



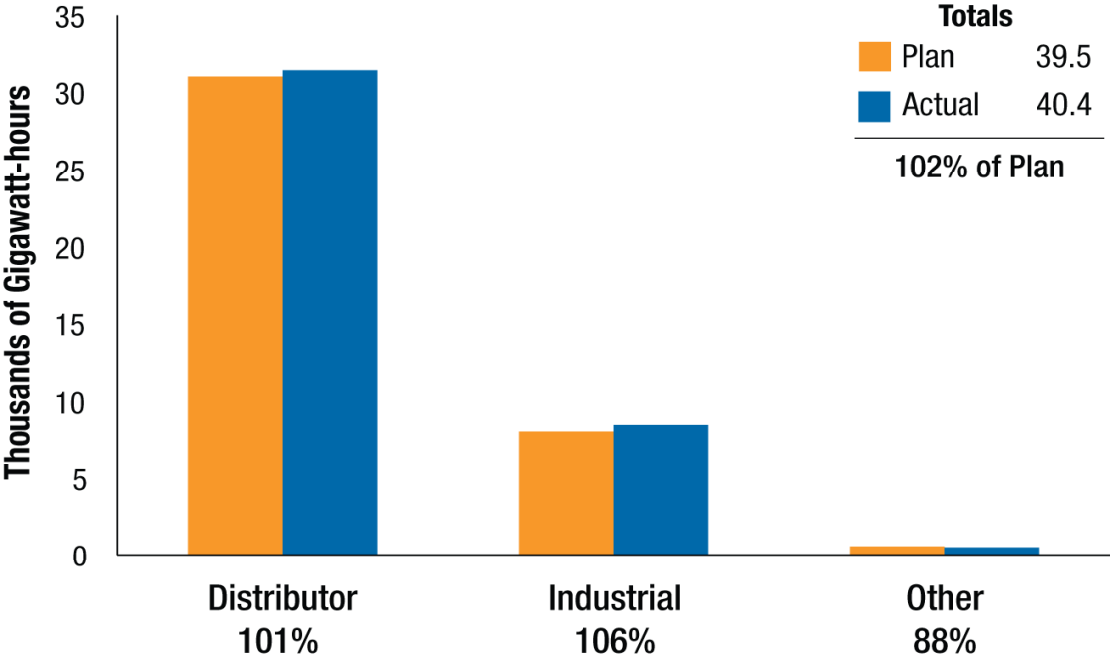
## **PRESIDENT'S REPORT**



# Operations and Financials

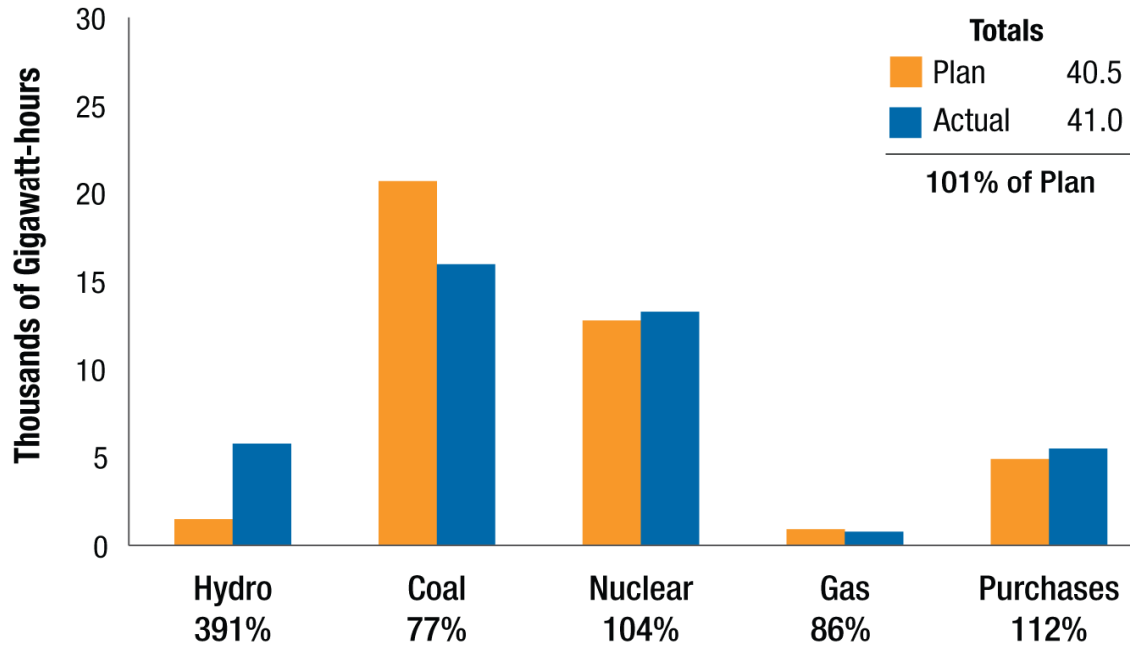
## Power Sales

Fiscal Year 2010 – First Quarter Results



# Energy Supply

## Fiscal Year 2010 – First Quarter Results

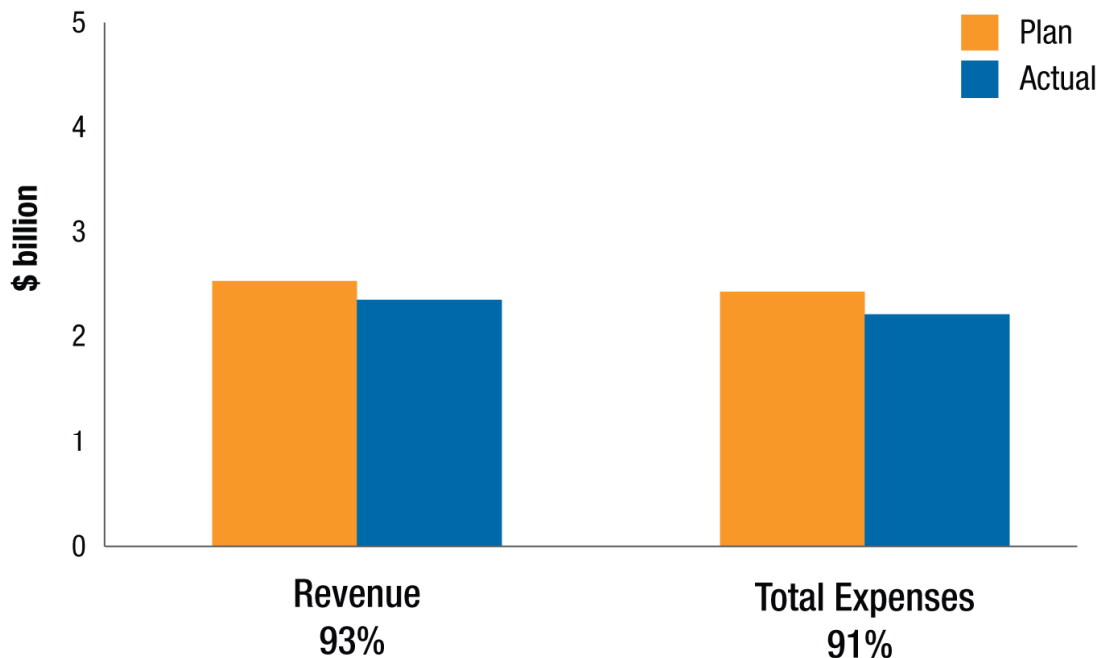


2/9/10

5

# Financials

## Fiscal Year 2010 – First Quarter Results

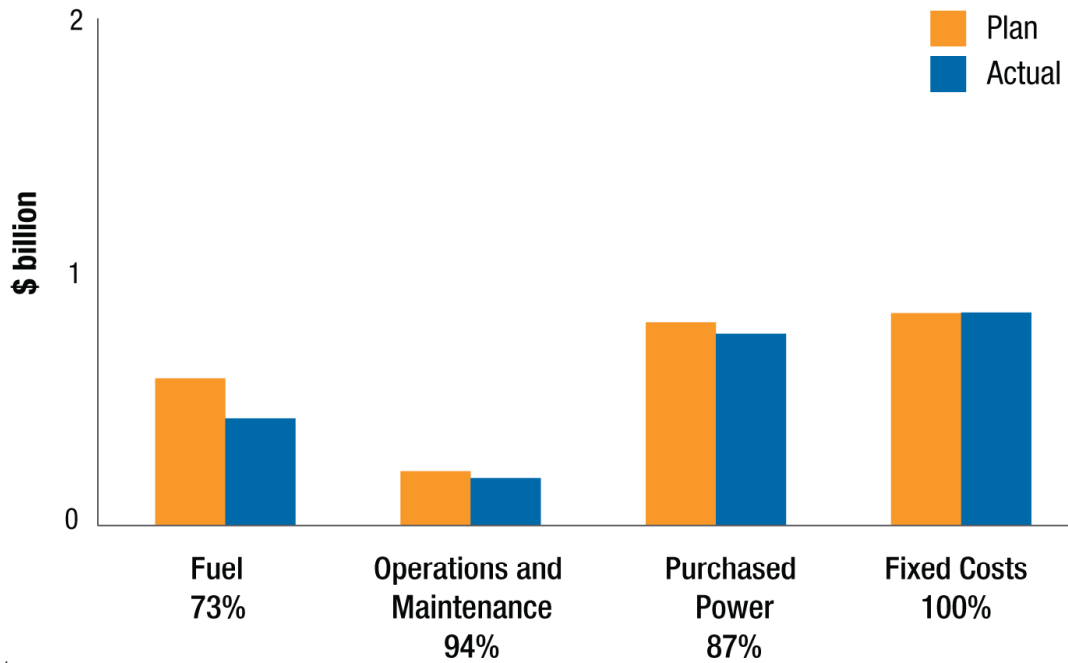


2/9/10

6

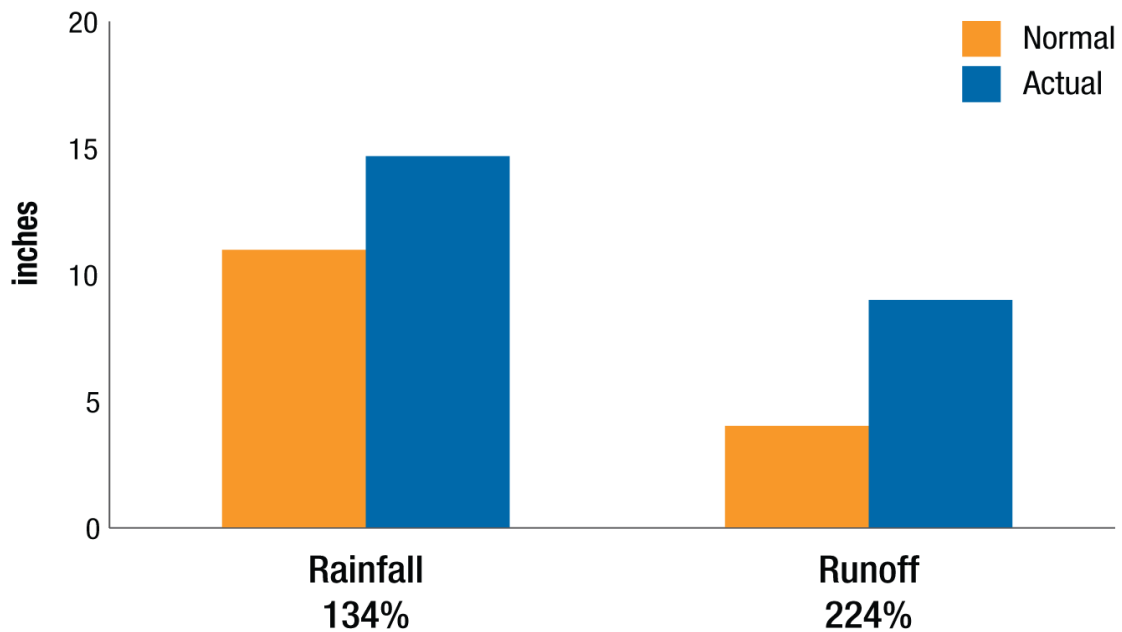
# Financials

## Fiscal Year 2010 – First Quarter Results



# Rainfall and Runoff

## (Eastern Valley) Fiscal Year 2010 – First Quarter Results

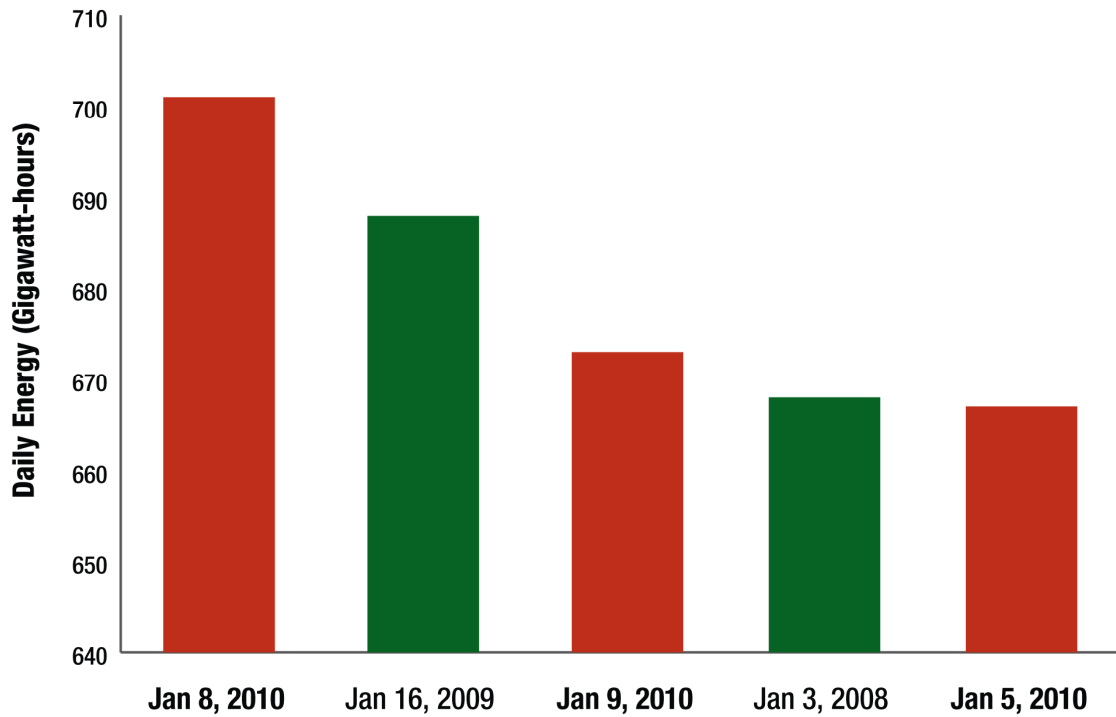


# Highlights

## Highlights

**Record energy days occurred during cold January**

## Record Energy Days



2/9/10

11

## Highlights

Record energy days occurred during cold January

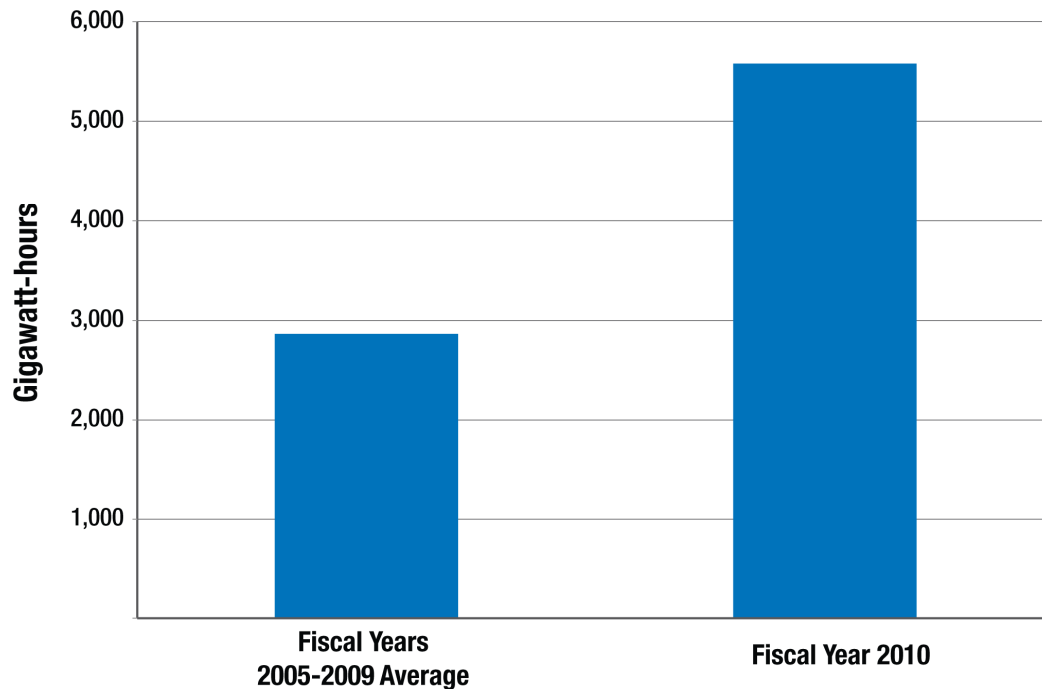
**Hydro generation has been above normal**

2/9/10

12

## Improved Hydro Generation

October - December



2/9/10

13

## Highlights

Record energy days occurred during cold January

Hydro generation has been above normal

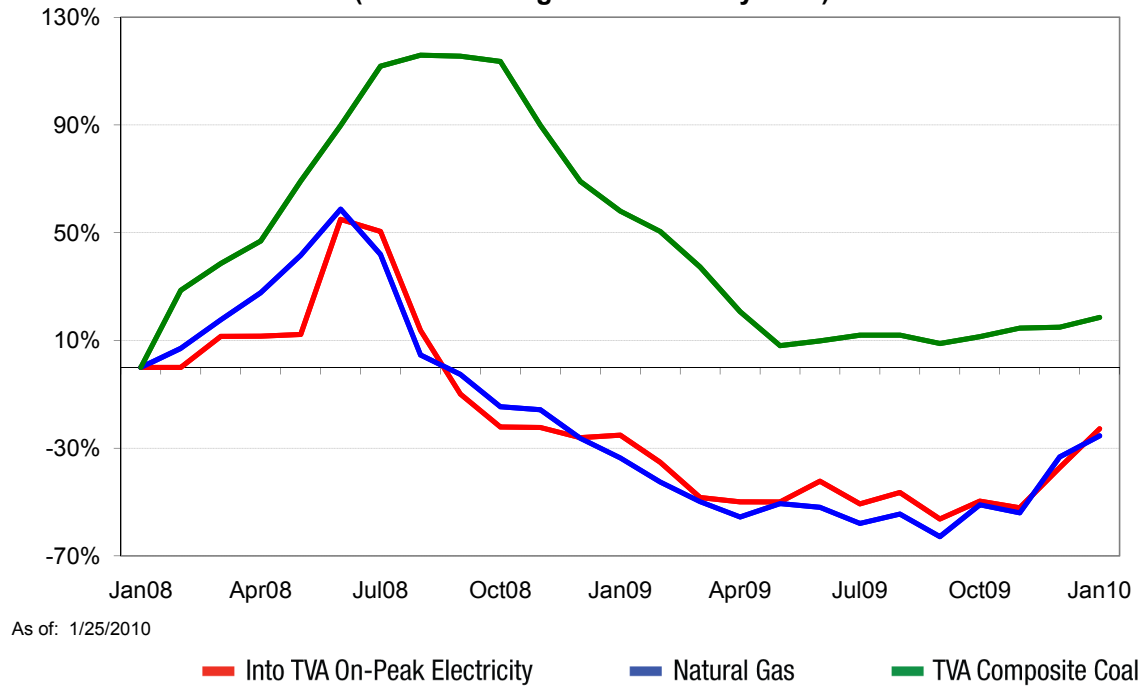
**Fuel prices remain relatively low, although trending upward**

2/9/10

14

# Fuel and Purchased Power Spot Prices

**Spot Price History**  
(Percent Change since January 2008)



15

## Highlights

Record energy days occurred during cold January

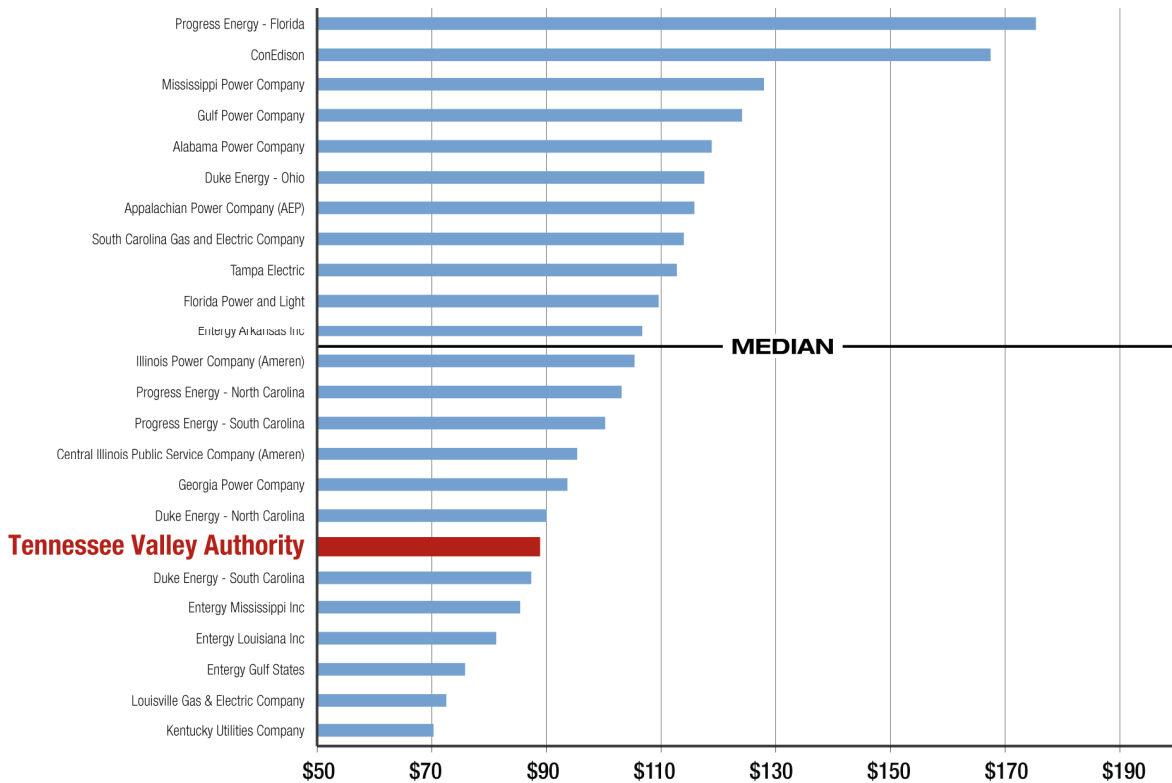
Hydro generation has been above normal

Fuel prices remain relatively low, although trending upward

**Residential rates compare well versus neighboring utilities**



### December 2009 — 1,000 kWh per Month Residential Service



17

## Highlights

Record energy days occurred during cold January

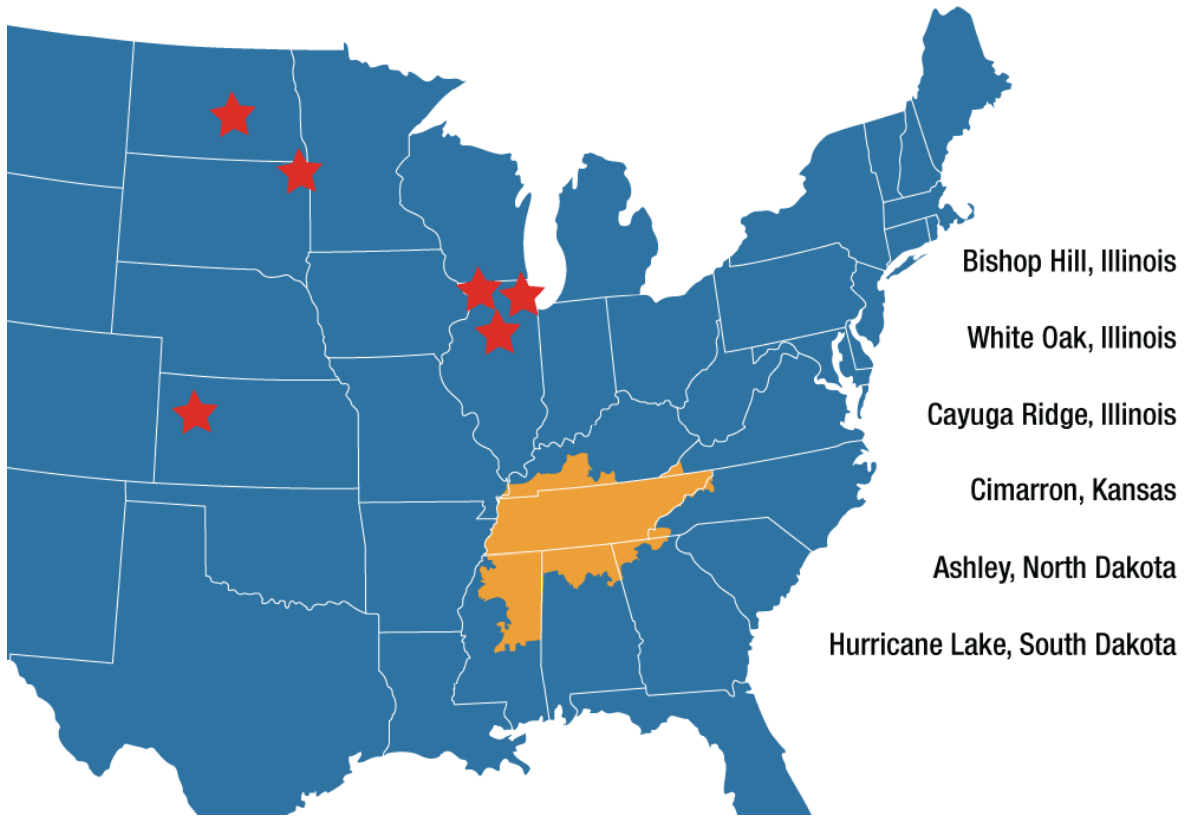
Hydro generation has been above normal

Fuel prices remain relatively low, although trending upward

Residential rates compare well versus neighboring utilities

**Additional wind power was contracted**

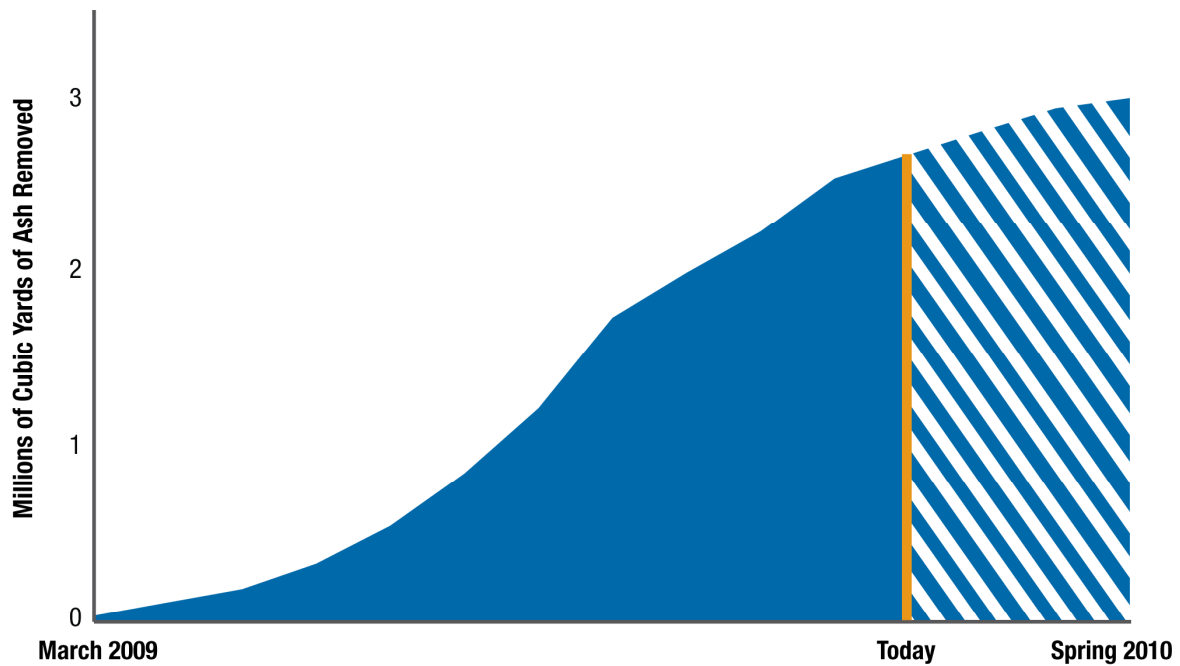
## Total Capacity Under Contract: 1,265 megawatts



## Highlights

**Kingston cleanup continues to progress**

# Time-Critical Ash Removal



2/9/10

21

## Highlights

Kingston cleanup continues to progress

**Electric vehicles are coming**

2/9/10

22



23

## Highlights

Kingston cleanup continues to progress

Electric vehicles are coming

**Bellefonte received a favorable change in status by NRC**

## Highlights

Kingston cleanup continues to progress

Electric vehicles are coming

Bellefonte received a favorable change in status by NRC

**Aaa bond rating reconfirmed**

# Hard Spots

## Hard Spots

**Uncertainty in legislative and regulatory outlook**

## Hard Spots

Uncertainty in legislative and regulatory outlook

**Long term financial planning**

## Hard Spots

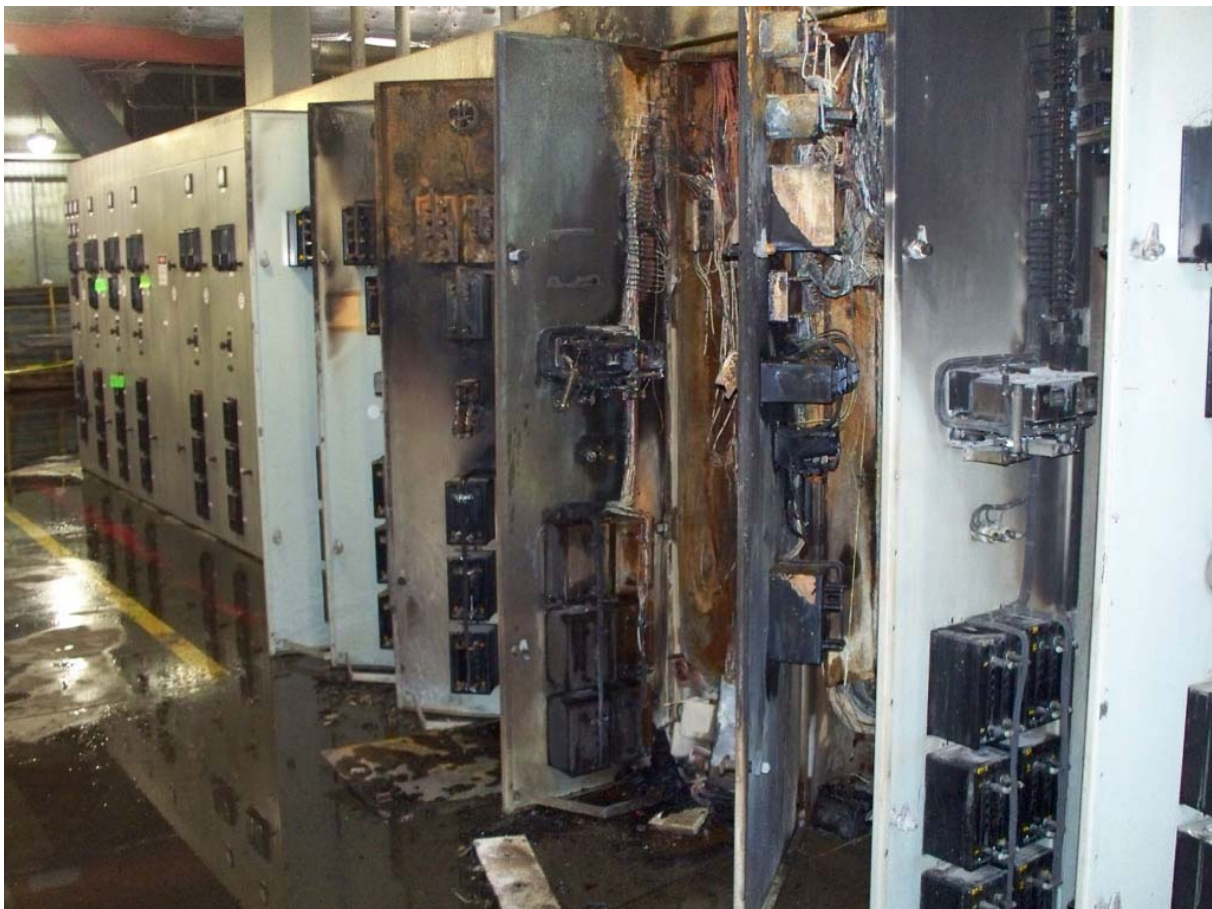
Uncertainty in legislative and regulatory outlook

Long term financial planning

### **Breaker failure at John Sevier Fossil Plant**

2/9/10

29



## Hard Spots

Uncertainty in legislative and regulatory outlook

Long term financial planning

Breaker failure at John Sevier Fossil Plant

**Deliverability of new wind generation**

## Conclusion

Power Sales were higher than budget

Expenses were lower than budget

Hydro generation was better than plan

Long term planning is difficult





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



# **Winning Performance/ Long-Term Incentive Compensation for Fiscal Year 2010**

## **Topic**

Annual and Long-Term Incentive programs form the basis for evaluating and rewarding employees for TVA's FY 2010 performance

## **For Board Consideration**

Approve proposed design changes for incentive programs, as well as Winning Performance and Long-Term Incentive Plan measures and targets for FY 2010

## Background

Winning Performance provides incentives to TVA employees for Fiscal Year 2010 goals

Employees are rewarded for meeting both corporate and organization specific goals

Annual incentives for executives are aligned with employees and include specific individual performance goals

TVA executives are rewarded for meeting three-year performance goals

Design changes are being proposed for both incentive programs

2/9/10

37

## Guiding Principles

Performance-based focus

Market competitive program design

Differentiate pay based on performance

Aligned with TVA Mission and Values

Influences behaviors to drive performance

Timely reflection of performance in pay

Simple to communicate

Supports competitive talent management program

2/9/10

38

## TVA's Performance Focus

### Rates

Live within our means and deliver upon financial commitments

Keep rates as low as feasible

### Reliability

Improve plant reliability and efficiency

Maintain transmission system reliability

2/9/10

39

## TVA's Performance Focus

### Responsibility to

#### **Environment**

Demonstrate proactive environmental leadership

#### **Employees**

Cultivate a safe and organizationally healthy workplace environment

#### **Stakeholders**

Behave in a manner that enhances TVA's reputation and contributes to economic development in the Valley

2/9/10

40

## Proposed Design Changes

Simplify the Winning Performance and Long-Term Incentive plans to strengthen alignment with TVA's performance focus

Ensure that TVA's incentive programs are competitive with programs of our peer utilities

2/9/10

41

## Proposed Design Changes

Encourage winning behaviors:

- Increased collaboration
- Better decision-making
- Increased focus on cross functional performance

Improve key areas of the plans:

- Strengthen communications
- More timely goal-setting and award payouts
- Stronger performance management process

2/9/10

42

# Winning Performance

## Proposed Changes

	FY09	FY10
Corporate / SBU Weighting	30% / 70%	50% / 50%
Payout Range	75% / 100% / 125%	50% / 100% / 150%
Number of Measures	8-10	6
Corporate Modifier	None	-20% / +10%

2/9/10

43

## Proposed Incentive Measures

	Annual	Long-Term
Rates	Net Cash Flow (TVA) O&M + Capital Spending (SBU)	Retail Rates (Relative)
Reliability	Plant Reliability (TVA) Plant / System Reliability (SBU)	System Reliability (Relative)
Responsibility	Safety (SBU) Reportable Environmental Events (SBU)	Cultural Health Index Stakeholder Survey Environmental

2/9/10

44

# Annual Incentive Plans

## Proposed Corporate Measures

	Weight	Threshold	Target	Stretch
<b>Equivalent Availability Factor</b>	50%	84.7%	86.5%	88.5%
<b>Net Cash Flow (\$ Millions)</b>	50%	\$150M less than Budget	Budget	\$150M more than Budget

2/9/10

45

## Executive Annual Incentive Plan

Funding pool for participants based on:

- Alignment with Winning Performance program
- Corporate measures
- Corporate modifier

Individual awards determined by:

- Achievement of specific performance goals
- Individual performance ratings
- Business Unit performance

Total of awards will not exceed total funding pool

2/9/10

46

## Long-Term Incentive Plan

Three new measures are recommended for the three-year cycle ending in FY 2012

- Load Not Served
- Cultural Health Index
- Stakeholder Survey

Two measures should be removed from the plan

- Connection Point Interruptions
- Non-Fuel O&M

2/9/10

47

## Long-Term Incentive Plan

### Proposed Measures

	Weight	Threshold	Target	Stretch
<b>Retail Rates</b>				
Relative Position	50%	12 <sup>th</sup>	8 <sup>th</sup>	6 <sup>th</sup>
<b>System Reliability</b>				
Load Not Served	30%	7.8	5.9	3.8
<b>Responsibility</b>				
Cultural Health Index	10%	66.8	68.3	69.8
Stakeholder Survey	10%	78.0	80.0	82.0

2/9/10

48



## **Recommendation**

Approve the proposed design changes to the annual and long-term incentive compensation plans

Approve the proposed Winning Performance and Long-Term Incentive Plan measures and goals

# **Executive Compensation**

# **Seven States Power Corporation — Extension of Interim Joint-ownership Arrangements for Southaven Power Plant**

## **Topic**

Existing joint-ownership arrangements between Seven States Power Corporation and TVA will terminate on April 30, 2010

### **For Board Consideration**

Approve an extension of the joint-ownership arrangements between TVA and Seven States Power Corporation for the Southaven Power Plant

## Background

Interim Joint Ownership Agreement signed April 30, 2008, allows:

- Seven States to lease portion of Southaven to TVA
- TVA to have full operational control and use
- Long-term agreements to be developed
- TVA to automatically buy back full ownership without long-term agreement

## Current Status

TVA and Seven States are continuing discussions

Additional time is necessary to finalize a long-term contractual agreement

## Recommendation

Approve an extension of the interim arrangements for an additional period up to three years between TVA and Seven States Power Corporation for the Southaven Power Plant



2/9/10

55

**OPERATIONS,  
ENVIRONMENT,  
AND SAFETY**



# **TVA Transmission Standards of Conduct**

## **Topic**

TVA's Transmission Standards of Conduct should be updated to correspond with standards followed throughout the electric utility industry

## **For Board Consideration**

Approve the 2010 edition of TVA's Standards of Conduct

## Background

### FERC Order 889:

- Separates utilities' transmission operations from their marketing functions
- Establishes an electronic communication system
- Establishes strict Standards of Conduct
- TVA voluntarily complies

## Current Standards of Conduct

TVA adopted current standards in 2005

All marketing employees—regardless of their duties—are prohibited access to nonpublic transmission information

As a result, generation planners sometimes do not receive the information they need

## **New Standards of Conduct**

FERC revised the requirements for standards

Access to nonpublic transmission information is based on job duties, not organizational affiliation

Generation planners will have better access to needed information

Proposed 2010 edition of TVA's Standards of Conduct incorporates these changes and is consistent with TVA's statutory responsibilities

## **Recommendation**

Adopt 2010 edition of TVA's Standards of Conduct

**AUDIT, GOVERNANCE,  
AND ETHICS**



**COMMUNITY RELATIONS  
AND ENERGY EFFICIENCY**

