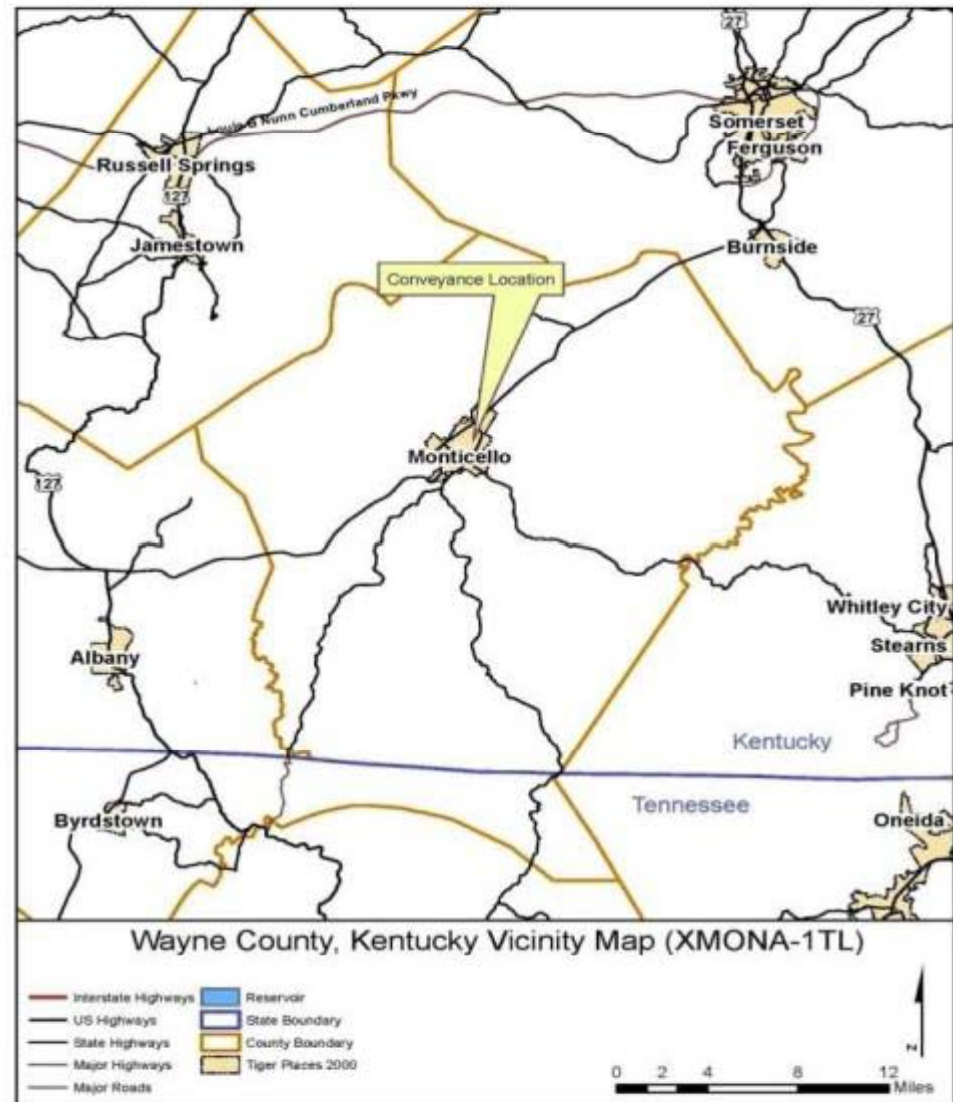
**Location:** Monticello, KY

**Property:** 69-kV  
transmission line

**Easement:** 1.17 miles  
(14.18 acres)

## Legend

- |   |   |
|---|---|
|  Interstate Highways |  Reservoir         |
|  US Highways         |  State Boundary    |
|  State Highways      |  County Boundary   |
|  Major Highways      |  Tiger Places 2000 |
|  Major Roads         |   |



## Recommendation

Board Approval is requested for conveyance of the Monticello-East Kentucky RECC 69-kV Transmission Line and associated easements to South Kentucky Rural Electric Cooperative Corporation

**Adoption of Board Practice:  
Delegation for Land  
Transactions**

# Background

TVA is involved in a significant number of land use transactions and agreements pursuant to authority of the TVA Act and other sources

Opportunity to improve process efficiency, public transparency, and accountability and to reduce administrative costs

Board reserves authority to approve certain actions above a threshold and delegates authority below that to the CEO

# Ensuring Transparency and Accountability

TVA will continue providing third parties an opportunity to express comments on land or landright requests through public notice in accordance with established internal guidelines and processes

Requests for TVA land or landrights will continue to be reviewed from a multi-management perspective, including internal legal, programmatic, and environmental perspectives

Delegations would be included on the periodic report of delegation activities that is provided to the Board

At the discretion of the CEO, approval under a delegation may be deferred to the Board

Land action requests will be handled under TVA Protocol – “Obtaining Things of Value”

# Recommendation

The Board reserves approval authority for real property transactions greater than \$4 million

Approvals below that amount will be delegated to the CEO

Other proposed delegations revise and restate prior delegations to the CEO, along with the addition of:

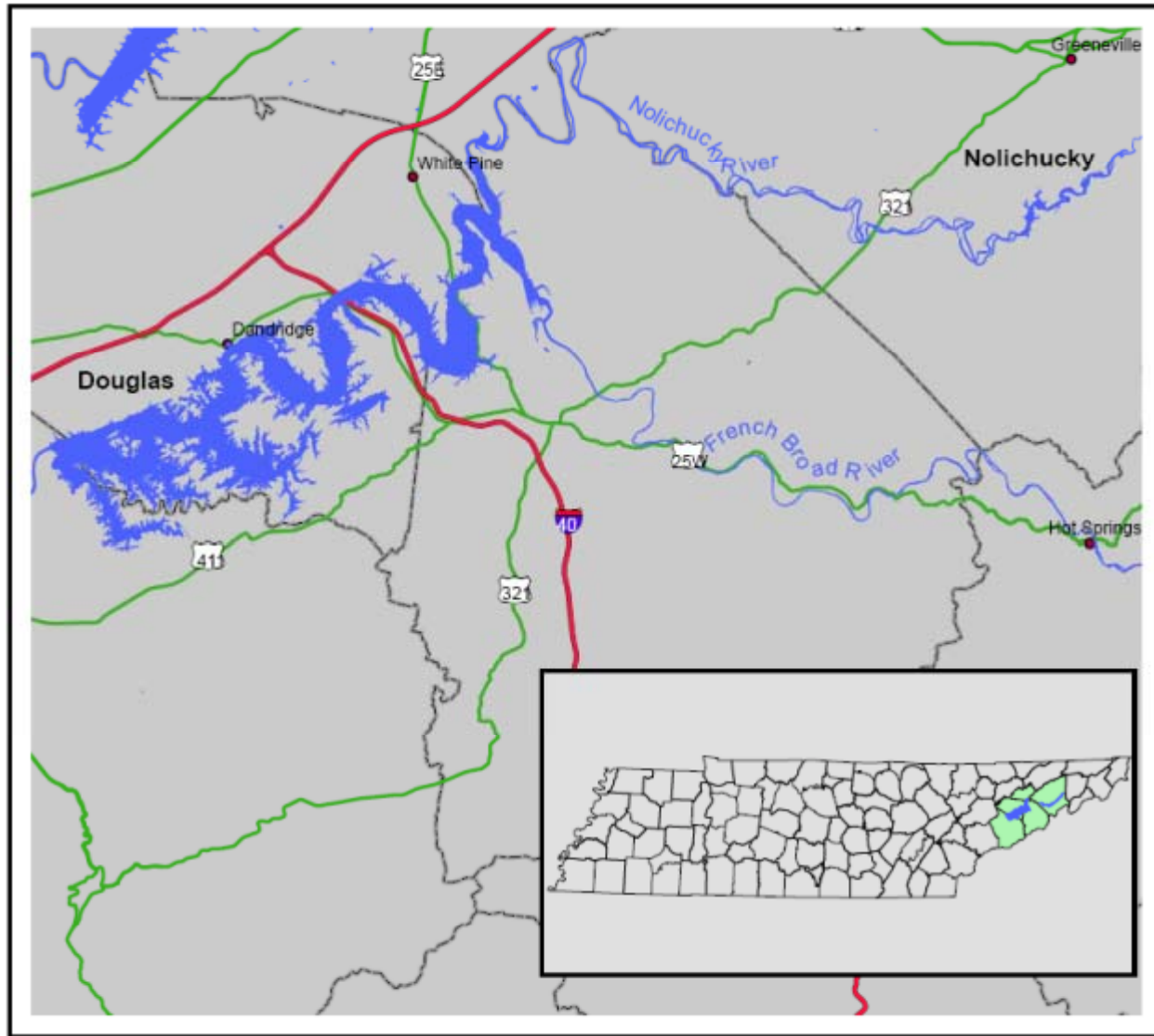
- Leases (easements are already delegated)
- Transmission line conveyances to distributors

Public notice and comment will maintain transparency

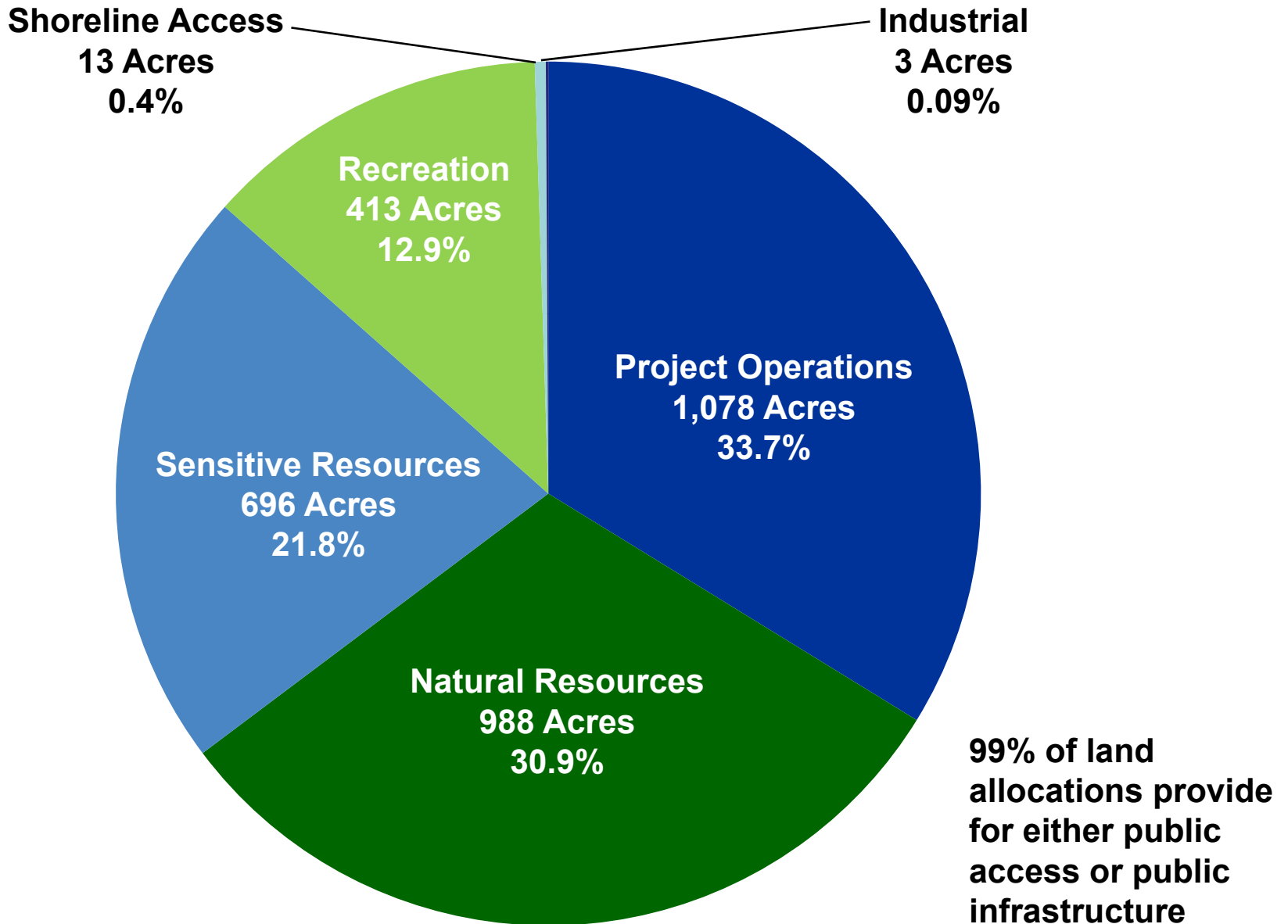
# **Douglas-Nolichucky Land Plan**



# Vicinity Map



# Zone Allocations - Alternative C



## Recommendation

Board approval is requested for the Douglas and Nolichucky Tributary Reservoirs Land Management Plan which implements Alternative C

**Regional Resource  
Stewardship Council  
member approval**

# Background

Regional Resource Stewardship Council (RRSC)  
formed in 2001

Federal Advisory Committee Act

Natural Resource Stewardship Advice

Up to 20 Members

Two-year terms

# Sixth Term RRSC Nominees

## Governor Appointees

- |   |    |  |  |
|---|----|--|--|
| 1 | AL | Pending Governor Nomination; to be later appointed by the CEO            |  |
| 2 | GA | W.C. Nelson, Owner, Nelson Tractor Co., Blairsville                      |  |
| 3 | KY | <b>Phil Hazle, New Concord</b>   |  |
| 4 | MS | Jean Kellems Elmore, Tupelo  |  |
| 5 | NC | Bill Forsyth, Retired - Murphy Power Board & Cherokee County EDG, Murphy |  |
| 6 | TN | Pending Governor Nomination; to be later appointed by the CEO            |  |
| 7 | VA | Pending Governor Nomination; to be later appointed by the CEO            |  |

Term  
#

Alabama - 3
Georgia - 1
Tennessee - 10
Mississippi - 1
Kentucky - 2
Virginia - 1
North Carolina - 2

## Direct Serve & Industry Power Customers

- |    |    |   |   |
|----|----|---|---|
| 8  | TN | Mike Goodman, Temple Inland - Plant Environmental Manager, New Johnsonville | 3 |
| 9  | TN | Karl Dudley, Pickwick Electric Cooperative, Selmer                          | 5 |
| 10 | AL | George Kitchens, Joe Wheeler EMC, Trinity                                   | 3 |
| 11 | TN | <b>Ron Fugatt, GM, Newport Utilities Board, Newport</b>                     | 1 |
| 12 | KY | <b>Mark Iverson, GM, Bowling Green Municipal Utilities, Bowling Green</b>   | 1 |

## Stakeholder Representation

- |    |       |   |   |
|----|-------|---|---|
| 13 | TN    | Mark Hommrich, President, Volunteer Barge & Towing, Nashville             | 2 |
| 14 | TN    | <b>Mitch Jones, President, Tennessee Marina Association, Knoxville</b>    | 1 |
| 15 | AL    | Tom Littlepage, AL Department of Economic & Community Affairs, Montgomery | 4 |
| 16 | NC    | Russell Townsend, Eastern Band of Cherokee Indians, Bryson City           | 3 |
| 17 | TN/KY | <b>Avis Kennedy, Chief Natural Resources, USACE, Nashville</b>            | 1 |
| 18 | TN    | <b>Paul Sloan, Deputy Commissioner, TDEC, Nashville</b>                   | 1 |
| 19 | TN    | Renee Hoyas, Executive Dir., Tennessee Clean Water Network, Knoxville     | 2 |
| 20 | TN    | Deborah Woolley*, President, TN Chamber of Commerce & Industry, Nashville | 2 |

\*Chairperson

**Proposed new members**

# Recommendation

Board Approval is requested for:

- The sixth term RRSC nominees
- Designation of Deborah K. Woolley to serve as the chairperson
- The CEO to accept the nominations later received from the remaining Governors
- The CEO to fill any vacancies in RRSC membership that may arise during the course of the sixth term

## Recommendation

Board Approval is requested for a resolution to honor and recognize Tom Littlepage for his service to TVA and to express gratitude for his dedication and effort as Chairperson of TVA's Regional Resource Stewardship Council to help TVA accomplish its resource stewardship mission for the benefit of the people of the Tennessee Valley and the United States