



TVA BOARD
MEETING

APRIL 18, 2013



PRESIDENT'S REPORT

WORK

THE PROMISE
WE MAKE TO
EACH OTHER

SAFE

FIRST 100 DAYS



“IN THE SERVICE OF THE PEOPLE...”



BUILT FOR THE PEOPLE



SERVING THE TENNESSEE VALLEY



FOUR FOCUS AREAS

1. Cost Management
2. Asset Planning
3. Leadership and Accountability
4. Continuous Improvement

ENERGY | ENVIRONMENT | ECONOMIC DEVELOPMENT



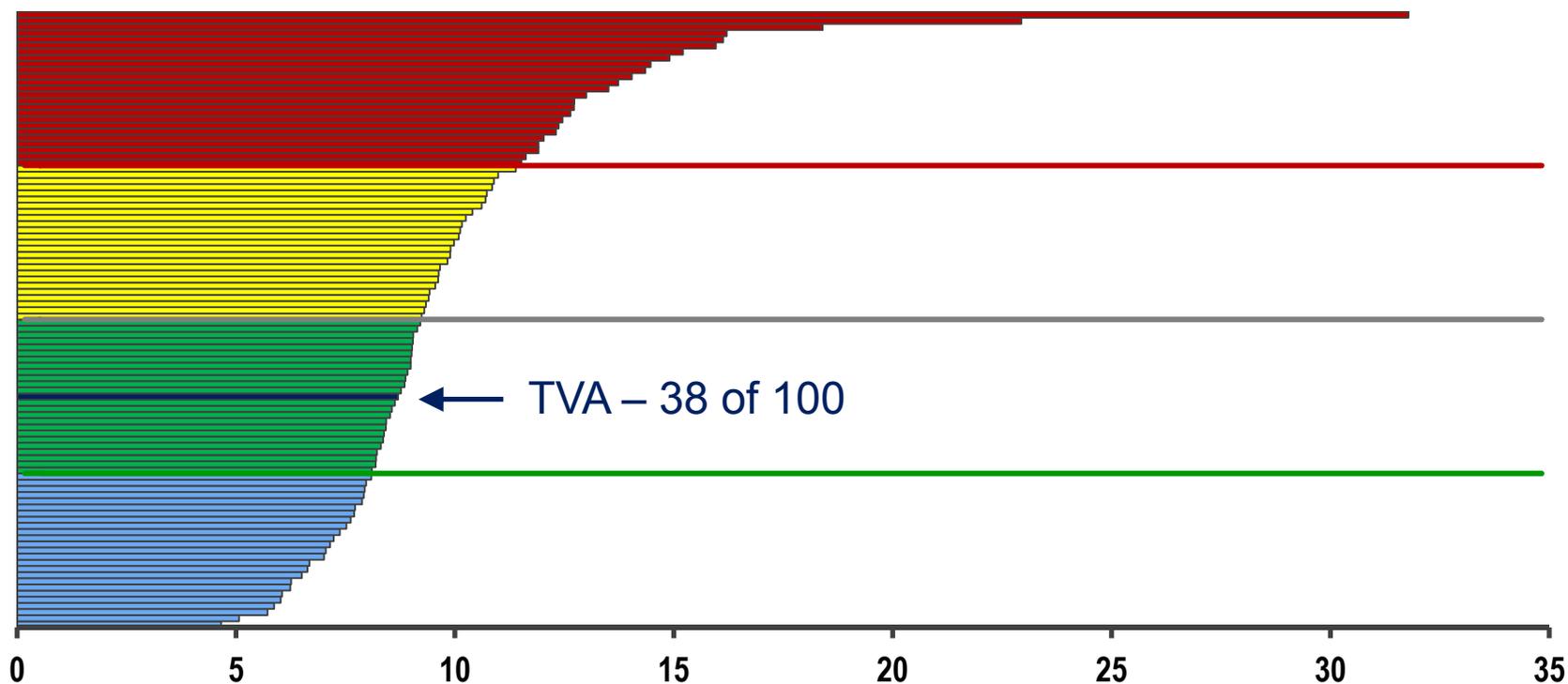
THE WORK WE DO: ENERGY



RETAIL RATE: TOP 100 UTILITIES

12-month Average Retail Rate (¢ / kWh) of the Top 100 U.S. Utilities

— Top Quartile = 8.1 — Median = 9.2 — Bottom Quartile = 11.4



Jan, 2012 - Dec, 2012
Source: EIA-826 & ESS

IMPROVING NUCLEAR PERFORMANCE



WATTS BAR 2



BROWNS FERRY



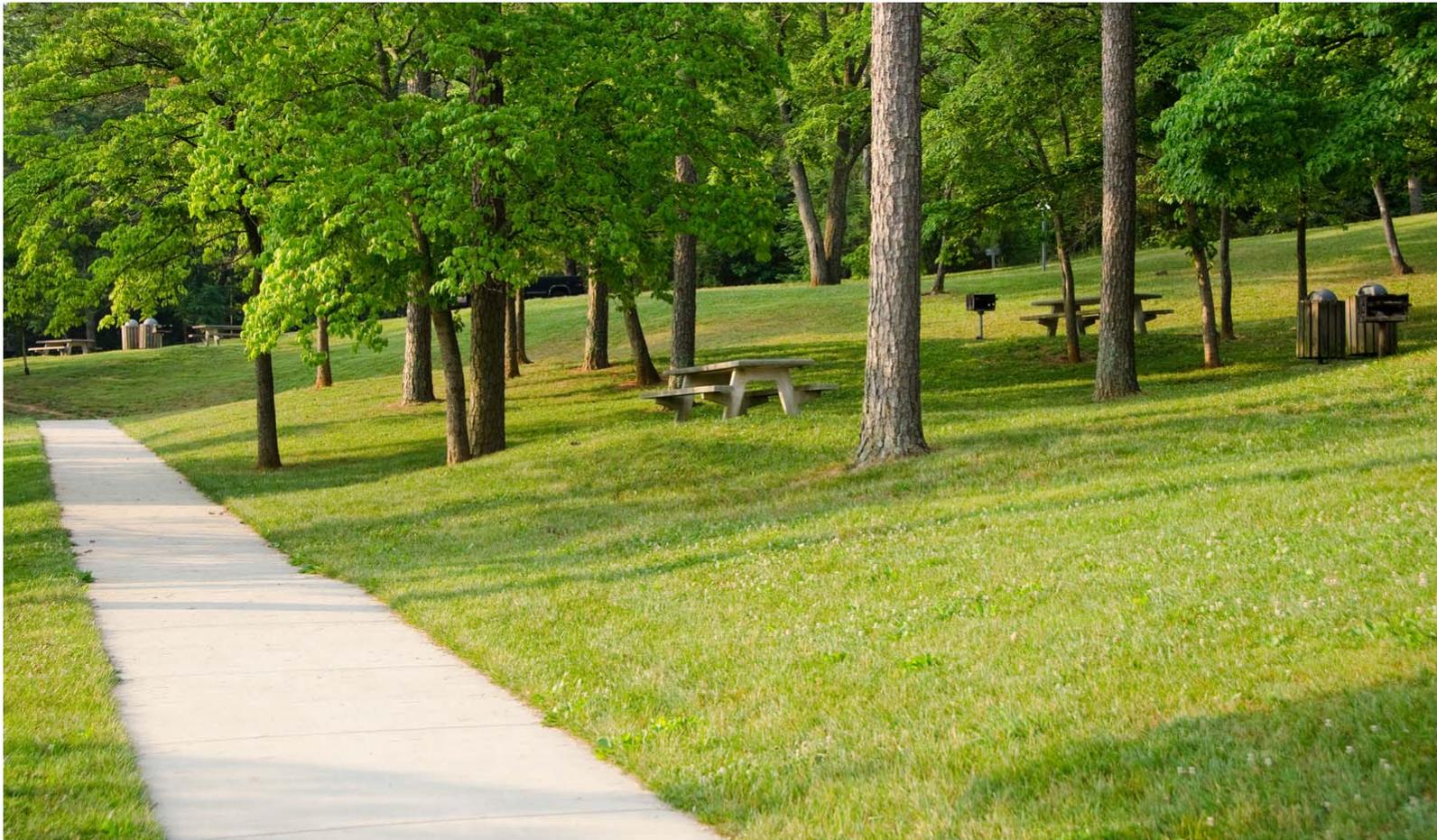
THE WORK WE DO: ENVIRONMENT



SPRING SPORT FISH SURVEY



TVA CAMPGROUNDS



BOATING



DAM SAFETY



AIR QUALITY



THE WORK WE DO: ECONOMIC DEVELOPMENT



BRINGING JOBS TO THE REGION





PRESIDENT'S REPORT

APRIL 18, 2013



PEOPLE AND PERFORMANCE

COMMITTEE



EXTERNAL RELATIONS

COMMITTEE

EXTERNAL RELATIONS COMMITTEE

REGIONAL ENERGY RESOURCE COUNCIL

FOR BOARD CONSIDERATION

- Establish a Regional Energy Resource Council
 - Approve the proposed charter
 - Authorize and direct completion of charter establishment process in keeping with the Federal Advisory Committee Act
 - Appoint the Designated Federal Officer and alternate

TVA STAKEHOLDER STRUCTURE

Regional Resource Stewardship Council

Integrated River Management

Public Lands

Navigation

Regional Energy Resource Council

Resource Planning

Renewables

Energy Efficiency and Demand Response

BALANCED MEMBERSHIP

20 members

- Seven members nominated by the Governors of the Tennessee Valley states
- Two individuals representing the following groups:
 - Distributor Customers (includes TVPPA)
 - Industrial Customers (includes TVIC)
 - Non-governmental Organizations (Environmental and energy issues)
 - Chambers of Commerce/Economic and Community Development
 - Academia/Research Centers
- Three at-large members

RECOMMENDATION

- Establish a Regional Energy Resource Council
 - Approve the proposed charter
 - Authorize and direct completion of charter establishment process
 - Appoint the Designated Federal Officer and alternate



NUCLEAR OVERSIGHT

COMMITTEE

APRIL 18, 2013



WATER SERVICE SYSTEM

1-M-35

0-M-12

RAJON MONITORING SYSTEM

DRINKING WATER

Control panel with various buttons, switches, and indicator lights.

Control panel with a small monitor and various indicators.

Control panel with a grid of indicator lights.

Control panel with multiple small monitors.

Control panel with a grid of indicator lights.

Control panel with a grid of indicator lights.

Stack of papers and documents on a desk.

Computer monitor displaying data.

Two-way radio on a charging base.

TVA







FINANCE, RATES, AND PORTFOLIO

COMMITTEE

FINANCE, RATES, AND PORTFOLIO COMMITTEE

FISCAL YEAR-TO- DATE FINANCIAL UPDATE

APRIL 18, 2014

SUMMARY

Lower Base Revenues Offset by Lower Expense

Base Revenues (-\$142M to plan)

- Mild weather - 10% fewer degree days
- Slower economy, primarily directly served industrial customers

Operating Expenses (+\$43M to plan)

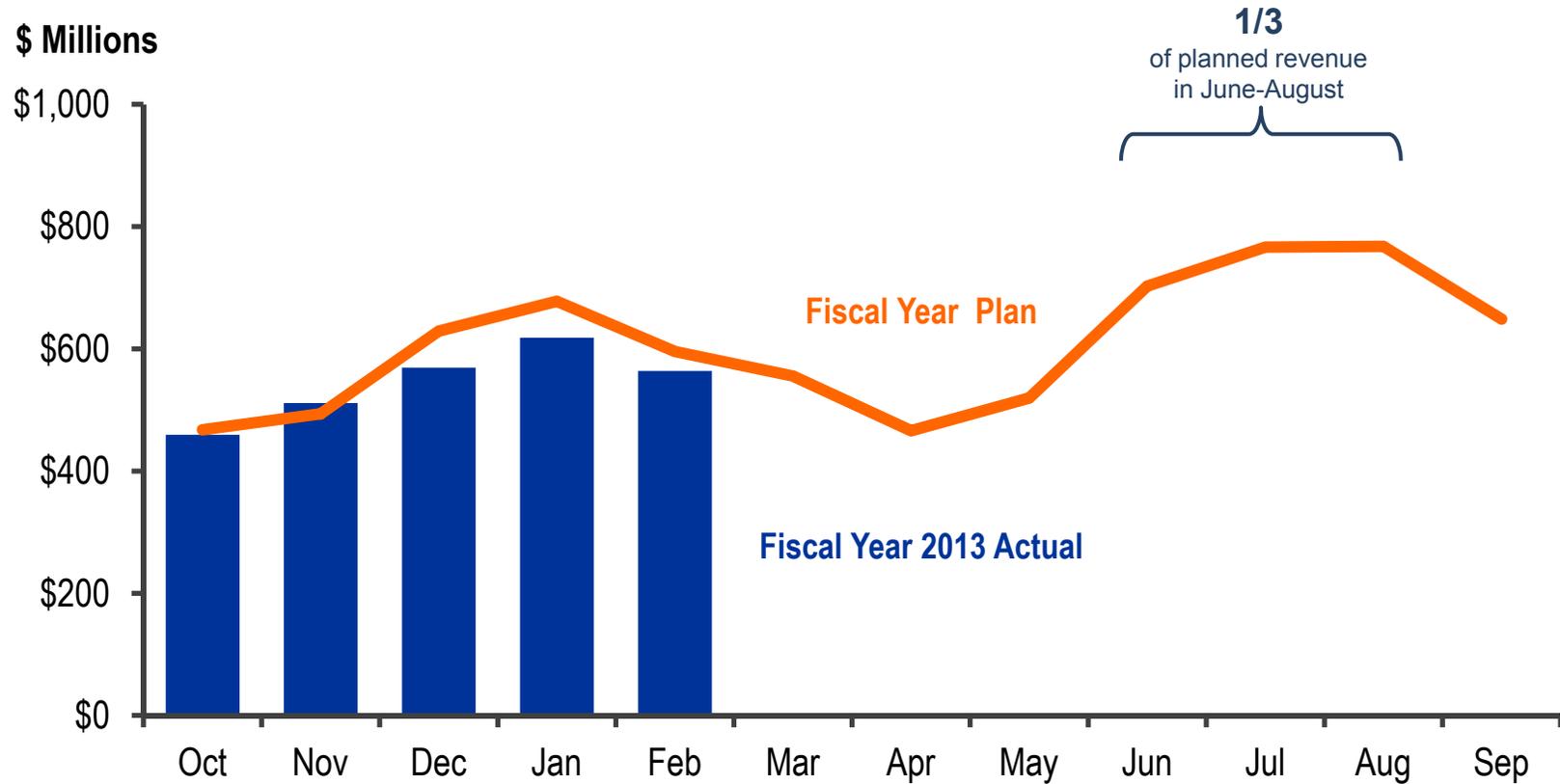
- Fuel expense unfavorable \$14M
- \$83M less fuel expense due to lower power production
- \$97M higher - natural gas prices
- Labor and routine spending favorable \$89M
- Pension and benefits unfavorable \$32M

Interest Expense (+\$29M to plan)

- Lower interest rates

BASE REVENUE

Base Revenue unfavorable 5% February Year-To-Date



SUMMARY INCOME STATEMENT

FISCAL YEAR-TO-DATE FEBRUARY

Base Revenue Impacted by Weather and Offset by Less Spending In Projects and Labor

(\$ millions)	FYTD13		Var to Bud	FY12	'13 v '12
	Budget	Actual	Fav/(Unfav)	FYTD	Fav/(Unfav)
Operating Revenue	\$ 4,531	\$ 4,434	\$ (97)	\$ 4,405	\$ 29
Base Revenue	2,864	2,722	(142)	2,846	(124)
Fuel Revenue	1,615	1,659	44	1,507	152
Other Revenue	52	53	1	52	1
Operating Expenses	4,138	4,095	43	4,046	(49)
Fuel & Purchased Power	1,694	1,708	(14)	1,559	(149)
O&M Routine and Projects	1,106	1,002	104	1,091	89
O&M - Outage	162	169	(7)	117	(52)
Pension, Tax Equiv, Other O&M	491	523	(32)	520	(3)
Depreciation / Amortization	685	693	(8)	759	66
Operating Income	\$ 393	\$ 339	\$ (54)	\$ 359	\$ (20)
Other Income (investments, external business)	7	20	13	8	12
Interest Expense	559	530	29	536	6
Net Income (Loss)	\$ (159)	\$ (171)	\$ (12)	\$ (169)	\$ (2)

SUMMARY CASH FLOW STATEMENT

FISCAL YEAR-TO-DATE FEBRUARY

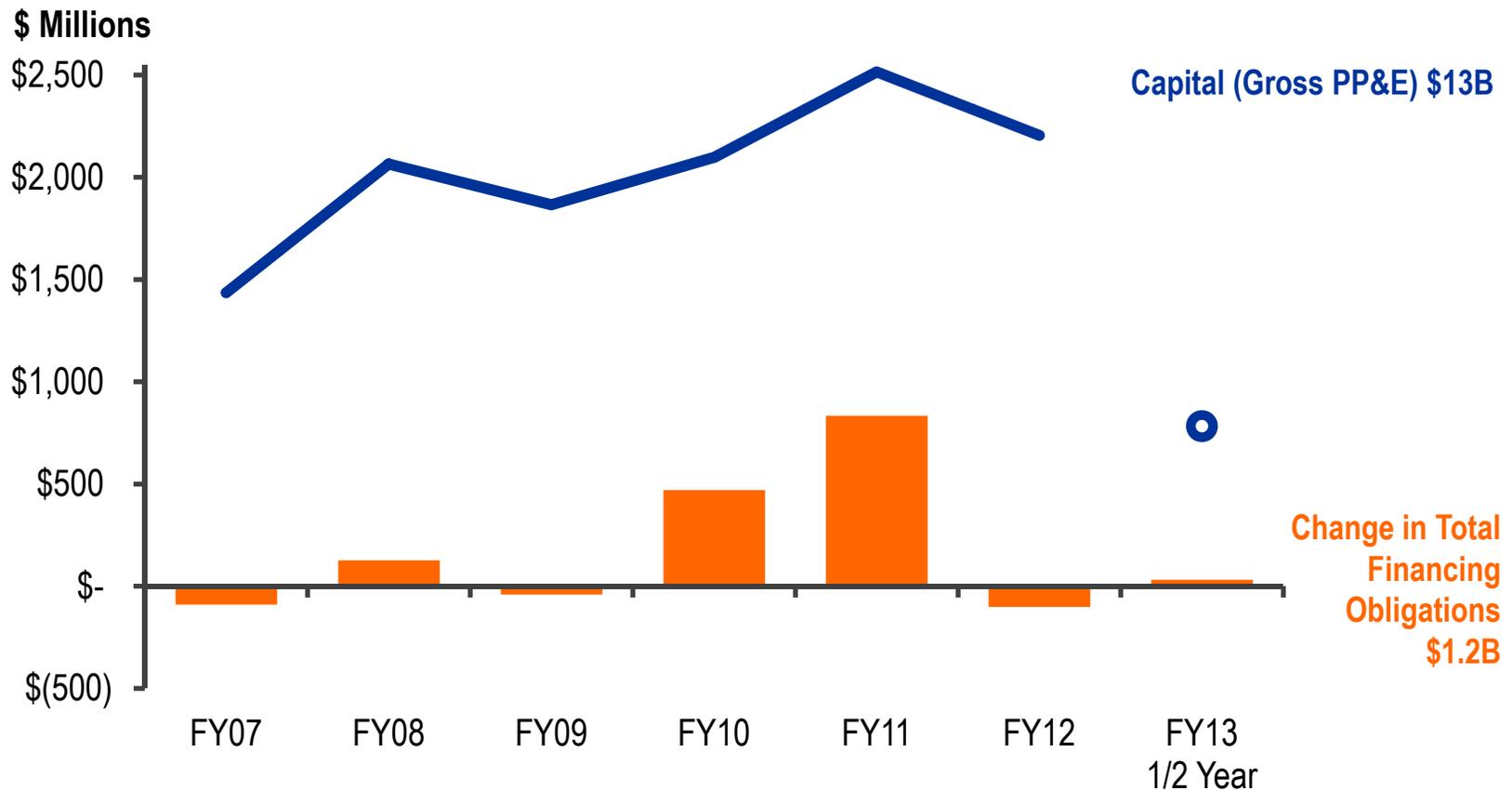
Fiscal Year to Date (\$ millions)	FYTD13		Var to Bud	FYTD12	'13 v '12
	Budget	Actual	Fav/(Unfav)	Actual	Fav/(Unfav)
Cash Flow from Operating Activities	\$ 751	\$ 665	\$ (86)	\$ 451	\$ 214
Cash Flow (used in) Investing Activities	(1,055)	(896)	159	(1,002)	106
Cash Flow from Financing Activities	304	296	(8)	590	(294)
Net Change in Cash & Cash Equivalents	\$ -	\$ 65	\$ 65	\$ 39	\$ 26

Beginning Cash & Short-term Investments	\$ 200	\$ 868	\$ 668	\$ 507	\$ 361
Ending Cash & Short-Term Investments	\$ 200	\$ 933	\$ 733	\$ 546	\$ 387

FY Debt and Financing Obligations	\$ 27,196	\$ 27,196		\$ 27,227	\$ 31
<i>Statutory Debt</i>	<i>\$ 24,470</i>	<i>\$ 24,470</i>		<i>\$ 24,310</i>	<i>\$ (160)</i>

MANAGING CASH AND DEBT

Increasing productive assets with cash generated from operations



SUMMARY

Challenges

- Mild weather impacting FY13 revenue
- Natural gas prices
- Management focused on implementing sustainable, efficiency efforts
- Operation challenges in nuclear, coal and natural gas plants

Favorable

- Routine O&M costs and interest rates
- Higher rain producing more hydro power

Risks

- Weather
- Directly Served customer impacts

FINANCE, RATES, AND PORTFOLIO COMMITTEE

NUCLEAR MAINTENANCE CONTRACT

FOR BOARD CONSIDERATION

Amend an existing five-year blanket contract with Day & Zimmermann NPS, Inc. to increase the ceiling by \$200 million

BACKGROUND

- Contract for nuclear plant modifications and maintenance
- Original contract was competitively bid and awarded in November 2009
- Maintenance and modification contracts employ and manage labor (craft/non-craft) to perform capital and maintenance tasks at the plant sites
- TVA does not guarantee contractor any minimum amount of work
- Project spending under contract approved through appropriate budget and planning processes

OVERVIEW

- Original expenditures were estimated at \$700 million
- Required projects have increased
- Amended contract value will be \$900 million, to cover anticipated contract work through remainder of initial five-year term
- Excellent safety record at TVA
- Day & Zimmermann NPS, Inc. able to utilize lessons learned across all TVA plants and other utilities to provide services at a lower costs

RECOMMENDATION

Amend an existing five-year blanket contract with Day & Zimmermann NPS, Inc. to increase the ceiling by \$200 million

FINANCE, RATES, AND PORTFOLIO COMMITTEE

SOUTHAVEN COMBINED CYCLE PLANT

FOR BOARD CONSIDERATION

- Extend the existing Southaven arrangements for up to 135 days if necessary
- Authorize the CEO to enter into a lease-purchase transaction involving the Southaven Combined Cycle facility

SOUTHAVEN COMBINED CYCLE PLANT

- 3 Units – 774 megawatts
- Desoto County, Mississippi
- Completed in 2003
- Purchased unit in 2008
- Structured a transaction to provide customers with an ownership opportunity for generating assets
- Generated more than 4,600 GWh in FY12 – over 25% of TVA's gas-fired output



RECOMMENDATION

- Extend the existing Southaven arrangements for up to 135 days if necessary
- Authorize the CEO to enter into a lease-purchase transaction involving the Southaven Combined Cycle facility



AUDIT, RISK, AND REGULATION

COMMITTEE

AUDIT, RISK, AND REGULATION COMMITTEE

RETAIL REGULATORY POLICY REVIEW

APRIL 18, 2013

FOR BOARD CONSIDERATION

- Approve enhancements to TVA's regulatory policy in relation to local power companies

BACKGROUND

- Board directed comprehensive review of TVA regulatory policy
- TVA staff has been working to evaluate three key aspects of TVA's regulatory policies
 - Distributor retail rate review process
 - Distributor use of revenues
 - Service practice standards

REVISED RATE REVIEW PROCESS

- Guidelines used in evaluating requests for increases in the distribution component of retail rates
- Proposed financial screening metrics ensure a clear need for a rate increase
- Additional financial analysis required if a distributor's ratios are above the levels in all screening metrics
- TVA Board would have option to consider requests that require additional analysis

USE OF REVENUES

- Recognizes that there are certain expenses that may be an appropriate use of electric system revenues
- Encourages distributors to develop a consistent policy

SERVICE PRACTICE STANDARDS

- Standards for deposits, billing, termination of service and consumer information
- Became effective October 1, 1979
- Continue evaluation to determine whether revisions to the current Service Practice Standards are needed

RETAIL REGULATION FLEXIBILITY

- Also considered the retail regulation standard
 - Put in place by the Board in 2002
 - Allows local power companies to establish their own retail rates
 - Was suspended by TVA in 2007 but not formally rescinded

RECOMMENDATION

- Approve revised retail rate review process
- Approve guidelines for distributors' use of electric system revenues
- Discontinue policy for retail regulation flexibility



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