

No. 13-02

Approved by the Board of Directors
at its August 22, 2013, 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 18, 2013

A meeting of the Board of Directors of the Tennessee Valley Authority was held in the Cherry Theater of the Waymon L. Hickman Building, Columbia State Community College, 1665 Hampshire Pike, Columbia, Tennessee, on April 18, 2013. The meeting was called to order at 10:13 a.m. (CDT) after an approximately twenty-five minute break following the listening session, which began at 9:04 a.m. (CDT). The meeting was announced to the public on April 11, 2013. 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 Barbara S. Haskew, Neil G. McBride, Richard C. Howorth, V. Lynn Evans, C. Peter (Pete) Mahurin, Michael (Mike) McWherter, and Joe H. Ritch.

Also present were TVA officers including William D. (Bill) Johnson, President and Chief Executive Officer; Ralph E. Rodgers, Executive Vice President, General Counsel and Secretary; Charles G. (Chip) Pardee, Executive Vice President and Chief Generation Officer; John M. Thomas, III, Executive Vice President and Chief Financial Officer; Joseph J. (Joe) Hoagland, Senior Vice President, Policy & Oversight; and James R. (Jim) Morris, Senior Vice President, Nuclear Operations.

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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13-02-1. Welcome

Chairman Sansom thanked the attendees, and also thanked TVA and Columbia State Community College staff, for their work in preparing for the day's meeting. Director Sansom also expressed his appreciation for the work performed by Rebecca Tolene who, he mentioned, is from Columbia, Tennessee. Chairman Sansom then invited and received brief remarks from Wes Kelly, General Manager of Columbia Power & Water Systems, and acknowledged the presence of Jack Simmons from the Tennessee Valley Public Power Association ("TVPPA"), as well as Pete Mattheis and John Van Mol from the Tennessee Valley Industrial Committee ("TVIC").

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At this point, Chairman Sansom officially called the meeting to order.

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Chairman Sansom pointed out that May 18, 2013, will be TVA's 80th birthday. He stated that being part of TVA is an honor, and wished TVA a happy birthday on behalf of the Board. Chairman Sansom then remembered former TVA Board member Thomas C. (Tom) Gilliland, who recently passed away, and stated the Board sends its thoughts and prayers to Mr. Gilliland's wife and children.

Chairman Sansom next introduced Chip Pardee, TVA's new Executive Vice President and Chief Generation Officer, summarized Mr. Pardee's background, and then received brief remarks from Mr. Pardee.

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Old Business

The Board approved the minutes of the meeting held February 14, 2013.

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New Business

13-02-2. President's Report

President and Chief Executive Officer William D. (Bill) Johnson thanked the staff and students at Columbia State Community College for their hospitality. He also thanked Columbia Power & Water Systems, Mt. Pleasant Power System, other customers in the area and in attendance, and the members of the public present or watching over the internet, stating that TVA welcomes their assistance, friendship, participation, and comments. Mr. Johnson then shared a short safety video entitled, "Work Safe, The Promise We Make To Each Other."

Following the video, Mr. Johnson noted that, on April 11, he completed his first one hundred days at TVA, and mentioned that, coincidentally, April 10 was the 80th anniversary of President Franklin D. Roosevelt's speech proposing the creation of TVA. Mr. Johnson quoted from that speech, and mentioned that during the prior week, TVA had learned that President Obama's proposed 2014 (United States) budget calls for a strategic review of TVA. He stated TVA has communicated with the Office of Management and Budget about next steps, and would participate in such a review, as requested. Recognizing that the parameters of such a review have yet to be defined, Mr. Johnson stated that, because TVA's mission is to serve the people of the Valley, TVA's employees should be receptive to any plans or ideas to better serve the people. Chairman Sansom interposed that the Board does not yet know what the (review) process will be, but the Board welcomes any way to better serve the people of the Valley. Chairman Sansom went on to say that the Board believes TVA represents a good model, and is confident that a good model will receive a good review. In the meantime, the Board ought to focus on and direct

management's attention to running TVA, as is, correctly and at the highest levels of performance. Mr. Johnson then discussed the need for TVA to drive for excellence and detailed four areas on which TVA needs to focus in its quest for excellence: cost management, asset planning, leadership and accountability, and continuous improvement.

Mr. Johnson reported that construction at Watts Bar Unit 2 is progressing well, according to the latest quarterly report, and continues to be on-schedule (commercial operation in late 2015) and on-budget (between \$4.0 and \$4.5 billion). At Browns Ferry, TVA is focused on the upcoming Nuclear Regulatory Commission (NRC) 95003 inspection, which is scheduled to begin May 13. Mr. Johnson characterized this type of inspection as the most intense inspection tool that the NRC uses. Mr. Johnson reported that accreditation of the Browns Ferry engineering training program was recently renewed after having been on probation for six months, and that employees at Browns Ferry achieved a record Unit 2 run of 562 days. In addition, TVA submitted a Browns Ferry license amendment request to the NRC on March 27, formalizing a plan to meet a relatively new NRC approach to fire protection (NFPA 805) that will make the plant even safer. Mr. Johnson also reported that TVA had a public meeting on March 28 with the NRC regarding commercial grade dedication, and specifically, the citation received by TVA for purchasing parts and materials that were not appropriately documented as nuclear grade quality. TVA will rectify this situation, and nuclear safety will not be affected.

Mr. Johnson reported that TVA recently began its annual sport fish surveys at Wilson Reservoir and will conclude the surveys at Douglas Reservoir in May. In addition, Mr. Johnson reported that TVA's campgrounds opened on March 15, and the spring fill of TVA's reservoirs

is underway. TVA also is completing work at Blue Ridge Dam, expecting that it will be at full summer pool (normal operating levels) this year. Mr. Johnson stated TVA is currently conducting health checks on its dams to ensure they meet today's more stringent safety standards. TVA also is preparing its facilities for extreme, highly unlikely, multi-day storms many times larger than anything ever experienced in the history of the Valley, a condition known as "maximum probable flood." TVA is working with the NRC, using sophisticated modeling techniques to ensure the safety of the public and TVA's nuclear plants below the dams even during extreme flood conditions.

Mr. Johnson reported that air quality continues to improve in the region, with sulfur dioxide emissions from TVA plants down 94 percent, and nitrogen oxide levels down 90 percent, from peak levels. Since 1977, TVA has invested about \$5,500,000,000 in emission controls equipment; the planned \$1,000,000,000 emission controls investment for the Gallatin Fossil Plant, which can power 500,000 homes, will further improve air quality and help meet TVA's commitments to the U.S. Environmental Protection Agency. Mr. Johnson also reported that, as of March 2013, TVA has completed 50,000 home energy audits.

With respect to economic development, Mr. Johnson reported that, in January 2013, General Motors announced the Spring Hill plant will begin manufacturing the front and rear bumper fascias for the redesigned Corvette Stingray. Mr. Johnson stated that the same plant began production of the Ecotech engine and the Chevrolet Equinox during the summer of 2012. Mr. Johnson stated that, thus far this fiscal year, more than 22,000 jobs in the region have been created or retained, with employers planning to invest \$2.3 billion to support those jobs. Mr.

Johnson also reported that TVA and Deloitte Consulting have approved the first metro area primary data center site in Knoxville's Corridor Park.

Copies of the slides used by Mr. Johnson in his report are filed with the records of the Board as Exhibit 4/18/13A.

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13-02-3. Report of the People and Performance Committee

Director Haskew, Chairman of the People and Performance Committee, thanked Bill Johnson for his continued focus on safety, and commended all of TVA's employees for TVA's safety performance. Director Haskew reported the Committee met April 3, and conducted a review of TVA's compensation plan with the Committee's compensation consultant. The Committee also received updates on TVA's programs aimed at improving culture, TVA's performance in meeting the corporate goals previously approved by the Board, labor relations, and TVA's renewed focus on supporting diversity in the workforce.

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13-02-4. Report of the External Relations Committee

Director Howorth, Chairman of the External Relations Committee, thanked Chairman Sansom for his work as Chairman of the Board, then reported the Committee met April 3, and received an update on TVA's technology development programs. Director Howorth stated TVA

presently has three key technology efforts: small modular reactors; energy utilization; and grid modernization. Director Howorth stated these projects are all in different phases of research and development, the Committee will receive periodic progress reports, and that TVA will continue to provide stakeholders with updates as these projects progress. The Committee also received updates on recent and ongoing activities with TVA's customers. Director Howorth reported the Committee discussed the need for additional, regular public input to the Board on energy resource issues, and stated the creation of an advisory committee to provide the Board with advice on matters regarding energy resources would, in part, serve this need. At this point, Director Howorth requested and received a report from Joe Hoagland, Senior Vice President, Policy & Oversight, regarding Minute Item No. 13-02-5.

Copies of the slides used by Mr. Hoagland in his report are filed with the records of the Board as Exhibit 4/18/13B.

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13-02-5. Regional Energy Resource Council

The Board adopted the following resolution as recommended in a memorandum from the Senior Vice President, Policy & Oversight, dated April 5, 2013, and filed with the records of the Board as Exhibit 4/18/13C:

WHEREAS the Tennessee Valley Authority (TVA), in support of its mission, has created and operates the Nation's largest public power system, providing reliable and affordable electricity to more than 9 million people in parts of seven southeastern States; and

WHEREAS there are numerous other public and private entities and individuals that are involved with and interested in the development and management of energy resources in the Tennessee Valley region; and

WHEREAS a common understanding of energy resource issues and a common approach to the resolution of such issues have become increasingly more essential to effective management of those resources; and

WHEREAS the TVA Board of Directors finds that the functions of a regional energy resources advisory committee cannot be performed by another existing advisory committee or by another source within the Federal Government and that such functions will not be duplicative; and

WHEREAS the TVA Board of Directors finds that compelling considerations necessitate the formation of a regional energy resources advisory committee and that such a committee is now essential to the conduct of TVA's business and is in the public interest; and

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

BE IT RESOLVED, That the Board of Directors hereby authorizes the establishment of the Regional Energy Resource Council; approves the Regional Energy Resource Council charter, a copy of which is filed with the records of the Board as Exhibit 4/18/13D; and authorizes and directs the Senior Vice President, Policy & Oversight, to complete the charter establishment process in accordance with the Federal Advisory Committee Act;

RESOLVED further, That the Board of Directors hereby appoints the Senior Vice President, Policy & Oversight, to serve as the Designated Federal Officer for the Council and the Director, Environmental Policy & Regulatory Affairs, to serve as the Alternate Designated Federal Officer for the Council;

RESOLVED further, That the Board of Directors directs the Senior Vice President, Policy & Oversight, as Designated Federal Officer for the Council, to develop and present a slate of Council membership for the Board's consideration.

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13-02-6. Report of the Nuclear Oversight Committee

Board Chairman Sansom, who also serves as Chairman of the Nuclear Oversight Committee, reported the Committee met at Watts Bar Nuclear Plant on April 2. During the meeting, Bill Johnson discussed TVA's nuclear program in depth with the Committee, after

which former NRC regulator and Committee consultant Sam Collins updated the Committee on developments in the nuclear industry. Chairman Sansom stated the Committee also discussed the recent industrial accident (a failed stator lift) at Entergy's Arkansas Nuclear One plant, which resulted in an employee fatality. In addition, the Committee discussed the maximum probable flood issue referenced in Minute Item No. 13-02-2 above. Chairman Sansom commended employees at Browns Ferry for the Unit 2 record run (also referenced in Minute Item No. 13-02-2 above), then reported that the Committee received a detailed analysis from Michael D. (Mike) Skaggs, Senior Vice President, Nuclear Construction, regarding construction at Watts Bar Unit 2. Chairman Sansom stated that Mr. Skaggs and Preston D. Swafford, Executive Vice President and Chief Nuclear Officer, also discussed the future transition of Watts Bar Unit 2 from construction to operation. Finally, Chairman Sansom stated the Committee toured Watts Bar and its control rooms during the meeting.

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13-02-7. Report of the Finance, Rates, and Portfolio Committee

Director Mahurin, Chairman of the Finance, Rates, and Portfolio Committee, engaged in brief remarks regarding the strategic review of TVA called for in President Obama's 2014 budget proposal, and stated the Board is already discussing how it can be involved in guiding any changes that may result. Director Mahurin then requested and received reports from: John Thomas, Executive Vice President and Chief Financial Officer, regarding Minute Item No. 13-02-8; Jim Morris, Senior Vice President, Nuclear Operations, regarding Minute Item No. 13-02-9; and, again, John Thomas with regard to Minute Item No. 13-02-10.

Copies of the slides used by Mr. Thomas with regard to his presentation on Minute Item No. 13-02-8 are filed with the records of the Board as Exhibit 4/18/13E. Copies of the slides used by Mr. Morris are filed with the Board as Exhibit 4/18/13F. And, copies of the slides used by Mr. Thomas with regard to his presentation on Minute Item No. 13-02-10 are filed with the records of the Board as Exhibit 4/18/13G.

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13-02-8. Fiscal Year-To-Date Financial Update

John Thomas, Executive Vice President and Chief Financial Officer, reported that, through February 2013, Base Revenues are down \$142 million, Fuel Expenses are \$14 million unfavorable to plan, and Operations and Maintenance expenses are \$83 million favorable to plan. In addition, TVA continues to operate in a low interest rate environment, and Mr. Thomas indicated that FY 2013 is a big (approximately \$2 billion) refinancing year for TVA. Mr. Thomas reviewed Base Revenue patterns, demonstrating the importance of the summer months which, he stated, will be more significant to TVA this year due to the move to time-of-use rates. In reviewing the agency's financial statements through the end of February, Mr. Thomas noted that Operating and Maintenance expenses were split into two categories: routine expenses, which were just over \$100 million favorable to plan, and outage related costs, which were \$7 million unfavorable to plan. Mr. Thomas stated that Net Income was \$12 million unfavorable to budget. With regard to the agency's Statement of Cash Flow, Mr. Thomas stated the agency had \$665 million in operating Cash Flow at the end of February, which was \$86

million less than plan, and stood \$150 million favorable to plan in terms of Cash Flow used in investing. Mr. Thomas reported that TVA began the year with \$868 million of cash, had \$933 million of cash at the end of February and, overall, is on plan with total financing obligations of \$27 billion and statutory debt just under \$25 billion. In response to questioning by Director McBride, Mr. Thomas stated TVA is not caught up on work needed to restore and maintain operating equipment, a fact reflected in planned Capital Spending and, primarily, on the outage side of Operation and Maintenance expenses. Mr. Thomas went on to say that investing in and executing asset maintenance and recovery are ongoing priorities. Mr. Thomas then reviewed a slide entitled, "Managing Cash and Debt," demonstrating that while TVA has made \$13 billion in investments since 2007, during the same period it has taken on only \$1.2 billion in additional debt.

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13-02-9. Nuclear Maintenance Contract

The Board adopted the following resolution as recommended in a memorandum from the Vice President, Supply Chain, and Executive Vice President and Chief Nuclear Officer, dated April 5, 2013, and filed with the records of the Board as Exhibit 4/18/13H:

WHEREAS on November 10, 2009, the Board approved a TVA contract with Day & Zimmerman NPS, Inc. (DZNPS) for a base term of five years, and funding of \$700 million during that base term (the "Contract"); and

WHEREAS a memorandum dated April 5, 2013, a copy of which is filed with the records of the Board as Exhibit 4/18/13H (Memorandum), recommends that the Board approve \$200 million of additional funding for the Contract over the remainder of the Contract's base term; and

WHEREAS increasing funding for the Contract would provide the best cost savings and process improvement opportunities for TVA, while ensuring availability of the materials and services essential to continued operations at TVA's nuclear plant sites;

BE IT RESOLVED, That the Board of Directors hereby authorizes the additional \$200 million in funding for the Contract, raising the current Contract ceiling of \$700 million to \$900 million, without extension of the Contract's existing five-year base term.

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13-02-10. Southaven Combined Cycle Plant Arrangements

The Board adopted the following resolution as recommended in a memorandum from the Executive Vice President and Chief Financial Officer, dated April 4, 2013, and filed with the records of the Board as Exhibit 4/18/13I:

WHEREAS on February 11, 2010, the Board authorized extension of interim arrangements with Seven States Power Corporation and its affiliate Seven States Southaven, LLC (collectively Seven States), under which, among other things, TVA's lease of Seven States' ownership interest in the Southaven Power Plant (Southaven) was extended for a period of up to three years expiring on April 23, 2013 (all of such agreements and arrangements in connection therewith being referred to as the Interim Arrangements), during which period the parties have attempted to reach agreement on long-term arrangements for the Southaven facility (Long-Term Arrangements); and

WHEREAS it is anticipated that on or prior to April 30, 2013, TVA and Seven States will have concluded negotiations for the Long-Term Arrangements or may determine, in facilitation of concluding such negotiations, that it is appropriate to further extend or otherwise modify the Interim Arrangements;

BE IT RESOLVED, That the Board authorizes the CEO to approve TVA's entry into Long-Term Arrangements in connection with the Southaven facility to provide up to \$450,000,000 in financing for TVA and, if deemed necessary, to approve extending the Interim Arrangements for up to 135 days and modifying the Interim Arrangements as appropriate;

RESOLVED further, That the Long-Term Arrangements may include, but are not limited to, lease-purchase arrangements under which TVA acquires Seven States' ownership interest in Southaven, assumes Seven States' existing debt with respect to Southaven and pays off the existing Southaven lenders with the proceeds of the rent payment it receives under the head lease referred to below, leases a 90 percent undivided interest in Southaven and the related site to a third party under a head lease and ground lease, and leases such interest back under a facility

lease-purchase agreement and a ground sublease; the lease-purchase arrangements may also contain terms, conditions, and covenants related to the ownership, operation, and maintenance of Southaven as well as events of default and remedies during the term thereof; such lease-purchase arrangements may also include provisions related to early buyout, end-of-term purchase options, and termination purchase options upon the occurrence of various events at a price that may be predetermined or may be the fair market value or other value at such time as TVA may agree; TVA's rent payments under such lease-purchase arrangements may be fixed or variable and may be in amounts sufficient to cover any debt service or equity returns of the third-party lessor(s) (which include payments to Seven States as a profits member of the equity investor); and such lease-purchase arrangements may contain such other terms and conditions as may be appropriate for such transactions at such time;

RESOLVED further, That the Chief Financial Officer, the Treasurer, and their respective duly authorized representatives, or any one or more of them, are hereby authorized, individually or jointly, to (1) engage advisors, appraisers, and independent engineers; (2) select equity investors and underwriters; (3) arrange for the listing of any lease debt securities; (4) approve offering materials; (5) execute term sheets; (6) execute transaction documents; (7) acquire any necessary credit ratings; and (8) make any other applications and filings that are deemed necessary in connection with the Long-Term Arrangements;

RESOLVED further, That the Chief Financial Officer, the Treasurer, the Controller, the Senior Vice President, Power Supply and Fuels, and the General Counsel, and their respective duly authorized representatives, or any one or more of them, are hereby authorized to execute and deliver, separately or jointly, and under the seal of TVA, or otherwise as may be required, all other such instruments, documents, and certificates, receive and make all such payments, and do all such other acts and things as in their opinion or in the opinion of any of them may be necessary or appropriate in order to complete the Long-Term Arrangements or the extension and modification of the Interim Arrangements.

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13-02-11. Report of the Audit, Risk, and Regulation Committee

Director McBride, Chairman of the Audit, Risk, and Regulation Committee, stated that people think of audit committees in terms of financial oversight, but stated his Committee also assesses TVA's risk management and compliance systems, and reviews TVA's efforts to meet its unique obligation to regulate the distributors of TVA power. Director McBride stated that, during the Committee's April 4 meeting, the Committee received a very thorough report on

cyber security risks, which he termed an ongoing issue for many companies, especially utilities. Director McBride stated the Committee also received information on the annual audit plan from the agency's external auditor, heard about TVA's whistleblower and employee concerns program, and also received an update on litigation matters from TVA's General Counsel. At this point, Director McBride thanked the Board's hosts in Columbia, Tennessee, for their hospitality, then requested and received a report from Joe Hoagland, Senior Vice President, Policy & Oversight, regarding Minute Item No. 13-02-12.

Copies of the slides used by Mr. Hoagland in his report are filed with the records of the Board as Exhibit 4/18/13J.

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13-02-12. Retail Regulatory Policy

The Board adopted the following resolution as recommended in a memorandum from the Senior Vice President, Policy & Oversight, dated April 9, 2013, and filed with the records of the Board as Exhibit 4/18/13K:

WHEREAS under section 10 of the TVA Act, the Board is expressly "authorized to include in any contract for the sale of power such terms and conditions, including resale rate schedules, and to provide for such rules and regulations as in its judgment may be necessary or desirable for carrying out the purposes of [the TVA] Act"; and

WHEREAS on April 14, 2011, the TVA Board directed TVA management to complete a comprehensive review of all aspects of the TVA regulatory policy; and

WHEREAS as a result of such management review, a memorandum from the Senior Vice President, Policy & Oversight, dated April 9, 2013 (Memorandum), a copy of which is filed with the records of the Board as Exhibit 4/18/13K, recommends that (a) the Board discontinue the

previously suspended retail regulation flexibility authority regarding TVA regulation of distributor resale rates and distributor rules and regulations, (b) the Board approve the Revised Rate Review Process for administration of resale rate provisions of the wholesale power contract, and (c) the Board approve the Use of Revenues Guidelines for carrying out the provisions of the wholesale power contract relating to the use of electric system revenues;

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 the actions recommended in the Memorandum;

RESOLVED further, That the Board hereby discontinues the authority for management to enter into any additional agreements eliminating the standard wholesale power contract provisions on distributor resale rates and distributor rules and regulations;

RESOLVED further, That the Board hereby approves the Revised Rate Review Process for administration of the resale rate provisions of the wholesale power contract;

RESOLVED further, That the Board hereby approves the Use of Revenues Guidelines for carrying out the provisions of the wholesale power contract relating to the use of electric system revenues.

The meeting was adjourned at 11:42 a.m. CDT.

Information Item

13-02-13. Compensation of Managerial Direct Reports to the Chief Executive Officer

As recommended in an application for Notational Board Approval, a copy of which is filed with the records of the Board as Exhibit 4/18/13L, and in accordance with the TVA Board Practice, Notational Approvals, on February 14, 2013, the individual Board members approved a modification and supplement to a resolution (Entry 10-01-5, February 11, 2010) establishing compensation ranges for managerial direct reports to the Chief Executive Officer of 80 percent to 110 percent of the targeted total direct compensation for comparable positions, and authorizing the Chief Executive Officer to set or adjust compensation for present or future direct reports within such compensation ranges and to approve the parameters under which such executives may participate in certain supplemental benefit plans, subject to notification to Board members and the Board's compensation consultant of any such action setting or adjusting compensation and further subject to Board members being given an opportunity to ask the appropriate Board Committee, or the full Board, to review the proposed action before it is put into effect.