



Executive Compensation – FY2011

Consultant's Report

Tennessee Valley Authority Board of Directors Report

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Discussion Outline

- TVA Pay Philosophy – Policy and Approach
- Commentary – Management 2011 Pay Recommendations
- Recommended FY11 CEO Pay
 - Consultant's Proposal to the P&P Committee
 - P&P Committee Recommendation to the Board

TVA Pay Philosophy Policy

Policy and Approach

TVA Pay Philosophy and Policy

Adopted and approved by the Board of Directors – May 2007

- Pay competitive compensation for all employees based on the need to attract, retain and motivate employees critical to TVA's success in achieving its mission
 - Compensation targeted at the median (50th percentile) of the relevant labor market for most positions
 - Compensation targeted above median (typically between 50th and 75th percentiles) in circumstances affected by market scarcity, recruitment and retention issues, and other business reasons (e.g., Nuclear and Transmission positions)
 - Compensation targeted below median (typically between 25th and 50th percentiles) for select corporate staff functions where TVA does not compete exclusively with the energy and utilities sector

TVA Pay Philosophy and Policy

- Establish competitive compensation levels using relevant labor market data, obtained through surveys and proxy reviews, and validated through recruitment and periodic supplemental benchmarking activities
 - Use a structured, market- and performance-based approach to determining pay levels and opportunities (which are effectively delivered, managed and communicated to participants), and that is reasonably consistent with comparable approaches in relevant sectors
 - Emphasize a strong at-risk, pay-for-performance philosophy through the establishment of top-down financial and operational goals designed to improve TVA's overall performance as well as that of individual business units

Key Considerations in Executive Market Analysis

- Consistent with the Philosophy and Policy that guide TVA market analyses, for Top Management positions, the definition of the competitive labor market calls for a blended approach:
 - The predominant market perspective is comparably-sized electric utility companies
 - These companies represent the primary “market” for people with the requisite skills, experience and scope of responsibility to meet TVA’s needs and fulfill the requirements of its management positions
 - Comparator groups are used to establish market references for executive compensation
 - TVA Management uses a single comparator group of electric utilities greater than \$3B in revenue for the broad management population, and focuses on the greater than \$6B subset for senior executives
 - Towers Watson, in working with the P&P Committee, supplements the TVA comparator group with electric utilities greater than \$6B as well as a proxy peer group analysis – the result is an appropriate and valid comparator group
 - TVA also competes with government agencies and a cross section of general industry for executive talent within and outside the utilities and energy industry
 - Government Agencies
 - General Industry

Key Considerations in Executive Market Analysis

- The peer group used in the proxy analysis was developed and validated using scope metrics:
 - **Revenue**
 - Assets
 - Generating Capacity
 - Number of Employees
 - Number of Customers
- TVA ranks in the top quartile of the proxy peer group on a Generating Capacity and Customers basis, between the 50th and 75th percentiles on an Employee size basis, and close to median on a Revenue and Assets basis:
 - Revenues – 47th percentile (14th of 26 companies)
 - Assets – 48th percentile (14th of 26 companies)
 - Generating Capacity – 82nd percentile (6th of 26 companies)
 - Number of Employees – 68th percentile (9th of 26 companies)
 - Number of Customers – 90th percentile 82nd percentile (4th of 26 companies)
- Detailed descriptive statistics for the proxy peer comparator segment are presented on the following slides

Market Analysis Comparators

Proxy Analysis Peers

AES Corporation (The)	Edison International	PG&E Corp.
Ameren Corporation	Entergy Corporation	PPL Corporation
American Electric Power Co., Inc.	Exelon Corp.	Progress Energy Inc.
CMS Energy Corp.	FirstEnergy Corp.	Public Service Enterprise Group Inc.
Consolidated Edison Inc.	Integrys Energy Group, Inc.	Sempra Energy
Constellation Energy Group, Inc.	NextEra Energy, Inc.*	Southern Company
Dominion Resources, Inc.	Nisource Inc.	Xcel Energy Inc.
DTE Energy Co.	Northeast Utilities	
Duke Energy Corporation	Pepco Holdings, Inc.	

*Formerly FPL Group

Market Analysis Comparators

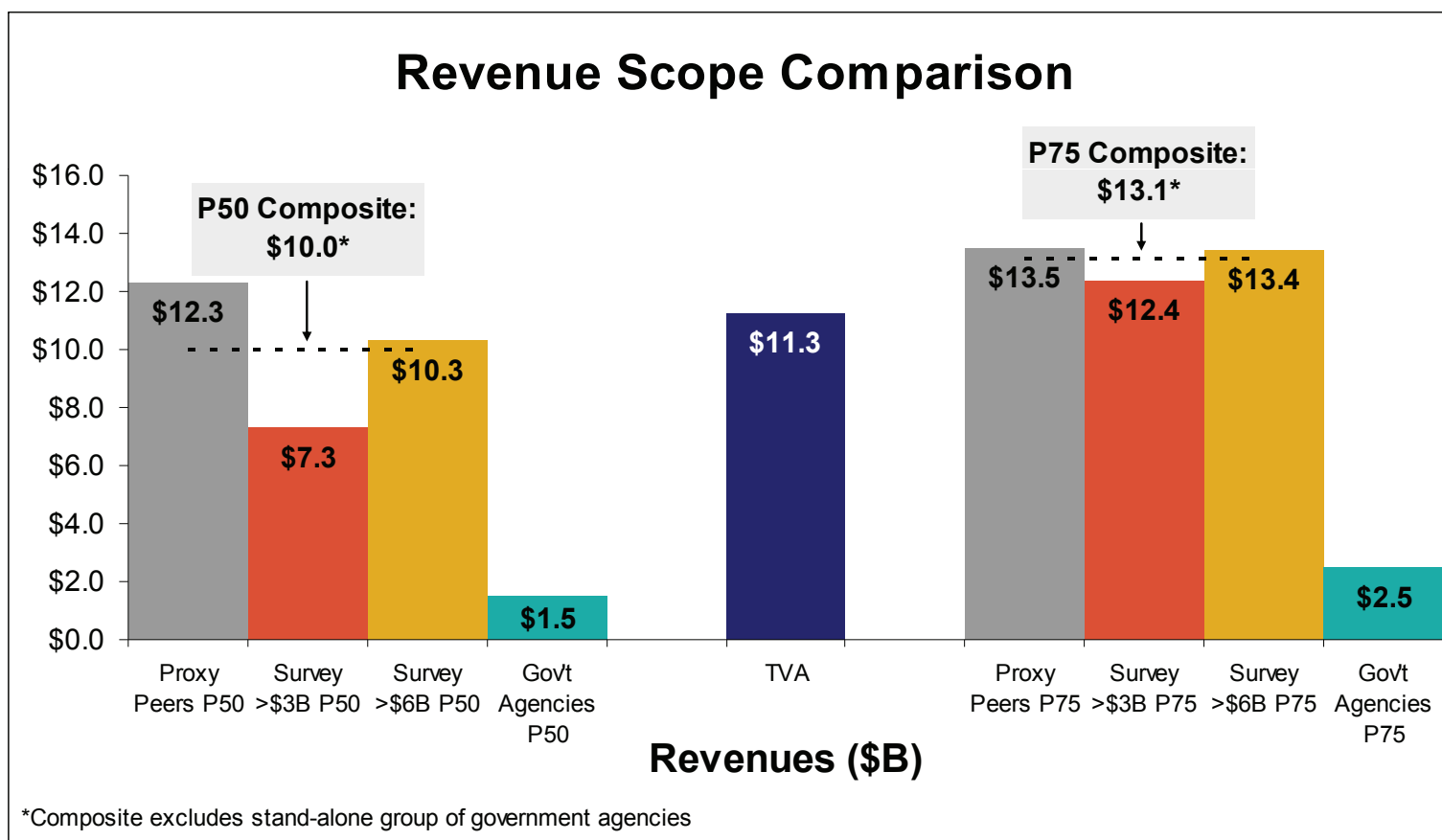
Validation

- TVA's comparative position within the three components of the market comparator group is conservative
 - On the annual revenue metric TVA approximates the Median
- TVA management uses median pay of the > \$3B group to develop a competitive market reference for the broad management population, and focuses on the > \$6B subset for senior executives
- Towers Watson validates the market assessment prepared by TVA management by adding proxy and survey comparator groups
- The survey data are aged to October 1, 2010 using a 3.0% per annum aging factor
- In examining both the proxy-based data and the survey-based data, we use "position-match" data. (i.e., market data for the CEO position as disclosed in proxies and as matched in survey participations)

Market Analysis Comparators

Validation – Revenues

- In comparison to the combined peer segments, TVA ranks between the median and third quartile on revenue



Commentary - 2011 Management Pay Proposal

Direct Reports to the CEO

Commentary - 2010 Management Pay Proposal

Direct Reports to the CEO

- Commentary on Process
 - Towers Watson agrees with market data used and method of use
 - Agree with market references
 - Recommendations are consistent with policy and supported by market references
- Commentary on Proposal
 - In aggregate, the proposed 2011 compensation are generally within the competitive range, but below market median
 - Salaries are **1% below market median**
 - Total cash compensation (salary + annual incentive) opportunity at target is **5% below median**
 - Total direct compensation (salary + annual incentive + LTI opportunity) opportunity is **15% below median**
 - No executives will enter the next fiscal year with total direct compensation opportunity above the median

Recommended FY2011 CEO Pay

Consultant's Proposal to the P&P Committee

Market Analysis Findings – Summary

Compensation Element	TARGET Market Data Perspectives - Proxy & Survey Data								
	25th Percentile (P25)			Median (P50)			75th Percentile (P75)		
	Proxy*	>\$3B w/ Govt	>\$6B	Proxy*	>\$3B w/ Govt	>\$6B	Proxy*	>\$3B w/ Govt	>\$6B
Sample Size (#Cos)	25	40	25	25	40	25	25	40	25
Base Salary	\$979	\$895	\$1,065	\$1,136	\$1,110	\$1,200	\$1,200	\$1,220	\$1,275
Target Bonus %	99%	90%	100%	100%	100%	105%	114%	110%	110%
Target Total Cash Comp	\$2,096	\$1,701	\$2,130	\$2,326	\$2,220	\$2,460	\$2,548	\$2,562	\$2,678
LTI Opportunity %	290%	240%	285%	363%	290%	365%	500%	400%	400%
Target Total Direct Comp	\$5,164	\$3,849	\$5,165	\$6,627	\$5,439	\$6,840	\$8,223	\$7,442	\$7,778

*Data are independently arrayed and will not sum

Compensation Element	ACTUAL Market Data Perspectives - Proxy & Survey Data								
	25th Percentile (P25)			Median (P50)			75th Percentile (P75)		
	Proxy	>\$3B w/ Govt	>\$6B	Proxy	>\$3B w/ Govt	>\$6B	Proxy	>\$3B w/ Govt	>\$6B
Sample Size (#Cos)	25	40	25	25	40	25	25	40	25
Base Salary	\$979	\$895	\$1,065	\$1,136	\$1,110	\$1,200	\$1,200	\$1,220	\$1,275
Actual Total Cash Comp	\$1,929	\$1,427	\$2,070	\$2,681	\$2,549	\$2,716	\$3,042	\$3,100	\$3,158
Actual Total Direct Comp	\$5,808	\$3,758	\$5,232	\$6,921	\$6,109	\$7,125	\$8,800	\$7,793	\$8,158

- Market summary data from proxy and survey analyses are displayed on both a target (opportunity) and actual (earned) compensation basis; all data expressed as \$000s
- P50 data from all market perspectives is fairly tightly clustered

Market Analysis Conclusions

- Positioning the CEO's compensation at the median (P50) of the relevant marketplace would result in the following levels of direct compensation (shown in \$000s):

Chief Executive Officer (Thomas Kilgore)

	P50 Market Data Range	Suggested Composite Market Reference	
Base Salary	\$1,110 - \$1,200		\$1,150
Target Bonus %	100% - 105%	100%	\$1,150
Target Total Cash Compensation	\$2,220 - \$2,460		\$2,300
LTI Opportunity %	290% - 365%	330%	\$3,795
Target Total Direct Compensation	\$5,439 - \$6,840		\$6,095

FY2011 CEO Pay Proposal

Summary

- **Competitive Positioning of the CEO Package**

- According to its stated pay philosophy and Board approved Plan, TVA will set compensation for the CEO position based upon an informed view of the market median of the relevant labor market.
- TVA will use a conservative approach to long-term incentives inasmuch as the relevant labor market (consisting primarily of publicly traded Investor Owned Utilities) deploys stock-based vehicles.
- Due to the conservative approach to long-term incentives relative to market, total direct compensation will be below market median.

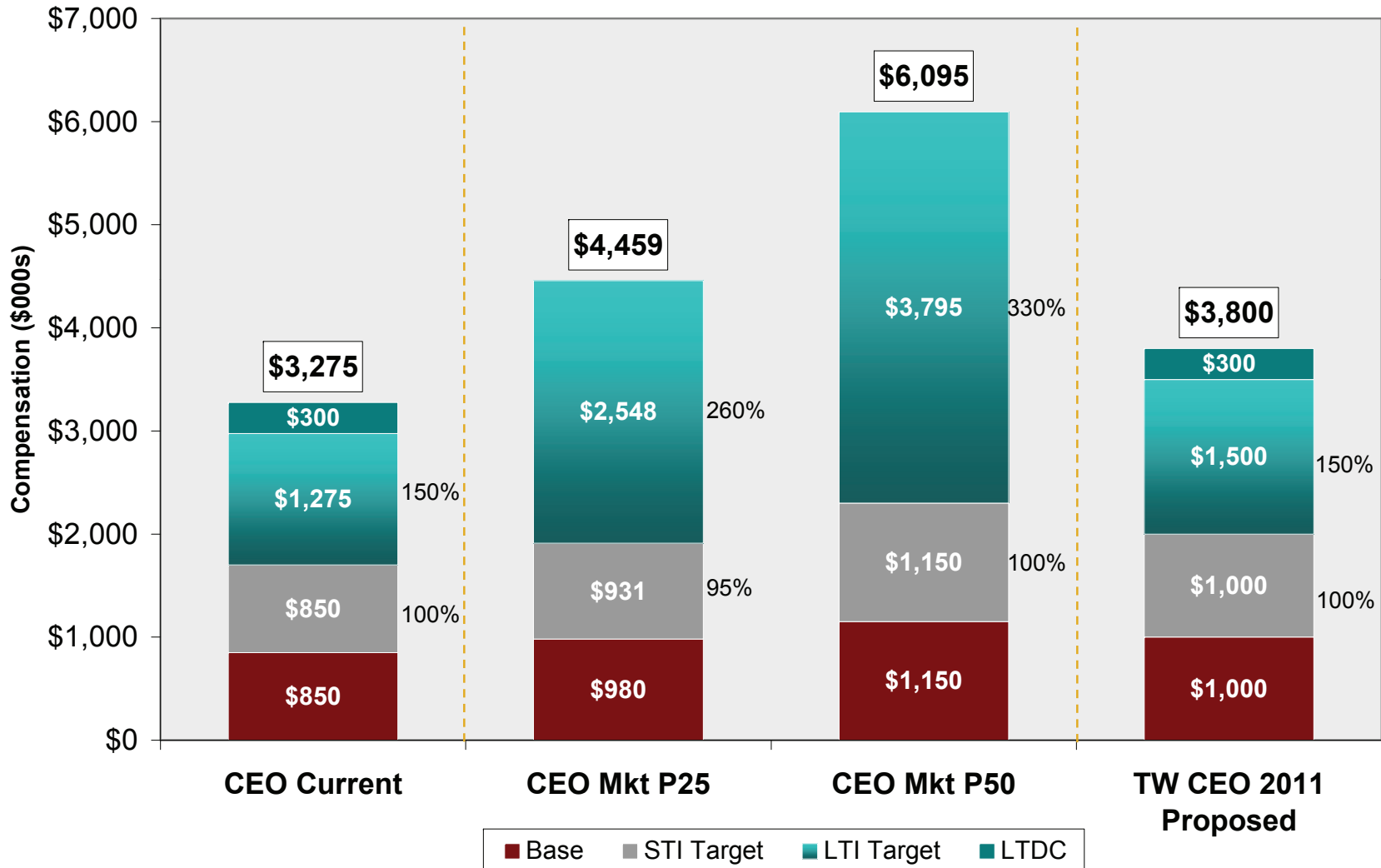
- **Observations**

- Total direct compensation opportunity for the Chief Executive Officer is below the market 25th percentile.
- Mr. Kilgore has been TVA's CEO for more than four years. During that time, Mr. Kilgore has received only one adjustment to pay opportunity (in 2008)
- During the same period, Mr. Kilgore's direct reports and leadership team have been either hired or promoted under the new executive pay policy adopted in 2007.
- As a groomed and experienced CEO of one of the largest energy services organizations in the country, Mr. Kilgore's pay remains well below the first quartile of the market.

FY2011 CEO Pay Proposal

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TVA CEO 2011 Pay Package Proposal



FY2011 CEO Pay Proposal

P&P Committee Recommendation

TVA CEO 2011 Pay Package Proposal

