

No. 12-02

Approved by the Board of Directors  
at its August 16, 2012, meeting:

Original Signed by Ralph E. Rodgers  
Executive Vice President, General  
Counsel and Secretary

MINUTES OF MEETING  
OF  
THE BOARD OF DIRECTORS  
TENNESSEE VALLEY AUTHORITY  
APRIL 26, 2012

A meeting of the Board of Directors of the Tennessee Valley Authority was held in the Grand Ballroom of General Morgan Inn, 111 North Main Street, Greeneville, Tennessee, on April 26, 2012. The meeting was called to order at 10:08 a.m. (EDT) after an approximately fifteen-minute break following the listening session which began at 8:30 a.m. (EDT). The meeting was announced to the public on April 19, 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; William (Bill) McCollum, Chief Operating 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; Robin E. (Rob) Manning, Executive Vice President and Chief Energy Delivery Officer; Michael D. (Mike) Skaggs, Senior Vice President, Nuclear Construction; Sylvan R. (Russ) Steward, Vice President, Supply Chain; and Bruce S. Schofield, Vice President, Property and Natural Resources.

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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**12-02-1. Welcome**

Chairman Sansom welcomed all in attendance and thanked Greeneville Light & Power System for hosting an early breakfast. The Chairman then presented a plaque to Bill Carroll, General Manager of Greeneville Light & Power System, in recognition of his work as Chairman

of the American Public Power Association, and recognized Jack Simmons, President of the Tennessee Valley Public Power Association, and both John Van Mol and Pete Mattheis of the Tennessee Valley Industrial Committee. The Chairman then congratulated several TVA power distributors for awards they had received from the American Public Power Association, including Bolivar Energy Authority, Bowling Green Municipal Utilities, Cleveland Utilities, Morristown Utility Systems, Ripley Power & Light Company, Rockwood Electric Utility, Nashville Electric Service, and Jackson Energy Authority. The Chairman also congratulated Greeneville Light & Power System for being the first TVA power distributor to install time-of-use metering.

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### **Old Business**

The Board approved the minutes of the meeting held February 16, 2012.

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### **New Business**

#### **12-02-2.                   President's Report**

Tom Kilgore, President and Chief Executive Officer, reported that, in terms of responsibility, TVA had participated in clean-up efforts along lake shorelines, and that TVA's economic development efforts in the Valley are moving along in spite of the great recession.

Mr. Kilgore also reported that TVA is continuing to work on energy efficiency, and in that regard stated demand reduction is going well, and TVA is working in cooperation with the Tennessee Valley Public Power Association to promote demand reduction system-wide.

Mr. Kilgore then stated reliability has been maintained, and next requested and received a report from Rob Manning, Executive Vice President and Chief Energy Delivery Officer, regarding the TVA transmission system. Following Mr. Manning's report, Mr. Kilgore discussed TVA's efforts to achieve low rates, and stated TVA's rates currently rank 47th out of 100 with respect to both direct served and distributor customers. Mr. Kilgore stated TVA is enriching its Valley Investment Initiative program by increasing incentives and the value of high load factors in order to lower effective rates. In addition, TVA is concentrating on the recently launched "diet and exercise" initiative aimed at eliminating unnecessary expenses, postponing costs, changing behaviors to promote efficiency, and re-evaluating the need for and timing of expansion projects in light of economic factors and current trends in electricity demand.

With regard to TVA's vision to produce more nuclear power, Mr. Kilgore explained that the actual intent is for TVA to have a balanced generation portfolio with more equal amounts of gas, coal, and nuclear, with hydro/renewables/energy efficiency rounding out the mix. After discussing the existing portfolio, a portfolio based on the Integrated Resource Plan, and a projected portfolio based on current trends, Mr. Kilgore provided a detailed breakdown of the dispatch costs associated with various generation resources. Mr. Kilgore next discussed the current status of and improvements in TVA's nuclear fleet, including a brief overview of Watts Bar Unit 2 costs, construction schedule, and anticipated dispatch costs. Mr. Kilgore then requested and received a report from Kim Greene, Executive Vice President and Chief

Generation Officer, on construction of the John Sevier Combined Cycle facility, which is projected to be completed early and under budget. In closing, Mr. Kilgore remarked on TVA's attempts to manage the human resource implications of current economic pressures on TVA, then recognized Kim Greene for her recent appointment as the Vice Chairman of the Electric Power Research Institute, and John Bradley, whose economic development work resulted in his recognition by Southern Business and Development magazine as one of the top ten people who made a difference in the south.

Copies of the slides used in Mr. Kilgore's report, Mr. Manning's report, and Ms. Greene's report are filed with the records of the Board as Exhibit 4/26/12A, Exhibit 4/26/12B, and Exhibit 4/26/12C, respectively.

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### **12-02-3. Financial Report**

John Thomas, Executive Vice President and Chief Financial Officer, gave a financial report for the first half of Fiscal Year 2012, stating he anticipates the figures presented would be adjusted prior to the filing of TVA's 10-Q report. In his report, Mr. Thomas addressed sales and revenue, including the impact weather has had on sales, as well as costs and cash flow. Mr. Thomas concluded his report by giving a look ahead for the remainder of FY 2012. Copies of the slides used by Mr. Thomas in his report are filed with the records of the Board as Exhibit 4/26/12D.

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Before moving to committee reports, Chairman Sansom addressed the audience with regard to the Board's decision making process, including the work done by Board committees, and stated that the Board's decisions involve a lot of work, thought and discussion. During this address Chairman Sansom pointed out that the Board has to be careful the lights are on, and if the Board errs, it must err on the "top" side of more, rather than less, generation. Chairman Sansom emphasized that the Board pays attention to the input it receives from the public.

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**12-02-4. Report of the Finance, Rates, and Portfolio Committee**

Director Haskew, on behalf of the Finance, Rates, and Portfolio Committee, reported that the Committee had received updates on the quarterly financial performance of TVA, as well as information on TVA's generation portfolio and how TVA has been able to take advantage of recent low natural gas prices. Director Haskew stated the Committee also reviewed a number of items to be recommended to the full Board at the instant meeting, then requested and received reports from: Russ Steward, Vice President, Supply Chain, regarding Minute Item No. 12-02-5; John Thomas, Executive Vice President and Chief Financial Officer, regarding Minute Item No. 12-02-6; Rob Manning, Executive Vice President and Chief Energy Delivery Officer, regarding Minute Item No. 12-02-7; and, Bill McCollum, Chief Operating Officer, regarding Minute Item No. 12-02-8.

Copies of the slides used in the reports of Mr. Steward, Mr. Thomas, and Mr. McCollum are filed with the records of the Board as Exhibit 4/26/12E, Exhibit 4/26/12F, and Exhibit 4/26/12G, respectively.

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**12-02-5. Contract with Holtec, Inc., for Dry Cask Storage of Spent Nuclear Fuel**

The Board adopted the following resolution as recommended in a memorandum from the Executive Vice President and Chief Nuclear Officer, dated April 3, 2012, and filed with the records of the Board as Exhibit 4-26-12H:

WHEREAS there is no licensed, permanent repository in the United States for spent nuclear fuel generated from TVA's ongoing nuclear power plant operations; and

WHEREAS the U.S. Department of Energy has not met its contractual obligations made pursuant to the Nuclear Waste Policy Act of 1982 to begin taking title to and storing spent nuclear fuel from operating and planned nuclear plants; and

WHEREAS TVA must implement its own long-term spent nuclear fuel storage solution in order to continue licensed operation of its nuclear power plants at Browns Ferry (BFN), Sequoyah (SQN), and Watts Bar (WBN); and

WHEREAS the Nuclear Regulatory Commission has stated its conclusion that dry cask storage in an Independent Spent Fuel Storage Installation (ISFSI) provides adequate protection of the public health and safety and the environment and that spent nuclear fuel can be stored safely in an ISFSI for at least 60 years beyond a nuclear plant's licensed life; and

WHEREAS a memorandum from the Chief Nuclear Officer dated April 3, 2012, a copy of which is filed with the records of the Board as Exhibit 4/26/12H (Memorandum), recommends that the Board approve a contract with Holtec International, Inc. ("Holtec") for \$298 million over a ten-year period, with an option to extend the term for an additional five years, to ensure availability of licensed storage facilities for TVA nuclear plants' spent fuel, to design and construct an ISFSI at WBN, an optional work scope for a BFN ISFSI pad extension and spent fuel storage containers with overpacks (for all TVA nuclear sites), and to provide ancillary services such as

pool-to-pad loading, required engineering analyses, and licensing support for TVA's nuclear power plants (the "Spent Fuel Storage Project"); and

WHEREAS awarding the contract would provide the best technical and risk solution, and minimize cost impacts and volatility for TVA, while ensuring availability of the materials and services essential to secure long-term storage availability for TVA's spent nuclear fuel;

BE IT RESOLVED, That the Board of Directors hereby authorizes the award of a contract to Holtec for the Spent Fuel Storage Project, with a contract ceiling of \$298 million and for a ten-year term (with an option to extend the term for an additional five years) subject to negotiations;

RESOLVED further, That TVA should seek to maximize the U.S. Department of Energy's reimbursement of Spent Fuel Storage Project costs, based on the settlement agreement in effect between the agencies.

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#### **12-02-6. Optional Wholesale Rates**

The Board adopted the following resolution as recommended in a memorandum from the Executive Vice President and Chief Financial Officer, dated April 3, 2012, and filed with the records of the Board as Exhibit 4/26/12I:

WHEREAS under the Rate Change approved by the TVA Board in August 2010 and implemented in April 2011, TVA currently sells wholesale power to distributors under two different rate schedules, a default Nearly Flat Time-of-Use (TOU) wholesale schedule and an optional Nearly Flat Seasonal Demand and Energy (DE) wholesale schedule; and

WHEREAS the distributor option for an alternative DE schedule in lieu of the default TOU schedule is due to expire in September 2012, subject to TVA's commitment to distributors to explore with them alternatives to consider implementing beyond September; and

WHEREAS there has been presented to the Board a memorandum from the Chief Financial Officer dated April 3, 2012 (Memorandum), describing and recommending approval of two proposed optional alternative wholesale rate schedules that have been developed through discussions with distributor customers, true copies of said Memorandum and attachments being filed with the Board's records as Exhibit 4/26/12I;



BE IT RESOLVED, That the Board, having examined the proposed optional wholesale rate schedules, finds such schedules satisfactory and approves making them available beginning with bills rendered from wholesale meter readings scheduled to be taken on and after October 2, 2012;

RESOLVED further, That the Board hereby authorizes the execution of amendatory agreements for the purpose of placing in effect the optional wholesale rates and, where applicable, changed resale rate schedules as described in the Memorandum;

RESOLVED further, That the Board hereby directs that any such agreements shall expressly provide for the selected optional wholesale rates to be subject to adjustment and change as provided for in the Schedule of Terms and Conditions to each distributor's wholesale Power Contract, shall provide for the distributor and TVA to be able to terminate the applicability of the selected optional rate as described in the Memorandum, and shall be in a form acceptable to the Office of the General Counsel.

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**12-02-7. Contract Amendments with Two Directly Served Customers**

The Board adopted the following resolutions as recommended, respectively, in memoranda (i) from the Executive Vice President and Chief Financial Officer, dated April 2, 2012, and filed with the records of the Board as Exhibit 4/26/12J, and (ii) from the Executive Vice President and Chief Financial Officer, dated April 10, 2012, and filed with the records of the Board as Exhibit 4/26/12K:

WHEREAS a confidential memorandum from the Chief Financial Officer dated April 2, 2012 (Confidential Memorandum), a copy of which is filed with the records of the Board as Exhibit 4/26/12J, recommends that the Board approve a continuation of confidential facilities arrangements between TVA and a directly served industrial customer;

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 continuation of the facilities arrangements as described in the Confidential Memorandum, and hereby approves such arrangements.

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WHEREAS TVA is currently supplying electric energy to a directly served customer under a contract that is currently due to expire on September 30, 2012; and

WHEREAS TVA and the directly served customer are discussing arrangements for extending the contract to facilitate a major project that would be expected to keep the customer's operations running for an additional year; and

WHEREAS the power supply arrangements needed for that project require a power amount modification to the authorization that the Board previously approved for extension of the customer's contract; and

WHEREAS a confidential memorandum from the Chief Financial Officer, dated April 10, 2012 (Confidential Memorandum), a copy of which is filed with the records of the Board as Exhibit 4/26/12K, recommends that the Board approve the modified power contract extension authority described in the Confidential Memorandum;

BE IT RESOLVED, That after review of said Confidential Memorandum, the Board of Directors finds it to be appropriate and in the interest of TVA, and authorizes the Chief Executive Officer to approve extension of the power contract as described in the Confidential Memorandum.

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**12-02-8.                    Contract with Energy Northwest for Uranium and Uranium  
Enrichment Services**

The Board adopted the following resolution as recommended in a memorandum from the Executive Vice President and Chief Nuclear Officer, dated April 17, 2012, and filed with the records of the Board as Exhibit 4/26/12L:

WHEREAS TVA requires natural uranium feed and enrichment services for its nuclear power plants; and

WHEREAS a confidential memorandum from the Chief Nuclear Officer dated April 17, 2012 (Confidential Memorandum), which is filed with the records of the Board as Exhibit 4/26/12L, recommends that the Board authorize entry into a contract with Energy Northwest for the purchase of natural uranium feed and enrichment services from approximately 2015 through 2025 for a total spend not to exceed \$888 million;

BE IT RESOLVED, That subject to any needed final negotiations, the Board authorizes the award of a contract to Energy Northwest for the purchase of natural uranium feed and enrichment services as recommended in the Confidential Memorandum.

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**12-02-9.                    Joint Report of the Finance, Rates, and Portfolio Committee and the Nuclear Oversight Committee**

Director Haskew, on behalf of the Finance, Rates, and Portfolio Committee, and Director Brown, on behalf of the Nuclear Oversight Committee, reported that the Finance, Rates, and Portfolio Committee had worked with the Nuclear Oversight Committee to review a new proposed construction schedule and cost estimate to complete work at Watts Bar Unit 2. Director Brown stated that all members of the Board had received extensive information and briefings, and that the Nuclear Oversight Committee had worked with its two independent consultants during the review. Director Brown then requested and received a report from Mike Skaggs, Senior Vice President, Nuclear Construction, regarding Minute Item No. 12-02-10, after which both Director Haskew and Director Brown, on behalf of their respective committees, recommended approval of completing Watts Bar Unit 2 in accordance with the new estimate to complete. Prior to the vote, Mr. Skaggs, in response to questioning by Director McBride, provided information on the two independent reviews conducted in association with the preparation of the new estimate to complete and, in response to questioning by Director Brown, gave detailed information on contingencies built into the new estimate as well as the monthly and quarterly reports to be provided to the Board on Watts Bar Unit 2 progress.

Copies of the slides used in Mr. Skaggs' report are filed with the records of the Board as Exhibit 4/26/12M.

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**12-02-10. Watts Bar Nuclear Plant Unit 2 Cost and Schedule Estimate**

The Board adopted the following resolution

WHEREAS in August 2007, the TVA Board of Directors approved resuming construction and refurbishment efforts necessary to complete and startup Watts Bar Nuclear Plant Unit 2 (WBN 2 or Project) at an estimated cost of \$2.49 billion and an estimated schedule of 60 months; and

WHEREAS Project performance is not meeting the original estimated budget and schedule, and additional work not originally anticipated will be required as a result of regulatory responses to and lessons learned from the events at Fukushima Daiichi in Japan; and

WHEREAS TVA has performed analyses of problems associated with Project performance and has implemented a series of corrective actions to address them; and

WHEREAS TVA has completed a revised estimate to complete (ETC) the Project based on numerous lessons learned to date as well as a detailed analysis of the areas of remaining work associated with the Project; and

WHEREAS two independent parties have reviewed and verified that the ETC process is sound and provides credible, reliable estimates to move forward with Project completion; and

WHEREAS TVA's revised ETC has identified a range of amounts required to complete the Project from \$4.0 billion to \$4.5 billion, with the most likely estimate to complete the Project in the amount of \$4.2 billion; and

WHEREAS TVA's revised ETC has also identified an estimated completion date range of December 2015, when the Project is most likely to be completed, to a more aggressive completion date of September 2015; and

WHEREAS TVA's analyses have shown that the projected cost of delivered power from WBN 2, even at the upper range of the completion cost estimate (\$2.0 billion in addition to \$2.49 billion), will be lower than the current average delivered cost of power for the TVA system and will be more competitive than other alternative base load generation options; and

WHEREAS, notwithstanding the amount of detail and rigor associated with such analyses, it is recognized that certain Project risks remain to be fully addressed such as the scope and extent of licensing issues related to the events at Fukushima Daiichi in Japan as well as other emergent risks; and

WHEREAS the Finance, Rates, and Portfolio Committee has reviewed the revised ETC and associated Project costs and schedule, as well as the corrective actions instituted by TVA to address Project performance, and the Committee recommends approval of this resolution to the full Board; and

WHEREAS the Nuclear Oversight Committee has also reviewed this information, as well as measures undertaken by TVA to ensure continued emphasis on quality construction and nuclear safety, and has considered information provided by external independent advisors to the Board, and the Committee recommends approval of this resolution to the full Board;

BE IT RESOLVED, That the Board approves continuing to proceed with the Project to complete and startup WBN 2 in accordance with the revised ETC which identifies a most likely completion cost estimate of \$4.2 billion and a completion date of December 2015, and which revised ETC also includes a lower completion cost estimate of \$4.0 billion and a higher estimate of \$4.5 billion as well as a more aggressive completion date of September 2015;

RESOLVED further, That the Board directs the Chief Executive Officer to keep the Board informed on the progress of the Project, including cost and schedule performance as compared to the revised ETC.

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#### **12-02-11. Report of the Nuclear Oversight Committee**

Director Brown, Chairman of the Nuclear Oversight Committee, reported the Committee had updated, for the Board's consideration, a revised Nuclear Safety Policy to reflect the recent reorganization of TVA's nuclear program, and emphasized that under the reorganization, Preston Swafford, Executive Vice President and Chief Nuclear Officer, and Mike Skaggs, Senior Vice President, Nuclear Construction, would be reporting directly to the Chief Executive Officer.

Director Brown stated this was a significant organizational change that would result in stronger

controls to ensure the success of the nuclear program. Director Brown then recommended that the Board approve the amended Nuclear Safety Policy as set forth in Minute Item No. 12-02-12.

Copies of the slides used in Director Brown's report are filed with the records of the Board as Exhibit 4/26/12N.

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**12-02-12. Nuclear Safety Policy**

The Board adopted the following resolution:

WHEREAS TVA's Commitment to Nuclear Safety constitutes the upper tier, Board-approved policy (Policy) which affirms that TVA's paramount considerations in carrying out its nuclear power activities are the protection of public health and safety, employees, and the environment; and

WHEREAS TVA has undergone an organizational realignment which affects certain positions to which roles or responsibilities are assigned in the Policy; and

WHEREAS the Nuclear Oversight Committee has reviewed the amended Policy and believes it would be appropriate to update the Policy to reflect the current organizational structure and provide clarity in responsibilities;

BE IT RESOLVED, That the Board hereby approves the amended Policy which incorporates such administrative changes as reflected in the document attached hereto and filed with the records of the Board as Exhibit 4/26/12O.

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**12-02-13. Report of the People and Performance Committee**

Director Graves, on behalf of the People and Performance Committee, reported the Committee had discussed TVA's work on labor relations, stating TVA is committed to constructive relationships with the unions representing its employees. Director Graves stated that through partnership, TVA and its unions continue to attract, train and retain the highly qualified workforce needed to operate, maintain and modernize TVA's integrated power and resource management system. Director Graves stated the Committee had also received an update on TVA's Winning Performance program, and that while low sales due to mild weather and the economy continue to affect revenue, TVA is generally on track to meet its winning performance targets. In addition, Director Graves stated the Committee had received information on TVA's cultural health improvement program, including specific activities individual organizations are taking to address cultural issues. Director Graves stated the Committee would continue to monitor progress believing management's work in this area is vital to TVA's future.

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**12-02-14. Report of the Audit, Risk, and Regulation Committee**

Director McBride, Chairman of the Audit, Risk, and Regulation Committee, reported the Committee is actively working with its external auditor, Ernst & Young, in shaping the audit to ensure TVA receives an unbiased and independent report on the financial status of TVA, and a useful look at the various levels of risk and compliance TVA faces. Director McBride stated the Committee had also been briefed by TVA's General Counsel regarding ongoing litigation, and

had conducted a review of the activities of TVA's Compliance Office in coordination with TVA's Office of the Inspector General. Director McBride reported that the Compliance Office is collaborating well with the Office of the Inspector General and also dividing duties in such a way as to avoid duplication of effort.

In addition, Director McBride reported the Compliance Office is gradually assuming responsibility for working with TVA's distributors to ensure their activities are aligned with the regulatory provisions of TVA's power contract. Director McBride stated that for the next few weeks the Committee will be reviewing TVA's 10-Q report for the second quarter of FY 2012, and recommended that anyone following TVA's present and anticipated activities should start with reviewing the 10-Q report. Director McBride concluded by noting the Committee had considered a recommendation that the Board authorize the settlement of litigation involving a coal supply dispute, made the recommendation for approval and, because the need was urgent and fell between Board meetings, the Directors considered the settlement individually on a notational basis and approved the settlement.

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**12-02-15. Report of the External Relations Committee**

Director Howorth, Chairman of the External Relations Committee, stated the Committee had received an update on the implementation of the new commercial recreation fee structure across the Valley, a program intended to bring fairness and consistency to the program. Director Howorth stated the Committee had also received information on the enhancements to the Valley



Investment Initiative mentioned during the President's Report, and had concluded the program is a good way to recruit and retain jobs in the Valley by aiding those industries that use power efficiently. Director Howorth then requested and received a report from Bruce Schofield, Vice President, Property and Natural Resources, regarding Minute Item No. 12-02-16.

Copies of the slides used in Mr. Schofield's report are filed with the records of the Board as Exhibit 4/26/12P.

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**12-02-16. Renewal of the Regional Resource Stewardship Council Charter**

The Board adopted the following resolution as recommended in a memorandum from the Executive Vice President and Chief Administrative Officer, dated April 11, 2012, and filed with the records of the Board as Exhibit 4/26/12Q:

WHEREAS the Tennessee Valley Authority (TVA) established the Regional Resource Stewardship Council (Council) to advise TVA about its resource stewardship activities, and Council members have worked diligently to reach a common understanding of resource issues and a common approach to the resolution of such issues; and

WHEREAS the Council's sixth term will expire on February 2, 2013; and

WHEREAS the Council has proven to be an effective tool in obtaining input from and achieving collaboration among the numerous public and private entities involved in the stewardship of the natural resources of the Tennessee Valley region; and

WHEREAS the Federal Advisory Committee Act requires the appointment of a Designated Federal Officer to call meetings of the Council and conduct other administrative functions;

BE IT RESOLVED, That the Board of Directors hereby approves the amended Regional Resource Stewardship Council charter, a copy of which is filed with the records of the Board as Exhibit 4/26/12R; authorizes the renewal of the amended charter for an additional two years; and

directs the Vice President, Property and Natural Resource Management, to complete the charter renewal process in accordance with the Federal Advisory Committee Act;

RESOLVED further, That the Board of Directors hereby authorizes the Chief Executive Officer to select the Designated Federal Officer for the Council;

RESOLVED further, That the Board directs staff to develop and present a slate of seventh term Council members for the Board's consideration following consultation with the existing Council members and the governors' offices in the Valley states;

RESOLVED further, That the Board of Directors expresses gratitude to the members of the sixth term of the Council for their service to TVA and the Tennessee Valley region.

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### **Information Item**

#### **12-02-17. Settlement of Foresight Coal Litigation**

As recommended in an application for Notational Board Approval, a copy of which is filed with the records of the Board as Exhibit 4/26/12S, the individual Board members notationally approved settlement of the lawsuit filed by Foresight Coal, LLC, alleging breach of contract by TVA.

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