

# 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



Responsibility



Greater Energy Efficiency

**Acting to meet the region's needs for the future, while improving our core business today.**

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# Chairman's Report

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# President's Report

# Our VISION



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# Our VISION

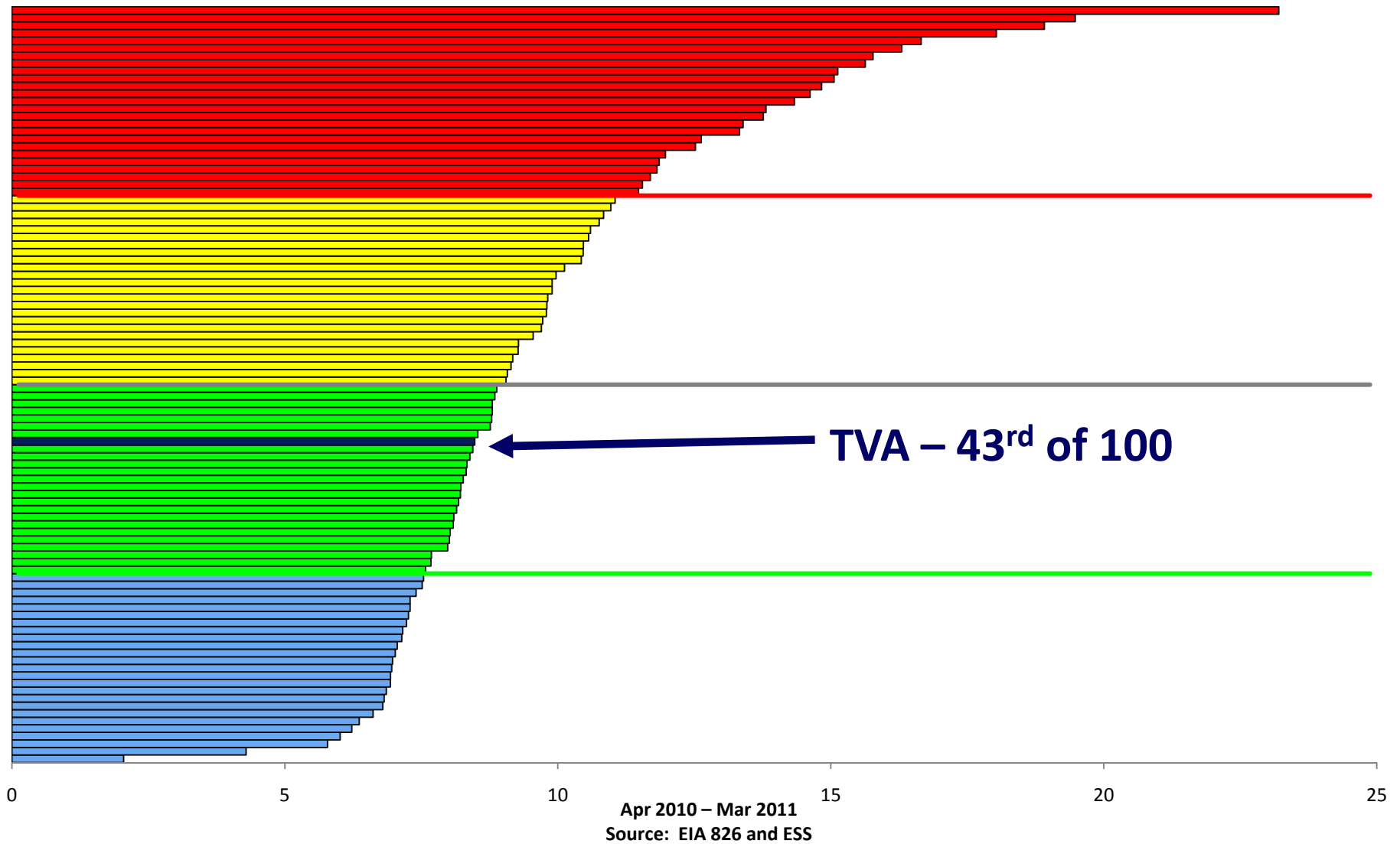


ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
AND CLEANER ENERGY BY 2020



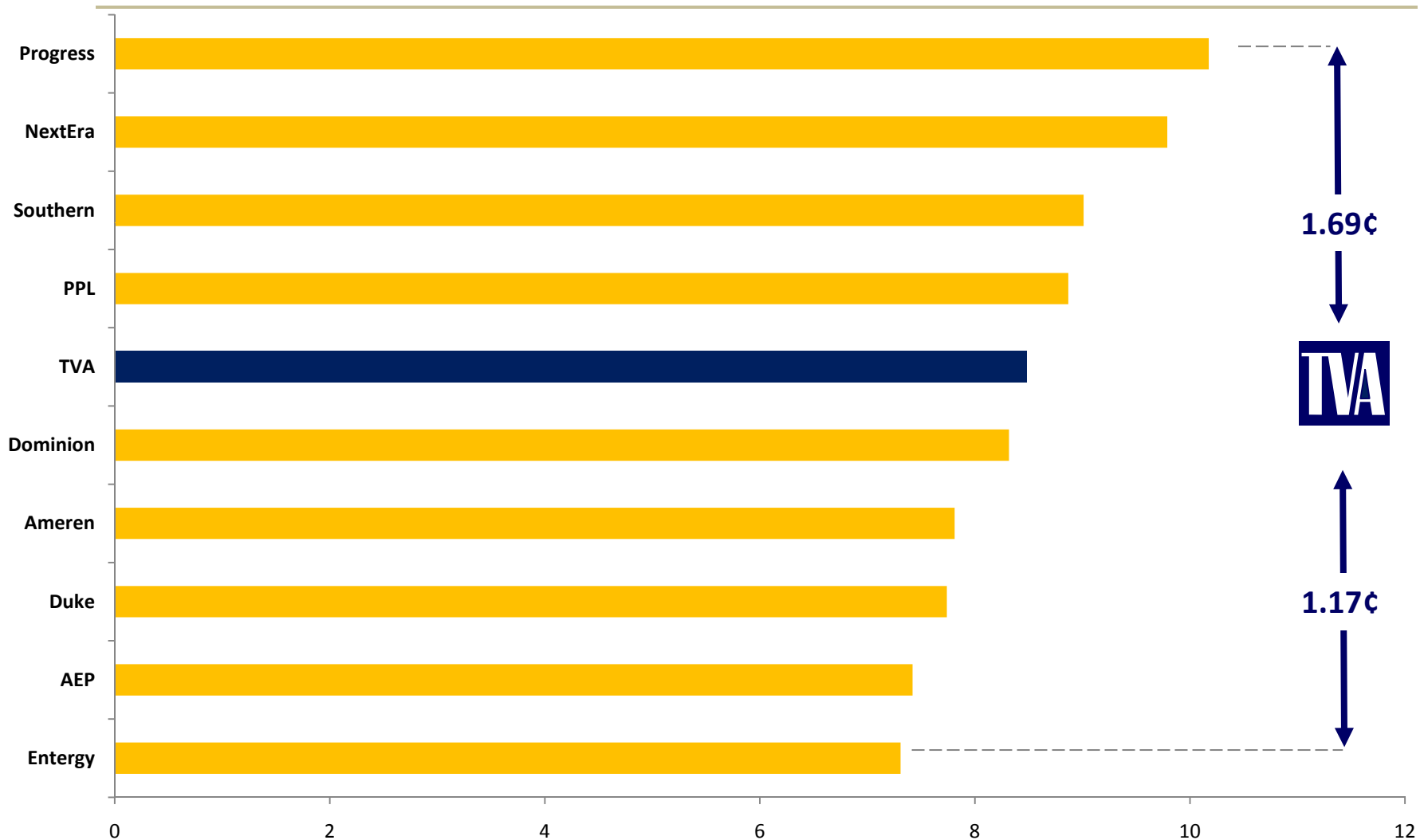
## Low Rates

# Top 100 Utilities' Retail Rates

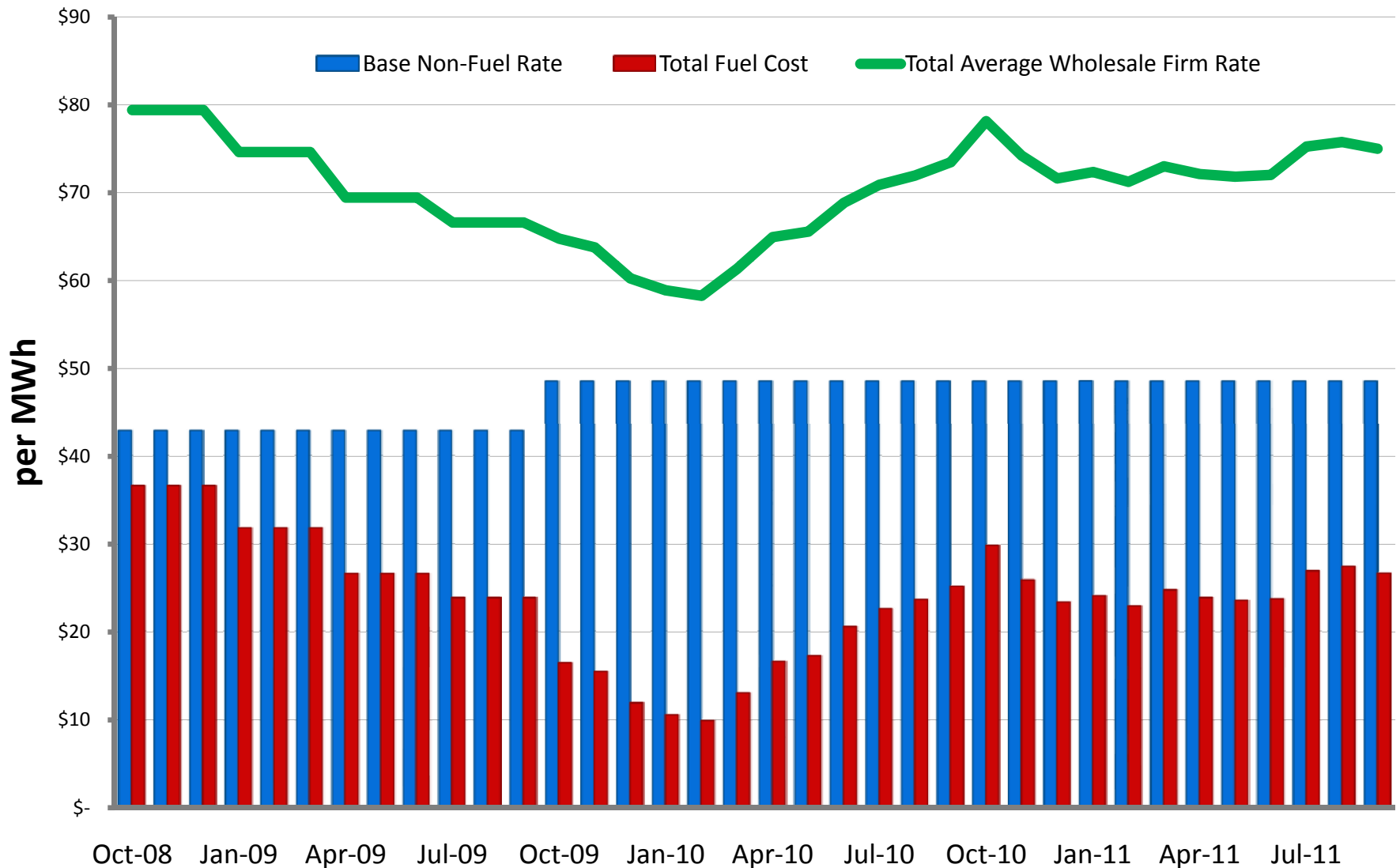


# TVA vs. Regional Holding Companies

Retail Rates 12 Month Rolling Average (cents / kWh)  
April 2010 - March 2011



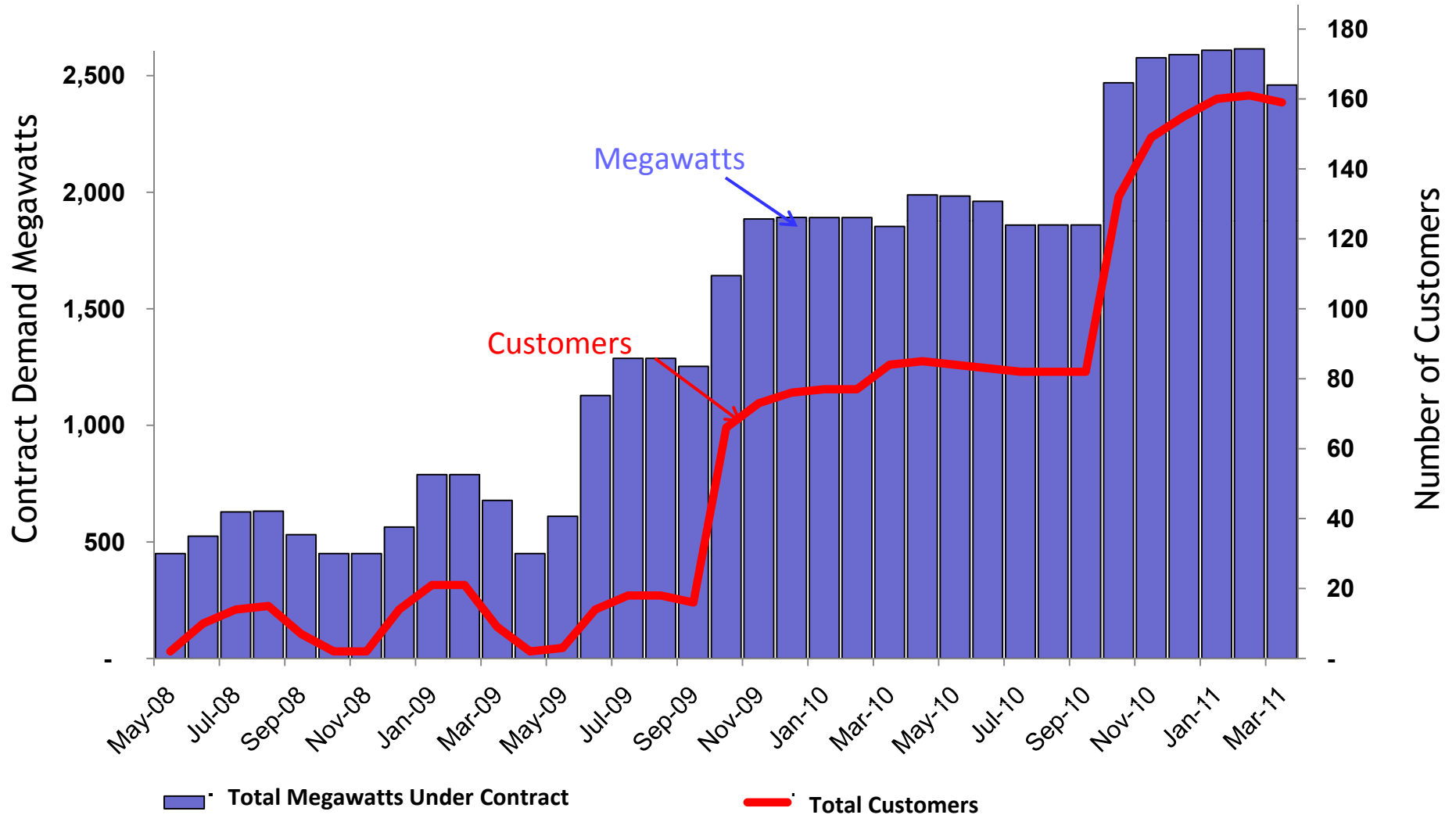
# Average Firm Wholesale Rate





# Time-of-Use Participation

## Number of Customers and Megawatts Under Contract



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## High Reliability



# Tornadoes of April

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# Unprecedented Damage

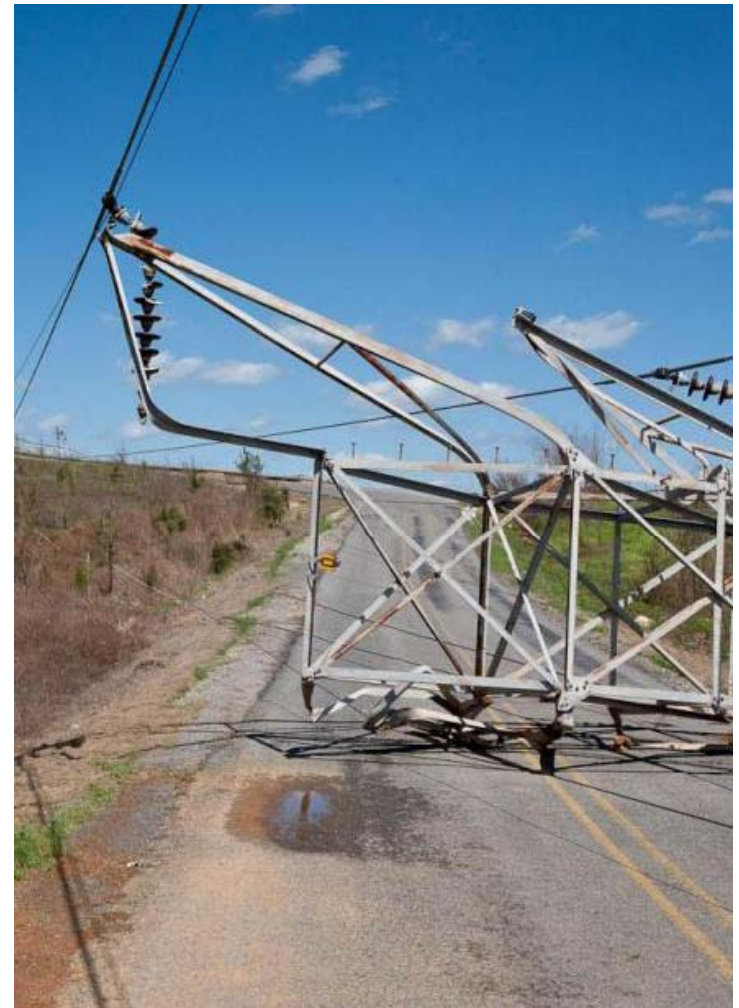
**350** transmission structures damaged or destroyed

**108** lines out of service

**128** customer connections broken

**850,000** customers without electricity

Several TVA plants forced to shut down



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# Quick Recovery

**4,000 workers** labored **24/7** to restore service

Within five days:

- **121 of 128** customer connections were restored
- Most large industries had some power supply

Last 500-kV line was restored on June 30

**\$39 million** in repairs

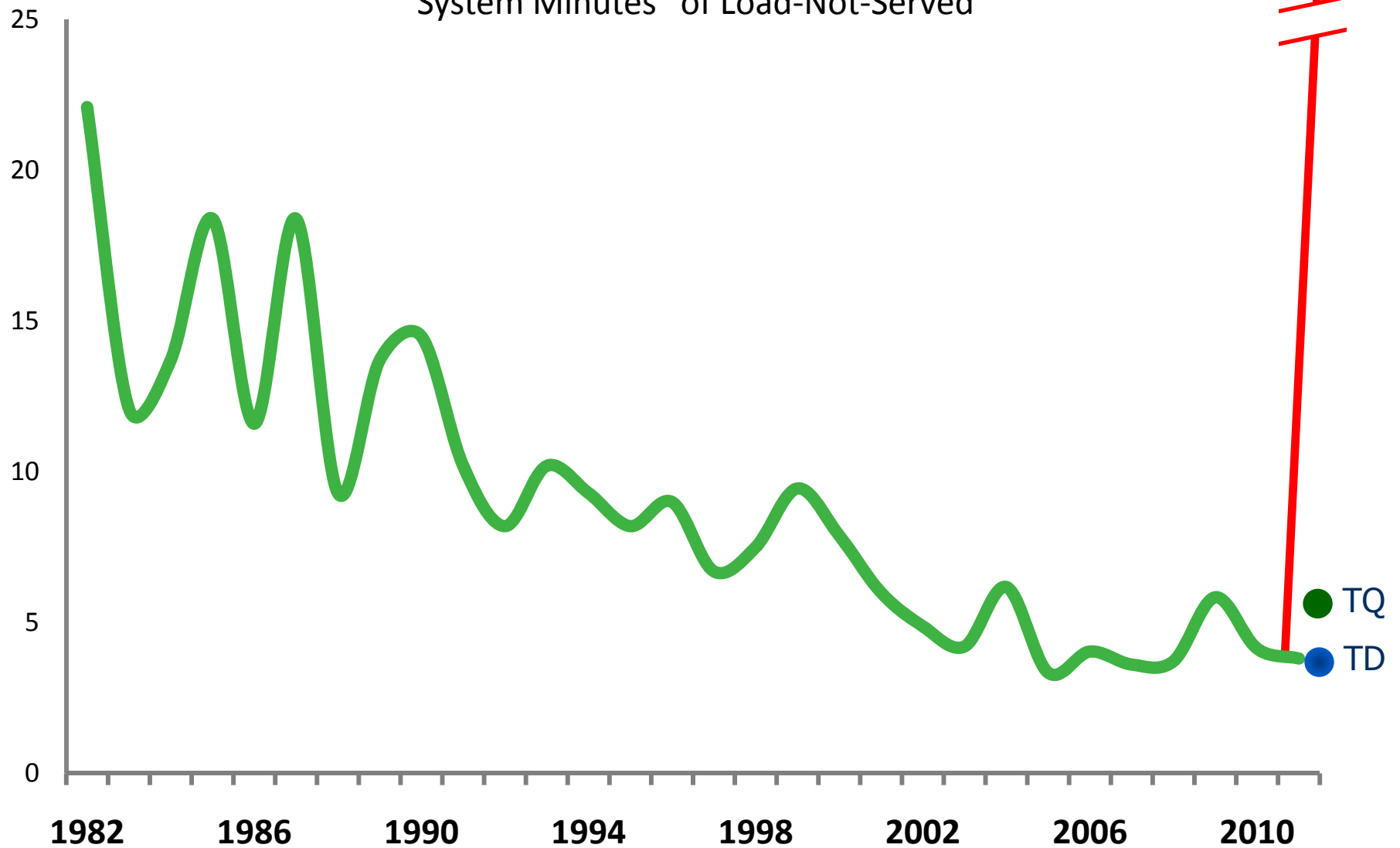
**\$95 million** for replacement power



# Reliability – April Storms

“System Minutes” of Load-Not-Served

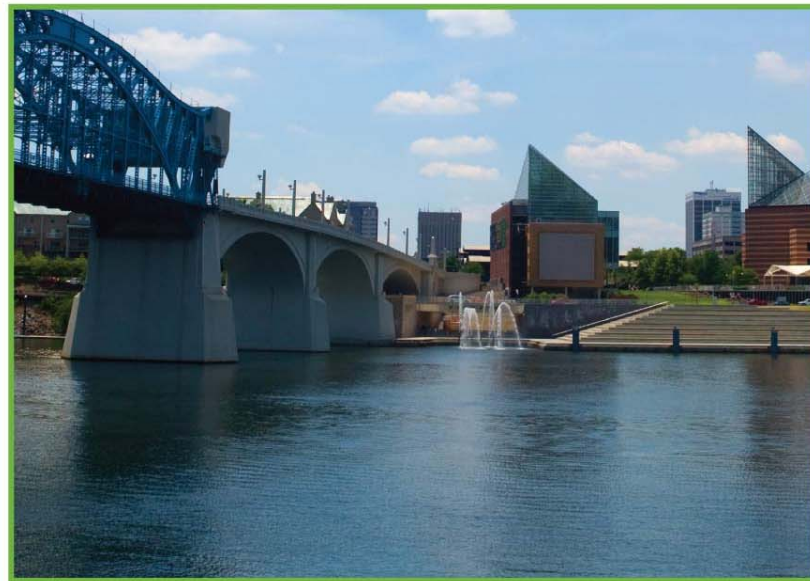
Considering storms: 499



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## Responsibility



# Helping the Community





# Helping the Community

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# Helping the Community

Chattanooga's Combined Federal Campaign recognized for raising a record **\$1.6 million** for charity



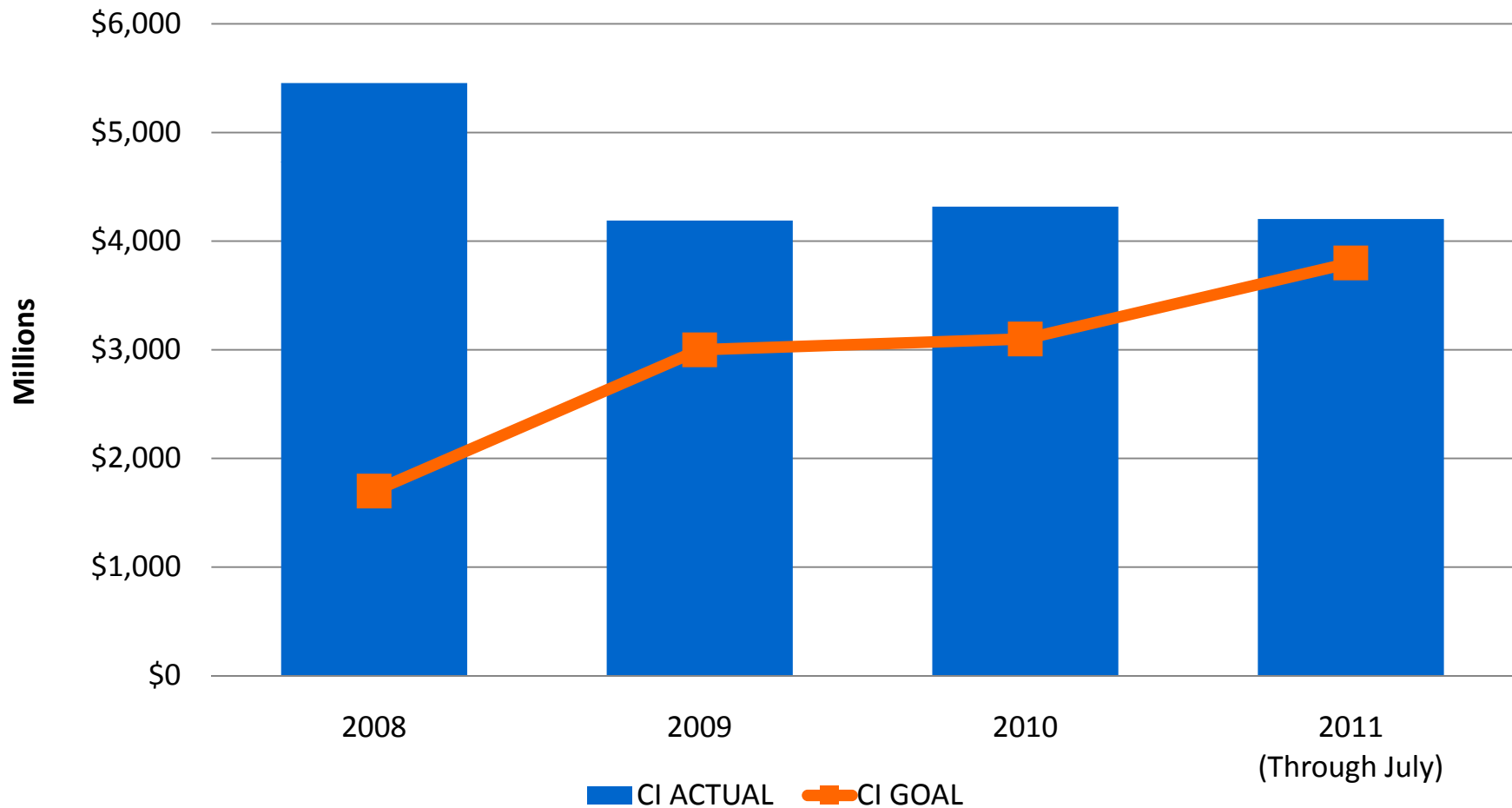
Office of Personnel  
Management Recognition

Washington, DC

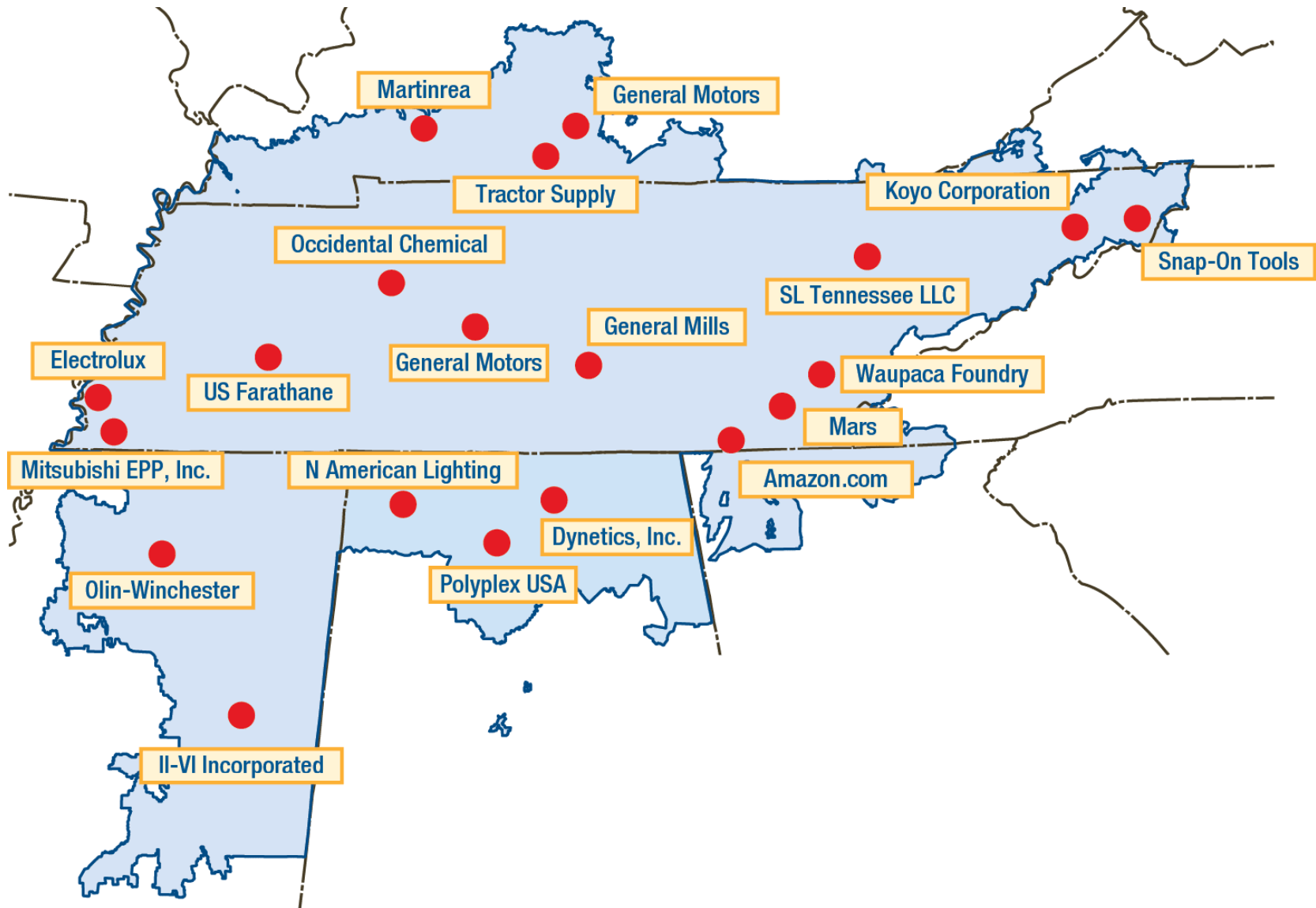
June 29, 2011

# Economic Development

## Leveraged Capital Investment Fiscal 2008 - 2011 To Date



# Recent Regional Announcements



# Our VISION



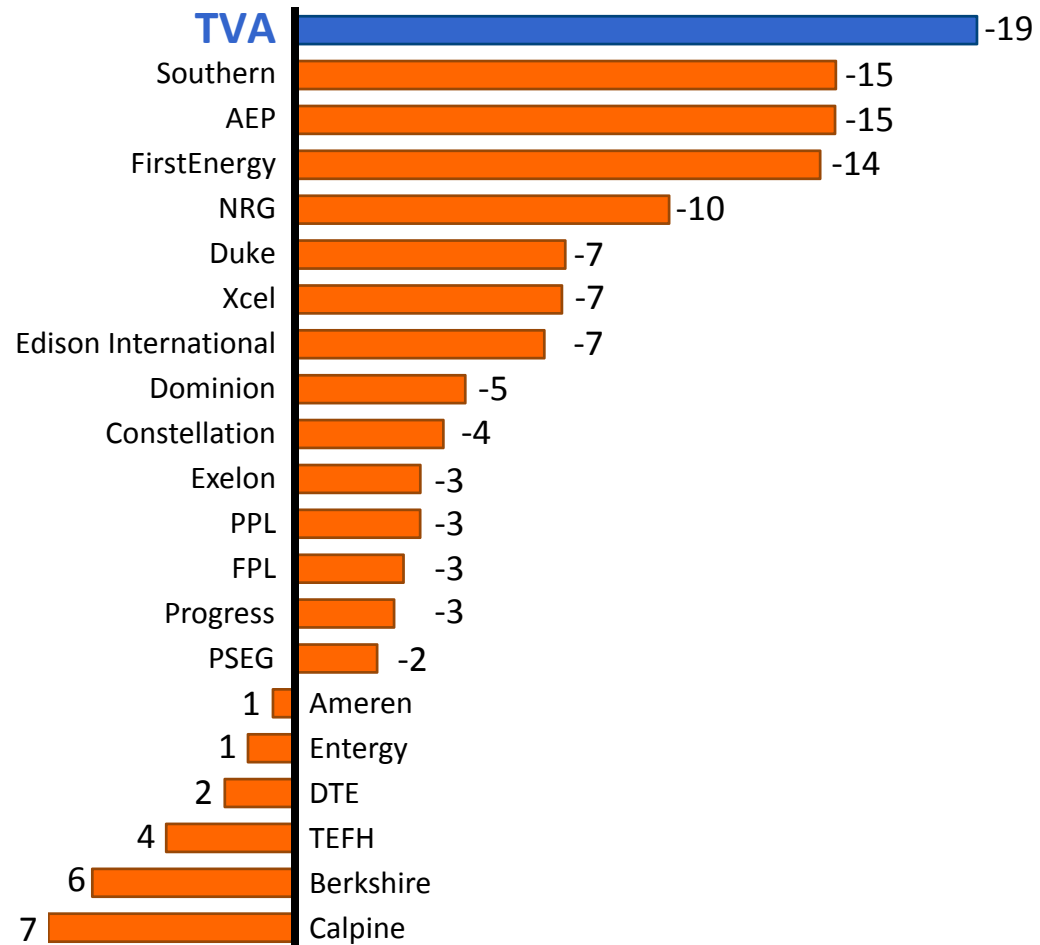
ONE OF THE NATION'S LEADING PROVIDERS OF LOW-COST  
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## Cleaner Air

# Carbon Dioxide Emission Reductions

2005-2010 CO<sub>2</sub> (million tons)



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## More Nuclear Generation



# New Browns Ferry Cooling Tower



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## Greater Energy Efficiency




# 25,000th Energy Efficiency Audit

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# Summary

# Performance Summary versus Plan

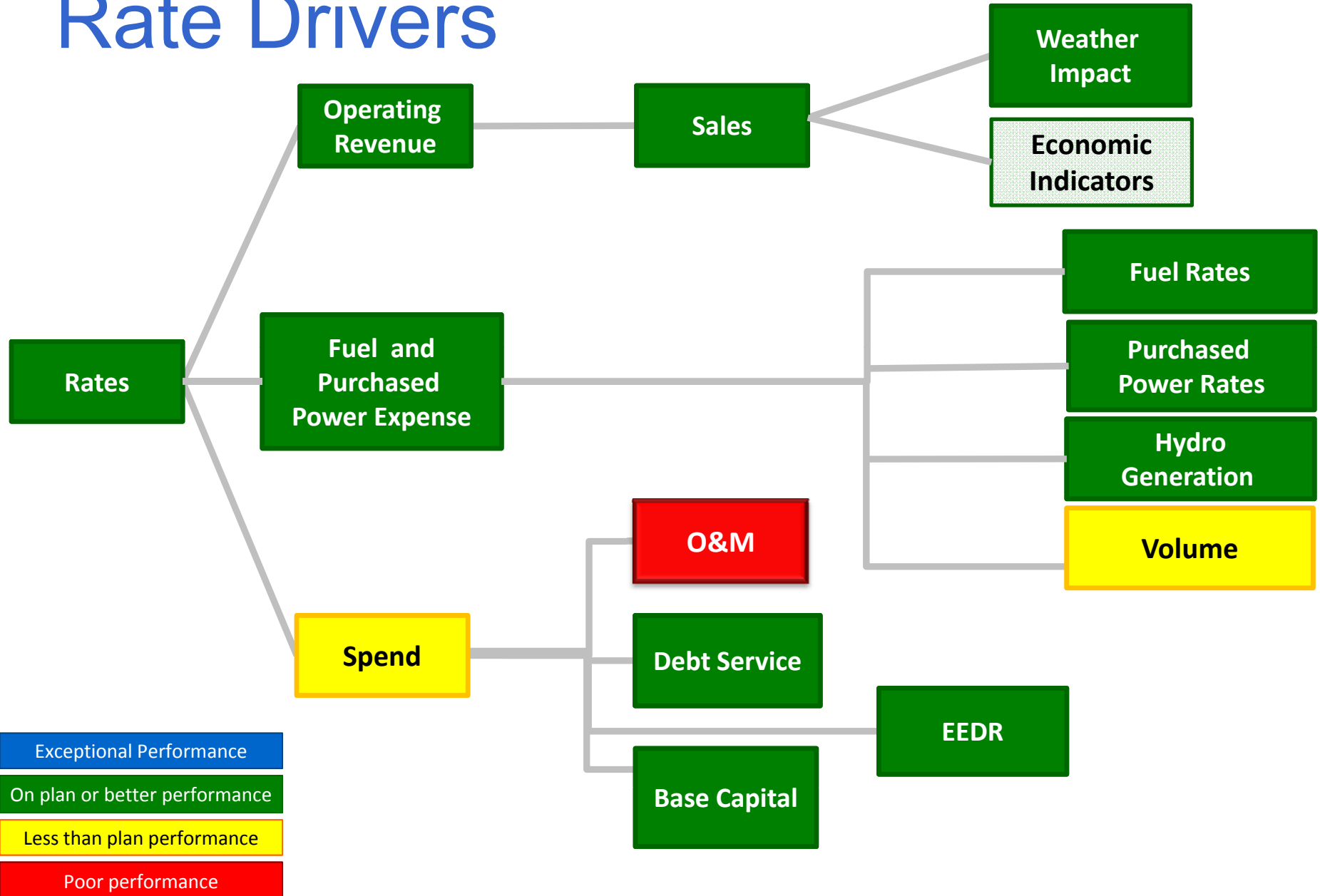
through June FYTD

RATES	Retail Rates	
	Non-Fuel Operations and Maintenance	
	Capital Expenditures	
	Net Cash Flow	
RELIABILITY	System Reliability: Load Not Served	
	Coal Equivalent Availability Factor	
	Nuclear Equivalent Availability Factor	
	Combined Cycle Equivalent Availability Factor	
RESPONSIBILITY	Safety	
	Reportable Environmental Events	
	Customer Satisfaction	
	Organizational Effectiveness	

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# Fiscal Year 2011 Financial Status

# Rate Drivers



# Summary Income Statement

## June 2011 Fiscal Year to Date

(in millions)	Actual	Budget	Variance
<b>Operating Revenue</b>	<b>\$ 8,453</b>	<b>\$ 8,391</b>	<b>\$ 62</b>
Fuel & Purchased Power	3,097	3,120	23
Non-Fuel O&M	2,596	2,475	(121)
Depreciation, Amortization	1,296	1,318	22
Tax Equivalents & Other	545	535	(10)
<b>Operating Expenses</b>	<b>7,534</b>	<b>7,448</b>	<b>(86)</b>
Operating Income	919	943	(24)
Other Income	25	13	12
Interest Expense	979	983	4
<b>Net Income</b>	<b>\$ (35)</b>	<b>\$ (27)</b>	<b>\$ (8)</b>

'YTD June Results – Unaudited'

# Summary Cash Flow Statement

## June 2011 Fiscal Year to Date

<i>(Millions of Dollars)</i>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
<b>Beginning Cash and Short-term Investments</b>	<b>\$ 328</b>	<b>\$ 201</b>	<b>\$ 127</b>
<b>Cash Flow from Operating Activities</b>	<b>\$ 1,703</b>	<b>\$ 1,477</b>	<b>\$ 226</b>
<b>Cash Flow from Investing Activities</b>	<b>(1,880)</b>	<b>(2,293)</b>	<b>413</b>
<b>Cash Flow from Financing Activities</b>	<b>391</b>	<b>834</b>	<b>(443)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>\$ 214</b>	<b>\$ 18</b>	<b>\$ 196</b>
<b>Ending Cash and Short-term Investments</b>	<b>\$ 542</b>	<b>\$ 219</b>	<b>\$ 323</b>
<b>Total Statutory Debt</b>	<b>\$ 24,161</b>	<b>\$ 24,811</b>	<b>\$ (650)</b>



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# Fiscal Year 2011 Update

## June 2011 Fiscal Year-to-Date

- Weather drove higher sales and revenues
- Non-Fuel O&M unfavorable due to nuclear outages
- Performance negatively impacted by storms
- Favorable cash flow from timing of expansion projects and base capital

## Forecasted Fiscal Year 2011

- Slightly higher revenue to continue but offset by higher Non-fuel O&M expense
- Capital expenditures will increase, but remain under plan
- Expect to end year with positive cash

'YTD June Results – Unaudited'

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# Nuclear Oversight Committee

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# Nuclear Safety Review

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# A Challenging Year for Nuclear

Earthquake and tsunami  
in Japan

Tornados in Alabama

NRC enforcement action at  
Browns Ferry

Safety allegations published  
in the media

**TVA Plants Remain Safe**



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# In the Aftermath of Fukushima

Closely monitoring events in Japan

Reviewing readiness for natural and man-made disasters



Working closely with the industry

**Proactively** taking short-term, intermediate, and long-term actions for all TVA nuclear sites

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# TVA Actions

Verifying plants' ability to withstand extreme flooding

Adding additional backup power supplies

Staging additional equipment to cool the reactor and fuel pool

Evaluating hardened water supply pipes for spent fuel pools

Moving additional spent fuel from pools to dry-cask storage



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# TVA Actions

Training employees for multiple simultaneous emergencies

Adding satellite phones, battery chargers and portable generators

Developed new emergency management guidelines

Considering a fifth diesel generator at Sequoyah and Watts Bar

Further evaluating switch-yard protection



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# Tornadoes in Alabama

Browns Ferry lost most off-site power; all three units shut down safely

Diesel generators provided power; all safety system valves worked as designed



Re-established off-site power five days after storms

Operational problems were managed and promptly reported

**Browns Ferry remained safe**



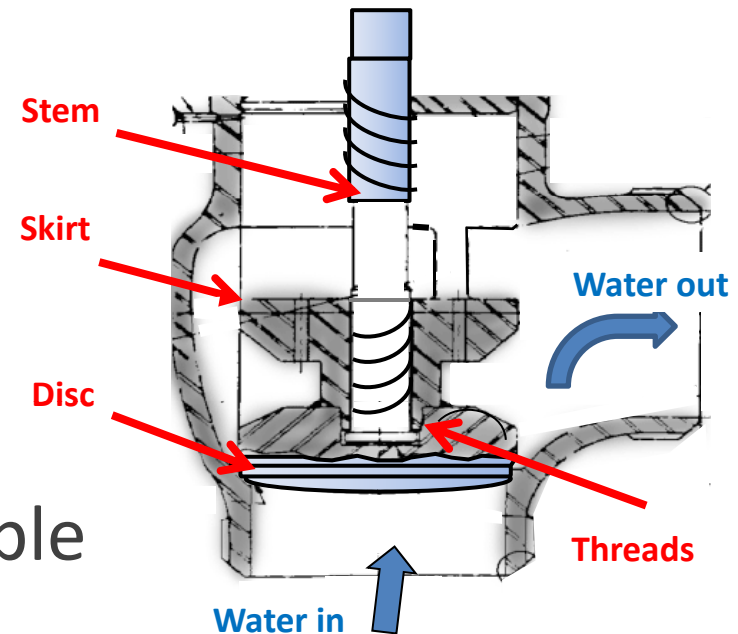
# Browns Ferry Valve Problem

A safety system valve initially failed to open as Unit 1 was being shut down

Multiple ways of cooling the reactor remained available

NRC called the event significant, but agrees there was never a threat to safety

During the April tornadoes, all safety system valves worked normally when all 3 units were forced to shut down



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# TVA's Response

TVA verified that all similar plant valves worked properly

Testing showed:

- a manufacturing defect led to the initial problem
- the valve would have opened normally given more time

We have a high level team in place implementing necessary changes



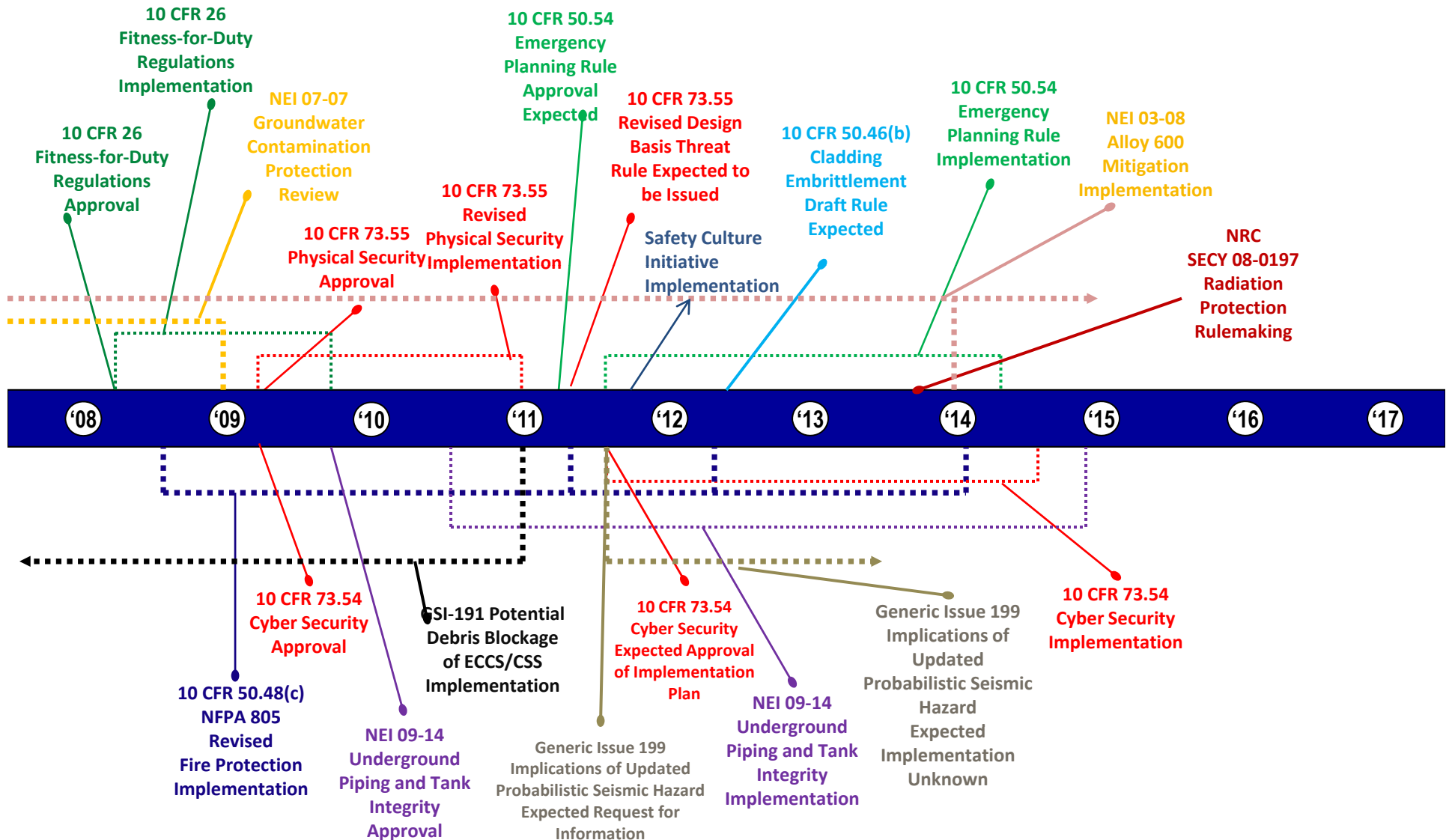
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# Nuclear Safety in the Headlines

Media reports questioned whether U.S. nuclear plant safety is compromised by:

- Relaxed safety standards?
- Age-related equipment failures?
- Tritium leaks?
- Relicensing too easy?

# Relaxed Standards?

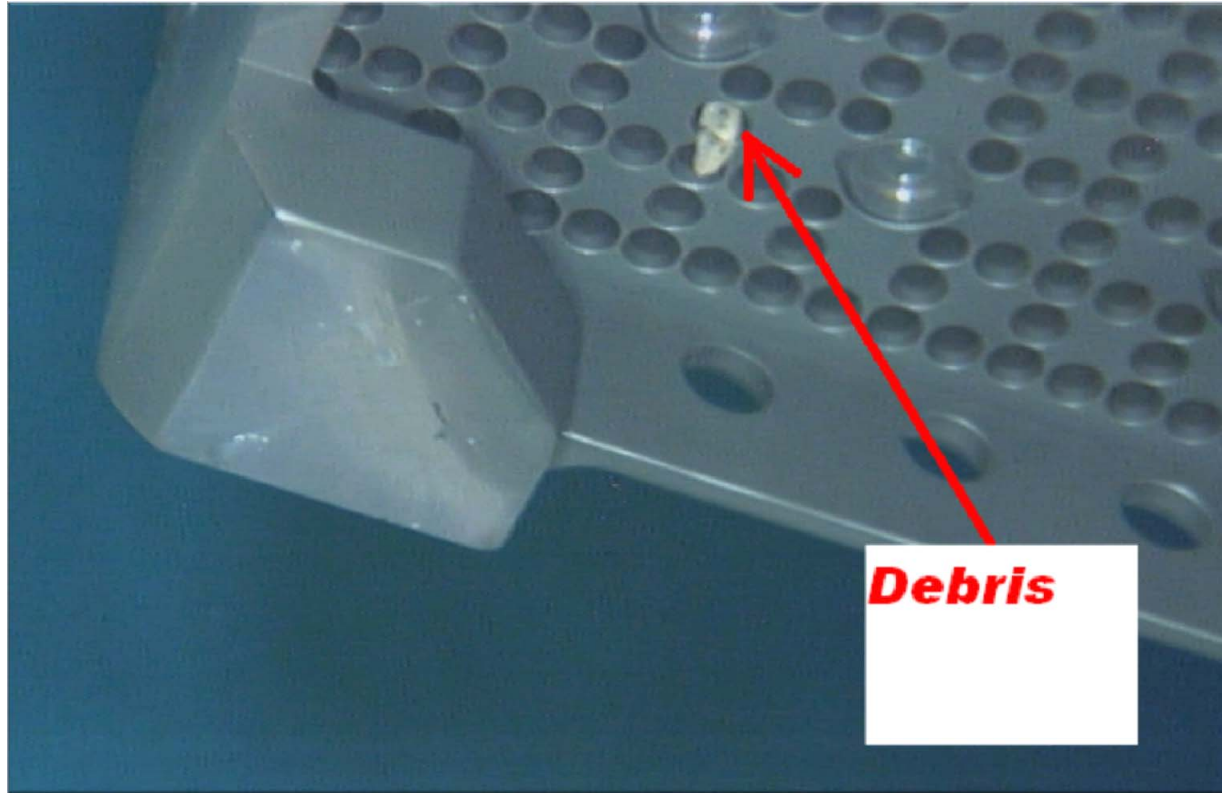




# Browns Ferry Torus Inspection



# Browns Ferry Fuel Inspection



# Browns Ferry Fuel Inspection



# Underground Piping Inspections



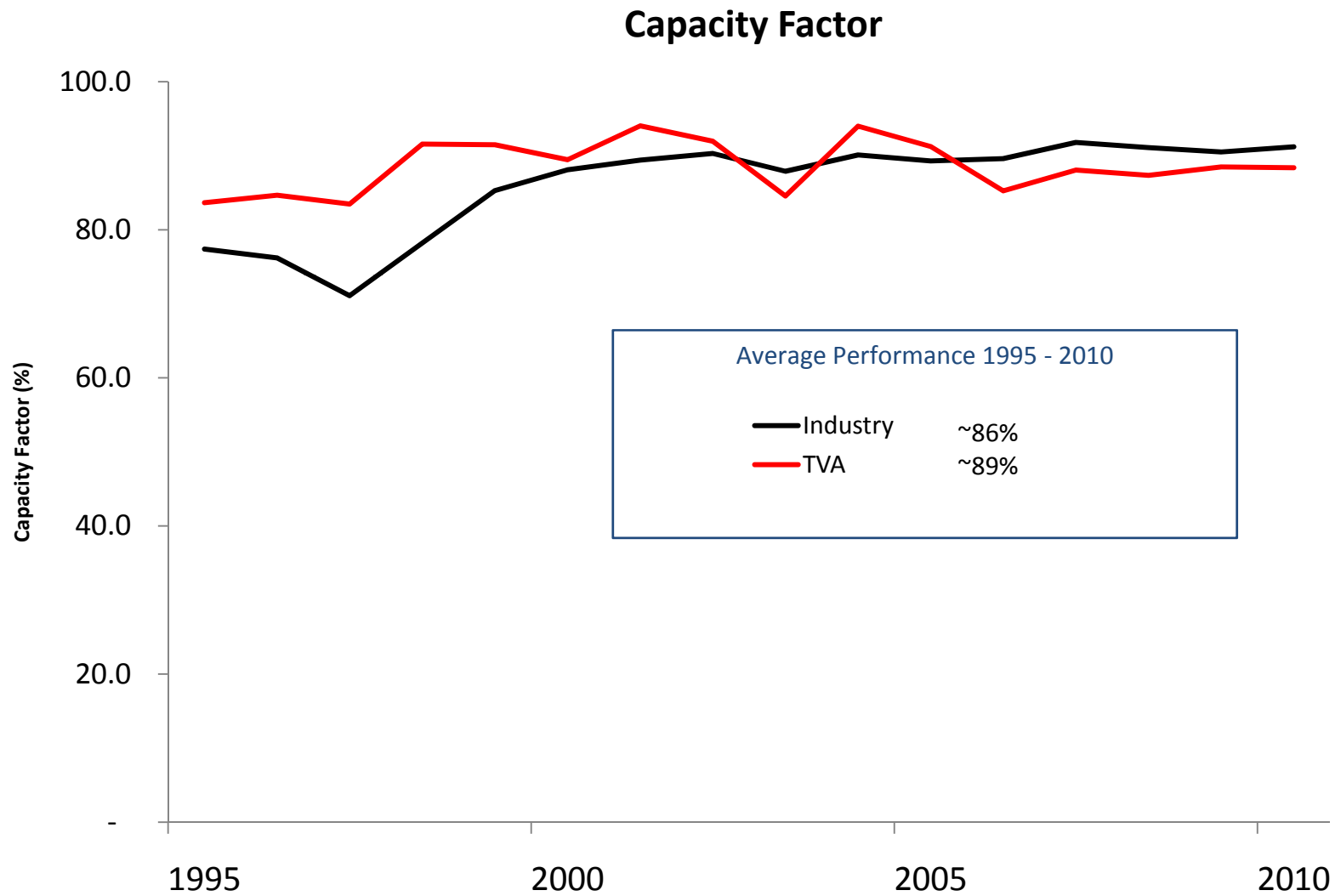
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# Relicensing too easy?

- An 8- to 10-year process
- Environmental Impact Statement
- Public meetings
- Plant owner must prove that the plant is fit to continue operating

All the documentation related to relicensing  
would fill a shelf 20 feet long

# A Record of Good Performance



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# Conclusions

TVA is increasing safety precautions at all our nuclear plants following the accident in Japan

Browns Ferry was tested by an unprecedented tornado outbreak and performed well

Taking actions following the NRC finding

TVA's plants are continuously monitored for aging issues and are safe to continue operating

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# Nuclear Safety Review

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# Finance, Rates, and Portfolio Committee

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# Asset Strategy

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More Nuclear Generation



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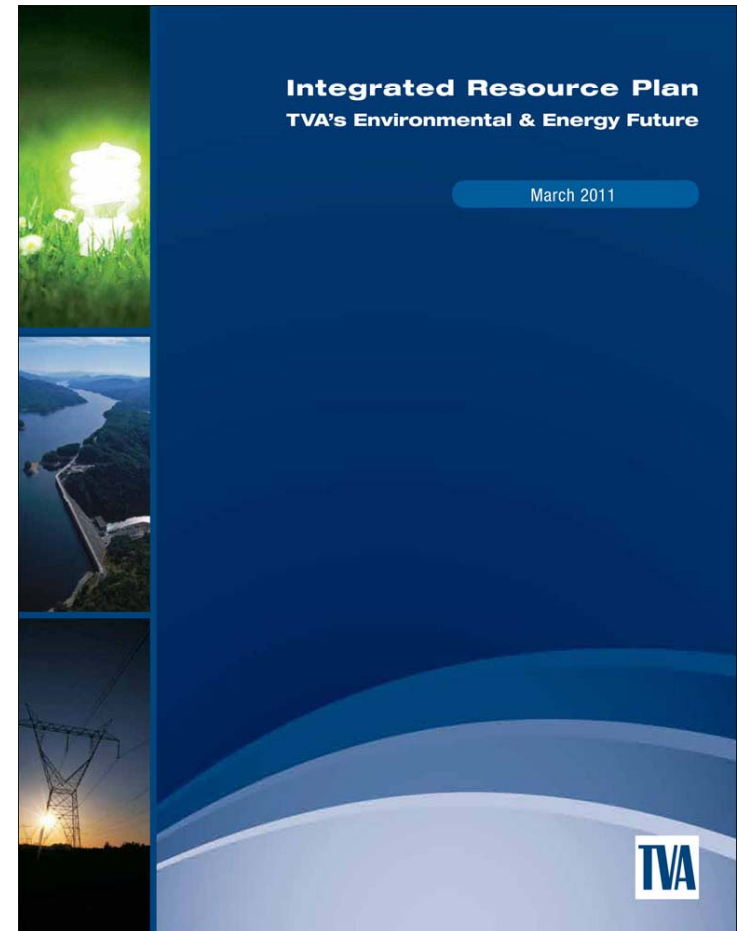
**Acting to meet the region's needs for the future, while improving our core business today.**

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# A Framework for the Future

## TVA's Integrated Resource Plan

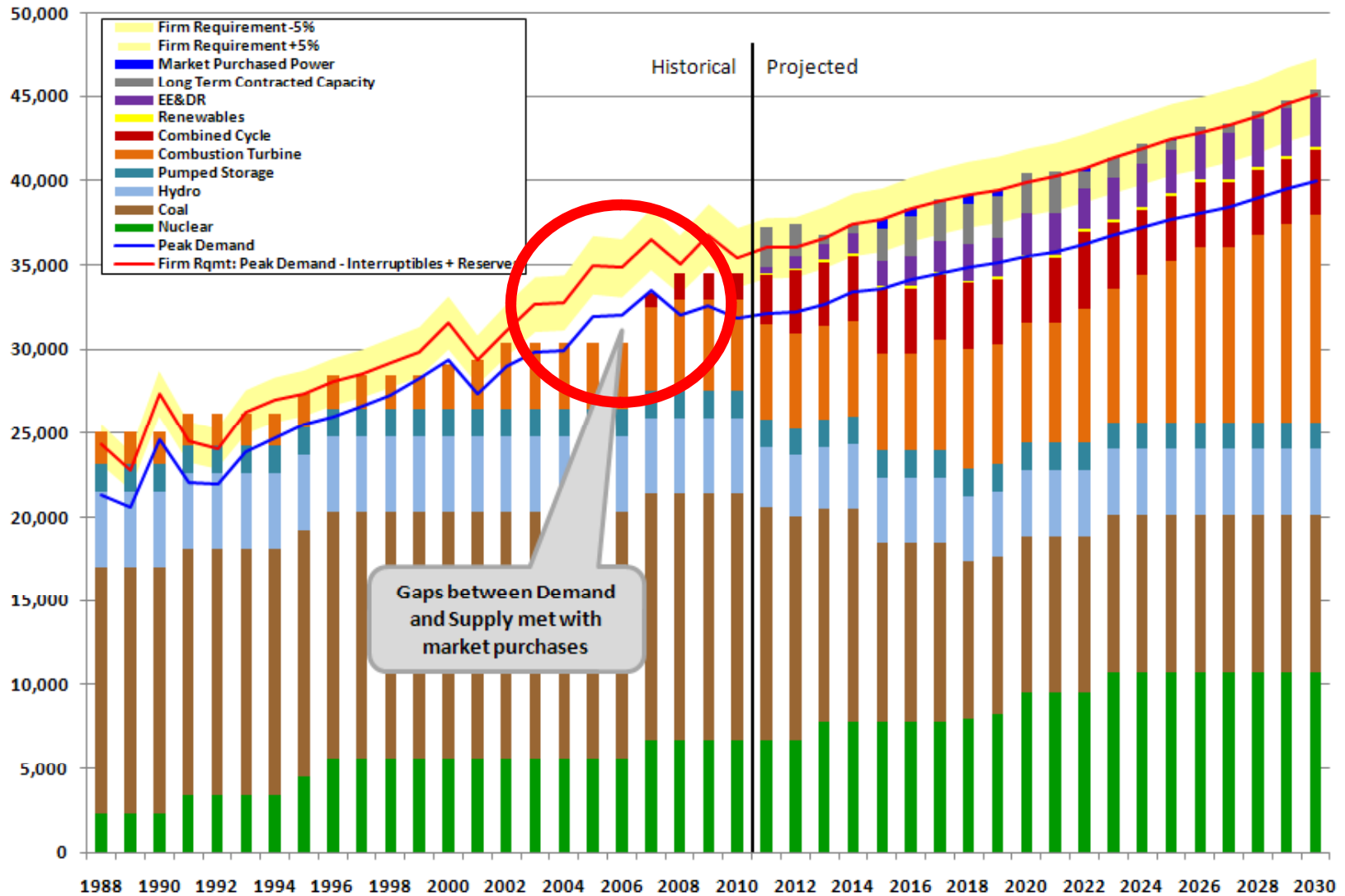
- Guides power system planning
- Balances costs and risks to benefit all stakeholders
- Allows flexible responses to change
- Reduces environmental impacts



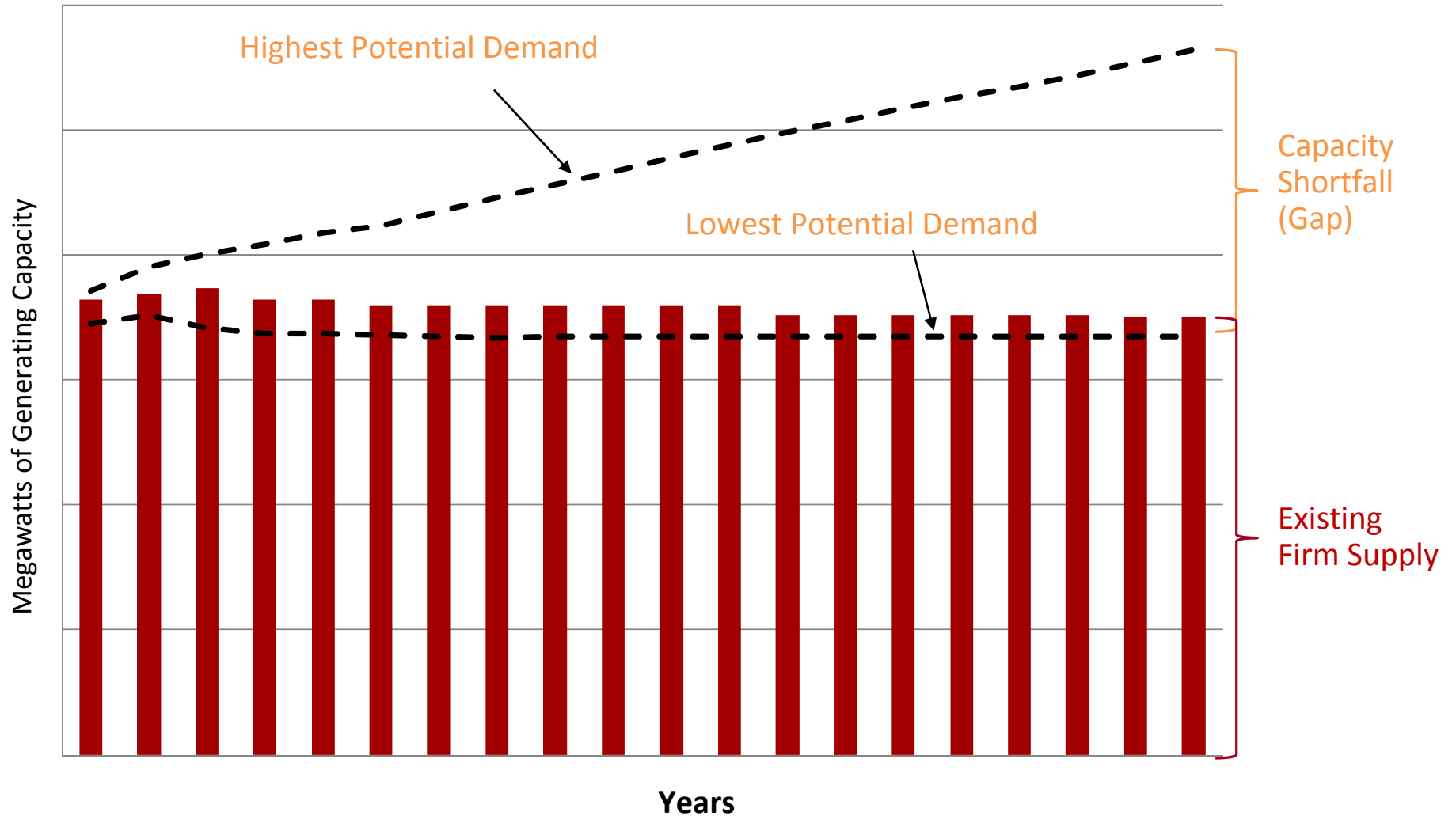


# TVA Capacity

MW



# Goal: Meet the Capacity Shortfall



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# Envisioning Possible Futures

## Possible Scenarios:

- Economy Recovers Dramatically
- Environmental Focus is a National Priority
- Prolonged Economic Malaise
- Game-Changing Technology
- Energy Independence
- Carbon Legislation Creates Economic Downturn

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# Potential Strategies

- Limited Change
- Baseline Plan
- Diversity Focused
- Nuclear Focused
- Energy Efficiency / Demand Response and Renewable Focused



# IRP Recommended Direction

## Recommendations

-  **Nuclear generation**
-  **Coal capacity idled**
-  **Natural gas as an intermediate supply source**
-  **Energy efficiency and demand response**
-  **Cost-effective renewable energy**
-  **Pumped storage hydro capacity**







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# Proposed Actions

- Bellefonte Nuclear Plant Unit 1 approval (to be discussed in more detail later)
- Sequoyah Nuclear Plant License Extension Application
- Emission Controls for Allen and Gallatin Fossil Plants
- Magnolia Combined Cycle Generation Station Acquisition

# IRP Recommended Direction

## Recommendations

-  **Nuclear generation**
-  **Coal capacity idled**
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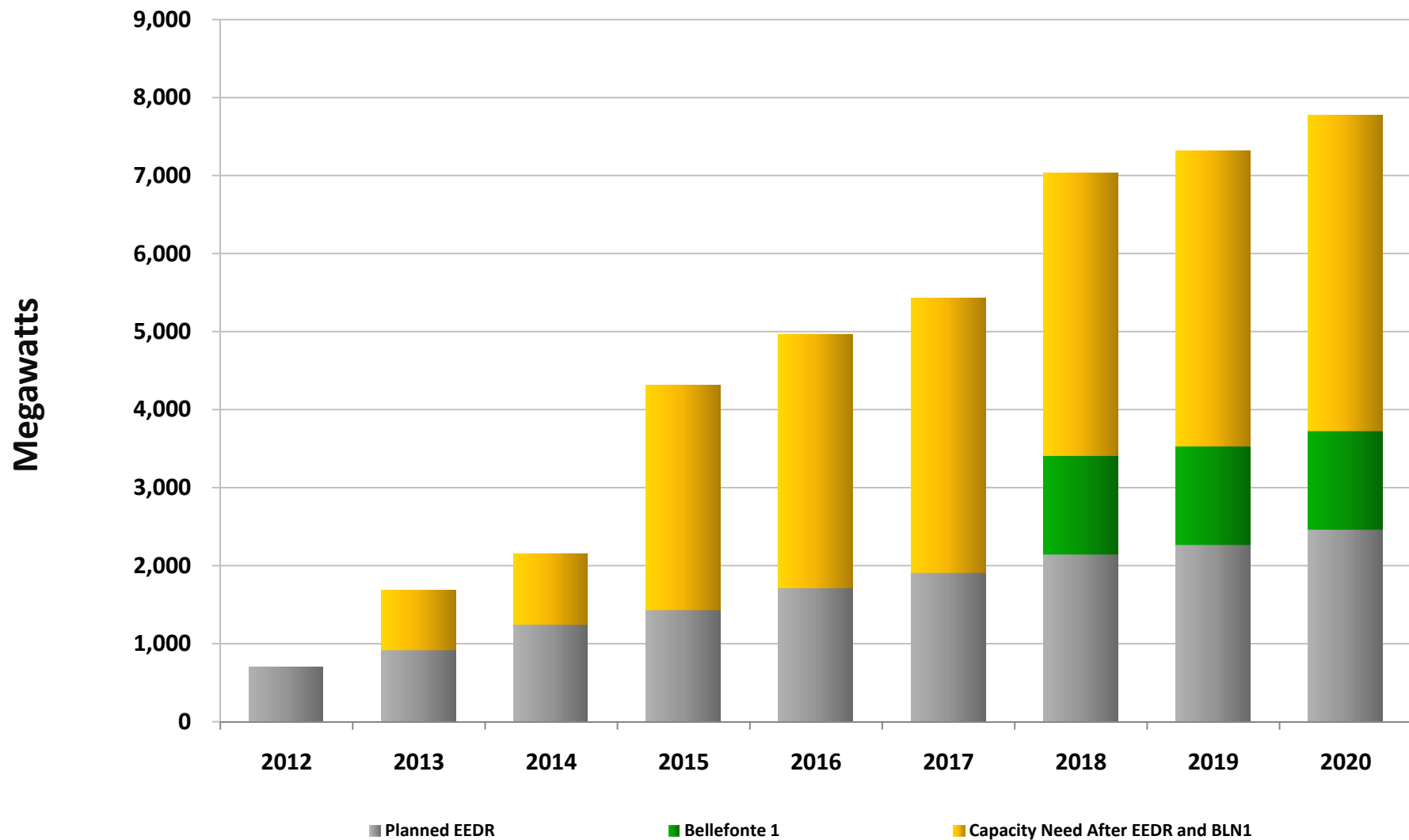
# Bellefonte Unit 1

TVA's Integrated Resource Plan and strategic analysis supports completion of Bellefonte Unit 1

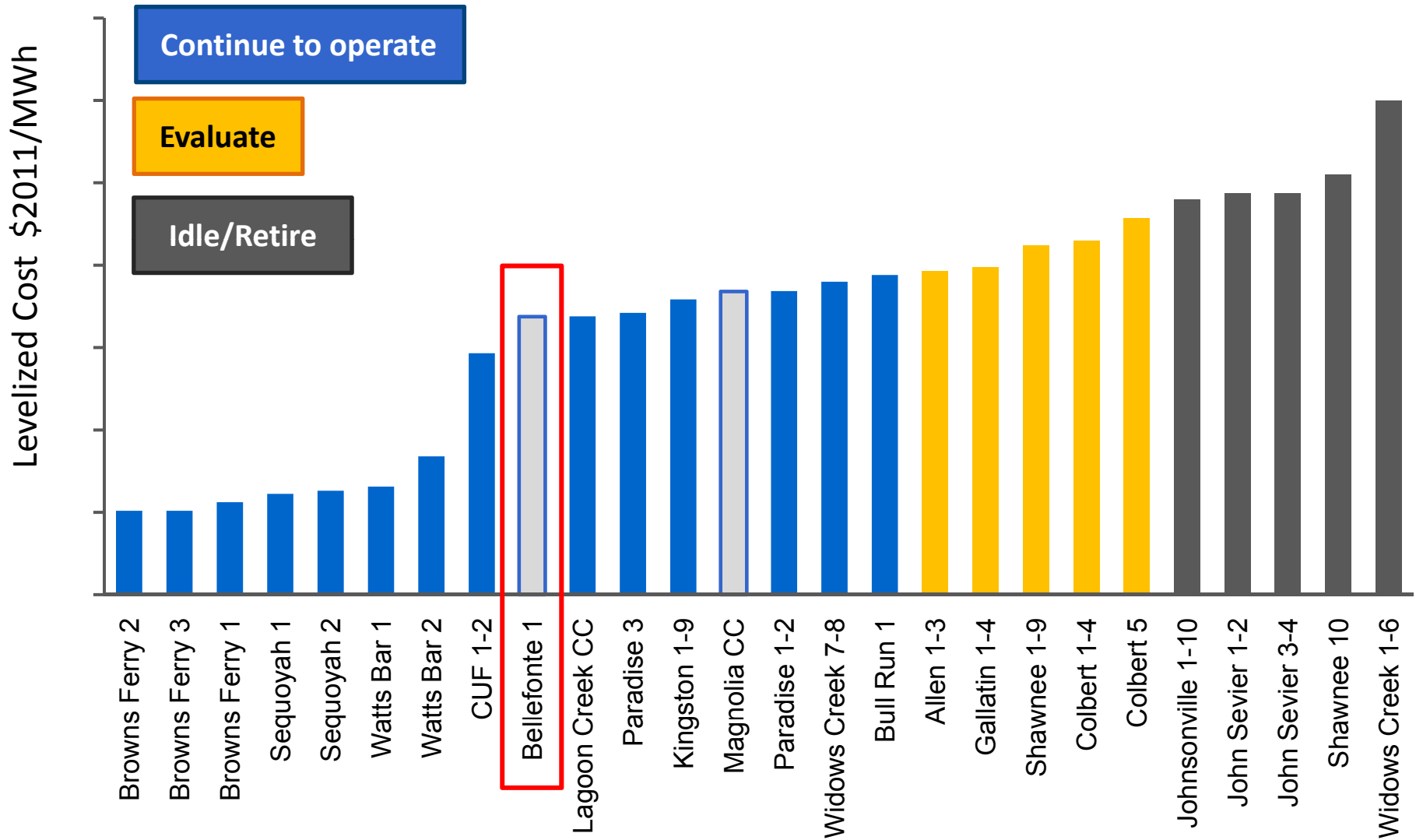




# Capacity Needs 2012-2020

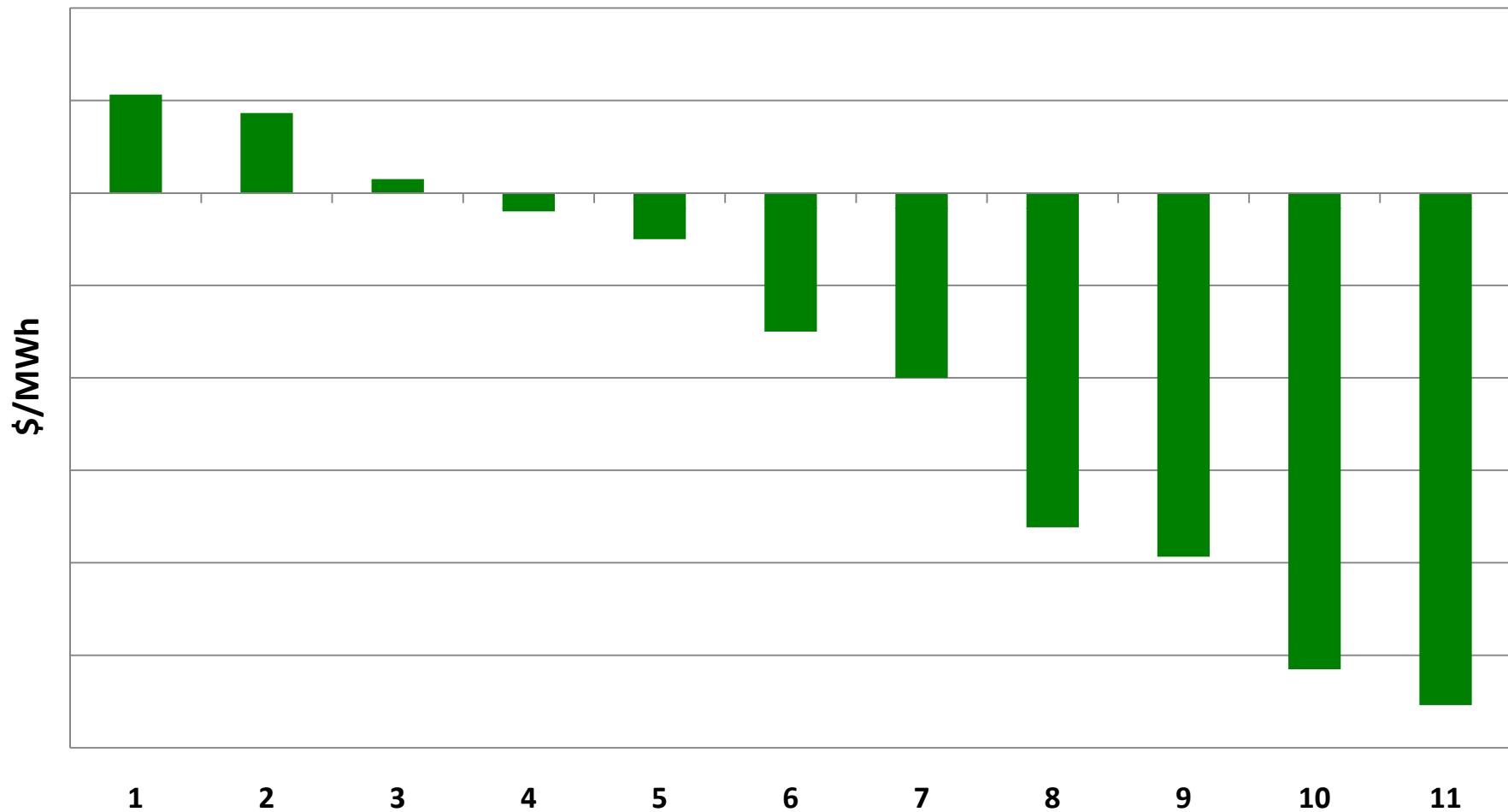


# Total "All-In" Cost Comparison



# Lower Long-term Customer Costs

Bellefonte Rate Impacts Vs. Natural Gas



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# Bellefonte

## Strategic Fit

- Directly supports the Vision and IRP
- Reduces environmental regulatory risks

## Operational Fit

- Provides reliable, clean baseload power
- Ability to transfer resources from Watts Bar

## Financial Fit

- Least cost option over the long-term
- Minimizes costs to customers and results in more stable rates

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# Sequoyah License Extension Application

Units 1 and 2 licenses expire in 2020 and 2021,  
respectively

Proposed to submit the license renewal application in the  
first calendar quarter of 2013



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# Sequoyah License Extension Application

## Strategic Fit

- Directly supports the Vision and IRP
- Reduces environmental regulatory risks

## Operational Fit

- Continues use of existing asset
- Provides reliable, safe, low-cost baseload power

## Financial Fit

- Least cost option over the long-term
- Minimizes costs to customers

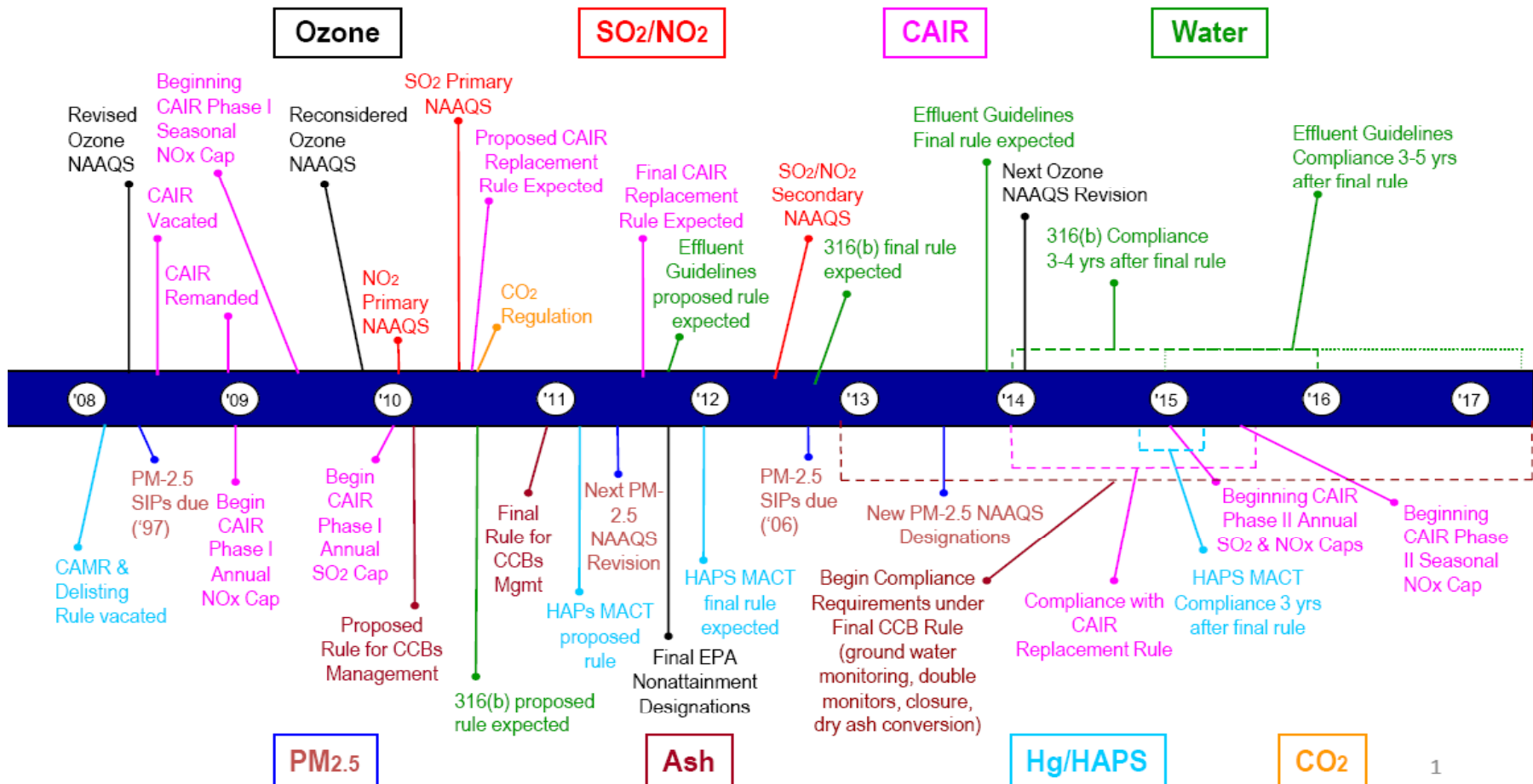
# IRP Recommended Direction

## Recommendations

- ↑ Nuclear generation
- ↑ Coal capacity idled
- ↔ Natural gas as an intermediate supply source
- ↑ Energy efficiency and demand response
- ↑ Cost-effective renewable energy
- ↑ Pumped storage hydro capacity

# Pending Regulations

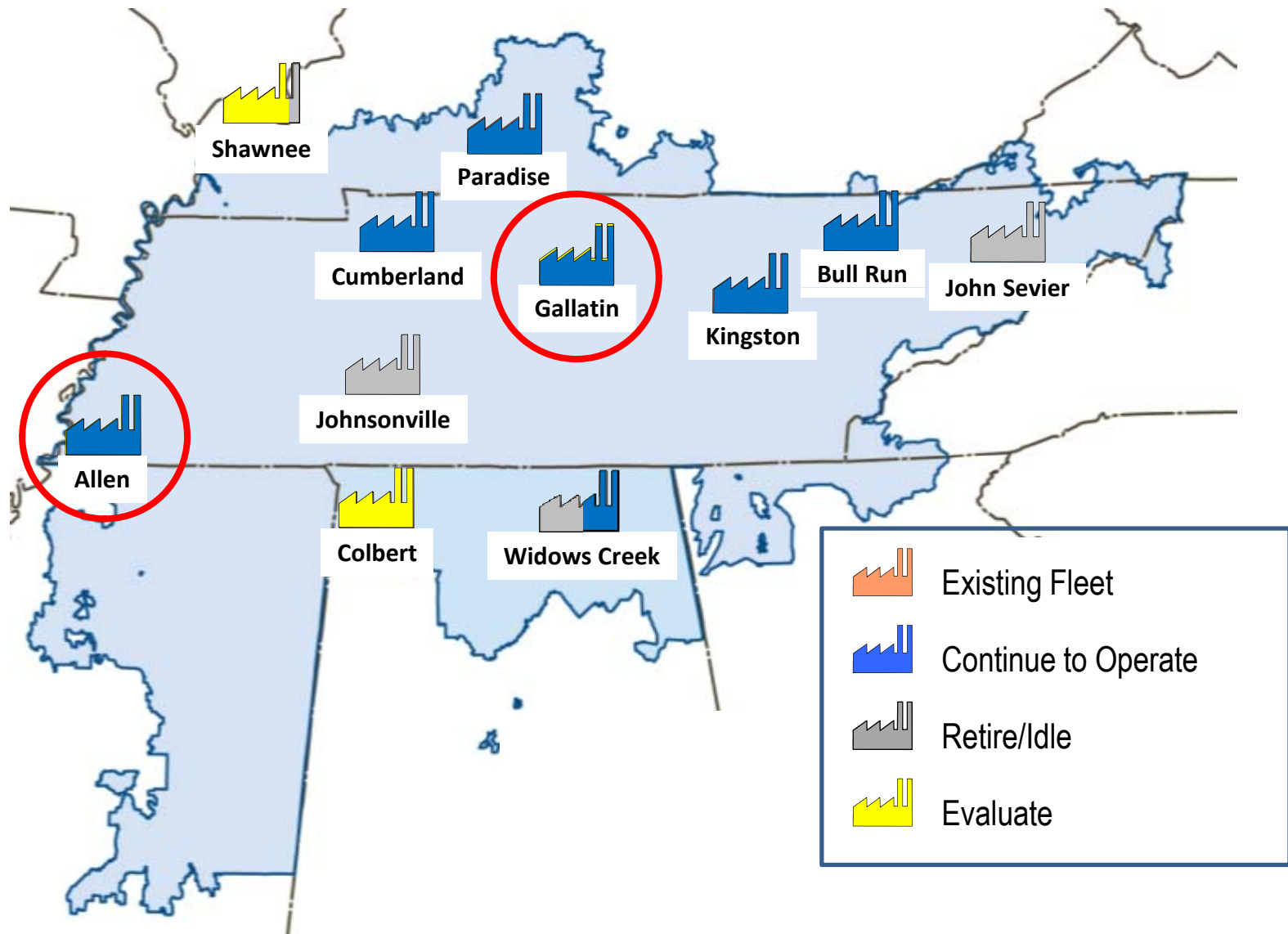
Expected Regulations — Timing May Vary



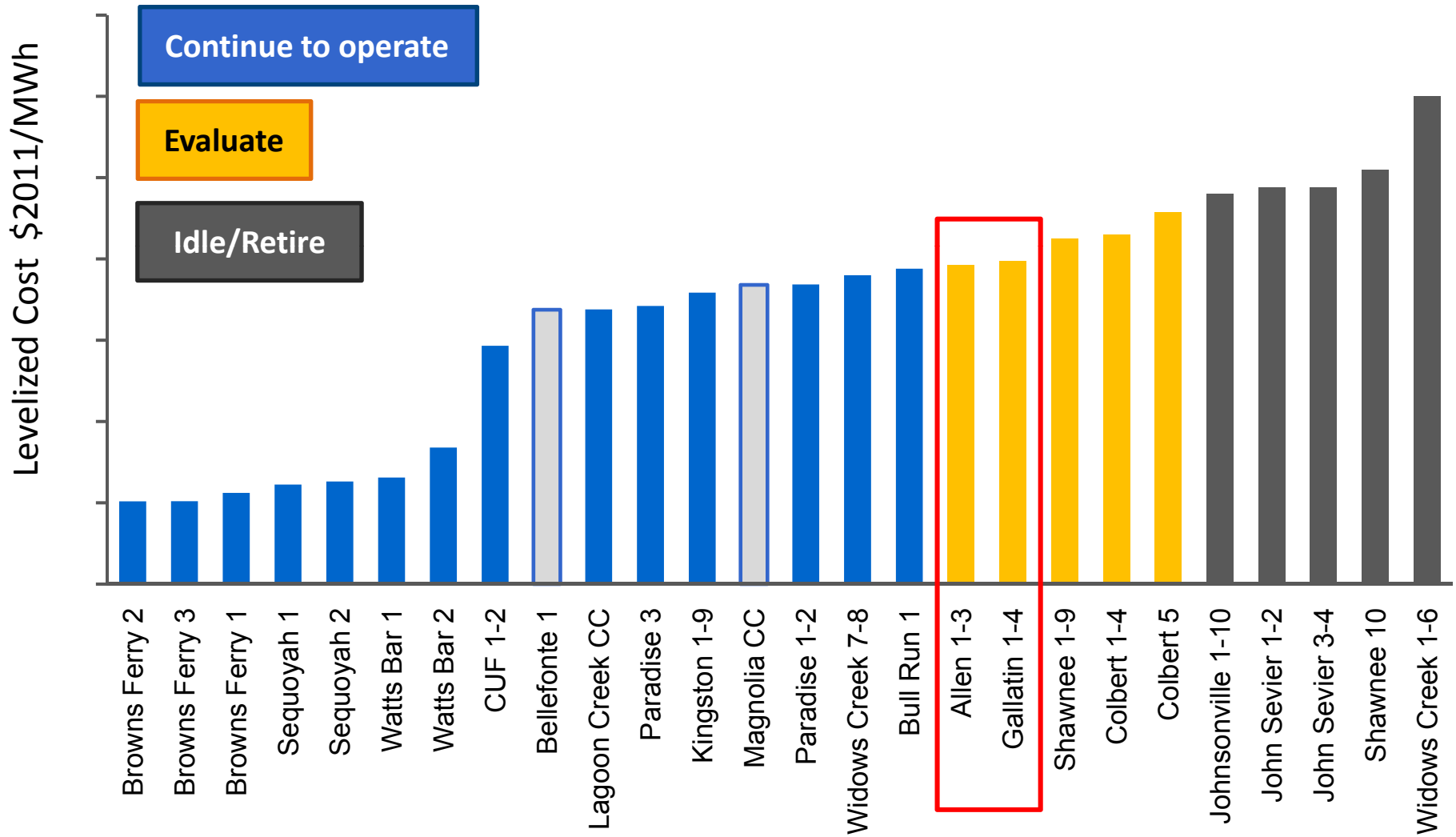
-- adapted from Wegman (EPA 2003)



# TVA Coal Fleet Decisions



# Total "All-In" Cost Comparison



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# Emission Controls at Allen and Gallatin

Strategic Fit	Operational Fit	Financial Fit
<ul style="list-style-type: none"><li>• Supports Vision and IRP</li><li>• Meets environmental regulations</li></ul>	<ul style="list-style-type: none"><li>• Provides generation diversity</li><li>• Maintains reliability of transmission system</li></ul>	<ul style="list-style-type: none"><li>• Lower cost option</li><li>• Minimizes costs to customers</li></ul>

# IRP Recommended Direction

## Recommendations

 **Nuclear generation**

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 **Coal capacity idled**

---

 **Natural gas as an intermediate supply source**

---

 **Energy efficiency and demand response**

---

 **Cost-effective renewable energy**

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 **Pumped storage hydro capacity**

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# Magnolia Combined Cycle Plant

**Owner:** Kelson Energy

**Built by:**

Intergen/Bechtel

**Commercial**

**Operation:**

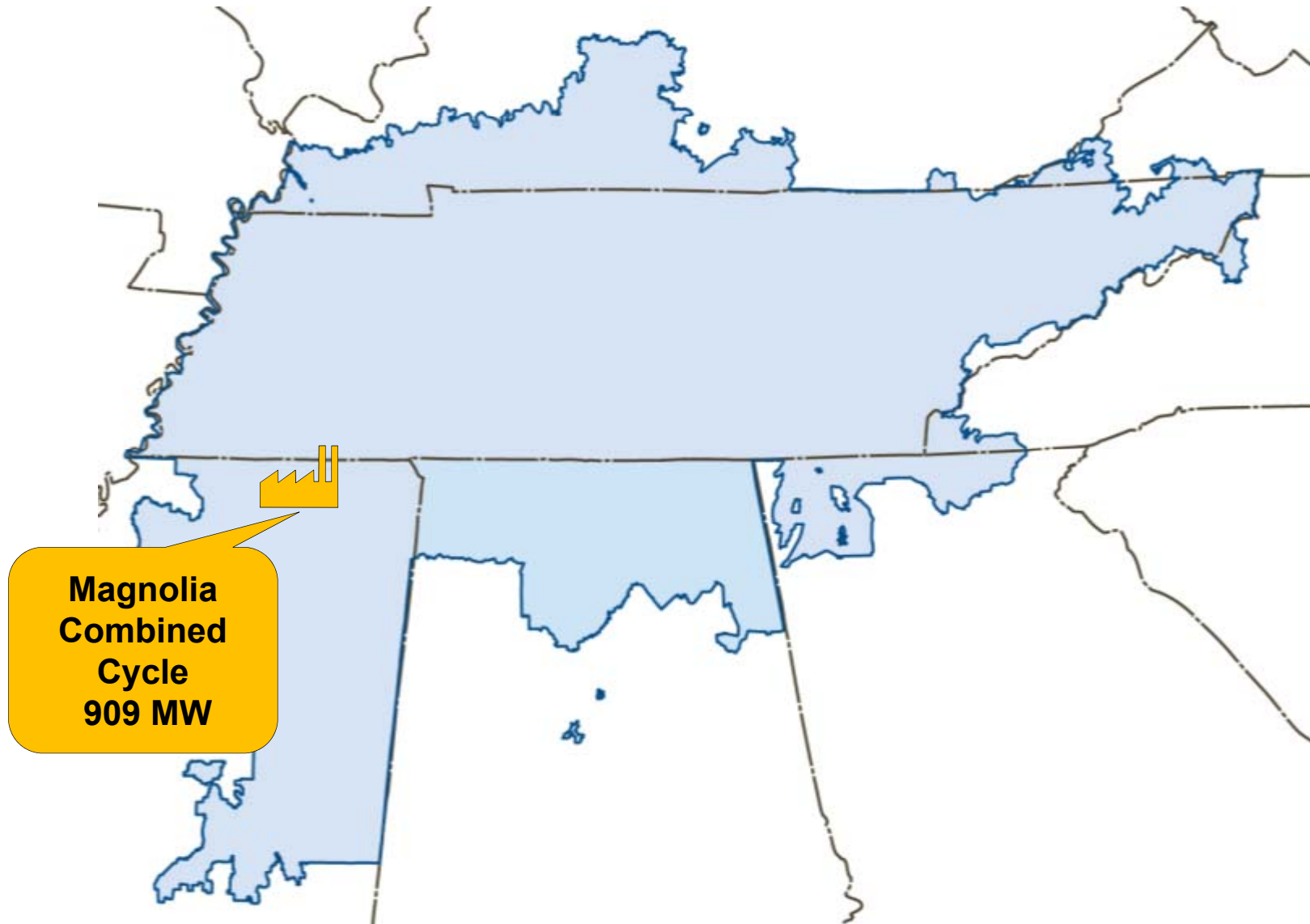
August 2003

**Size:** 909 megawatts summer dependable capacity



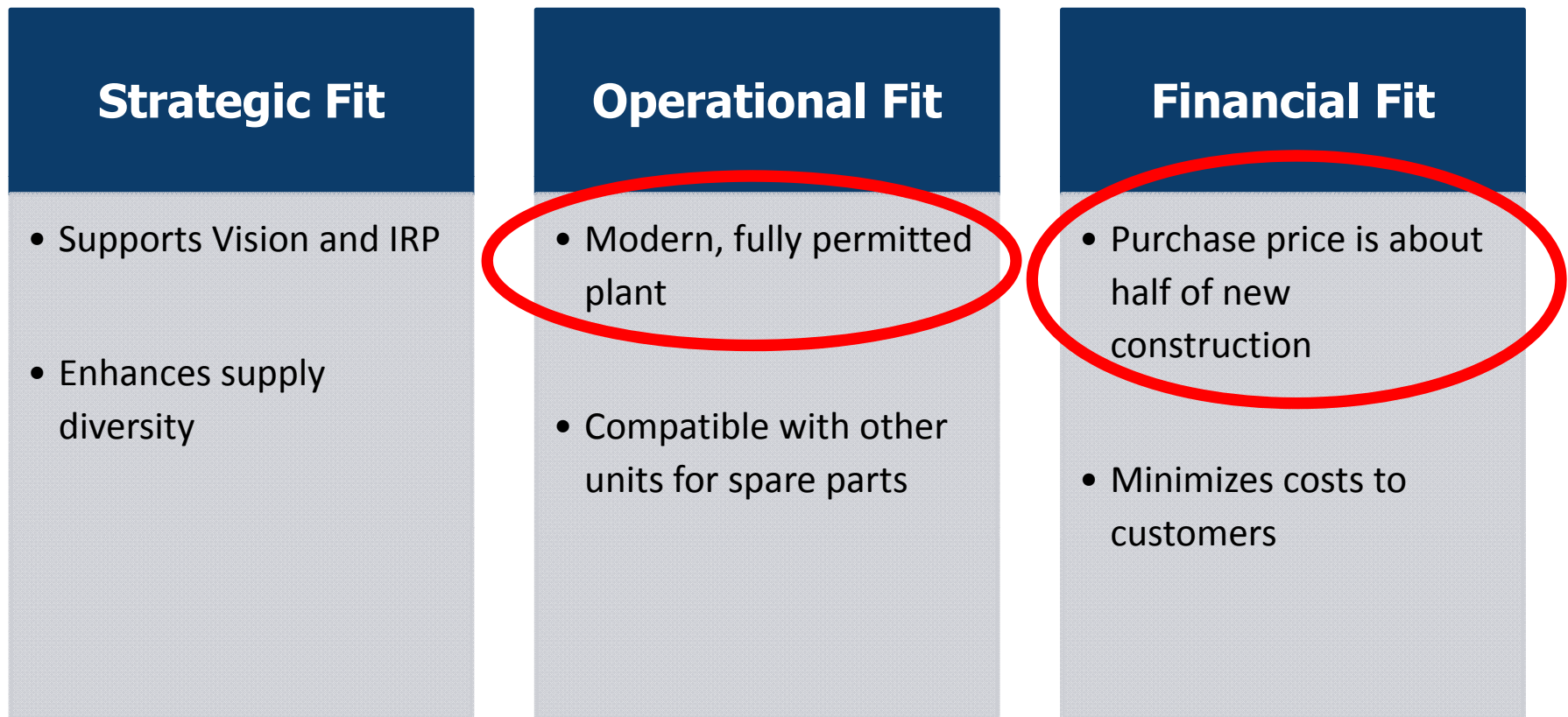
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# Magnolia Combined Cycle



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# Magnolia Combined Cycle



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# Summary of Recommendations

**In support of TVA's Vision and aligned with the Integrated Resource Plan, authorize:**

- Submittal of the Sequoyah Units 1 and 2 license extension application
- Installation of air pollution controls on Allen and Gallatin Fossil plants
- Acquisition of the Magnolia combined cycle generation station



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# Bellefonte

# Our VISION



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## More Nuclear Generation

# Our Approach to Nuclear Development

## *Under Construction*



## *Engineering Phase*



## *Study Phase*



### **Watts Bar 2**

### **Bellefonte 1\***

### **Future Nuclear\***

**Expected in-service**

**2013**

**2018-2020**

**After 2020**

**Megawatts**

**1,180**

**1,260**

**TBD**

**\*pending approval**

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# Factors Supporting Completion

Need For Power



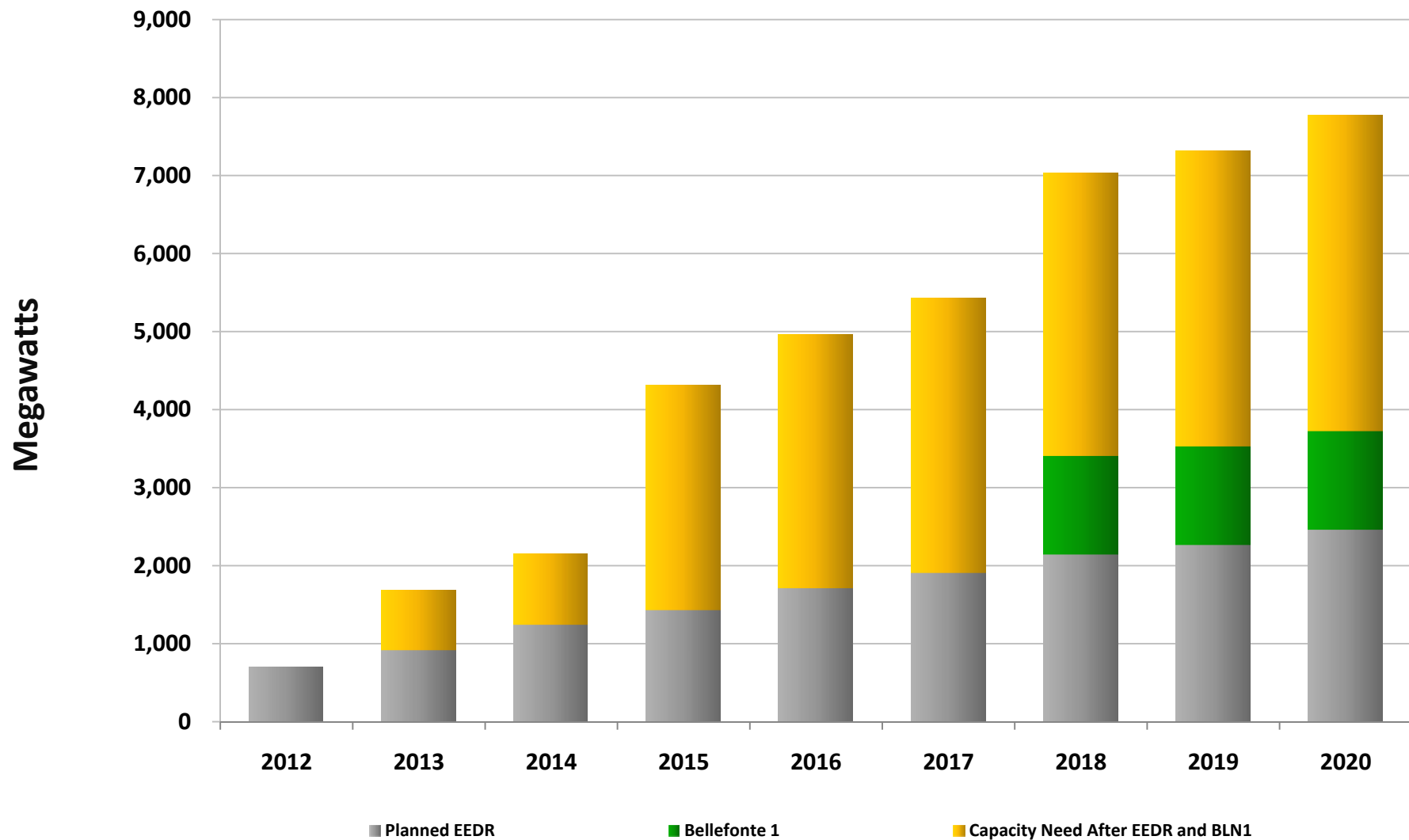
Financial Analysis

Environmental Impact Statement and IRP

Detailed Scoping, Estimating and Planning

Business Risk Assessment

# Capacity Needs 2012-2020

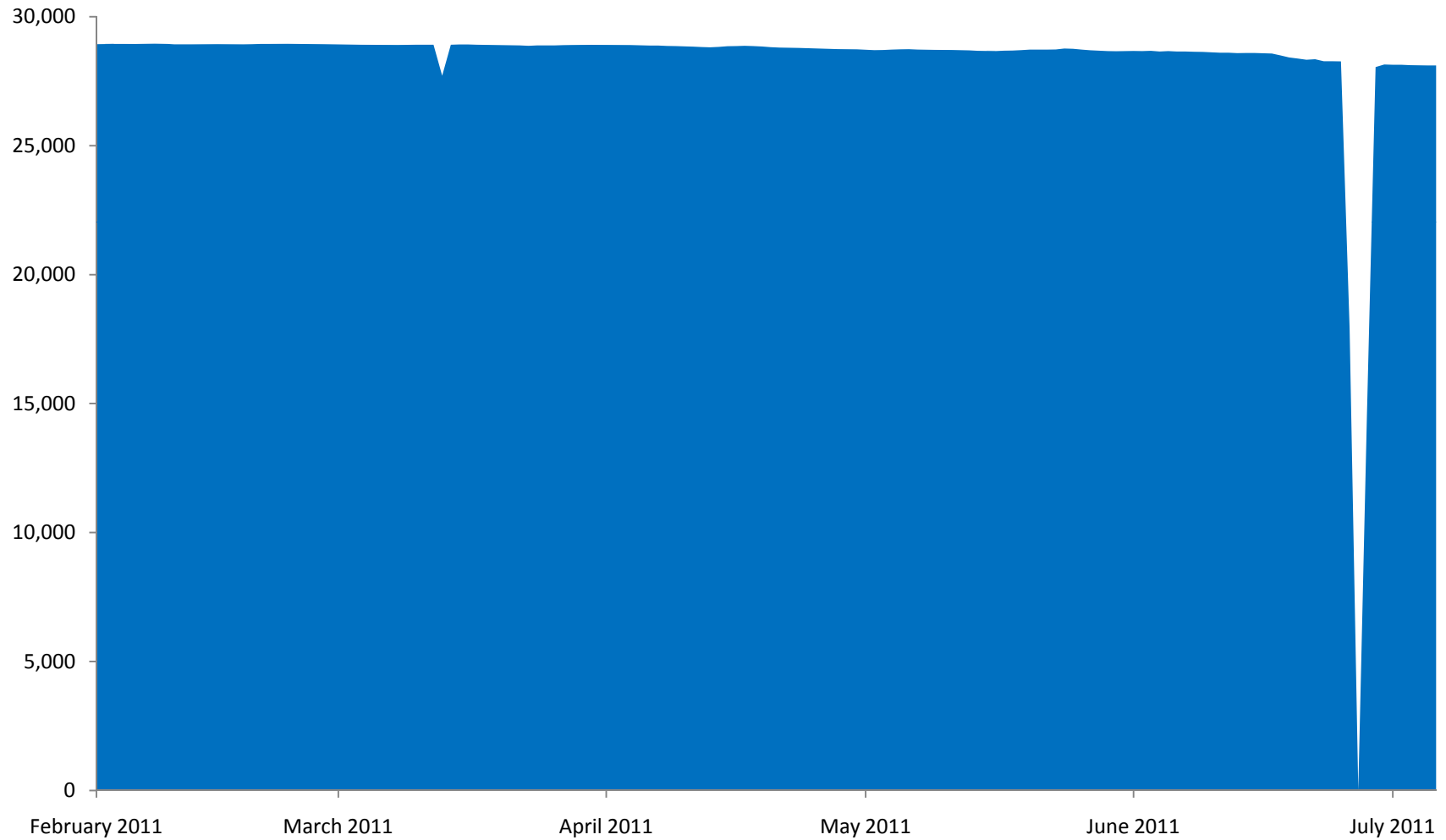


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# Consistent Production

MWH

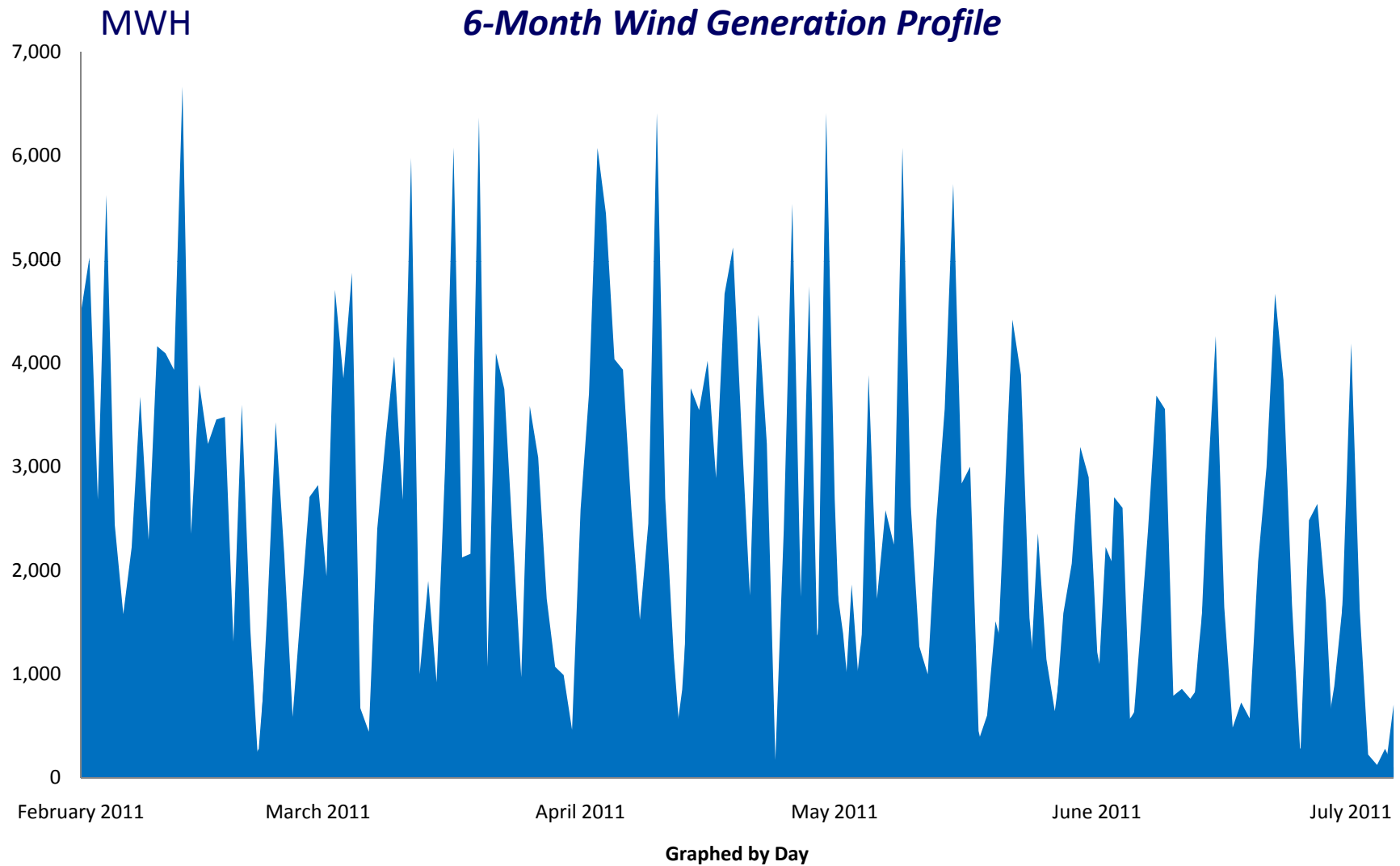
*6-Month Sequoyah Unit 1 Generation Profile*



Graphed by Day

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# Intermittent Production



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# Factors Supporting Completion

Need For Power

Financial Analysis



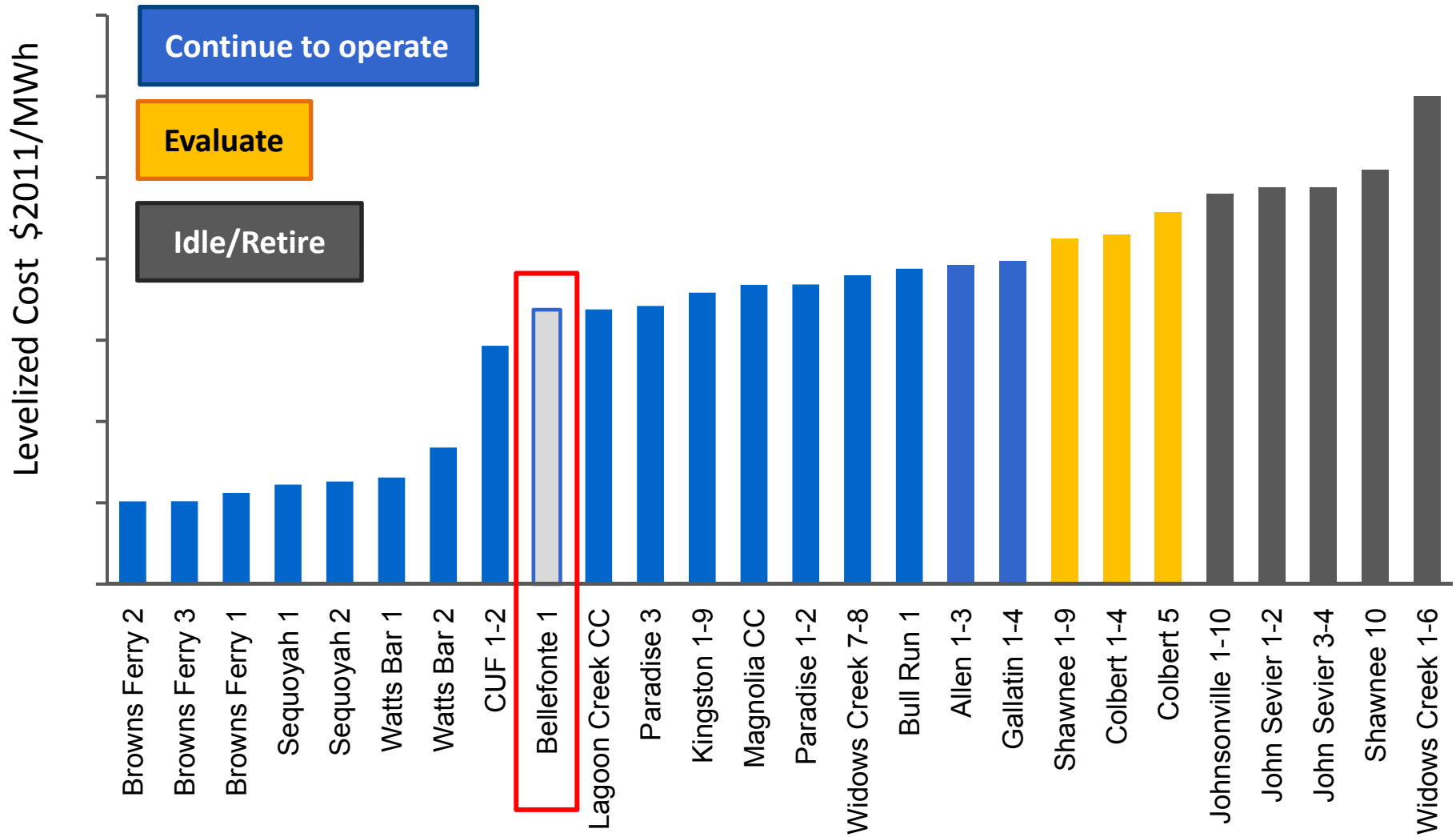
Environmental Impact Statement and IRP

Detailed Scoping, Estimating and Planning

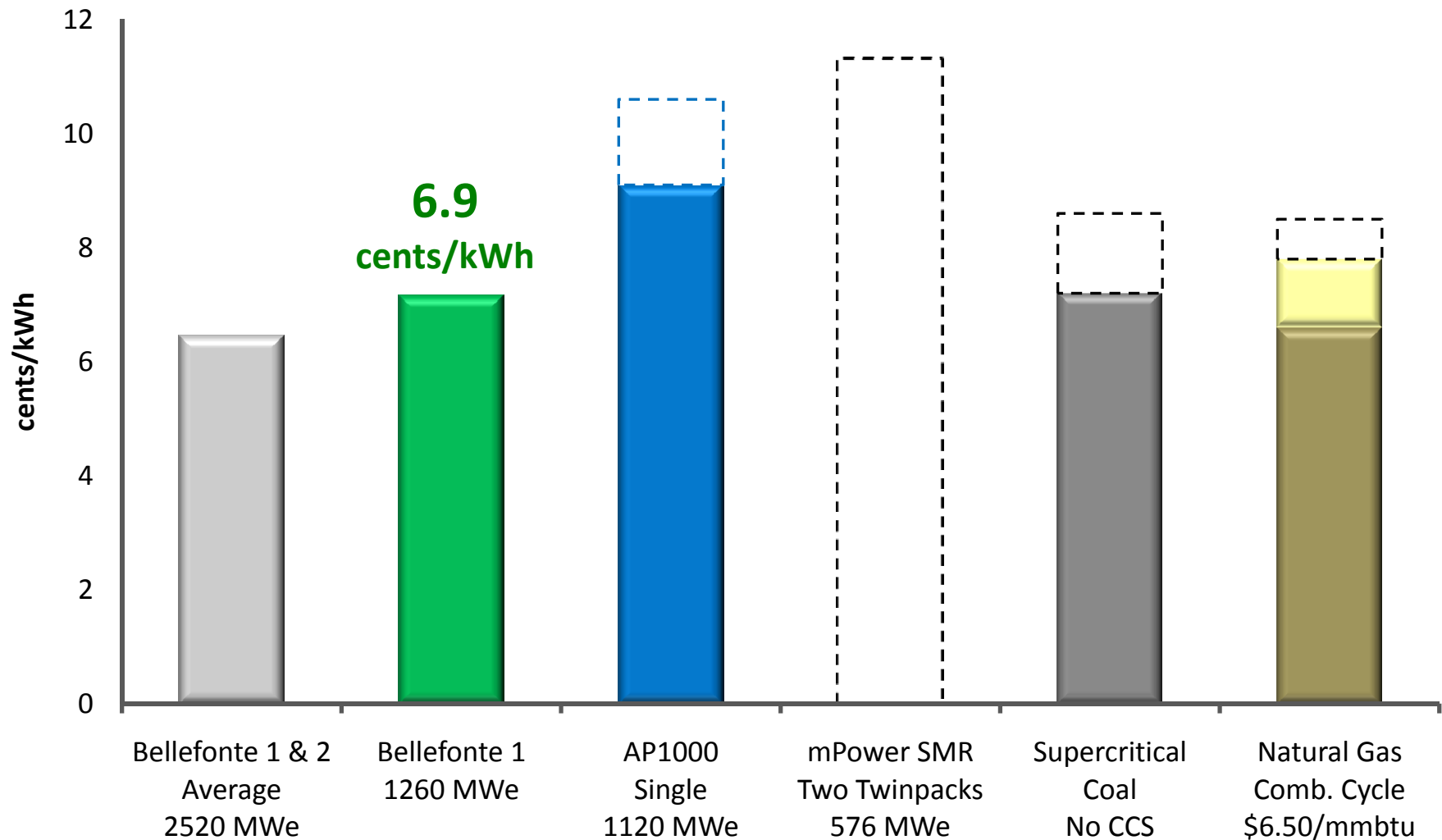
Business Risk Assessment



# Total "All-In" Cost Comparison



# Nuclear “All-In” Cost Comparison



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# Factors Supporting Completion

Need For Power

Financial Analysis

Environmental Impact Statement and IRP



Detailed Scoping, Estimating and Planning

Business Risk Assessment

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# Significant Public Review

## Environmental Review

Bellefonte Unit 1 was the preferred alternative

## Integrated Resource Plan

Strongly supports Bellefonte Unit 1 under numerous planning uncertainties and potential growth futures for 2018-2020

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# Factors Supporting Completion

Need For Power

Financial Analysis

Environmental Impact Statement and IRP

Detailed Scoping, Estimating and Planning

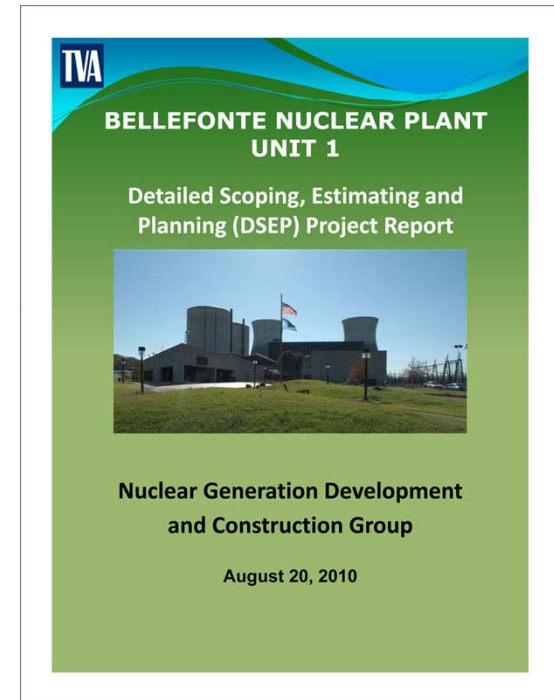


Business Risk Assessment

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# Detailed Scoping, Estimating and Planning

- Project Scope
- Licensing Strategy
- Material Condition
- Schedule and Cost for Completion and Start-up
- Project Risk
- Contracting and Staffing Strategy
- Included independent industry experts to review and challenge results



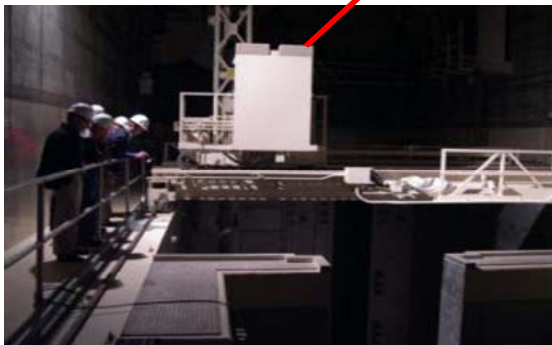
**Goal: A Reliable Basis for Decision-Making**

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# \$1.9 Billion in Existing Value

Vs. New Construction

## Bellefonte Existing Facilities



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# The Reality at Bellefonte

- Meets safety requirements for new reactors
- New steam generators
- New main condenser tubing
- Secondary reactor shield building
- Newest fuel design
- Digital instrumentation and controls
- Modern main control room





# Bellefonte Control Room



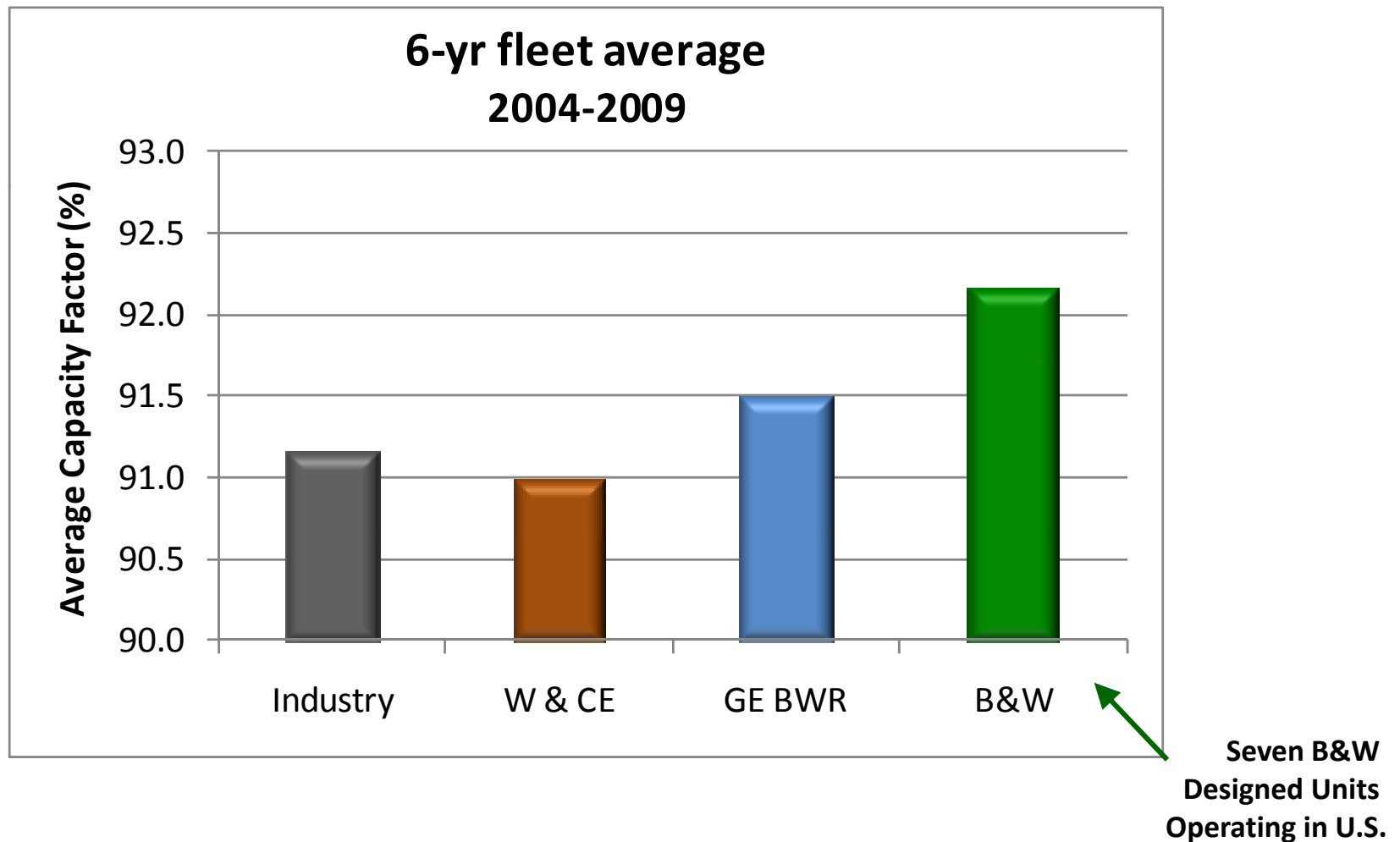
Existing



Planned

# Bellefonte Design Improvements

## Evolutionary B&W 205 Design Improvements



# Designed to Withstand the Worst

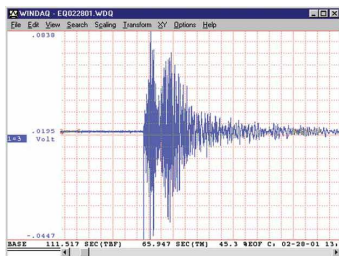
## Natural Disaster



**Flood**



**Tornado**



**Earthquake**

## Worst Recorded

**Elevation 602.2**

**EF5 – Rainsville, Alabama**

**(200-220 MPH)**

**8.0—New Madrid, Missouri**

**4.6—Worst local**

## Bellefonte Design

**Elevation 627**

**360 MPH**

**8.9—at New Madrid**

**(9 times more  
than New Madrid)**

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# Factors Supporting Completion

Need For Power

Financial Analysis

Environmental Impact Statement and IRP

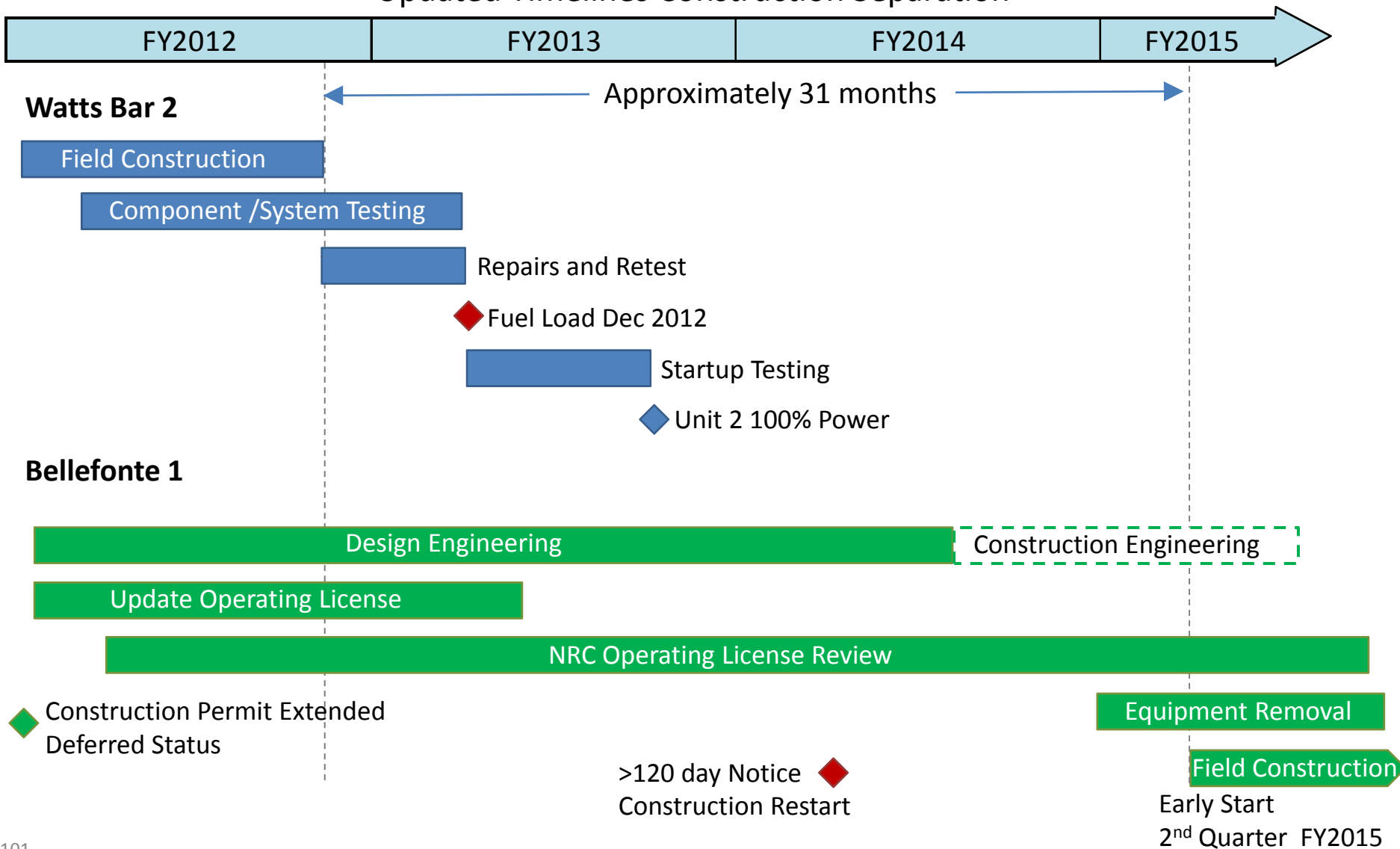
Detailed Scoping, Estimating and Planning

Business Risk Assessment



# Watts Bar 2 and Bellefonte 1

## Updated Timelines Construction Separation



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# Proposed Cost and Schedule

Total Cost Estimate	\$4.9 Billion
In-Service Date	2018-2020
Peak Staffing Estimate	2,800
Net Dependable Capacity Rating	1,260 megawatts

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# Completion of Bellefonte Unit 1

- Provides needed base-load electricity by 2020
- Makes productive use of a valuable asset
- New generation that produces no emissions
- Incorporates post-Fukushima safety advances
- Minimizes costs to customers

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# Recommendation

Authorize the licensing, completion of construction and operation of Unit 1 at Bellefonte Nuclear Plant



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# Fiscal Year 2012 Budget and Business Plan

# Our VISION



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Greater Energy Efficiency

**Acting to meet the region's needs for the future, while improving our core business today.**

---

# How We Built the Plan

Benchmarked Top Quartile Retail Rate



Developed Project Economics and Return on Investment



Prioritized Projects and Initiatives Focused on Achieving the Vision



Addressed Emerging Issues



Built Scenarios Incorporating Vision and Rate Objectives

# Fiscal Year 2012 Plan

Planning Elements	Key Takeaway	Vision
<b>FY 11</b>	Conserving Cash	<ul style="list-style-type: none"> <li>• Low Rates</li> </ul>
<b>Sales, Capacity and New Generation</b>	Balanced	<ul style="list-style-type: none"> <li>• Higher Reliability</li> <li>• More Nuclear Generation</li> <li>• Greater Energy Efficiency</li> <li>• Cleaner Air</li> </ul>
<b>Fuel and Purchased Power</b>	Prices Mixed	<ul style="list-style-type: none"> <li>• Low Rates</li> </ul>
<b>Operational Spending</b>	Asset Investments	<ul style="list-style-type: none"> <li>• Low Rates</li> <li>• Higher Reliability</li> <li>• Responsibility</li> </ul>
<b>Financial Health</b>	Principles Based	<ul style="list-style-type: none"> <li>• Low Rates</li> <li>• Responsibility</li> </ul>
<b>Rate Outlook</b>	Recommend a rate increase	<ul style="list-style-type: none"> <li>• Low Rates</li> <li>• Responsibility</li> </ul>

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# Sales, Capacity, and New Generation

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# Economic Factors

Regional Growth 1%

- Lower near-term

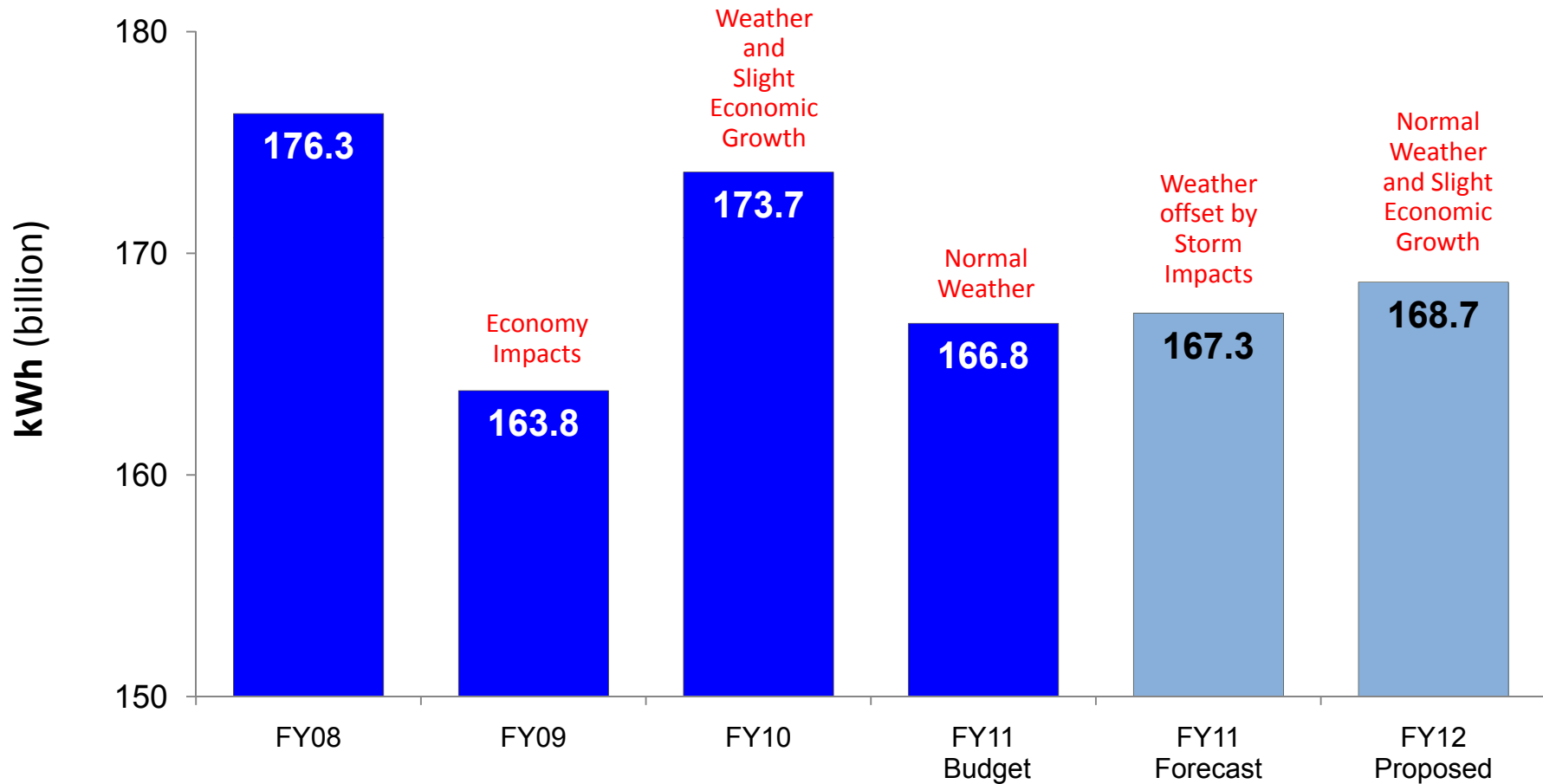
Regional Unemployment 9.9%

Weak commercial activity continues

GDP growth 2.5%

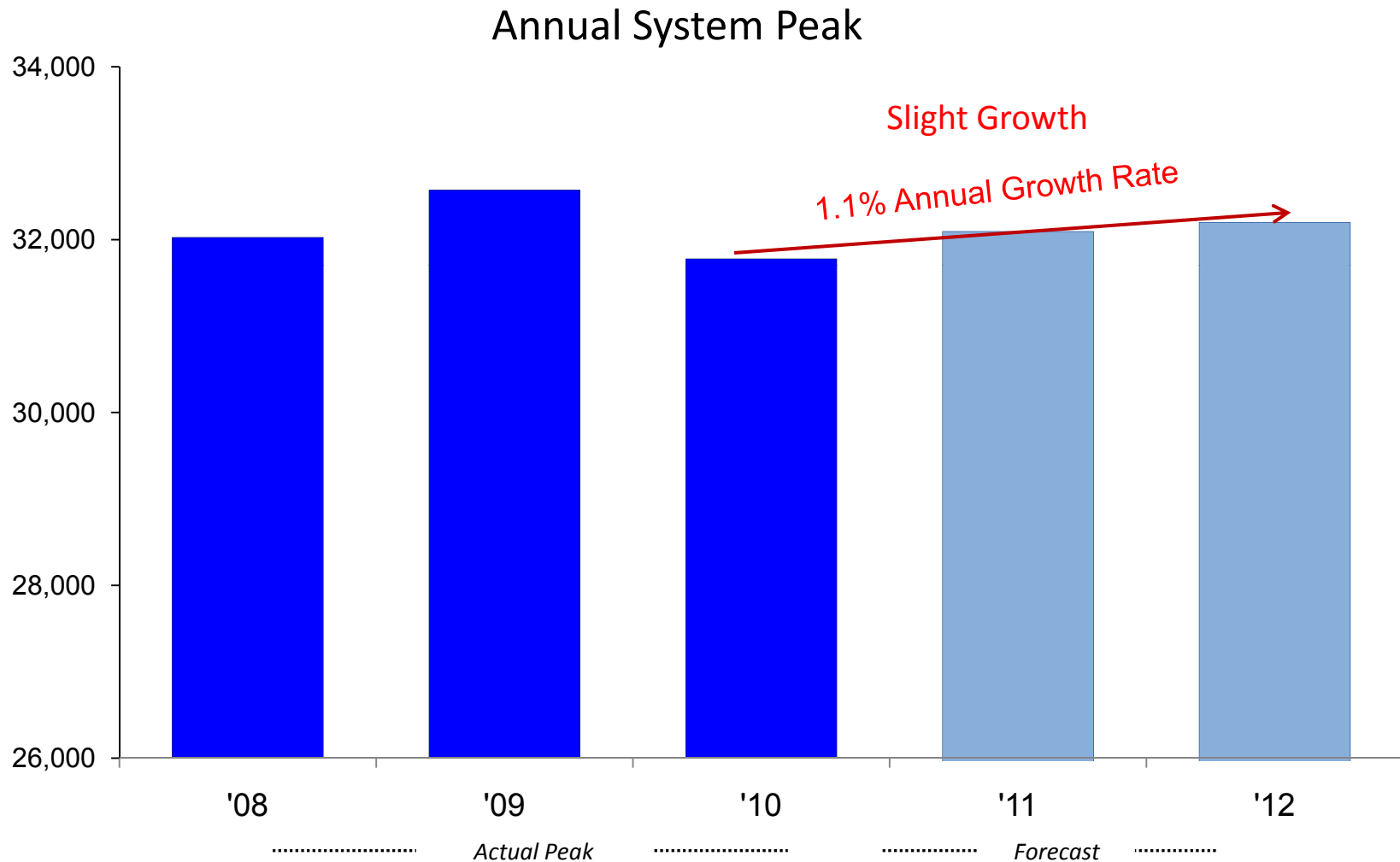
- Lower near-term

# Projected Sales



Projected TVA Sales (kWh) = System Energy less Transmission Losses

# Peak Customer Demand

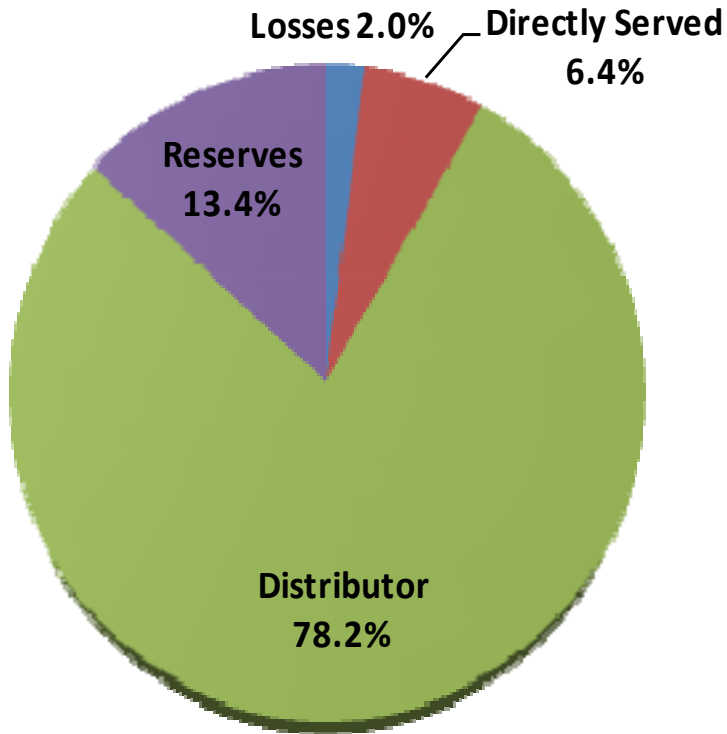




# 2012 Capacity and Peak Demand Balance

## Firm Requirements

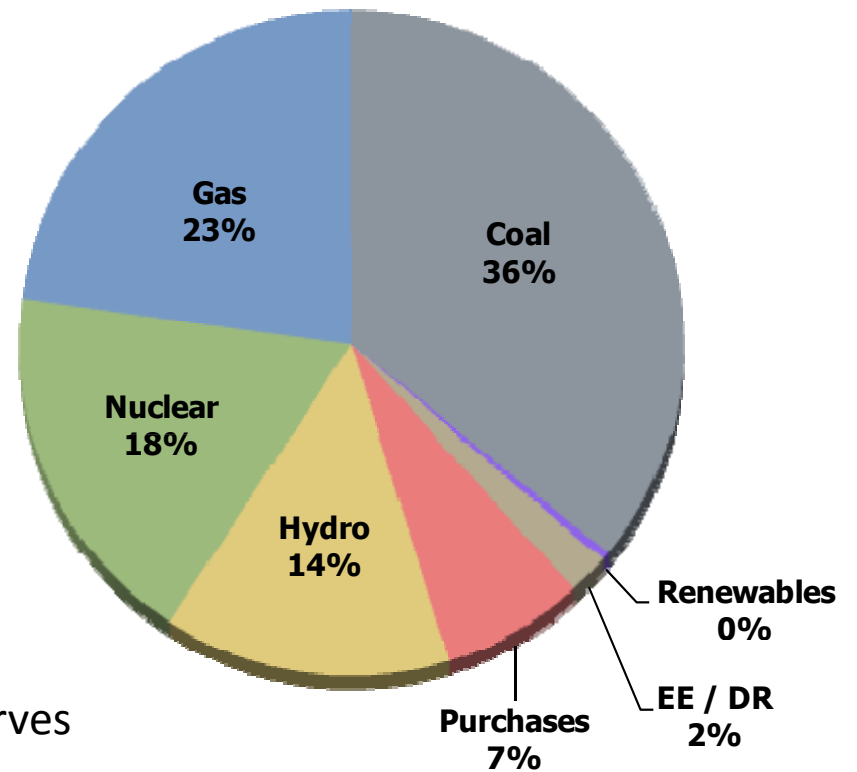
36,053 MW



+1,356 MW  
Net Long

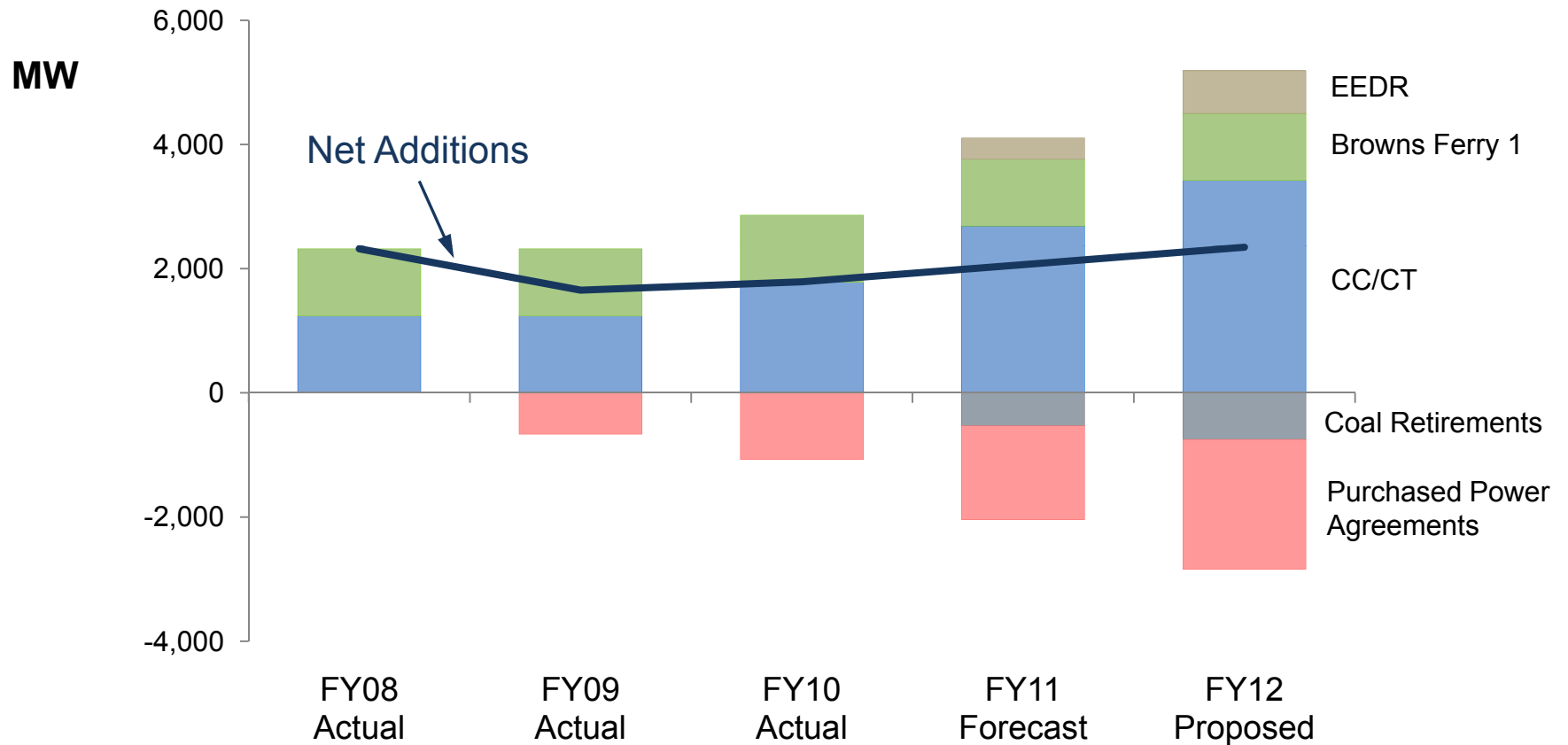
## Firm Supply

37,409 MW

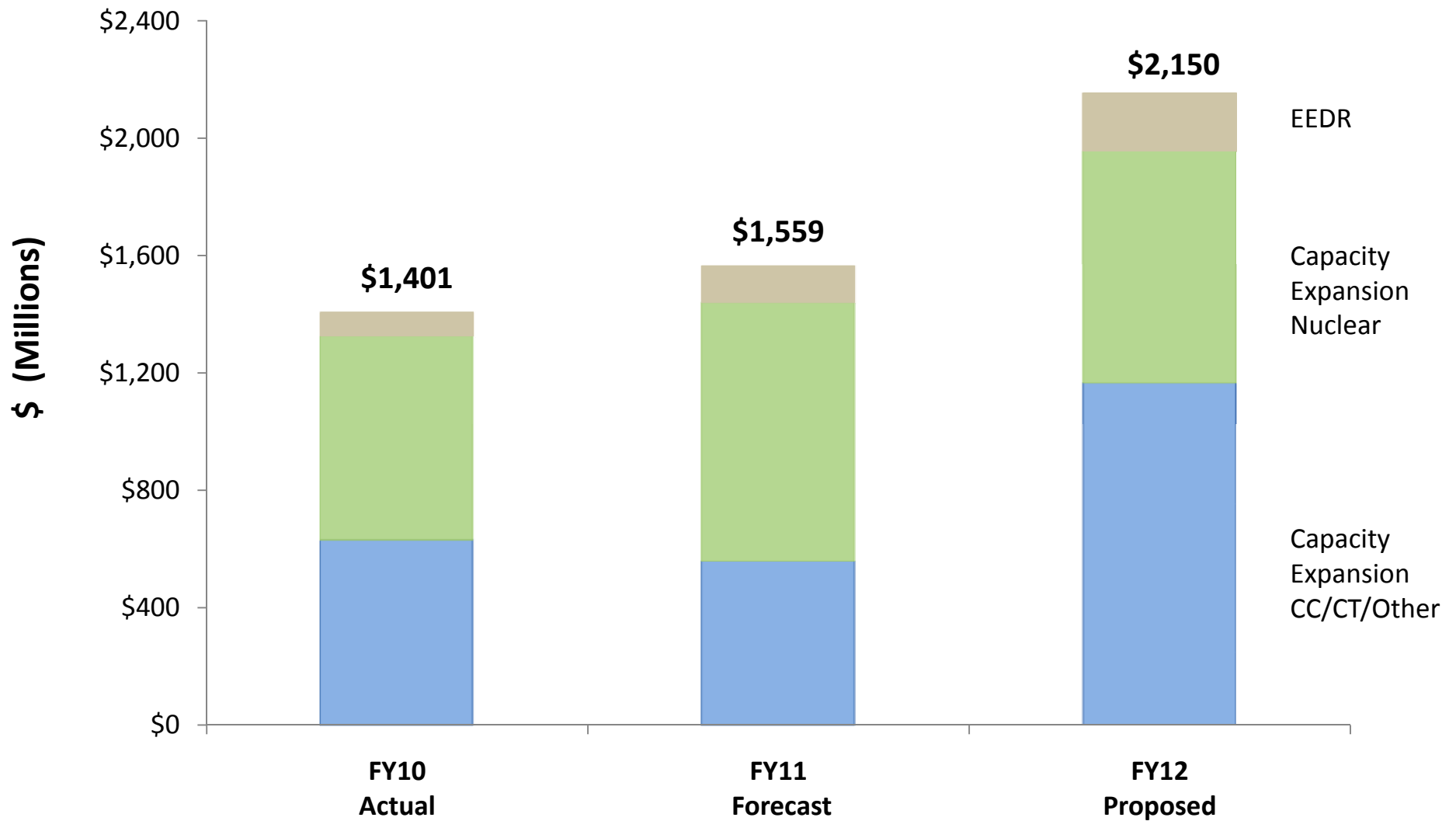


Includes reserves

# Capacity Additions (Cumulative)



# System Resource Spend



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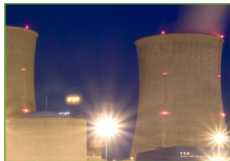
# Key Takeaways

## Sales, Capacity, New Generation



### High Reliability

- System capacity and demand balanced



### More Nuclear Generation

- Investing in new nuclear



### Greater Energy Efficiency

- Expanding Energy Efficiency and Demand Response

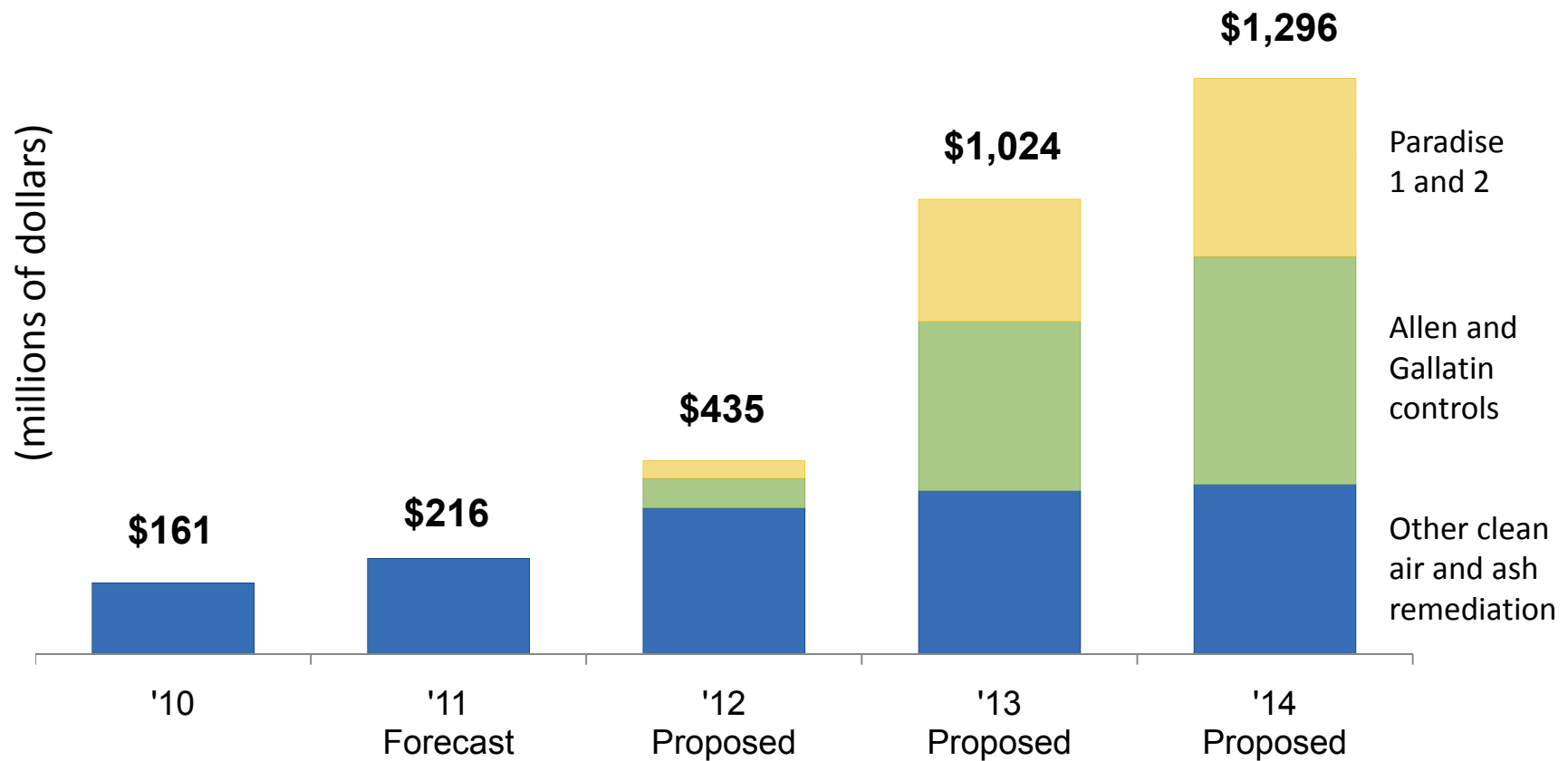


### Cleaner Air

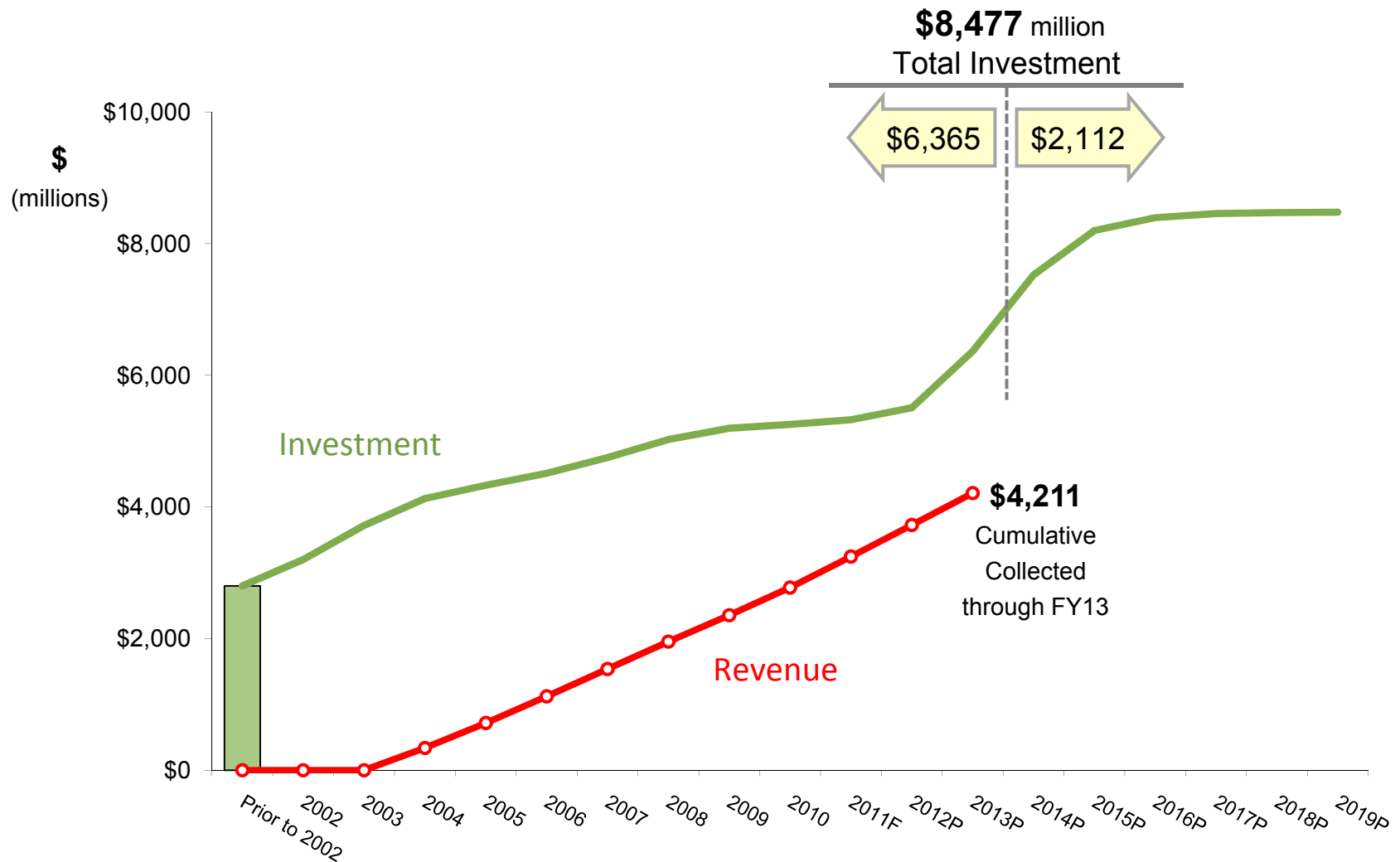
- Moving to a more balanced portfolio

# Environmental Investments

## Extensive Investment for new fossil controls



# Clean Air Net Investments



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# Fuel and Purchased Power

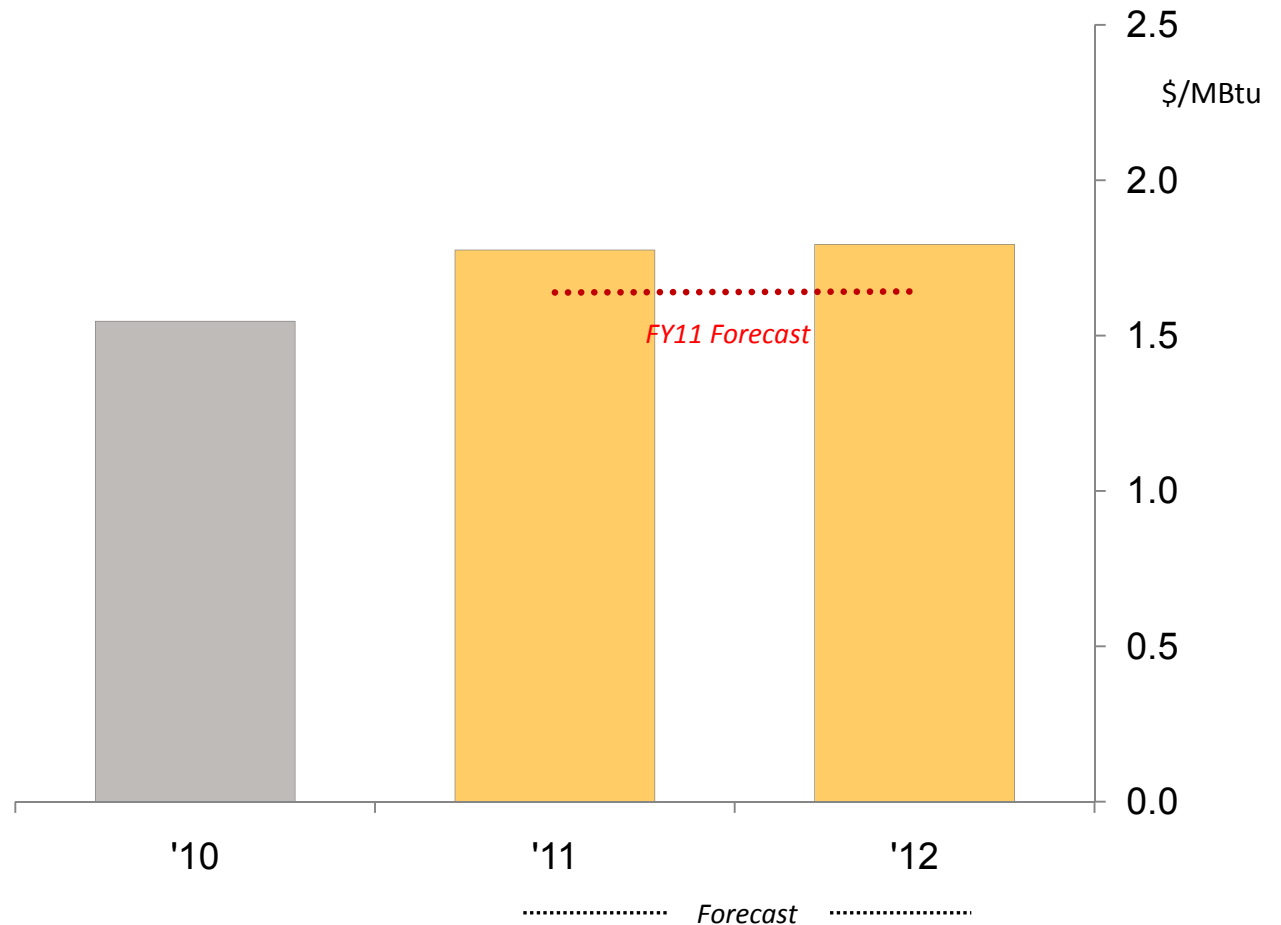
# Commodity Price Outlook

## Coal

Price outlook  
trending up slightly

- Increased regulatory impacts
- International interest in both metallurgical and steam domestic supplies

TVA Composite Coal Price – FOB Mine  
\$/MBtu





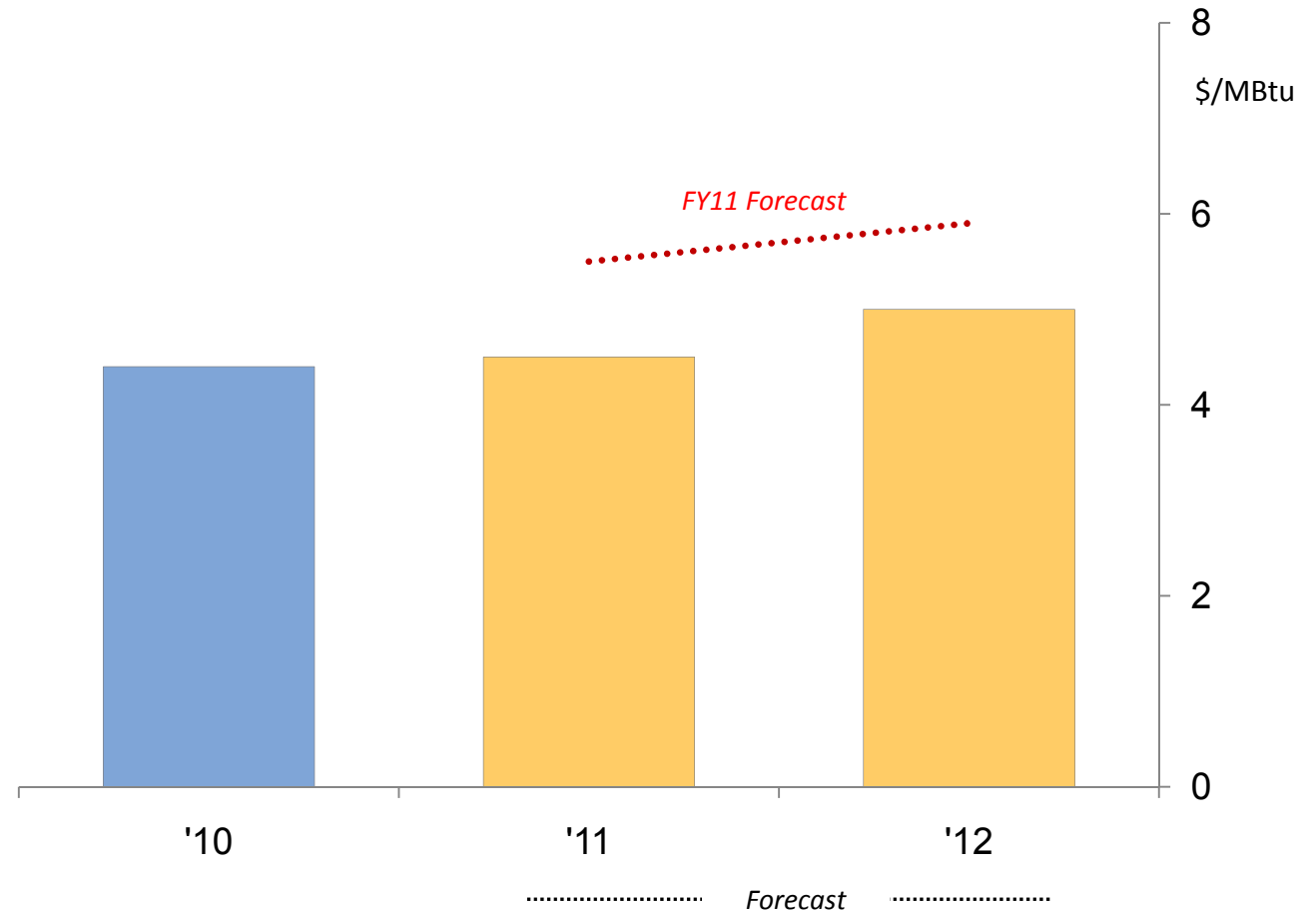
# Commodity Price Outlook

## Natural Gas

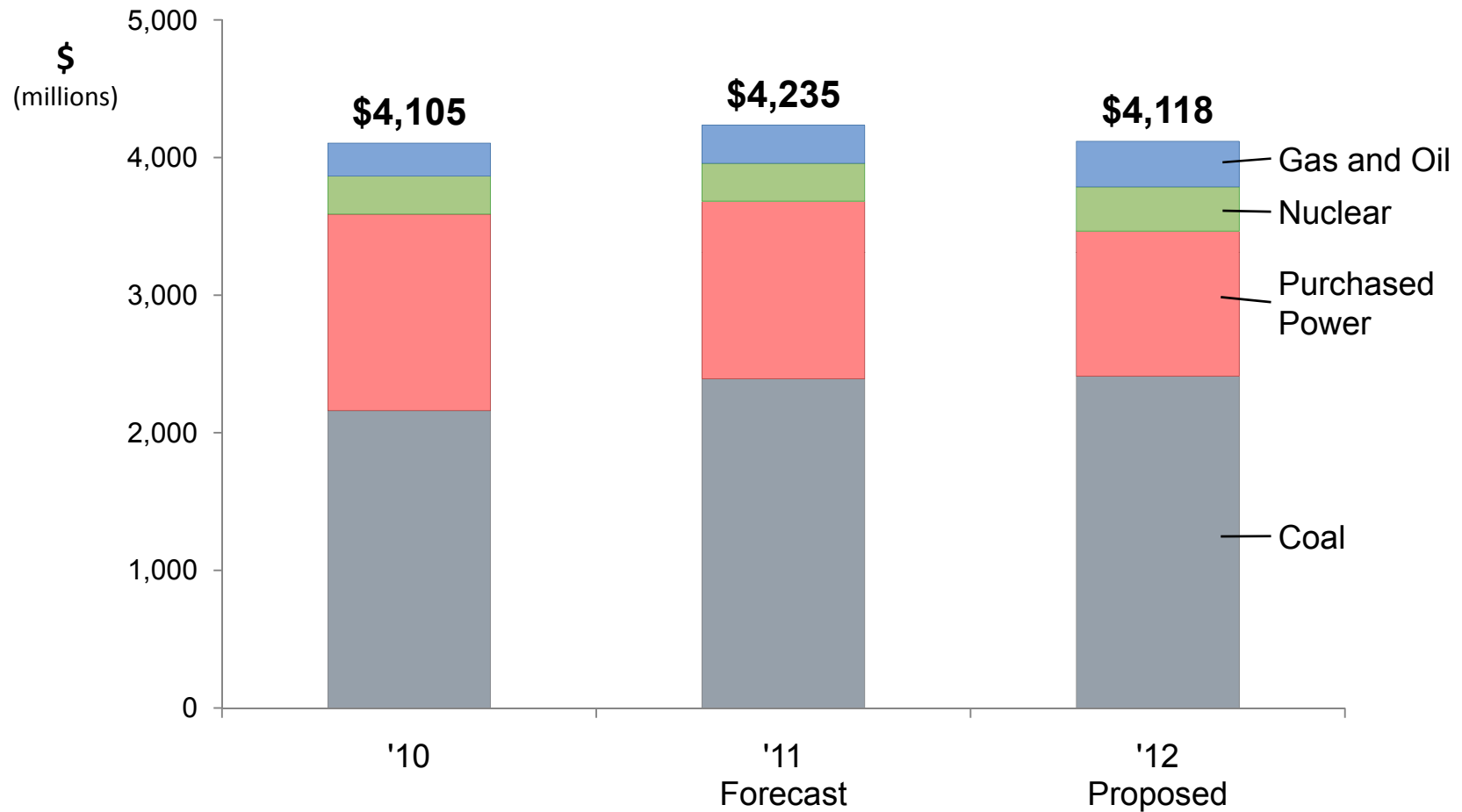
Price outlook down compared to last year

- Continued Shale Gas Impacts
- Slower economic growth

Natural Gas Price – Henry Hub  
\$/MBtu



# Fuel and Purchased Power



Excludes FCA

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# Key Takeaways

## Fuel and Purchased Power



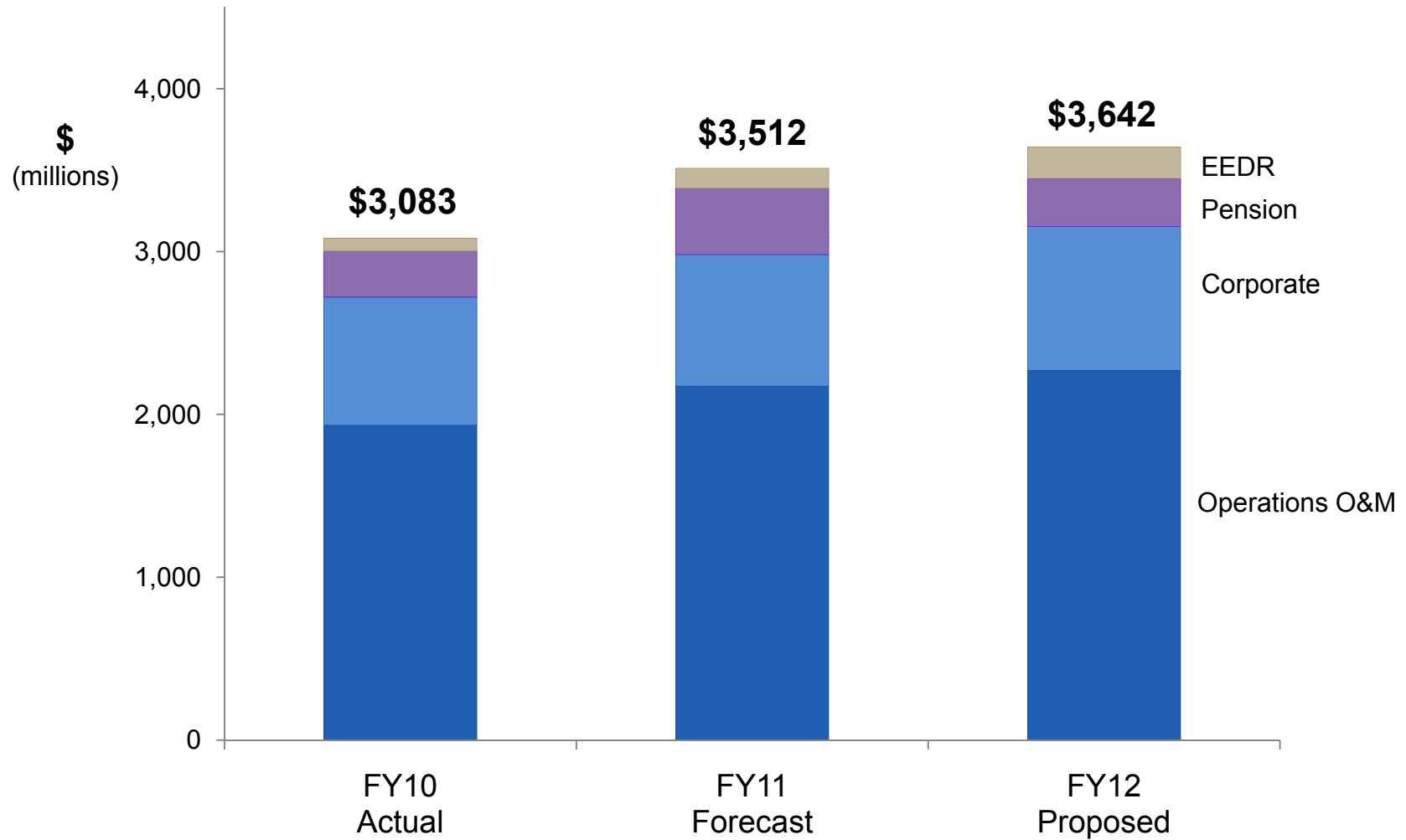
### Low Rates

- Fuel and Purchased Power forecasted to move slightly lower in Fiscal Year 2012
- Commodity prices mixed

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# Operational Spending

# Non-Fuel O&M Expense

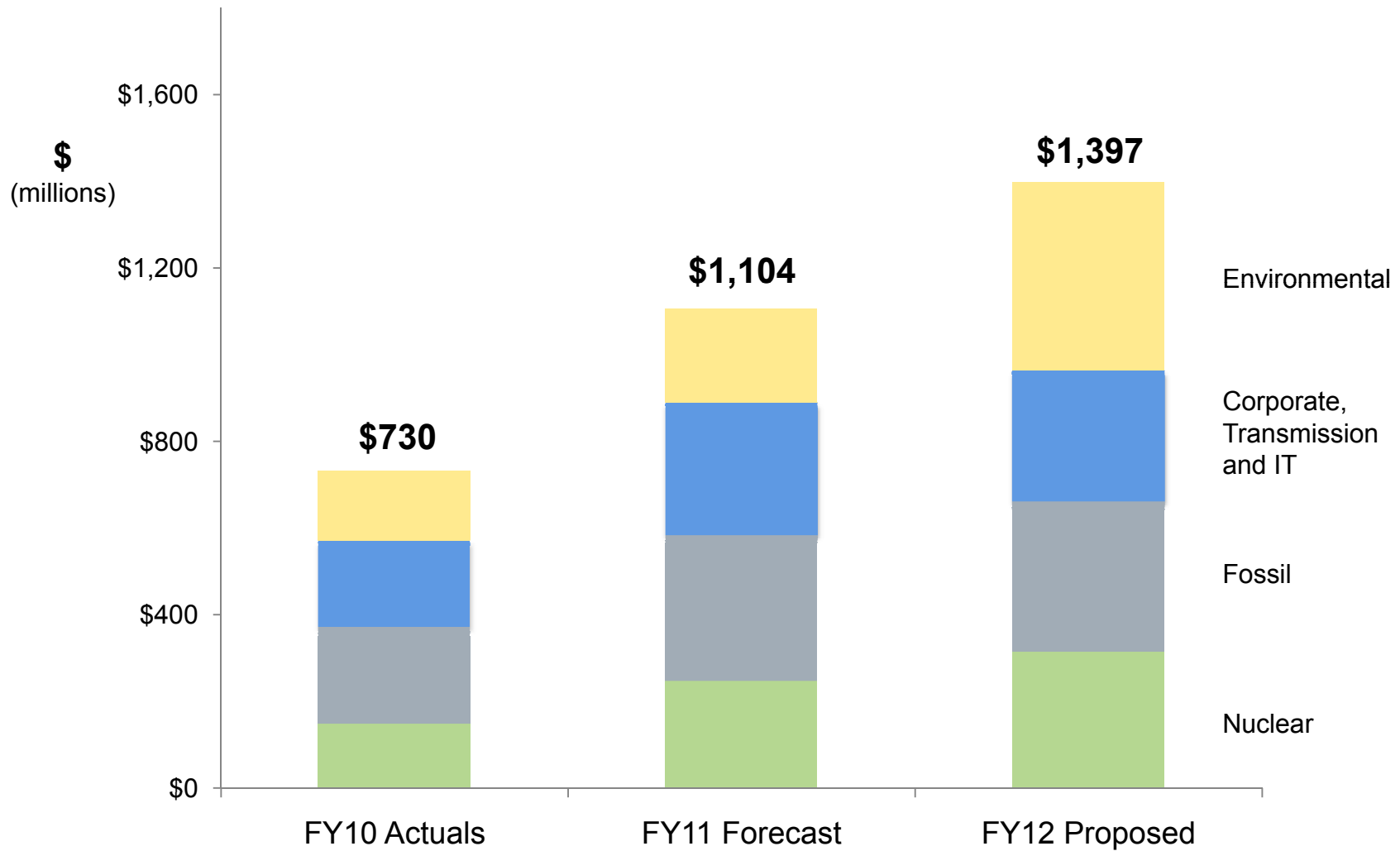


# Key O&M Investments

(millions of dollars)

	FY11 Changes	FY12 Changes
Nuclear and Fossil: Improvements & New Regulations	\$291	\$81
Energy efficiency and demand response programs	\$45	\$60
Economic development	\$31	\$37
Infrastructure / Technology		\$52

# Base Capital Investment

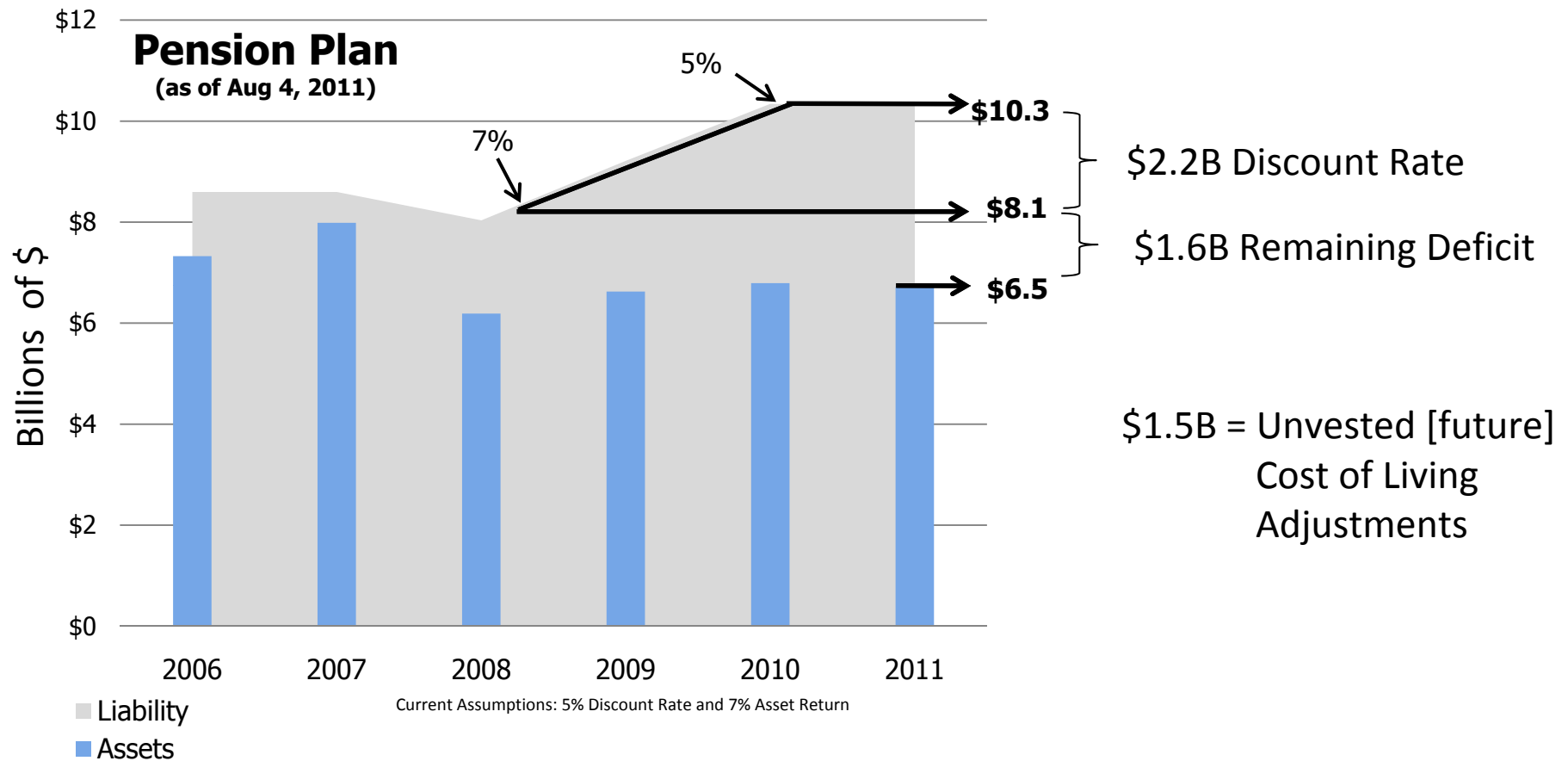


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# Pension Funding Update



# Pension Funding Status



Contribution: Annual vesting benefits \$75 million  
 Ensure asset performance is realized  
 Incremental \$270M Planned for FY11

# Contributions

The \$1 billion contribution in 2009 has provided an additional asset base for improved returns.

The revised four year COLA calculation and increased eligibility age to 60 resulted in a liability reduction of ~\$300M.

	2009	2010	2011	2012	2013
Contribution	\$1B	← Prefunded Contribution →			
Annual Return %	-	11.5%	~4.7%		
COLA	CPI (cap 5%)	0%	CPI (cap 3%)	0%	CPI (cap 2.5%)
Actual CPI	4.45%	-0.63%	1.15%		

1: Contribution made at the end of 2009 and did not realize full annual return rate  
 Note: TVA and TVARS actuaries assume a 2.5% CPI for out years.

---

# Pension Summary

## Reaffirm Vested Benefits

- Current checks are secure

Assume 7% Discount Rate and Monitor Trends

Consider Additional Contributions Based on Plan Needs

Continue assessing Pension Plan of the future

---

# Key Takeaways

## Operational Spending



### Low Rates

- Achieve productivity goals



### High Reliability

- Nuclear and fossil improvements
- Expand energy efficiency and demand response



### Responsibility

- Support economic development
- Reduce environmental impacts

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# Financial Health

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# Financial Guiding Principles

Retire debt over the useful life of assets

Only issue new debt for new assets

Use regulatory treatment for specific unusual events

Rate increases as necessary to fund operational spending

Align rate actions with TVA's Vision and Strategy



# Debt and Debt-Like Obligations

(in billions)

	FY11 Forecast	FY12 Proposed
<b>Beginning Debt</b>	<b>\$ 25.8</b>	<b>\$ 26.3</b>
New Borrowings:		
Capacity Expansion	\$ 1.4	\$ 2.0
Kingston	0.2	0.2
Enviromental Investments	0.2	0.4
Refinancing	1.0	1.5
<b>Total New Borrowings</b>	<b>\$ 2.8</b>	<b>\$ 4.1</b>
Debt Paydown:		
Bellefonte	\$ (0.4)	\$ (0.4)
Legacy Debt	(0.3)	(0.4)
2009 Pension Contribution	(0.3)	(0.3)
Other Financing	(0.2)	(0.2)
New Borrowings	(0.1)	(0.2)
Maturing Debt	(1.0)	(1.5)
<b>Total Debt Paydown</b>	<b>\$ (2.3)</b>	<b>\$ (3.0)</b>
<b>Ending Debt</b>	<b>\$ 26.3</b>	<b>\$ 27.4</b>
<b>Statutory Debt Balance</b>	<b>\$ 24.3</b>	<b>\$ 22.1</b>

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# Peer Comparisons

## Peer Companies

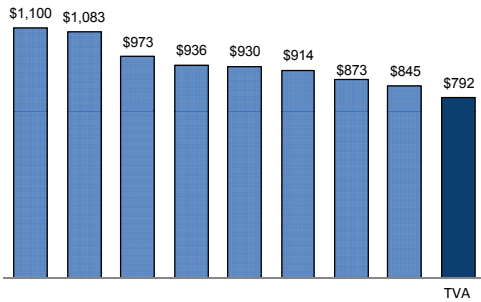
AEP	Duke
Exelon	Progress
Entergy	Next Era
Dominion	Southern



# Low Installed Cost

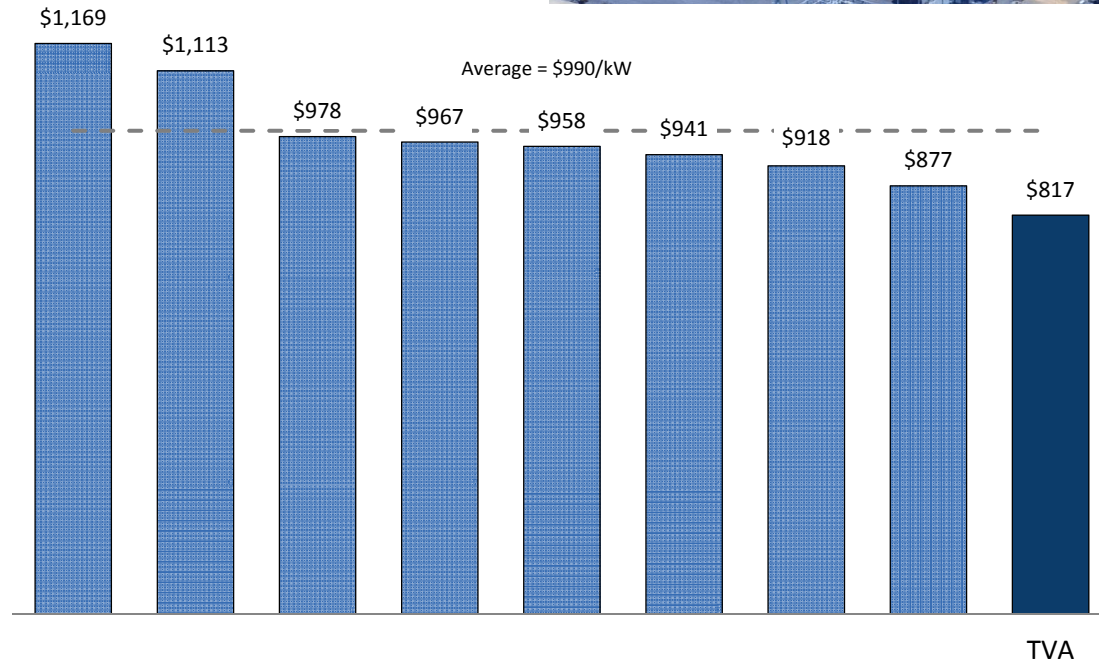
## Net Book Value per Installed Capacity

2009



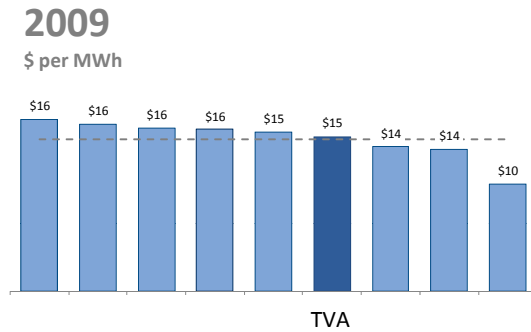
2010

\$ per kW

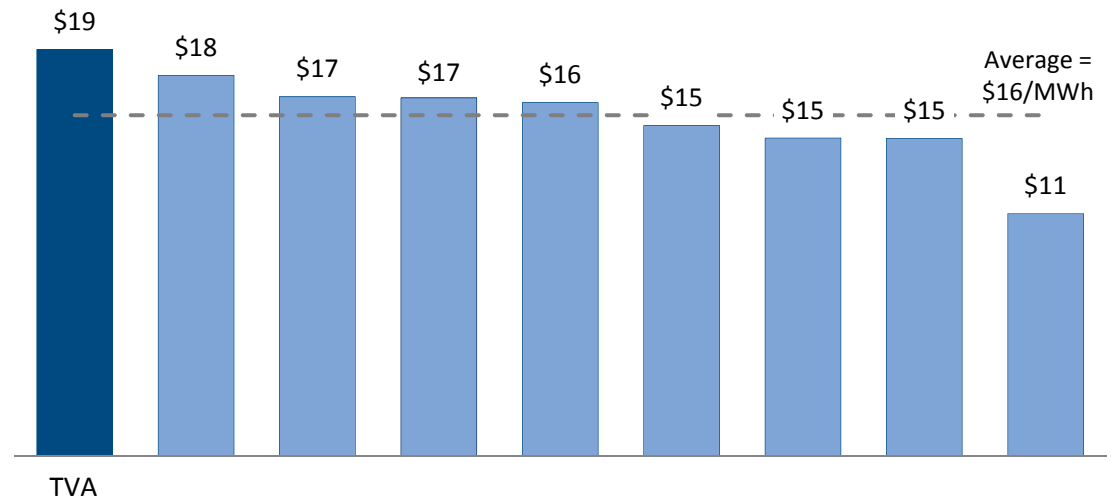


# Operations and Maintenance Costs

## Non-Fuel O&M

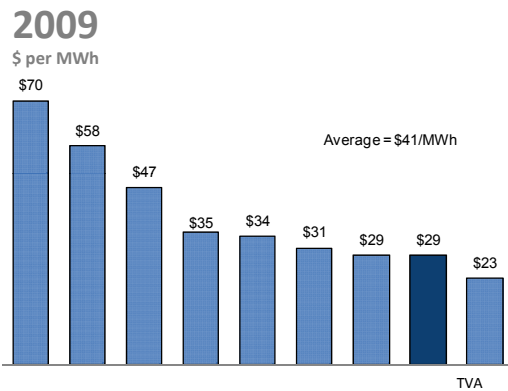


## 2010 \$ per MWh

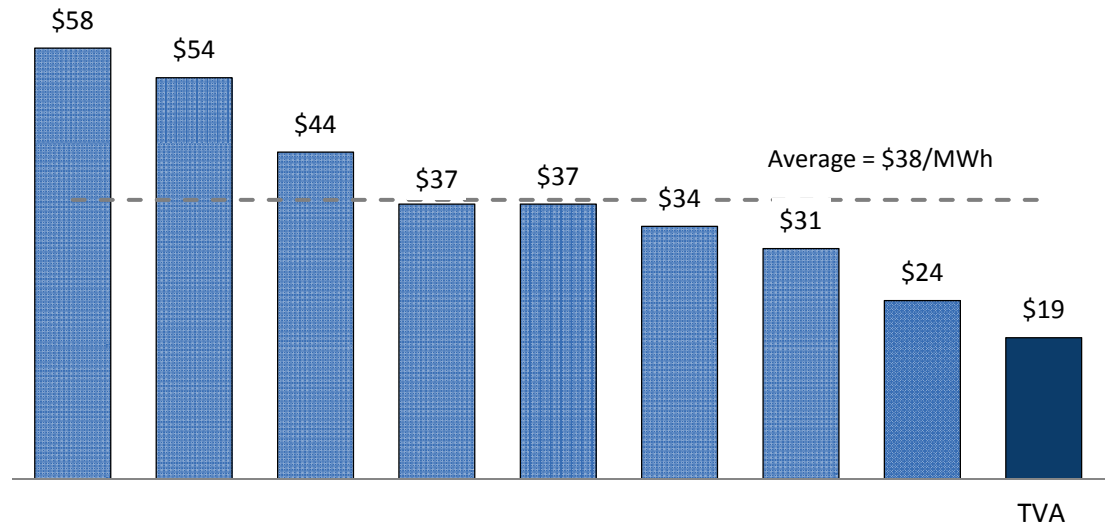


# Low Variable Cost

## Fuel and Purchased Power Cost



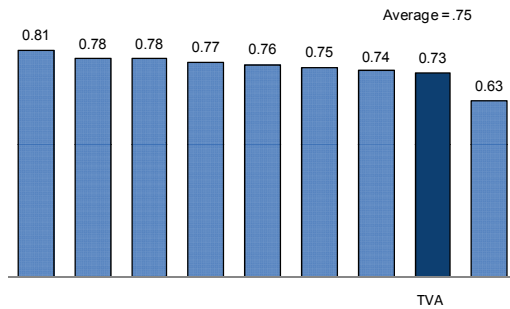
**2010**  
\$ per MWh



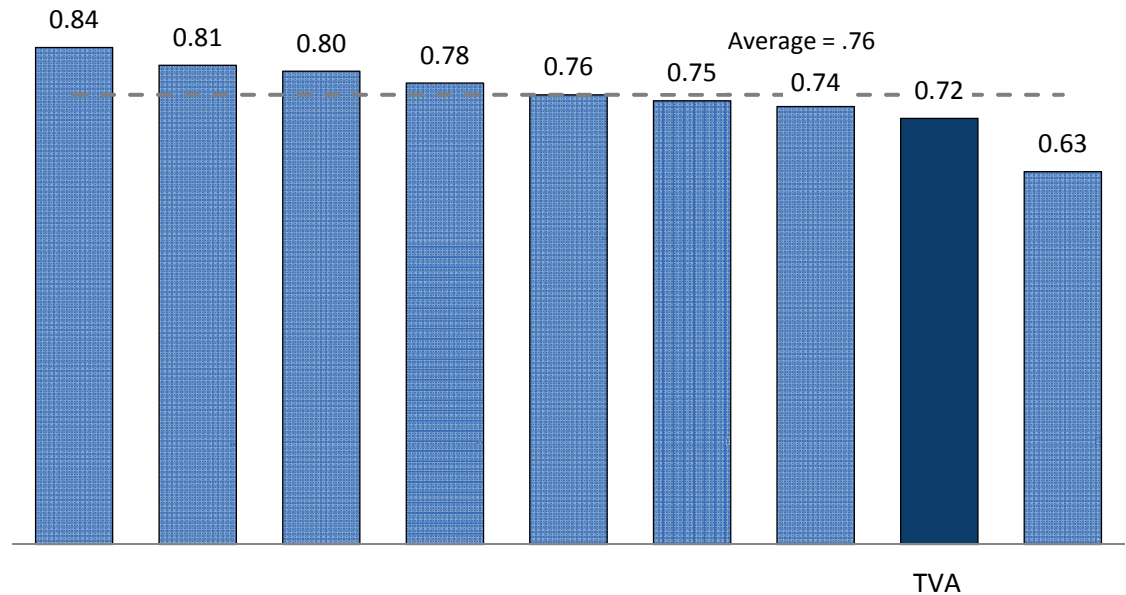
# Competitive Capital Structure

## Total Capitalization to Total Assets

2009



2010

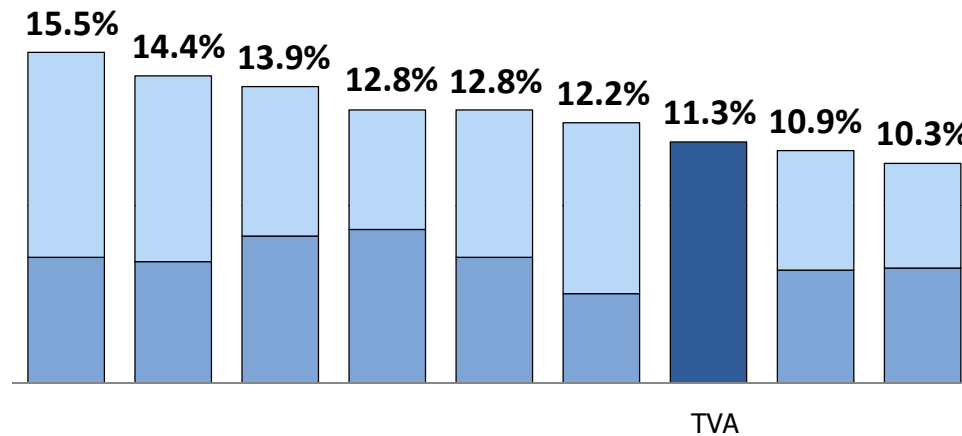


# TVA's Debt Burden is Relatively Low

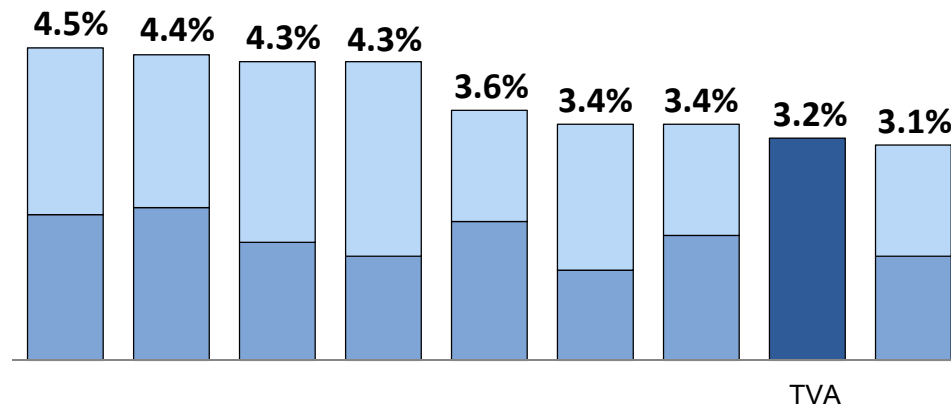
## Comparative Financing Expense:

■ Dividends  
■ Interest Expense

**% of Revenue:**



**% of Assets:**

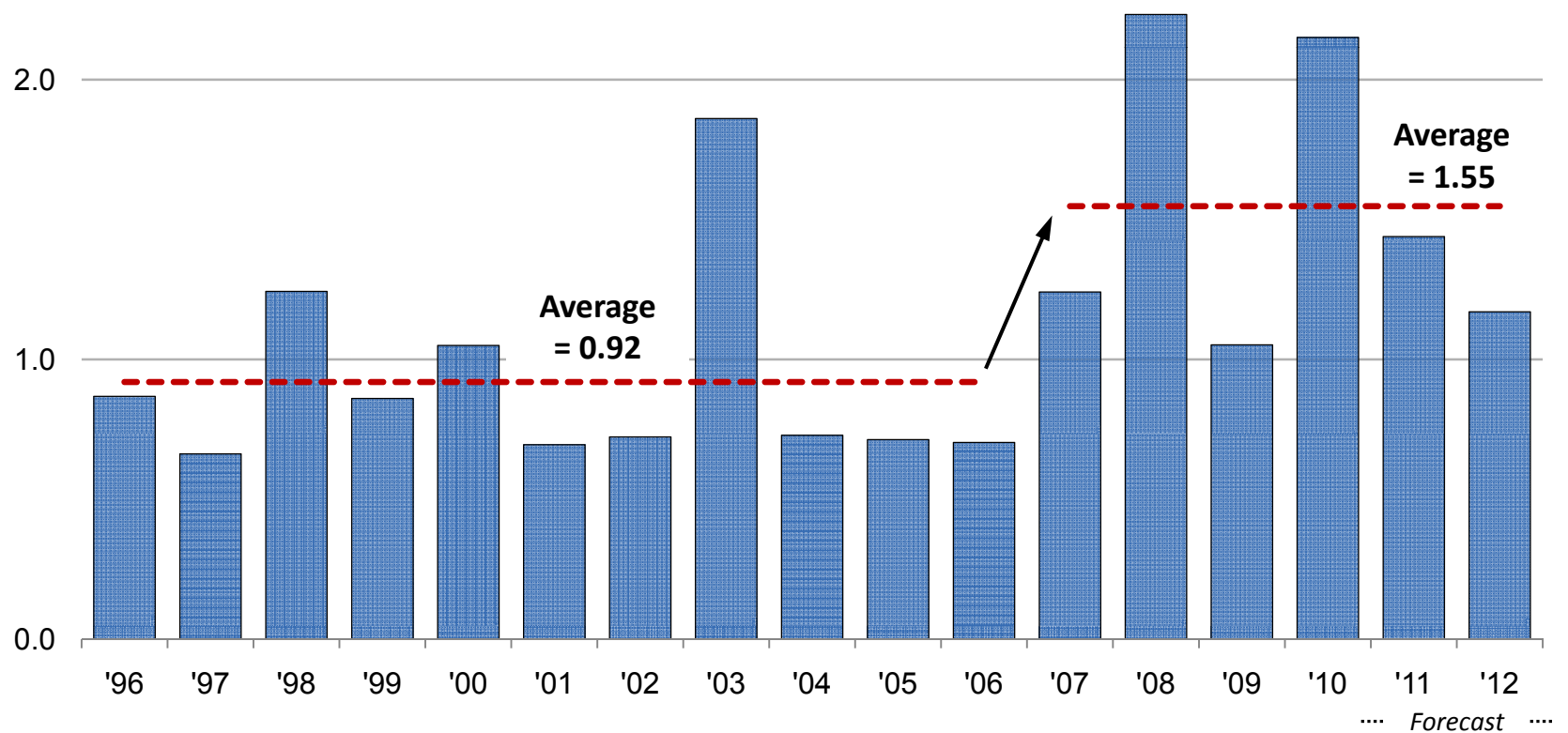


*Financing Expense is interest on debt and dividends paid to stockholders.*

# Improving Debt Service Coverage

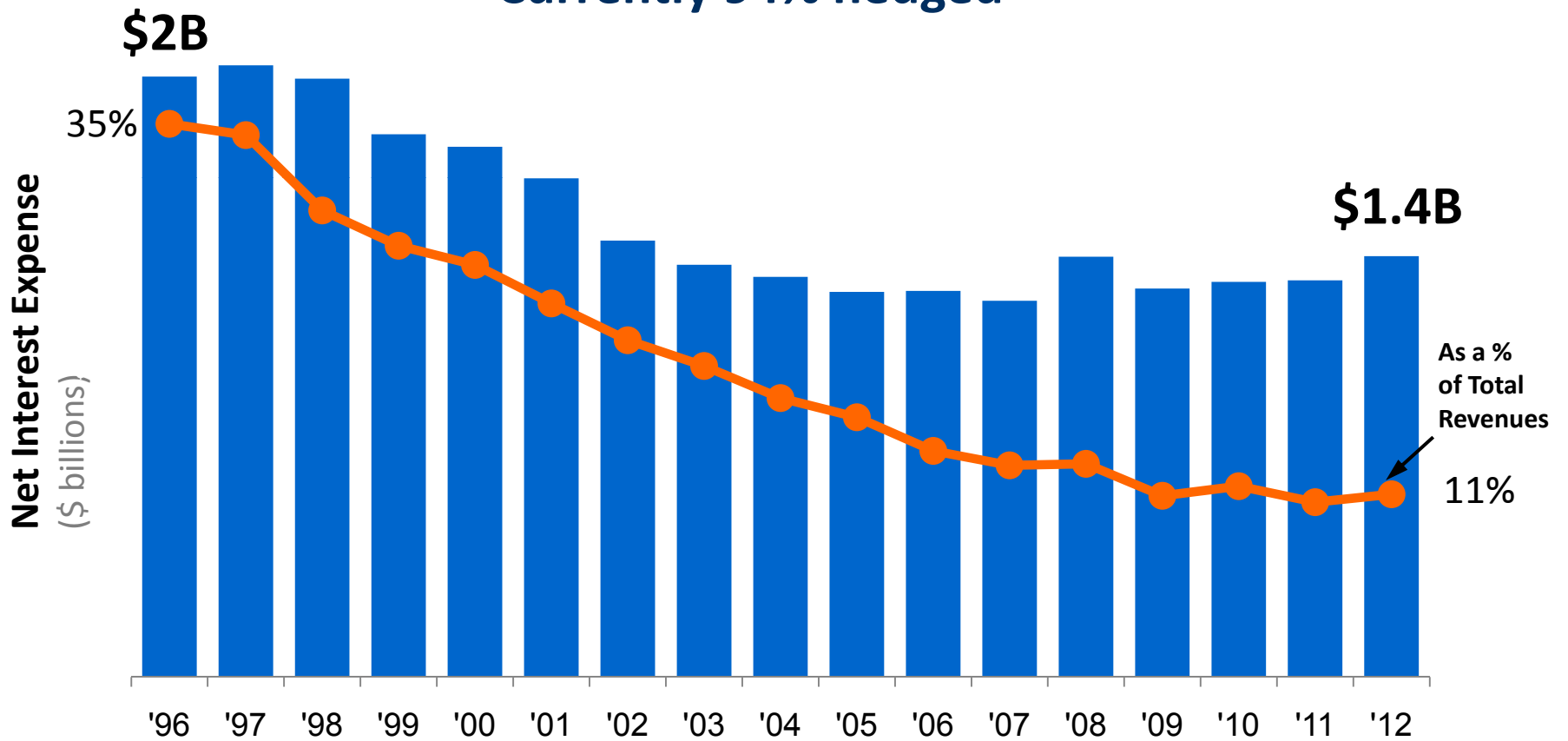
Since 2006, TVA has substantially improved its coverage of debt service

## Debt Service Coverage Ratio



# Interest Trend – Lower Cost and More Hedged

Reduced Debt Burden  
Currently 94% hedged



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# Key Takeaways

## Financial Health



### Low Rates

- Low installed cost asset base
- High operating cost
- Low variable cost
- Low cost of capital



### Responsibility

- Sound Financial Guiding Principles
- Superior credit ratings



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# Risks and Challenges

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# Risks and Challenges

- Economy
- Industrial Sales Volatility
- Regulatory Pressures
- Commodity Prices
- Asset Risk Management: Material Condition
- Productivity Improvements

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# Operating Budget and Revenues

Fiscal Year 2012

(\$ millions)

Operating Revenue at current rates \$11,815

## Operating Expenses

Fuel & Purchased Power 4,129

Operations, Maintenance, and Other 3,754

Interest & Other 1,362

Tax Equivalents 640

Subtotal 9,885

Other Operating Cashflow 251

Operating Cashflow \$2,181

# Capital Budget

Fiscal Year 2012

(\$ millions)

Operating Cashflow	\$2,181
Nuclear	1,244
Gas	823
Environmental	435
Transmission	279
Fossil	347
River Operations	58
Nuclear Fuel	465
Other	<u>100</u>
<b>Total Capital Expenditures</b>	<b>3,751</b>
Other Investing	<u>65</u>
Net Cashflow Prior to Financing	<u><u>\$(1,635)</u></u>

# Financing

Fiscal Year 2012

(\$ millions)

Net Cashflow Prior to Financing	\$(1,635)
New Borrowings	4,074
Debt Paydown	(3,014)
Other Financing	<u>47</u>
Subtotal	(528)
FY11 Cash Carry-forward	294
<b>Shortfall</b>	<b><u><u>\$(234)</u></u></b>

**Recommend \$234M increase effective October 1  
(Approximately \$1.60/month average residential bill)**

# Fiscal Year 2012 Plan

Planning Elements	Key Takeaway	Vision
<b>FY 11</b>	Conserving Cash	<ul style="list-style-type: none"> <li>• Low Rates</li> </ul>
<b>Sales, Capacity and New Generation</b>	Balanced	<ul style="list-style-type: none"> <li>• Higher Reliability</li> <li>• More Nuclear Generation</li> <li>• Greater Energy Efficiency</li> <li>• Cleaner Air</li> </ul>
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<b>Financial Health</b>	Principles Based	<ul style="list-style-type: none"> <li>• Low Rates</li> <li>• Responsibility</li> </ul>
<b>Rate Outlook</b>	Recommend a rate increase	<ul style="list-style-type: none"> <li>• Low Rates</li> <li>• Responsibility</li> </ul>

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# Recommendation

Approve the 2012 budget

- Revenues of \$12.1 billion
- Operating Expenses of \$9.9 billion
- Capital Expenditures of \$3.8 billion

A \$234 million base rate increase effective October 1

- Average retail rate bill increase of approximately \$1.60 per month
- Within the range of what we projected last year

Approve Contracting Plan for Fuel and Purchased Power

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# Fiscal Year 2012 Financial Shelf



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# For Board Consideration

TVA's authorization to issue power bonds and related interest rate hedges expires at the end of each fiscal year and needs to be renewed for the following year

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# Background

Power bonds are typically issued to:

- Refinance existing debt
- Fund new capacity

Interest rate hedges may be used to reduce exposure to fluctuating interest rates

Issuing individual bonds requires:

- Notification of Board Finance, Rates, and Portfolio Committee
- Approval of Chief Executive Officer and Chief Financial Officer

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# Recommendation

Approve the issuance of up to \$4.4 billion of long-term bonds and the ability to utilize interest rate hedges in fiscal year 2012

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# Proposed Power Contracts

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# People and Performance Committee

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# Medical Plan Administration Contract

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# For Board Consideration

Approve a new contract with BlueCross  
BlueShield of Tennessee for medical plan  
administration

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# Background

Existing contract for medical plan administration will expire December 2012

Request for Proposal was issued to four potential bidders

Two bids received



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# Background

BlueCross BlueShield of Tennessee's proposal was selected by a team that included members from an independent compensation and benefits consultant

Further negotiations resulted in a final offer that was \$2.6 million less than the initial bid

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# Recommendation

Approve a new three-year contract with BlueCross BlueShield of Tennessee

- Contract runs from 2012-2014
- Option for two-year extension (2015-2016)
- Total contract amount: \$904 million

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# People and Performance Committee

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# Customer and External Relations Committee

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# Natural Resource Plan

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# For Board Consideration

Accept the Natural Resource Plan and authorize the CEO to implement

Approve the Comprehensive Valley-wide Land Plan ranges

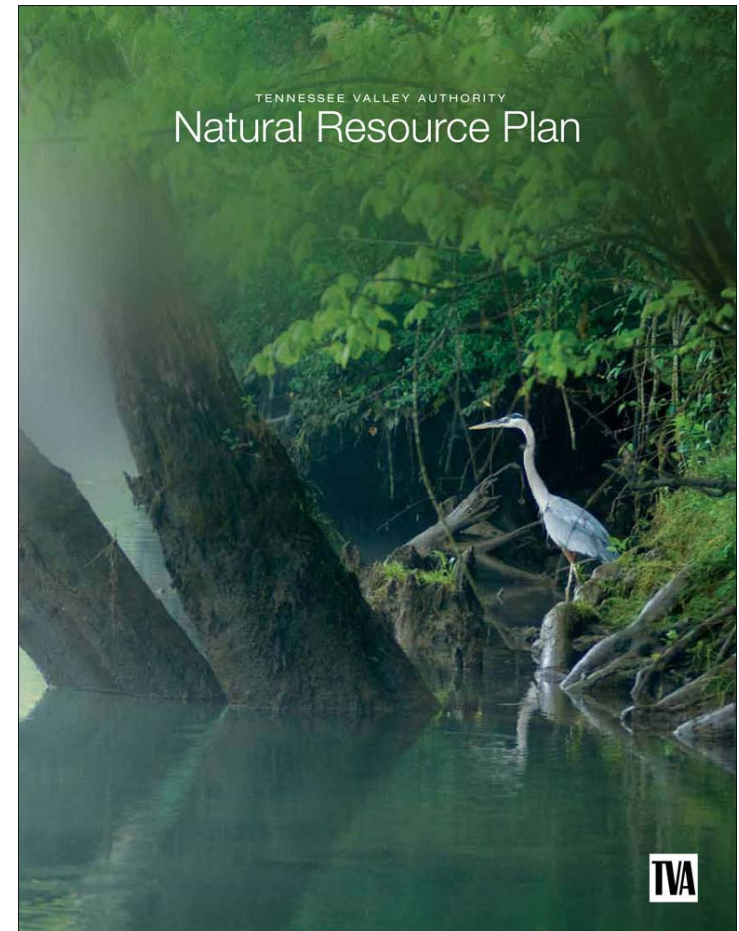
Delegate to the CEO the approval of reservoir land management plans after required notifications to the Board

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# Purpose of the NRP – Setting Direction

Guides TVA's responsible natural resource management over the next 20 years

- Upholds TVA's Mission
- Supports TVA's Vision and Environmental Policy
- Balances stewardship with sound business practices



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# Priorities of the NRP

Integrate the objectives of the six resource areas

- Biological Resources
- Cultural Resources
- Recreation
- Water Resources
- Public Engagement
- Reservoir Lands Planning

Provide optimum public land use benefits

Balance competing and sometimes conflicting resource uses

Provide clarity and transparency to the public



# Stakeholder Involvement

## Forum for Public Input Stakeholder Involvement

- ◆ Public Scoping Meetings (Summer 2009)
- ◆ Second Public Scoping Period After Splitting From IRP (October 2009)
- ◆ Meetings With State Agencies (Fall 2010)
- ◆ Regional Resource Stewardship Council Guiding Principles (Spring 2011)
- ◆ Draft NRP Public Comment Period (Spring 2011)
- ◆ RRSC Resolution (June 2011)



May 2009



*Input was incorporated throughout the process*



July 2011

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# Comprehensive Valley-wide Land Plan

Specifies the percentage of lands that will be allocated to each land use zone across TVA reservoirs

Allocation Designation		Percent of Lands
Zone 2	Project Operations	5% - 7%
Zone 3	Sensitive Resource Management	16% - 18%
Zone 4	Natural Resource Conservation	58% - 65%
Zone 5	Industrial	1% - 2%
Zone 6	Developed Recreation	8% - 10%
Zone 7	Existing Deeded Shoreline Access	5%

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# Benefits

- Guides TVA's responsible management of natural resources over the next 20 years
- Provides an integrated approach and protection of non-renewable resources
- Estimated public benefits of \$100 million

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# Recommendation

Accept the Natural Resource Plan and authorize the CEO to implement

Approve the Comprehensive Valley-wide Land Plan ranges

Delegate to the CEO the approval of reservoir land management plans after required notifications to the Board

# 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



Responsibility



Greater Energy Efficiency

**Acting to meet the region's needs for the future, while improving our core business today.**

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# Audit, Risk, and Regulation Committee

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# Corporate Insurance Broker Contracts

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# For Board Consideration

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

Current contract with insurance broker expires September 30, 2011



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# Background

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

Request for Proposal was issued to the ten largest (by revenue) US insurance brokers on May 16, 2011

Proposals by Marsh; McGriff, Seibels & Williams; and Willis were the top three highest rated

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# Recommendation

Enter into contracts with three brokers to provide insurance broker services for a period of five years with a total implementation of the integrated risk insurance program not to exceed \$350 million

Delegate authority to the Chief Executive Officer to carry out the integrated risk insurance program

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