



TVA BOARD
MEETING

AUGUST 22, 2013

CONSENT AGENDA

- Health Savings Account Contract
- Pharmacy Benefits Managers Contract
- Assistant Corporate Secretary Designations

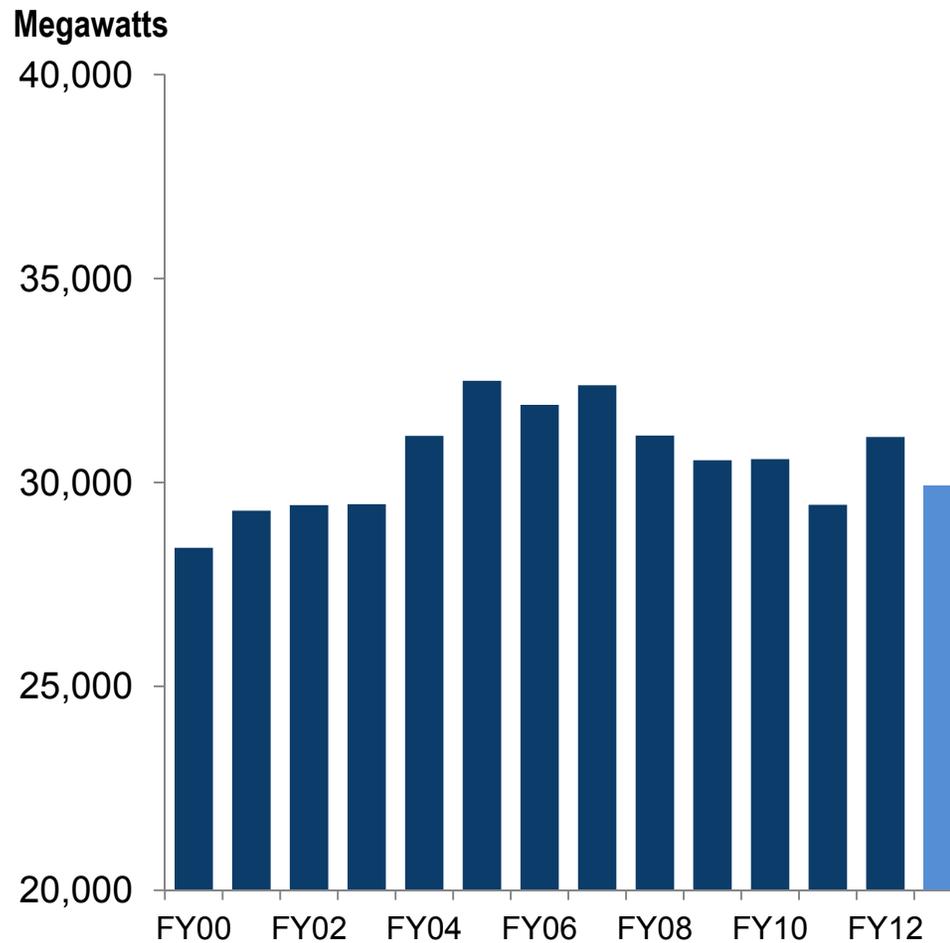


CHAIRMAN'S REPORT

CHAIRMAN'S REPORT

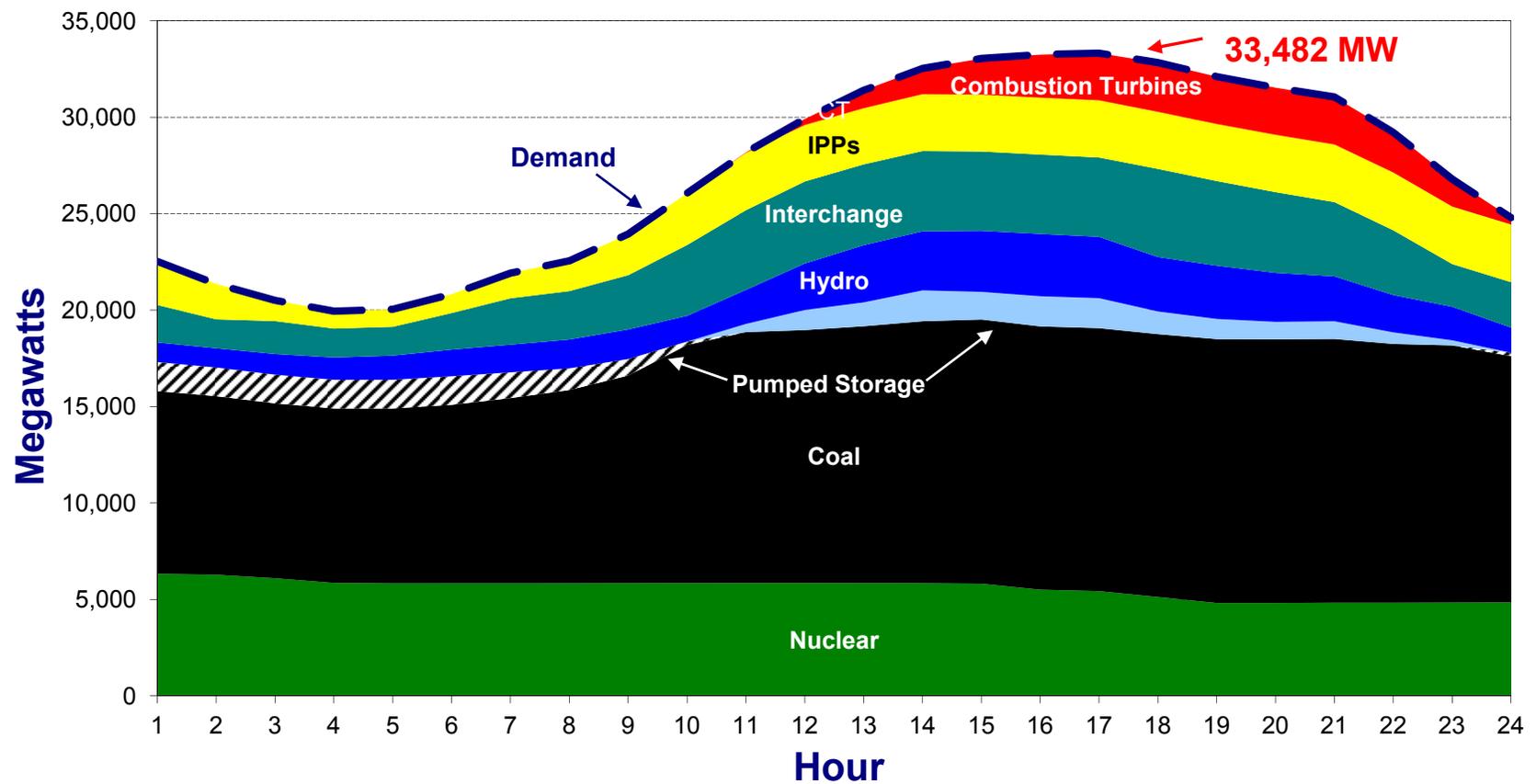


SUMMER PEAK DEMAND

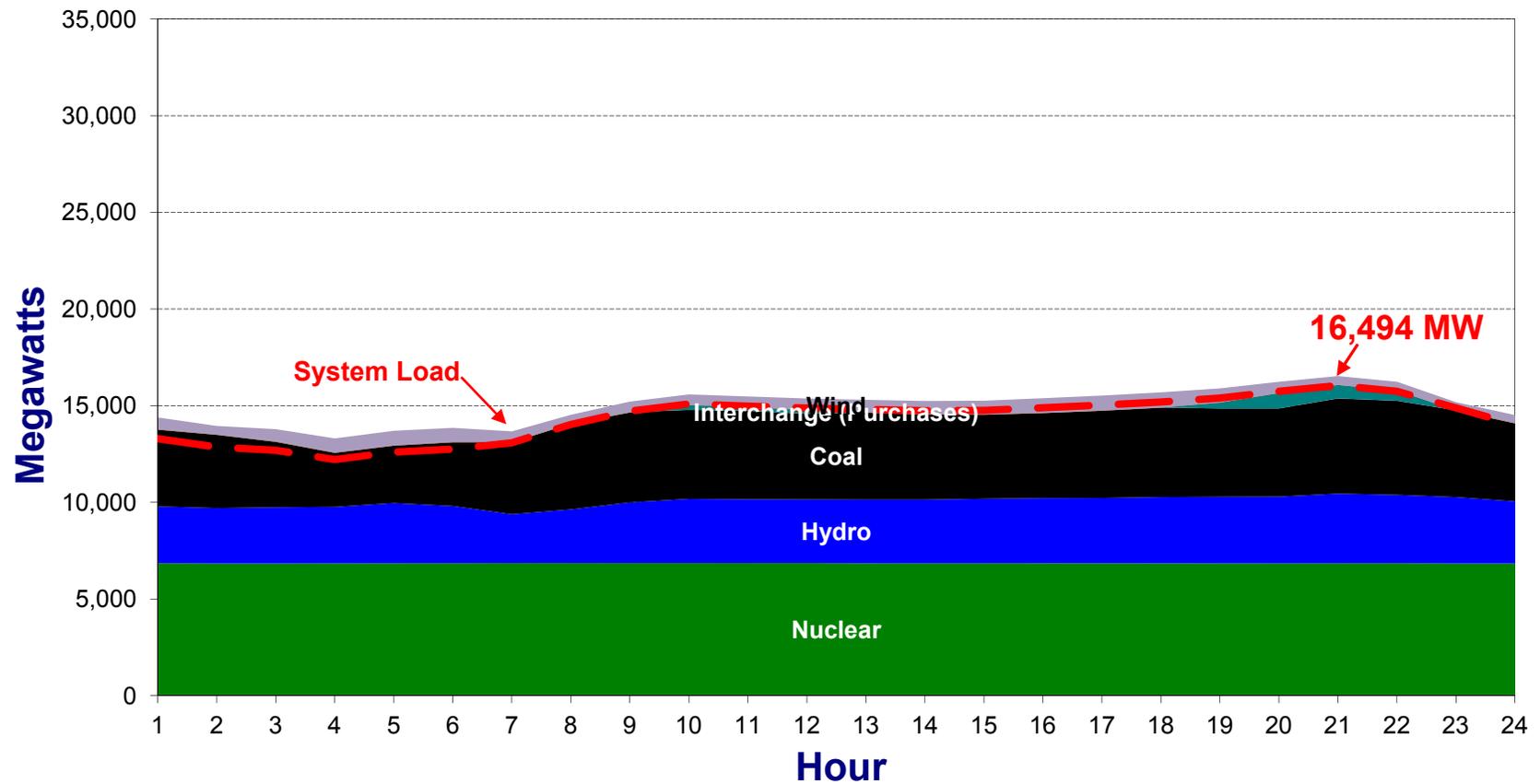


Note: History is weather-normalized. All-time actual peak was 33,482 MW in August 2007 at 104.4°F.
Forecast does not include the impacts of TVA EE/DR programs.

DEMAND LOAD – AUGUST 16, 2007



DEMAND LOAD – MAY 12, 2013



CHAIRMAN'S REPORT

- Find significant efficiencies in operating costs and functions
- Optimize the generation portfolio by developing a robust, flexible generation fleet
- Improve operational performance of generation fleet
- Focus on our economic development mission by recruiting and retaining good jobs
- Improve transparency and communication
- Focus on low rates and long-term financial health



CHAIRMAN'S REPORT

AUGUST 22, 2013



PRESIDENT'S REPORT

AUGUST 22, 2013

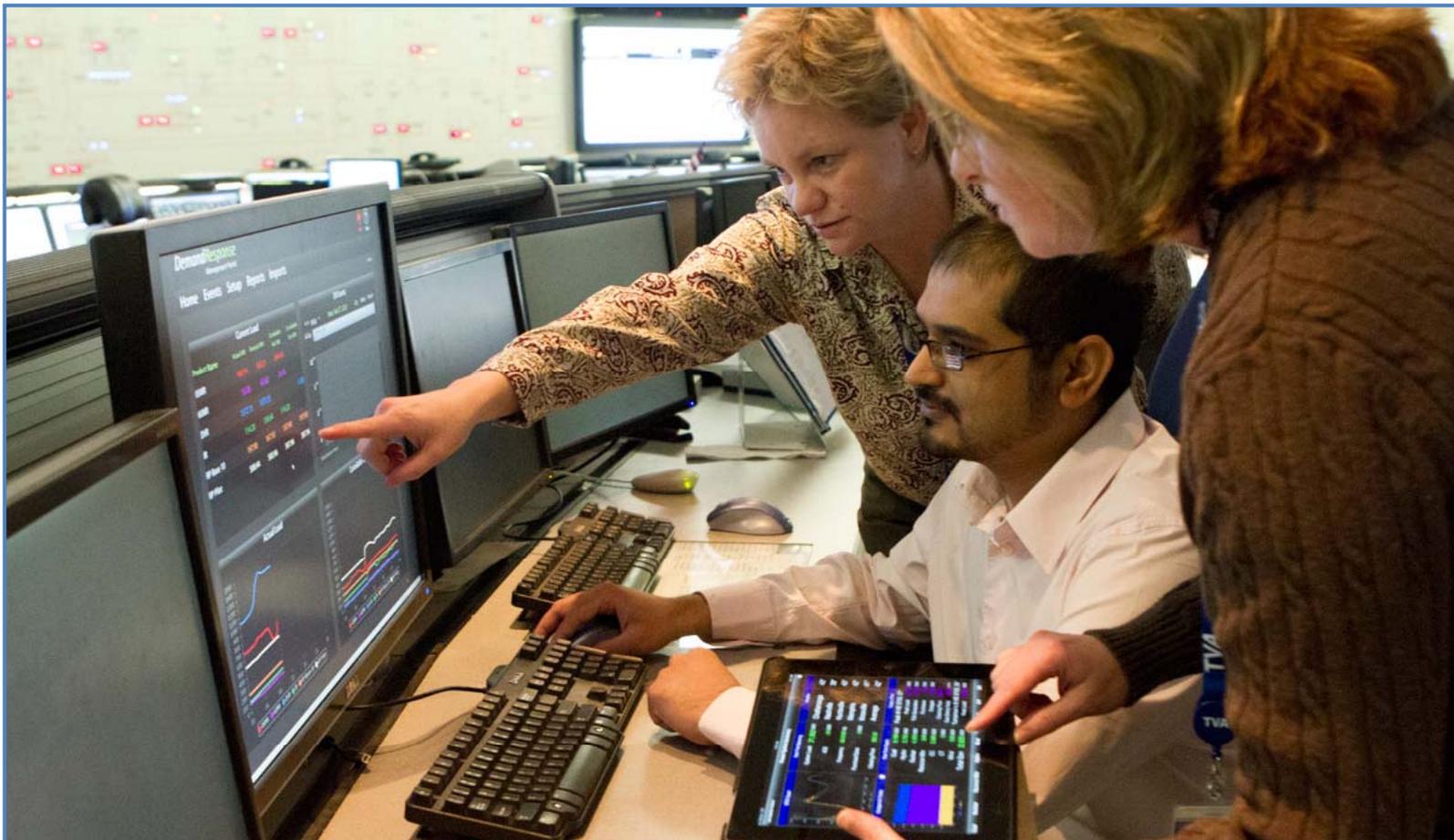
WORK

THE PROMISE
WE MAKE TO
EACH OTHER

SAFE



OVERVIEW



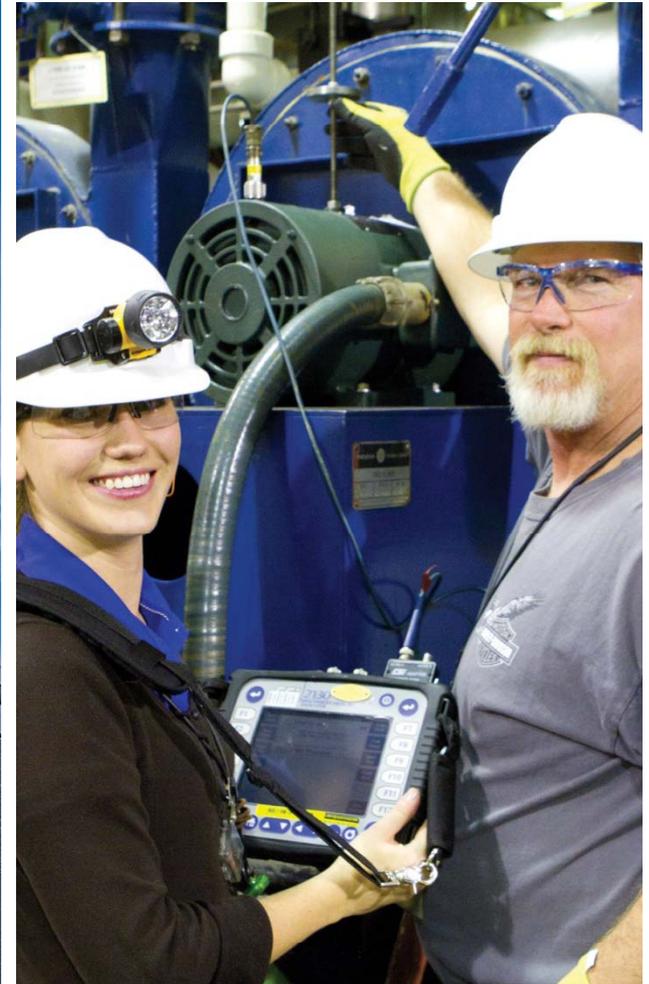
ACTION AREAS



OUR WORK



OUR BUDGET



OUR PEOPLE

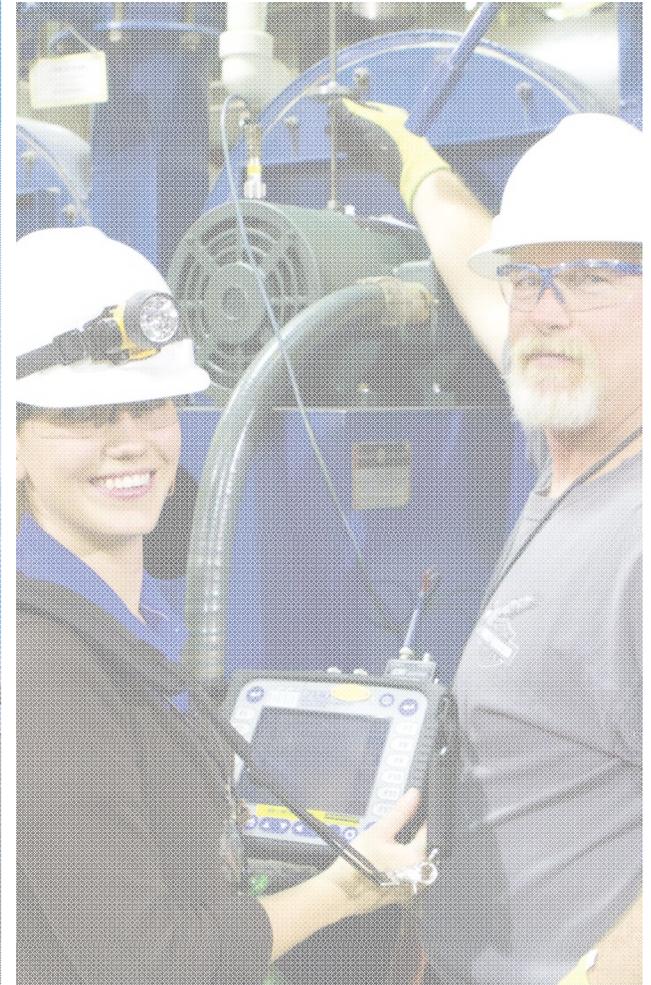
ACTION AREAS



OUR WORK



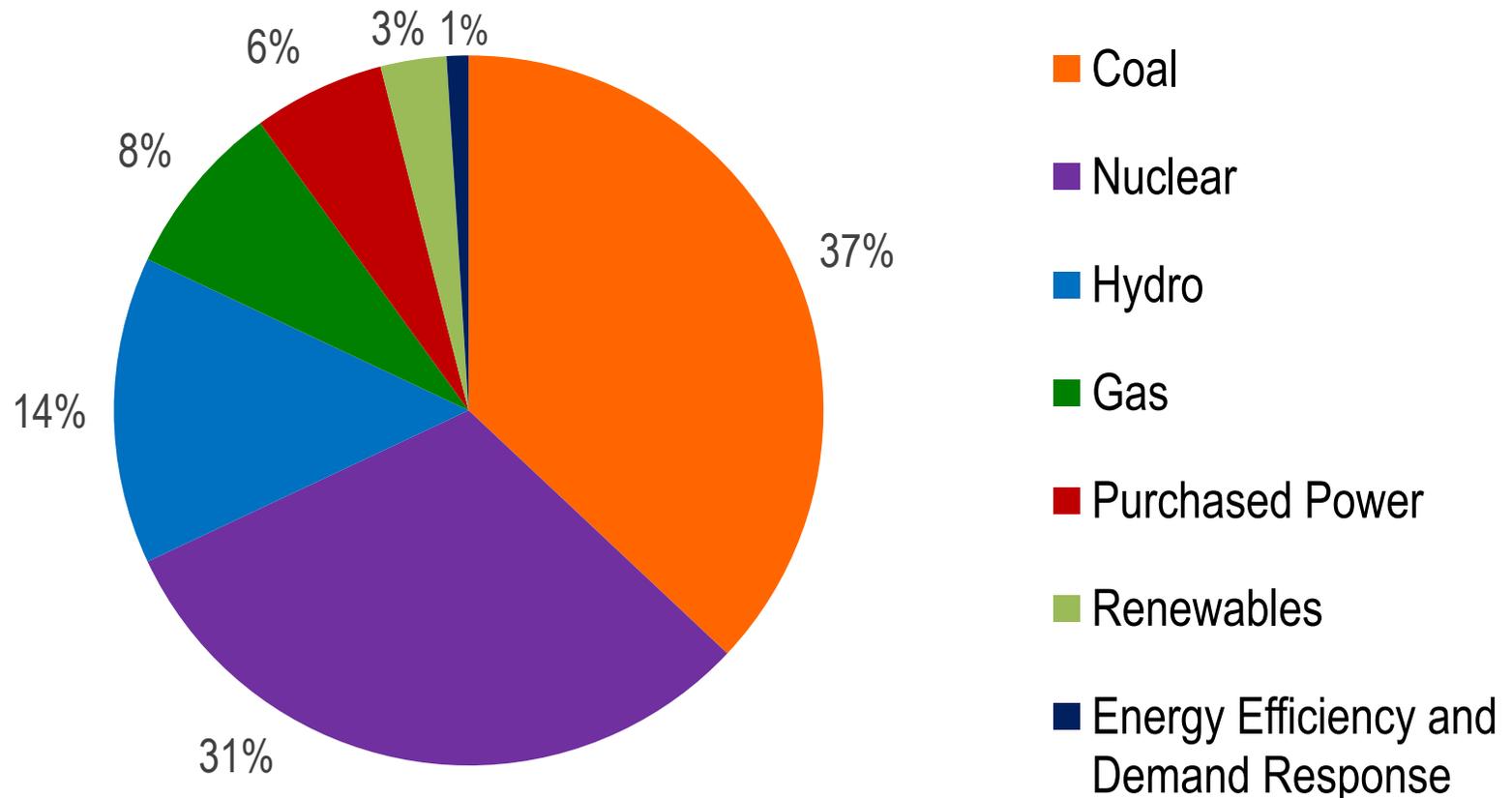
OUR BUDGET



OUR PEOPLE

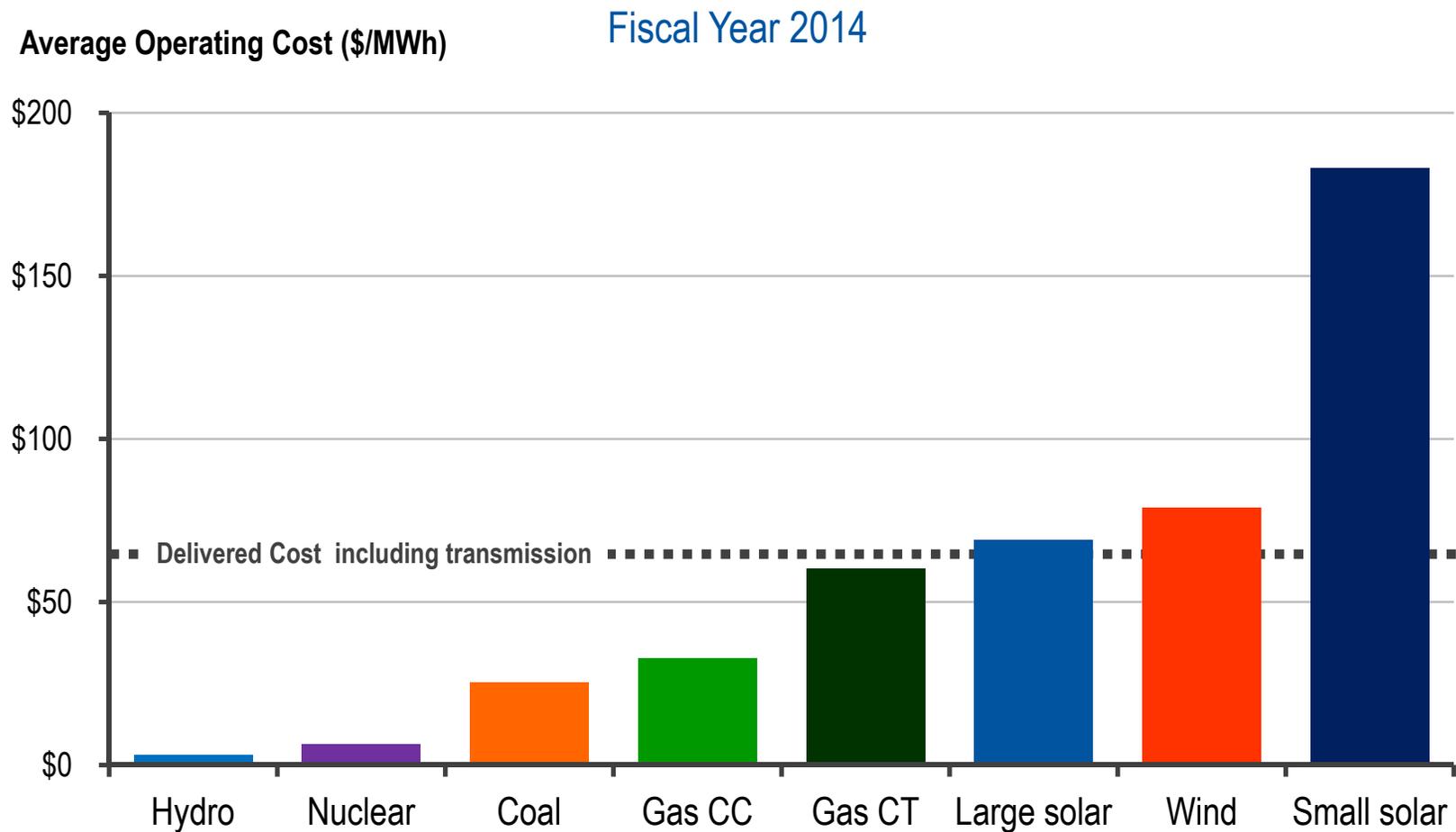
GENERATION

Fiscal Year-to-date July 2013

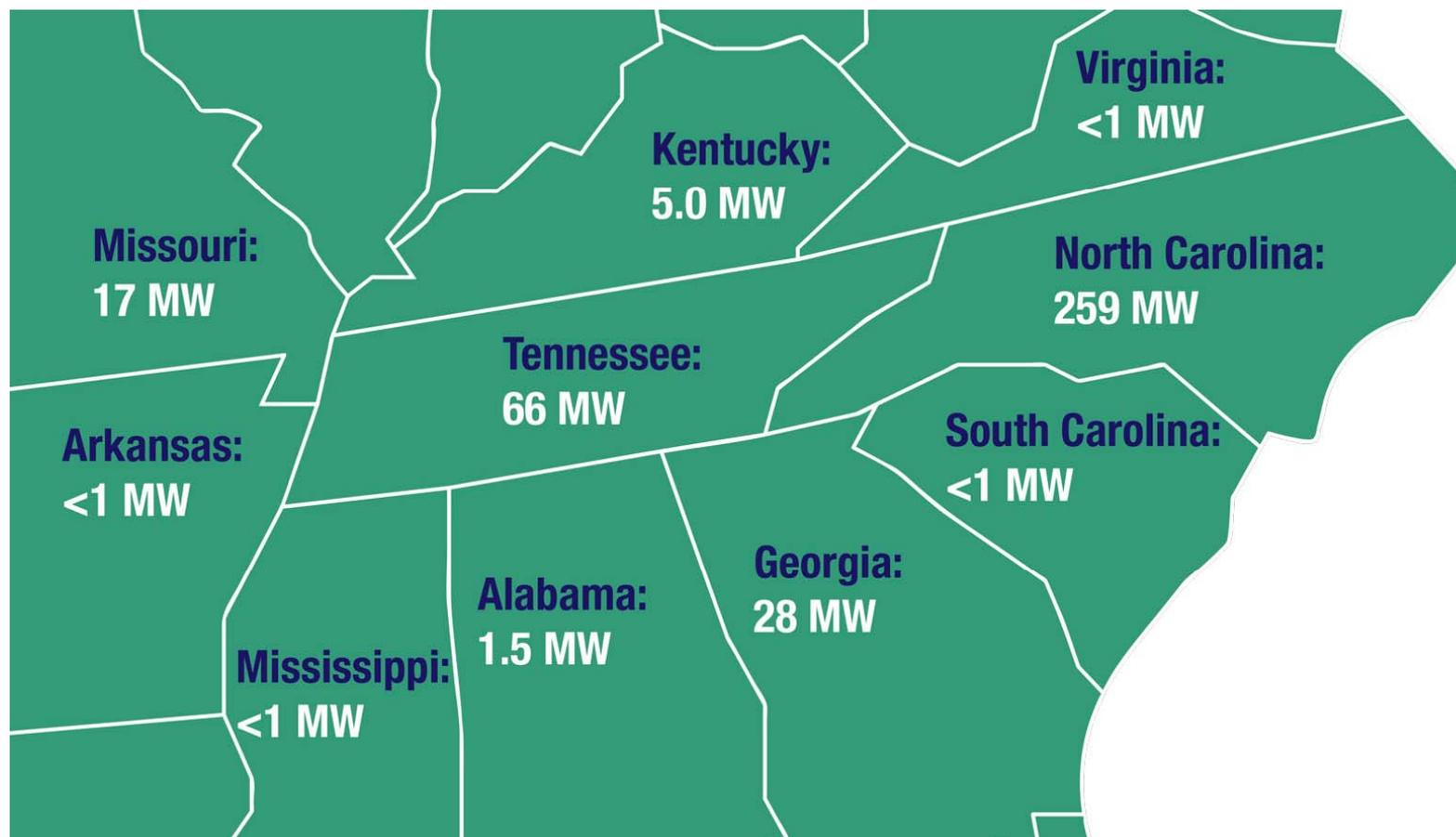


Hydro and renewables include a portion of purchased power

COST PER MEGAWATT HOUR

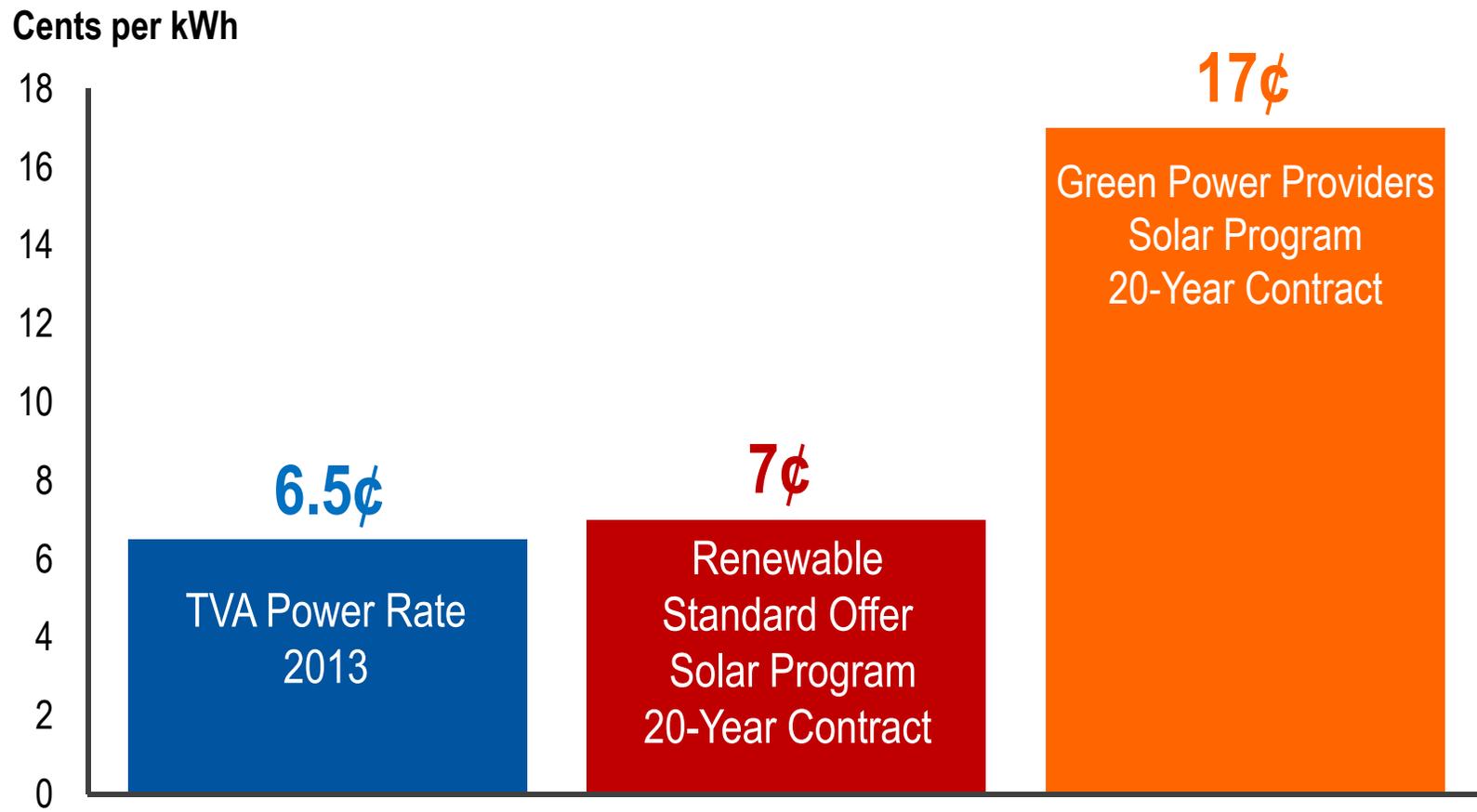


SOLAR GENERATION BY STATE

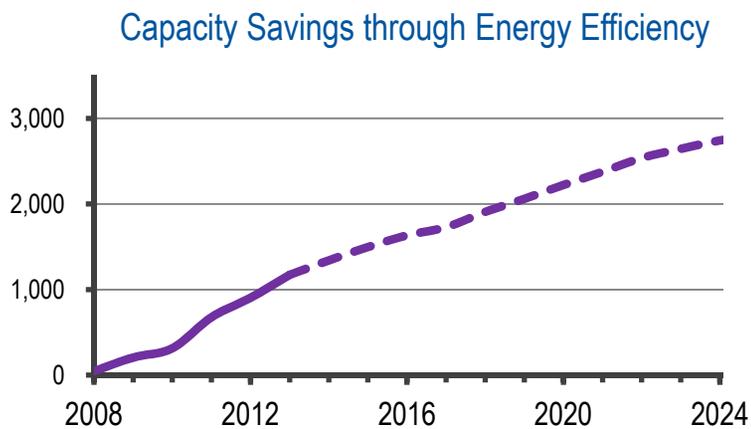
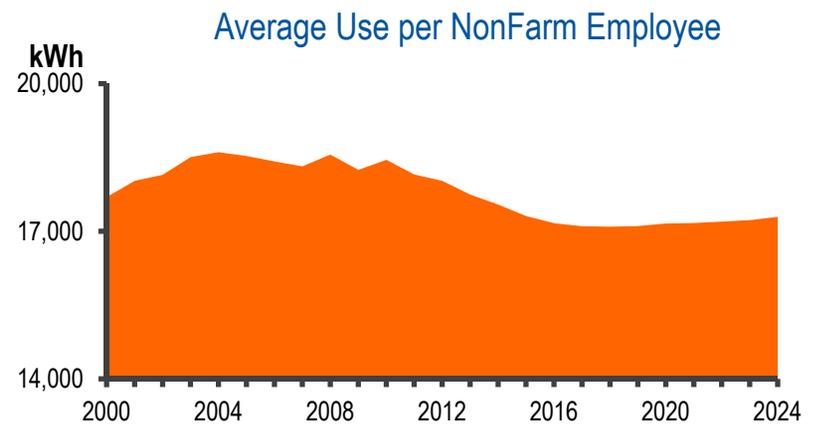
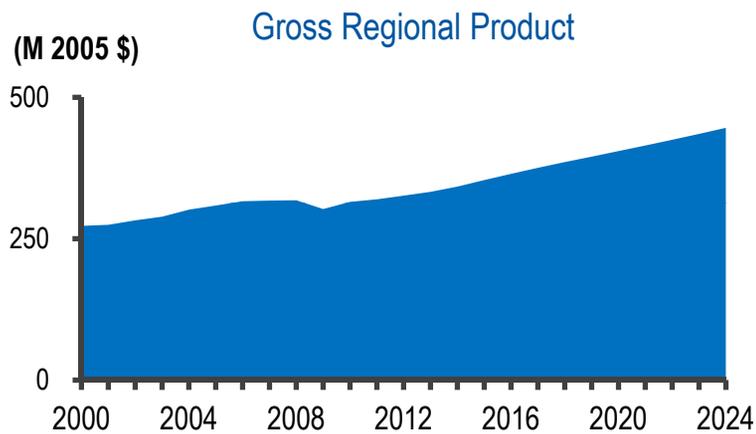


Source: SEIA through first quarter of 2013 except for Alabama, Kentucky, Mississippi and Virginia which use TVA data as of August 2013

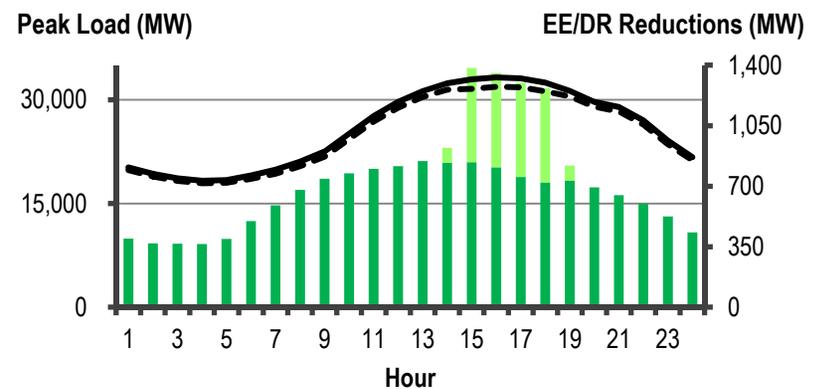
2013 SOLAR COSTS PER KWH



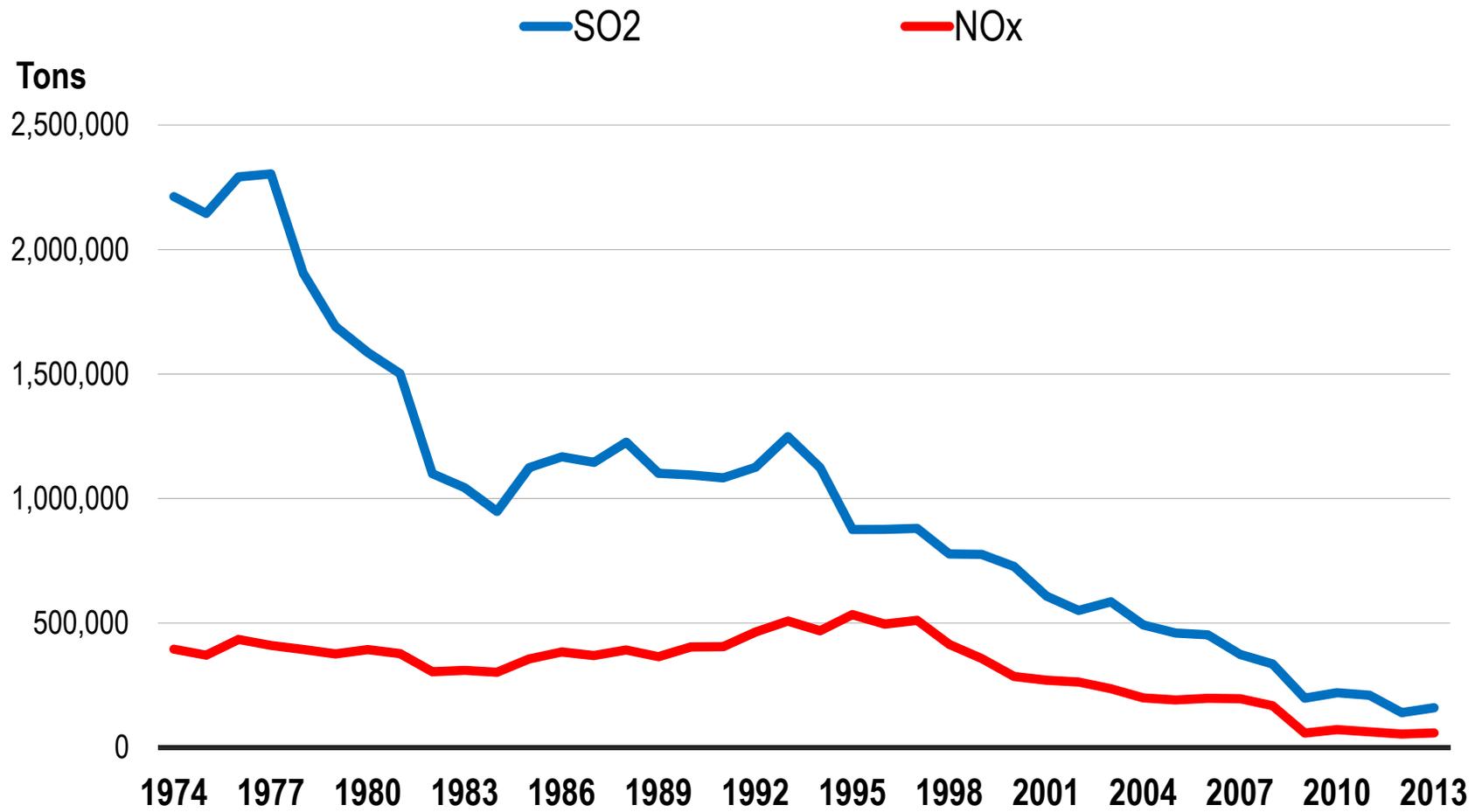
ENERGY EFFICIENCY AND DEMAND RESPONSE



Summer Season Hourly Peak Load Reductions from EE/DR

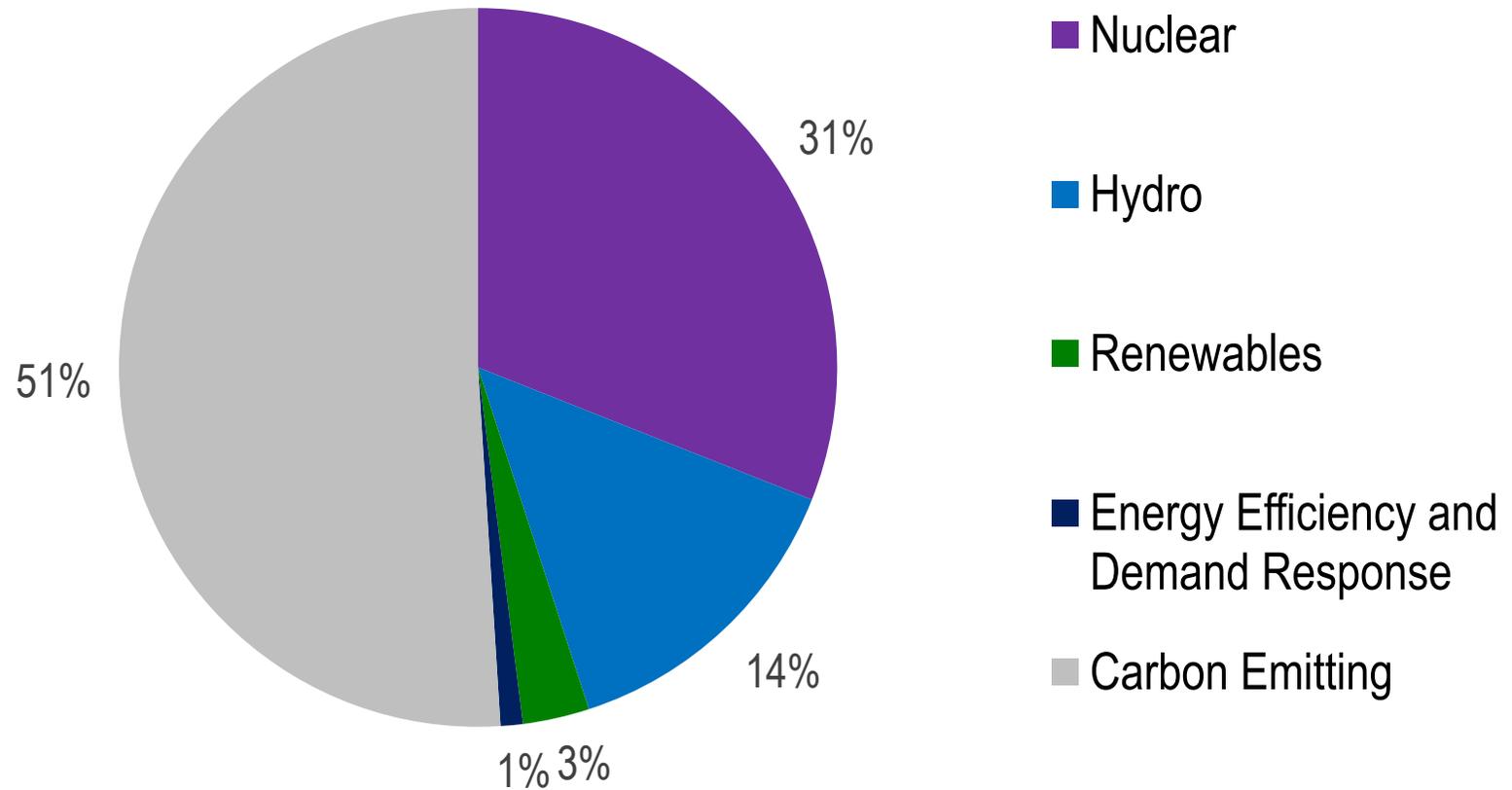


AIR QUALITY



POWER SUPPLY FROM CARBON-FREE SOURCES

Fiscal Year-to-date July 2013



STEWARDSHIP



ECONOMIC DEVELOPMENT

	Direct Jobs Created and Retained	Capital Investment
FYTD 2013	46,000	\$4.6 billion
FY 2008 thru FYTD 2013	250,000	\$29 billion



VALUE OF CREATING JOBS

Example: Megasite Program

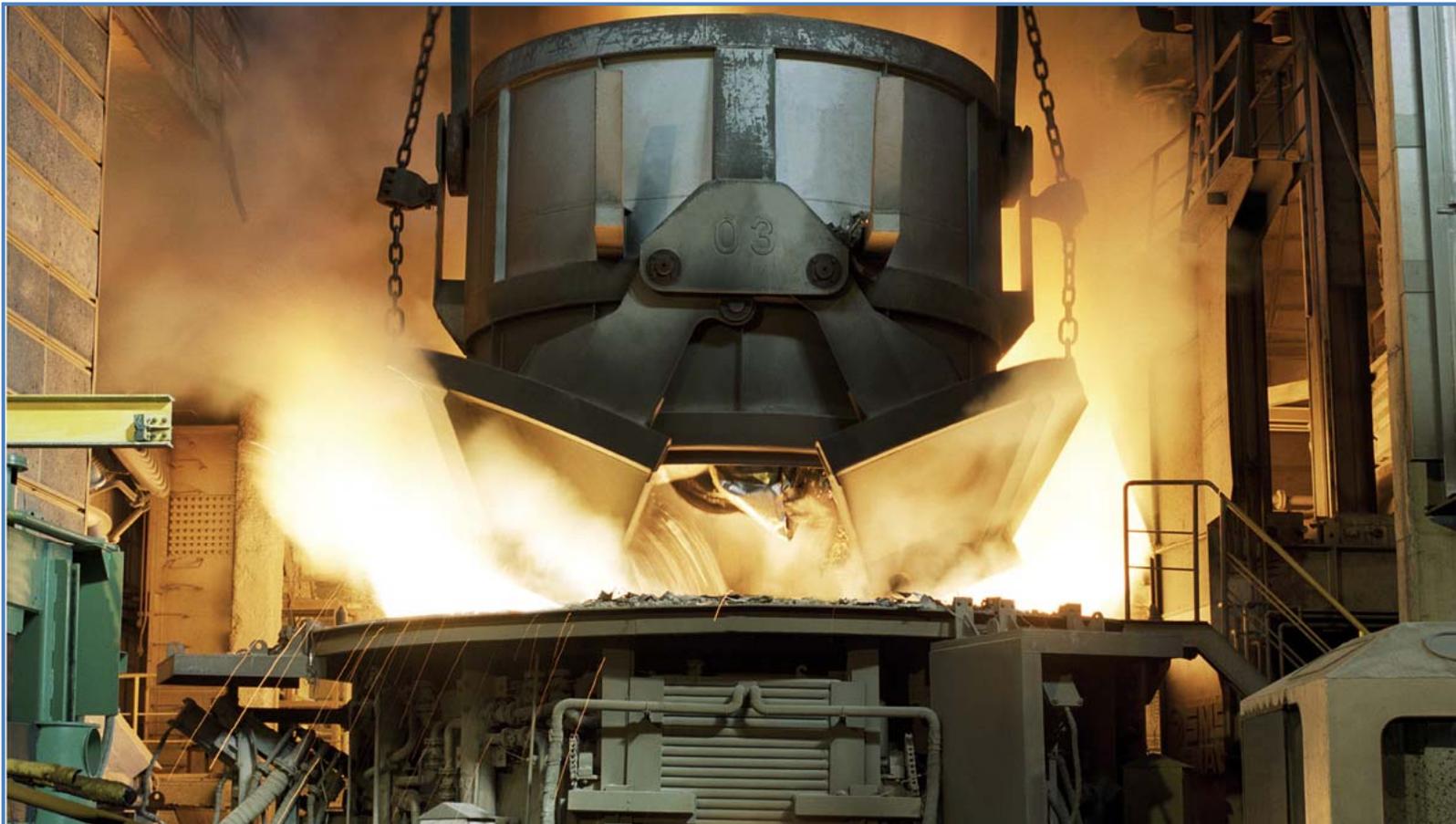
Direct Jobs	6,800
Indirect Jobs	24,200
Total Jobs	31,000

Direct Payroll	\$433 million
Indirect Payroll	\$925 million
Total Payroll	\$1.4 billion

Total Capital Investment	\$3.8 Billion
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Source: Economic Impact Study of the TVA Certified Megasite Program, Younger Associates, April 2012

SEVERSTAL



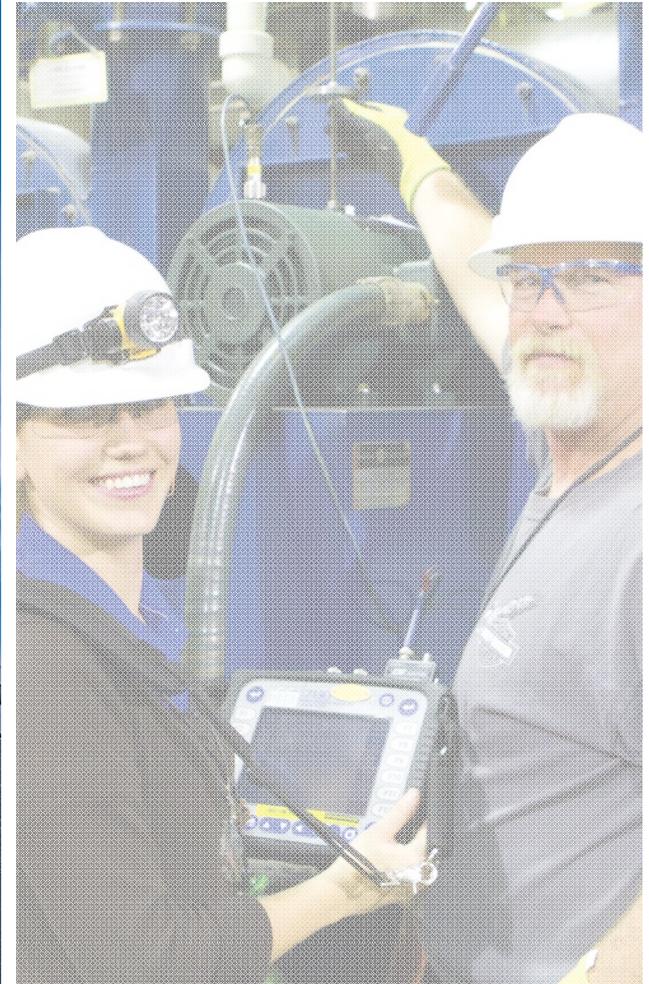
ACTION AREAS



OUR WORK



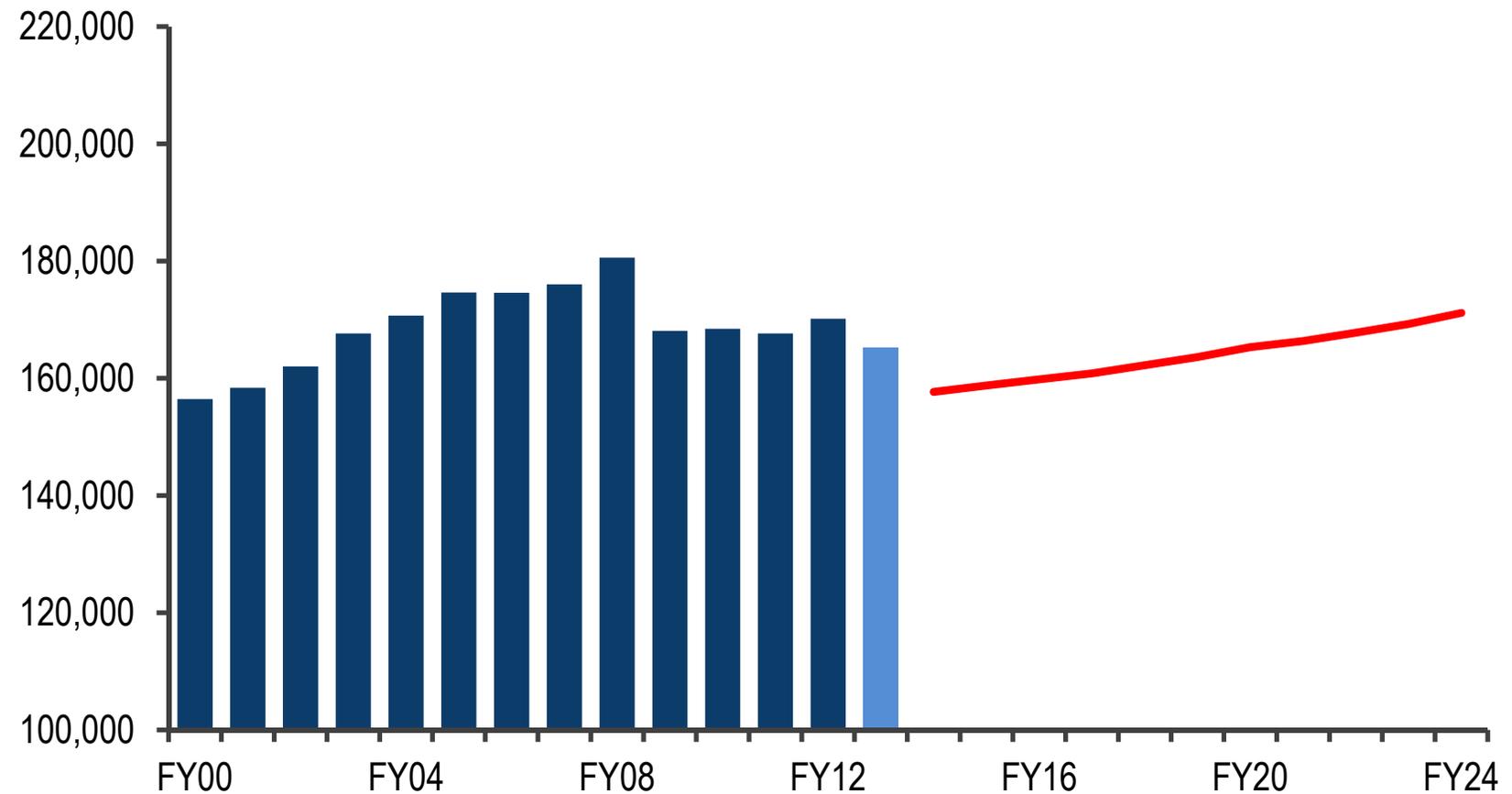
OUR BUDGET



OUR PEOPLE

LOAD GROWTH PROJECTIONS

Megawatt Hours



PRIORITIES

- O&M Expenses in line with revenues
- Complete Watts Bar 2
- Evaluate remainder of coal fleet
- Preserve Bellefonte as an option
- Continue exploring small modular reactor technology
- Attracting and retaining jobs for the region
- Update our Integrated Resource Plan



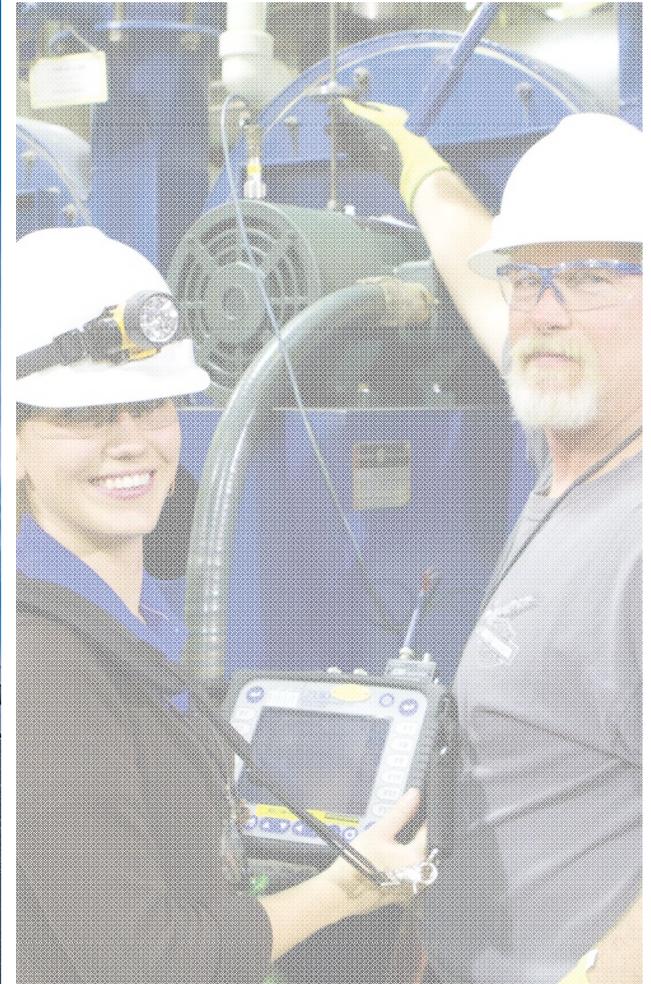
ACTION AREAS



OUR WORK

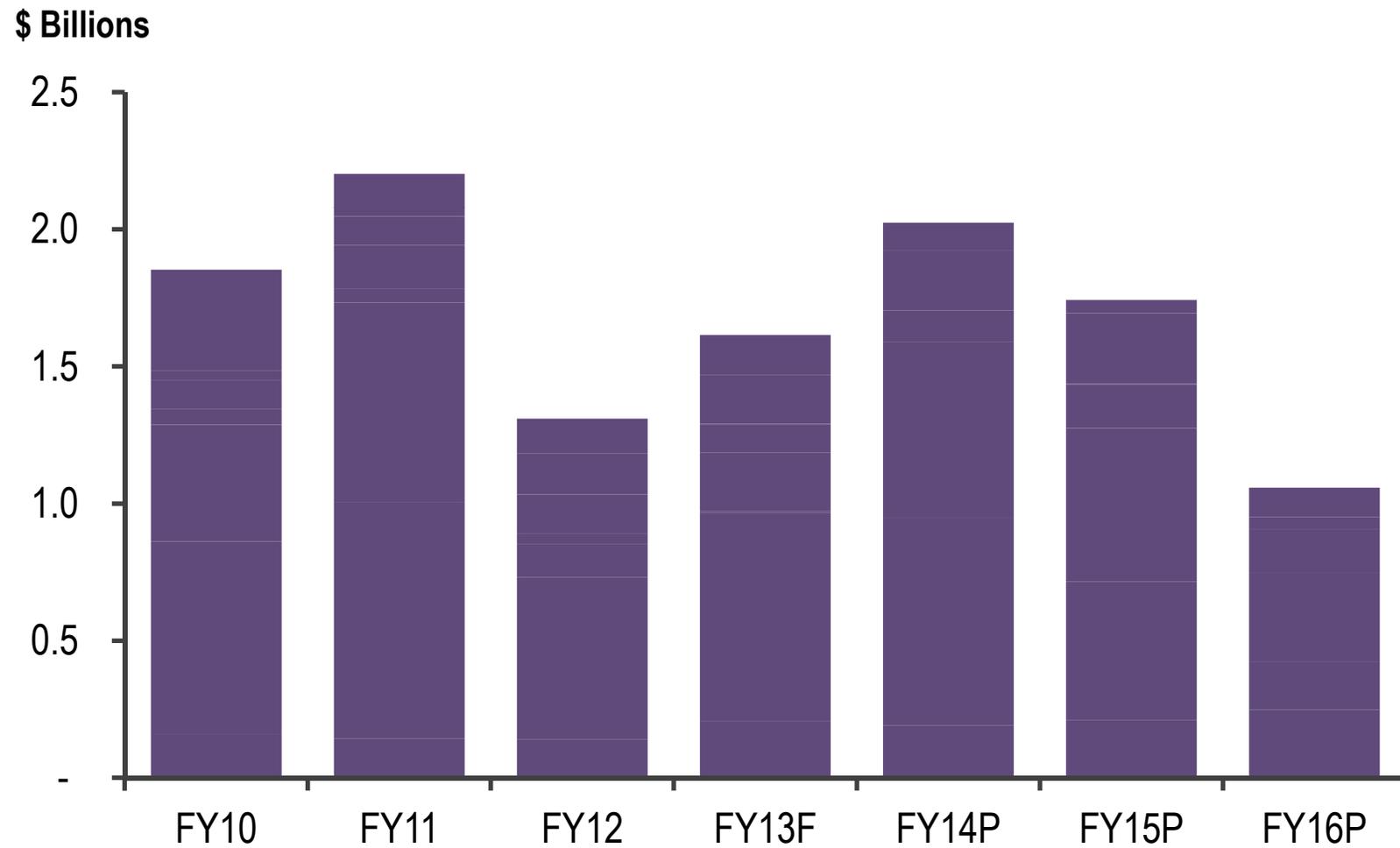


OUR BUDGET



OUR PEOPLE

CAPITAL EXPENSES



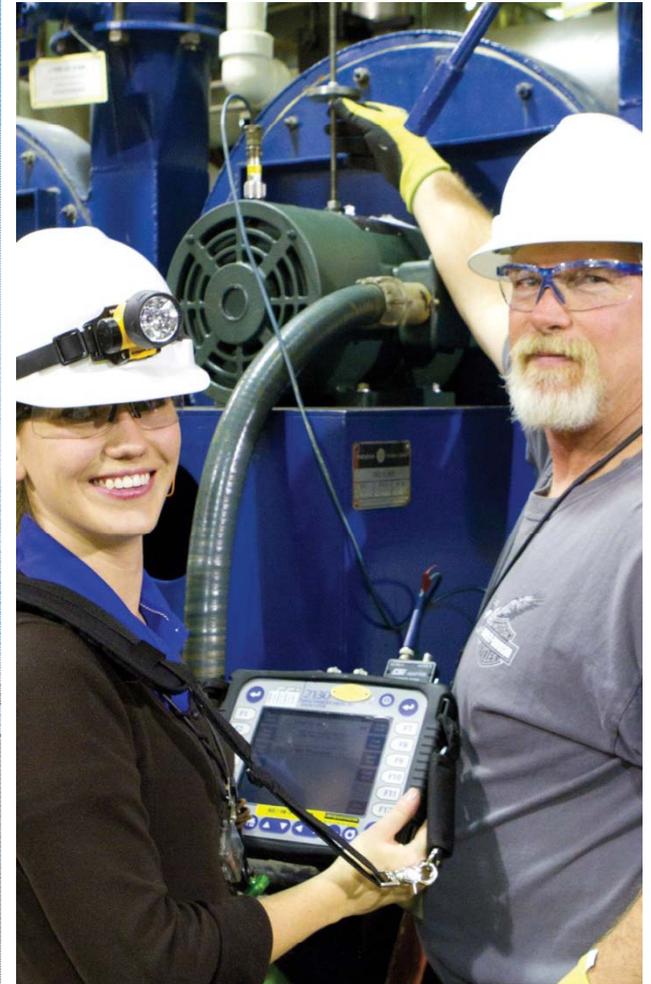
ACTION AREAS



OUR WORK

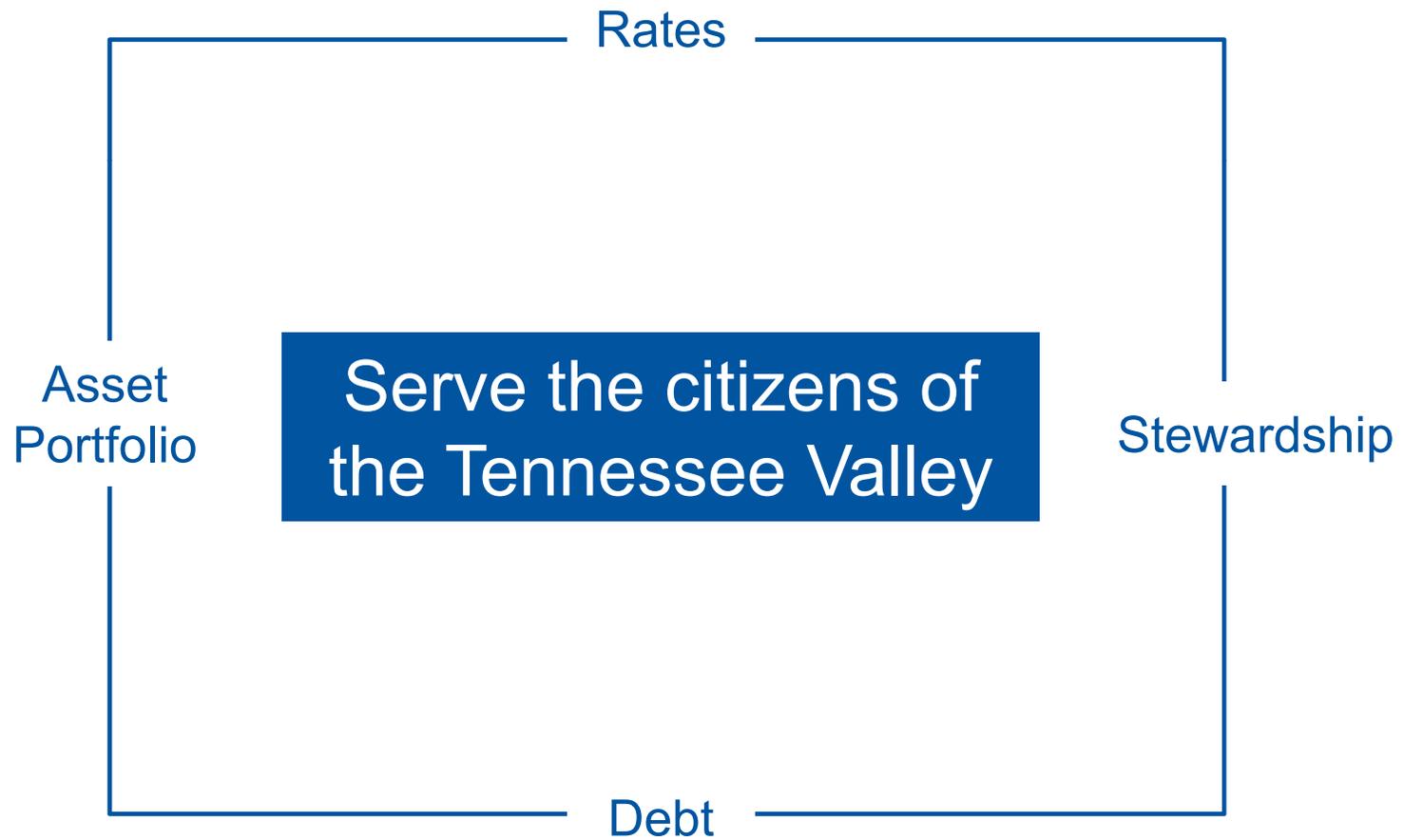


OUR BUDGET



OUR PEOPLE

OUR PEOPLE



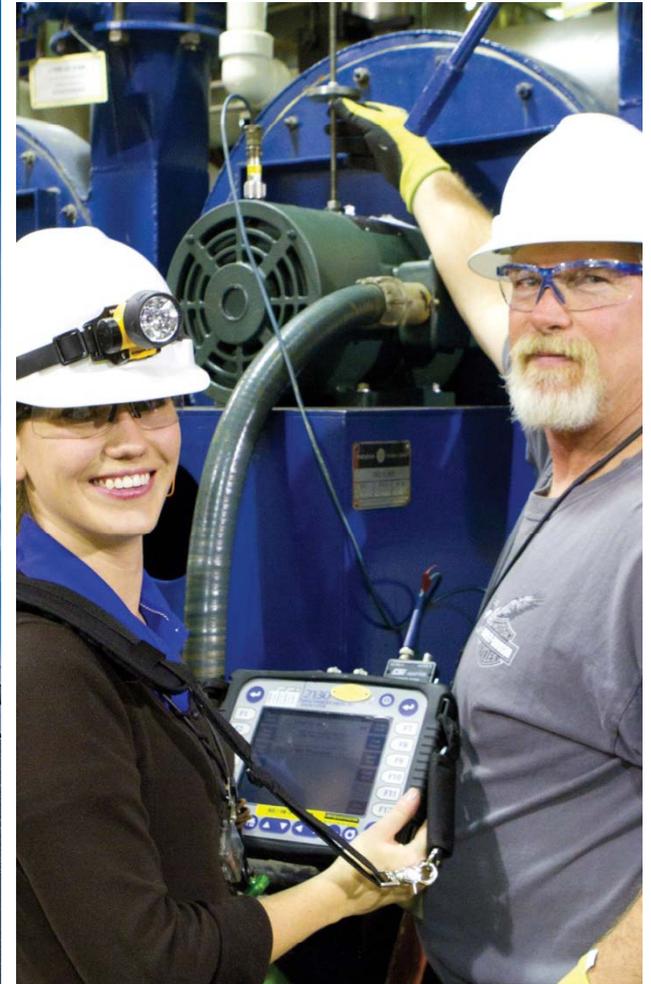
ACTION AREAS



OUR WORK



OUR BUDGET



OUR PEOPLE



FINANCE, RATES, AND PORTFOLIO

COMMITTEE

FINANCE, RATES, AND PORTFOLIO COMMITTEE

FISCAL YEAR 2014 FINANCIAL PLAN

AUGUST 22, 2013

FISCAL YEAR 2014 FINANCIAL PLAN

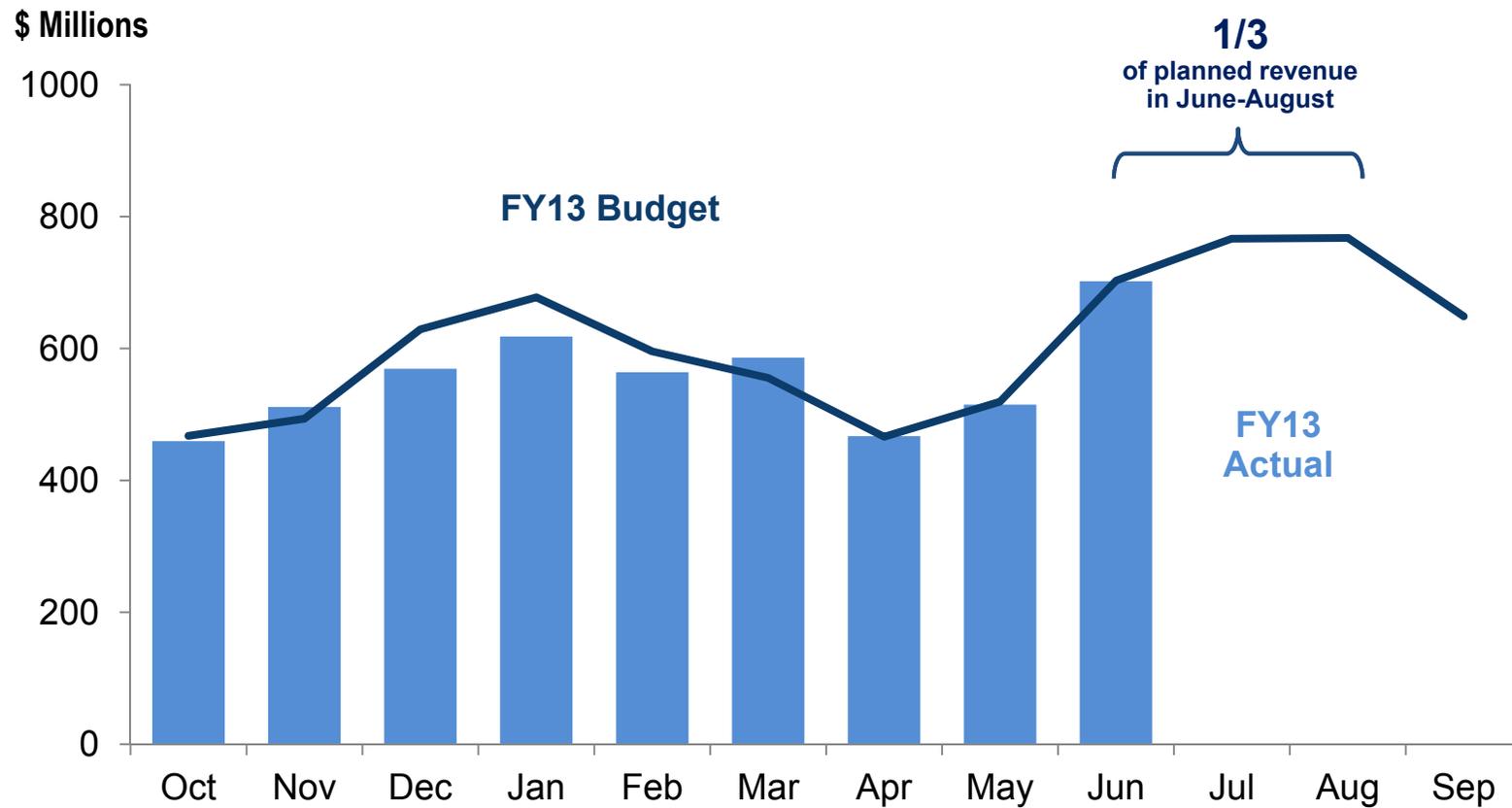
FISCAL YEAR 2013 FINANCIAL UPDATE

FISCAL YEAR-TO-DATE JUNE 2013

- Lower base revenues than planned with milder winter
- Fuel is favorable from increased hydro generation as result of higher rainfall/runoff – offset by higher than planned natural gas prices
- Cash Flow impacted by lower revenues but offset by management actions
- Capacity Expansion slowed to match current conditions

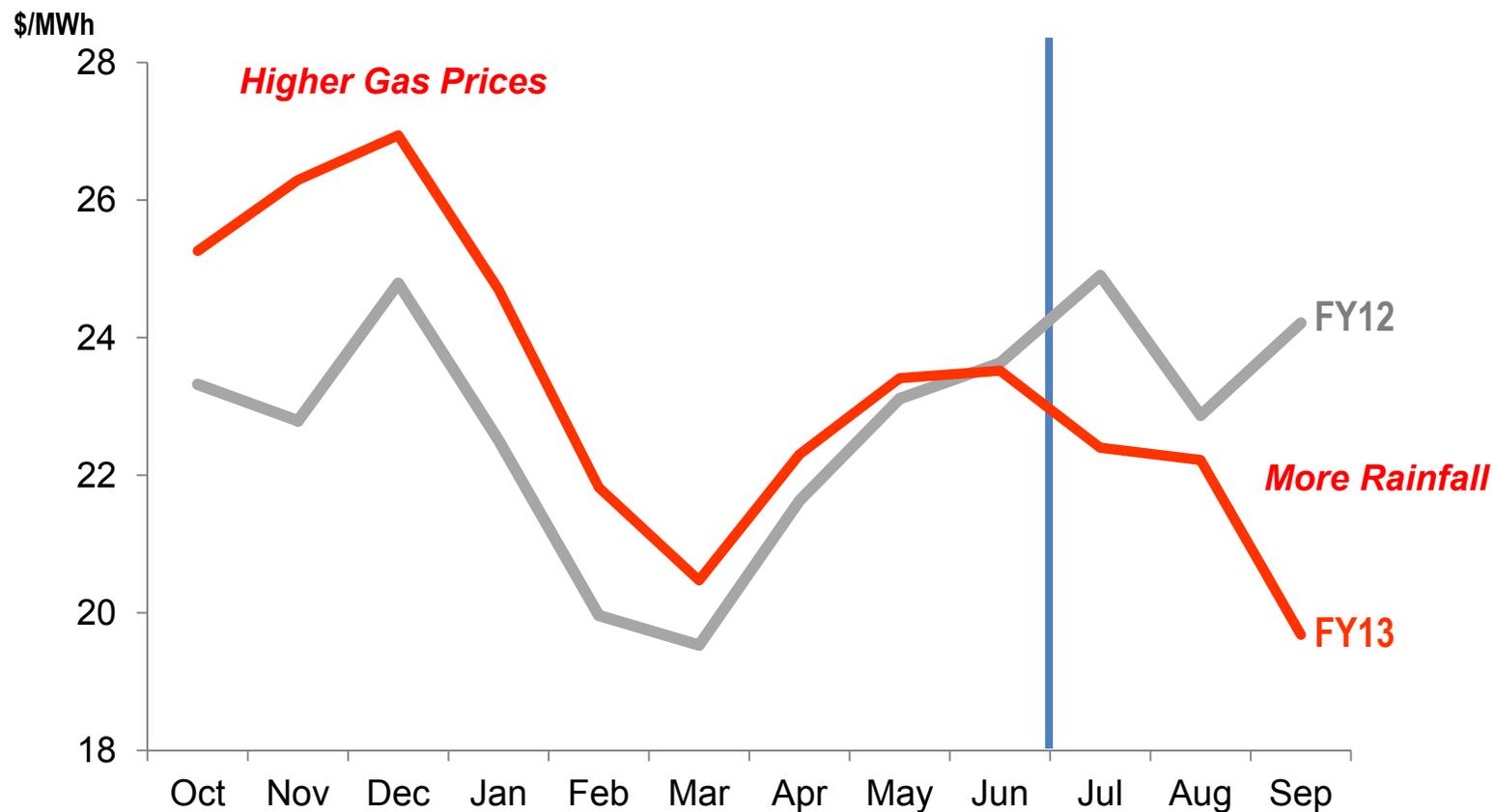
BASE REVENUES

FYTD Non-Fuel Revenue is \$121M below budget



LOWER FUEL RATES

Rainfall helps move FY13 Fuel Rates below last year's



FYTD13 INCOME STATEMENT (UNAUDITED)

FYTD Income is favorable to budget by \$79M & prior year by \$87M

<i>\$ millions</i>	FYTD13			FYTD12	
	Actual	Budget	Variance	Actual	13 vs 12
Total Operating Revenue	\$ 7,922	\$ 8,000	\$ (78)	\$ 7,949	\$ (27)
Fuel and Purchased Power	2,914	2,916	2	2,772	(142)
O&M Routine	1,653	1,769	116	1,723	70
O&M Outage/Other O&M	1,009	957	(52)	902	(107)
Taxes, Depreciation, Other	1,616	1,638	22	1,875	259
Interest	933	1,002	69	967	34
Net Income/(Loss)	\$ (203)	\$ (282)	\$ 79	\$ (290)	\$ 87

FYTD13 CASH FLOW STATEMENT UNAUDITED

FYTD Change in Cash is favorable to budget by \$112M

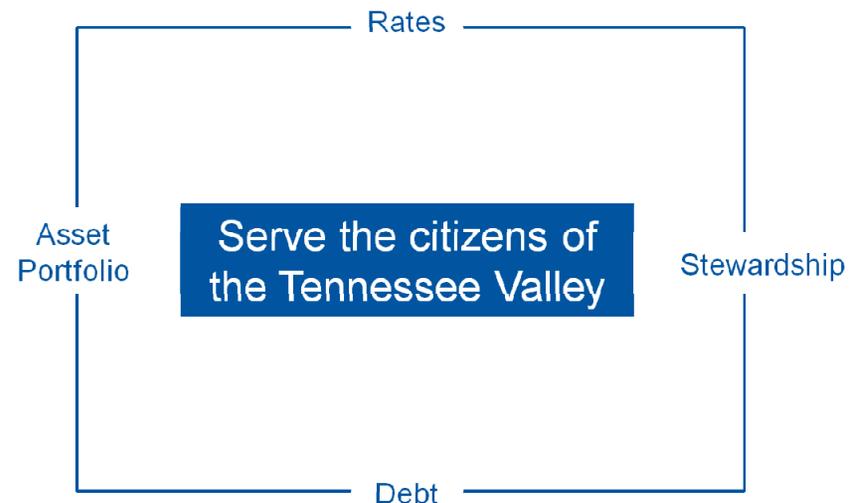
<i>\$ millions</i>	Actual	FYTD13 Budget	Variance	FYTD12 Actual	13 vs 12
Beginning Cash/Short-term Investments	\$ 868	\$ 200	\$ 668	\$ 507	\$ 361
Cash Flow from Operating Activity	1,478	1,458	20	1,252	226
Cash Flow from Investing Activity	(1,745)	(1,910)	165	(1,867)	122
Cash from Financing Activity	379	452	(73)	355	24
Ending Cash/Short-term Investments	\$ 980	\$ 200	\$ 780	\$ 247	\$ 733
Statutory Debt	\$24,678	\$25,043	\$ 365	\$ 24,154	\$ (524)
Total Financing Obligations	\$27,328	\$27,328	\$ -	\$ 27,002	\$ (326)

FISCAL YEAR 2014 FINANCIAL PLAN

BUDGET AND BUSINESS PLAN

FISCAL YEAR 2014 KEY FINANCIAL PLAN ASSUMPTIONS

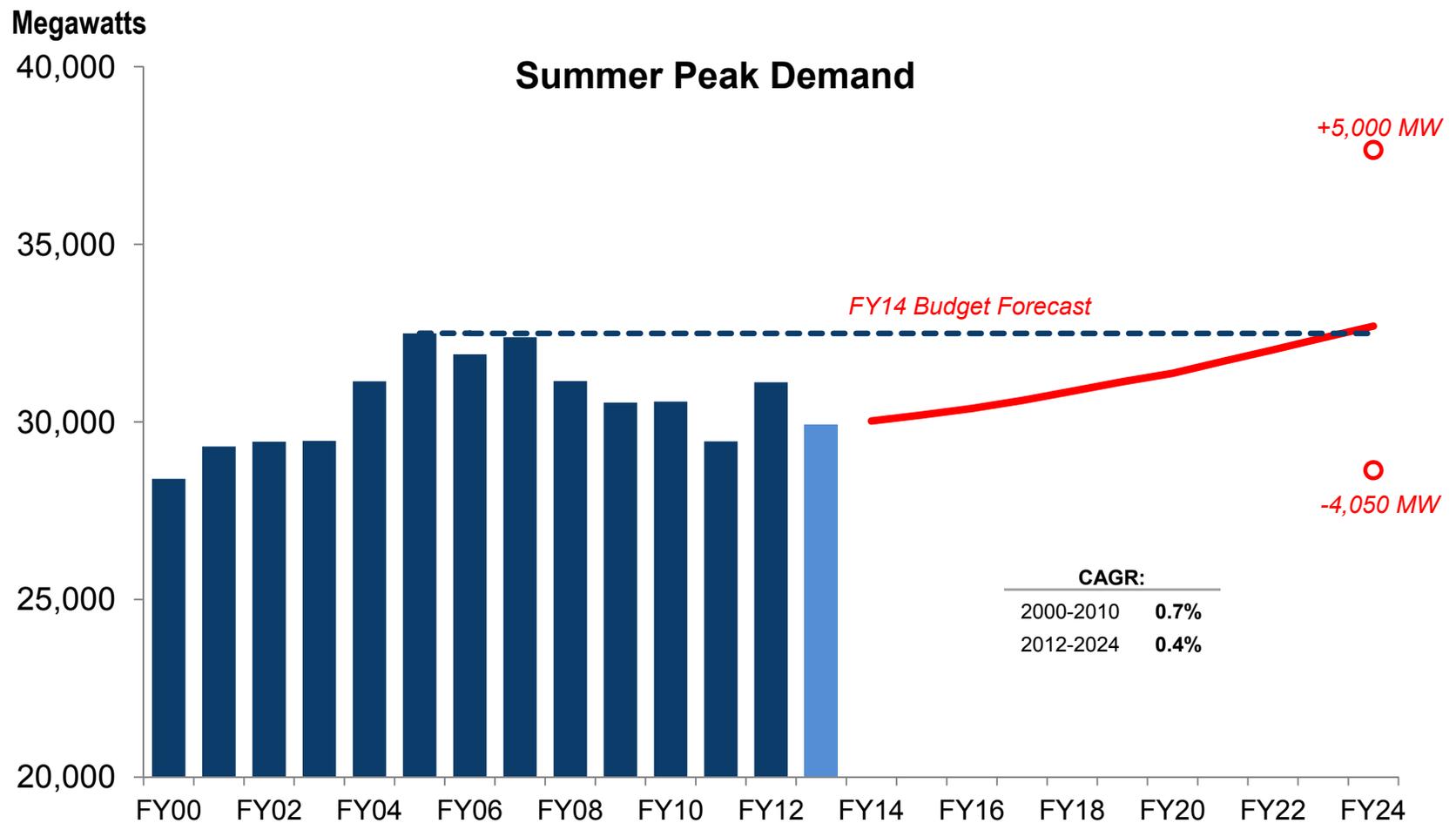
- Live within our means
- Reduce O&M \$500M by 2015 (\$300M by FY14, \$500M by FY15)
- Borrow for nuclear expansion
- Manage long-term debt
- Increase stewardship
- Plan for modest economic growth
- Continue commitment to energy efficiency, demand response and alternative energy



FISCAL YEAR 2014 FINANCIAL PLAN

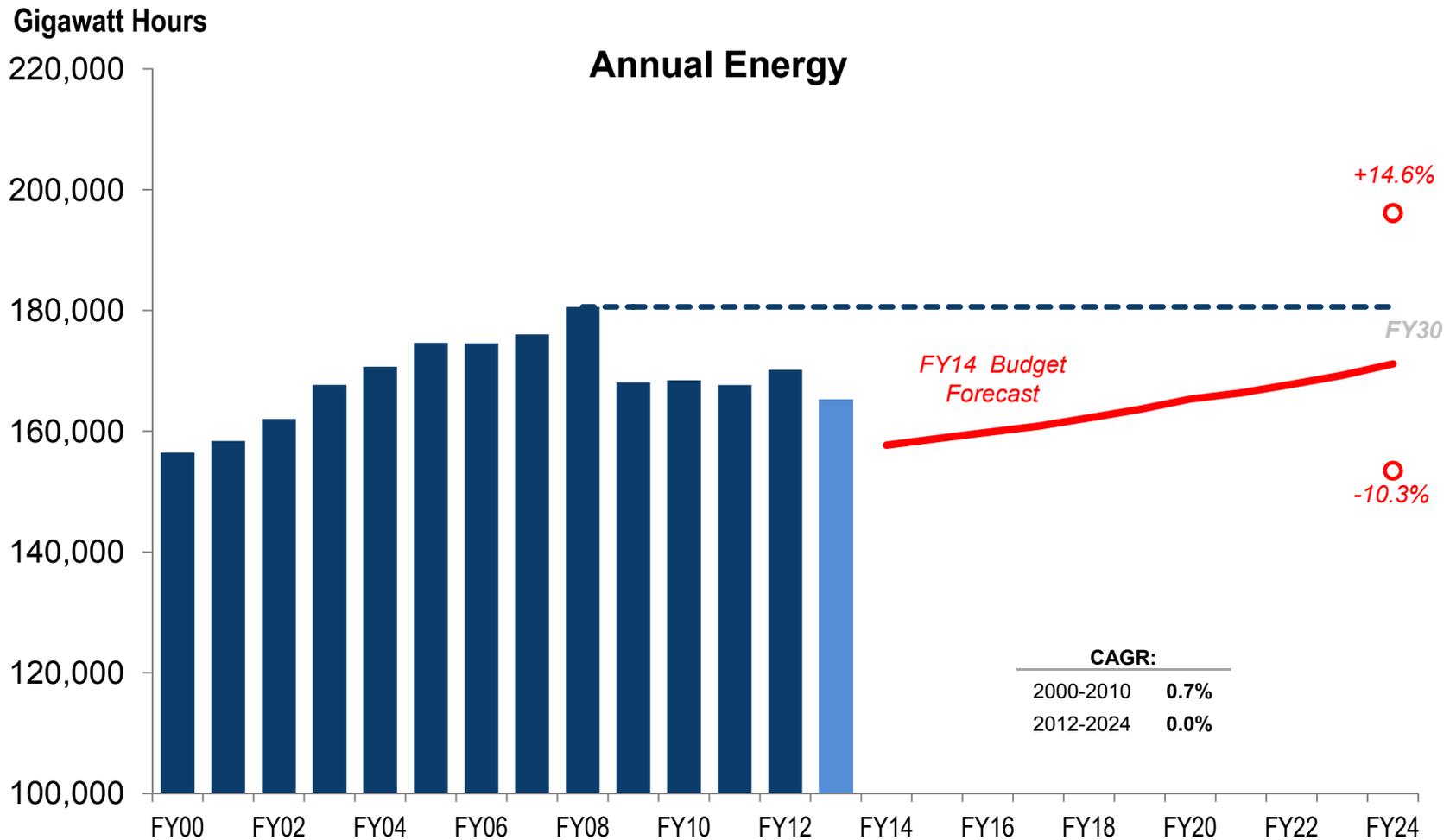
DEMAND AND SUPPLY BALANCE

FISCAL YEAR 2014 SUMMER PEAK FORECAST

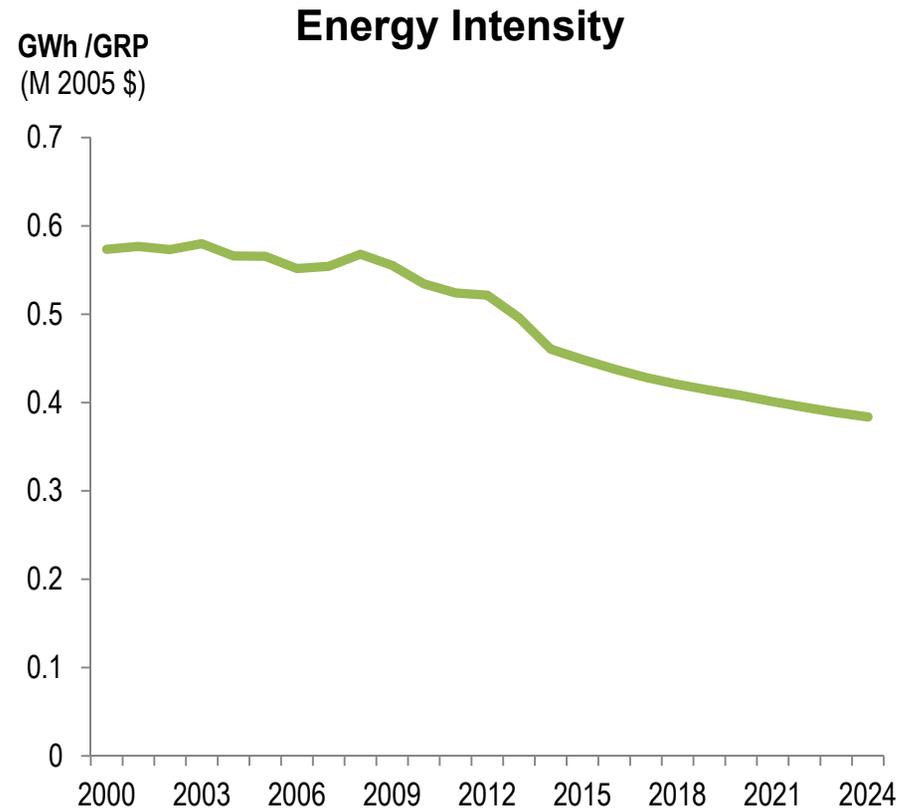
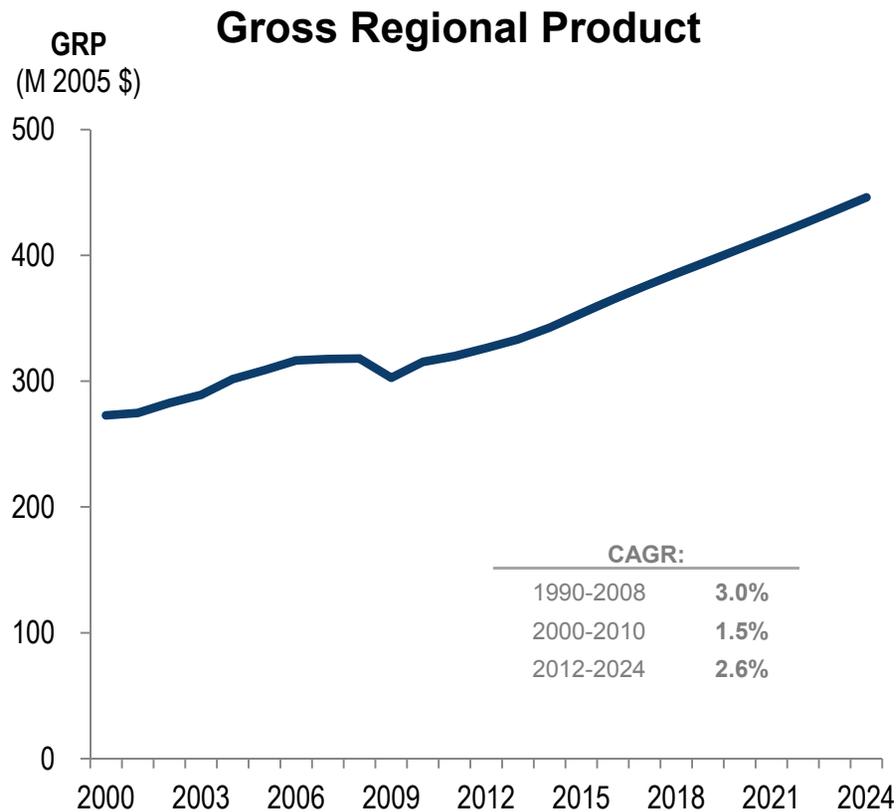


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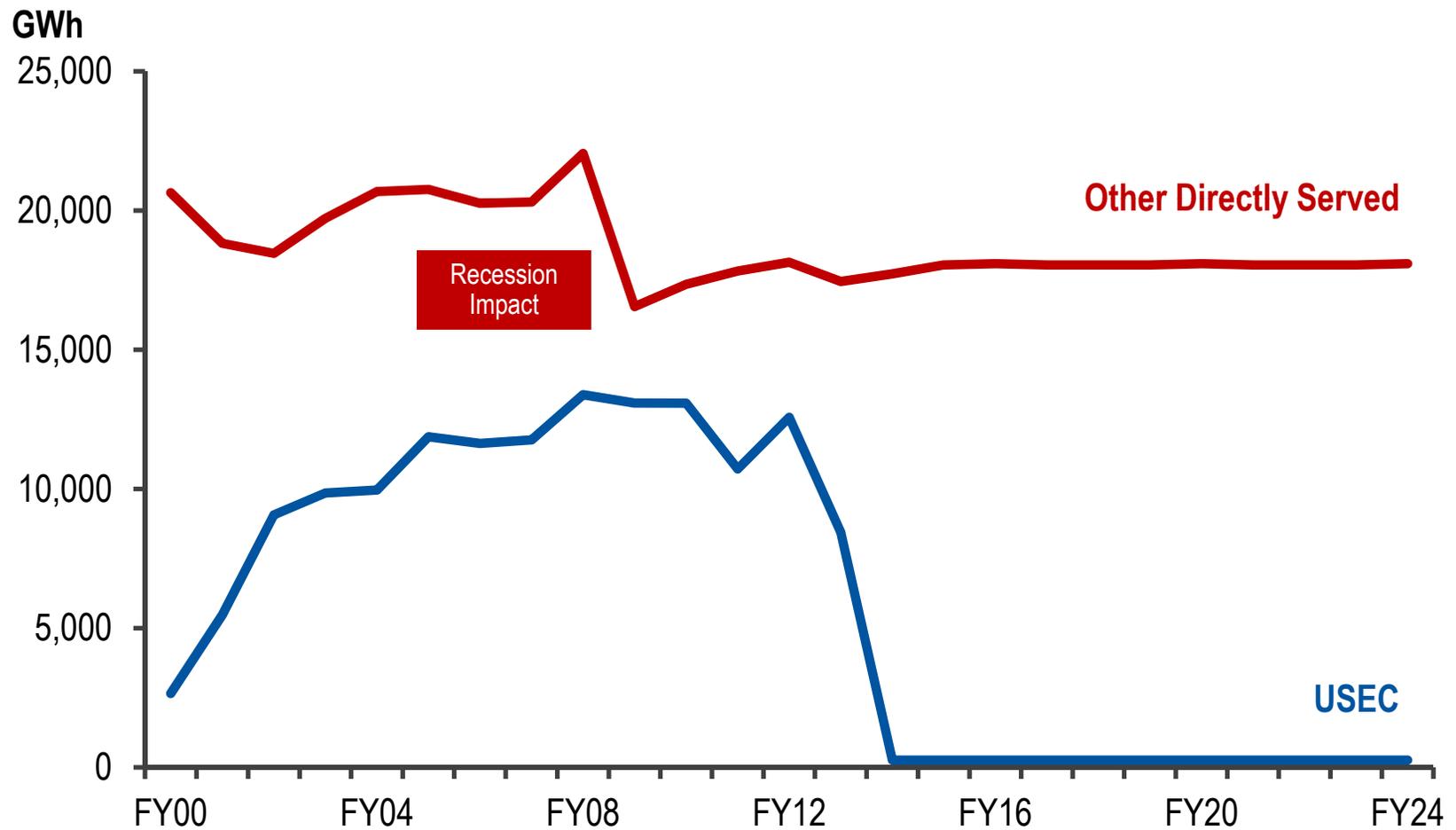
FISCAL YEAR 2014 ENERGY FORECAST



REGIONAL ECONOMY GROWING, BUT MORE ENERGY EFFICIENT

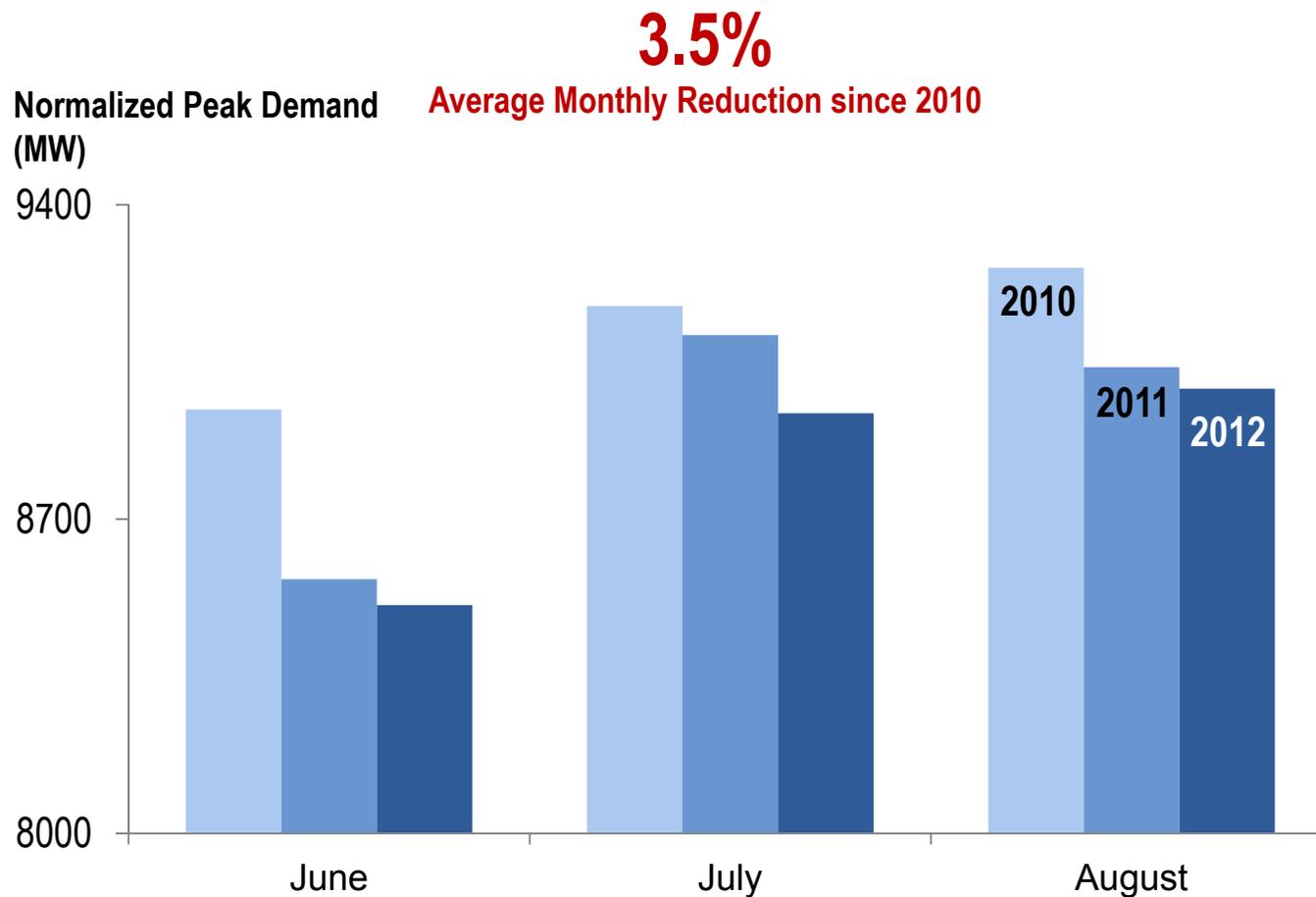


FISCAL YEAR 2014 DIRECTLY SERVED ENERGY USE



RESPONDING TO NEW RATES

Local Power Companies Have Reduced Peak Demand Under New Rate Structure



Rate change effective April 1, 2011; peaks are normalized for weather

ENERGY SALES 4.6% LOWER

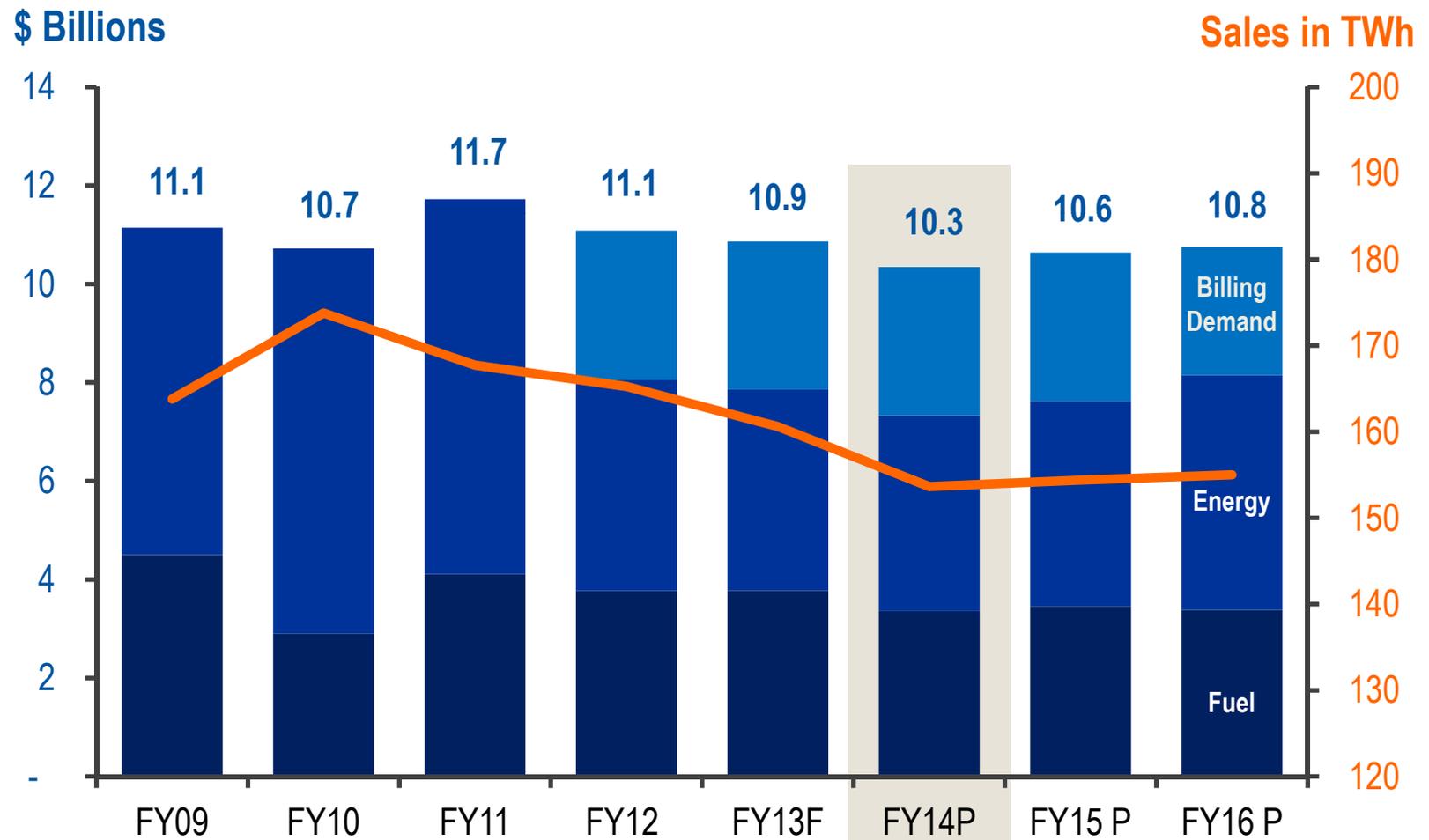
FY13 to FY14:

USEC Reduction		8,200 GWh
Efficiency Gains		750
Economic Growth		1,200
Directly Served Customers		300
Other (Losses)		100
Net Change		7,550 GWh
TVA Energy Efficiency Program Impacts		360

Energy: decreasing 4.6% driven primarily by USEC; decreasing 4.8% with TVA Energy Efficiency programs.

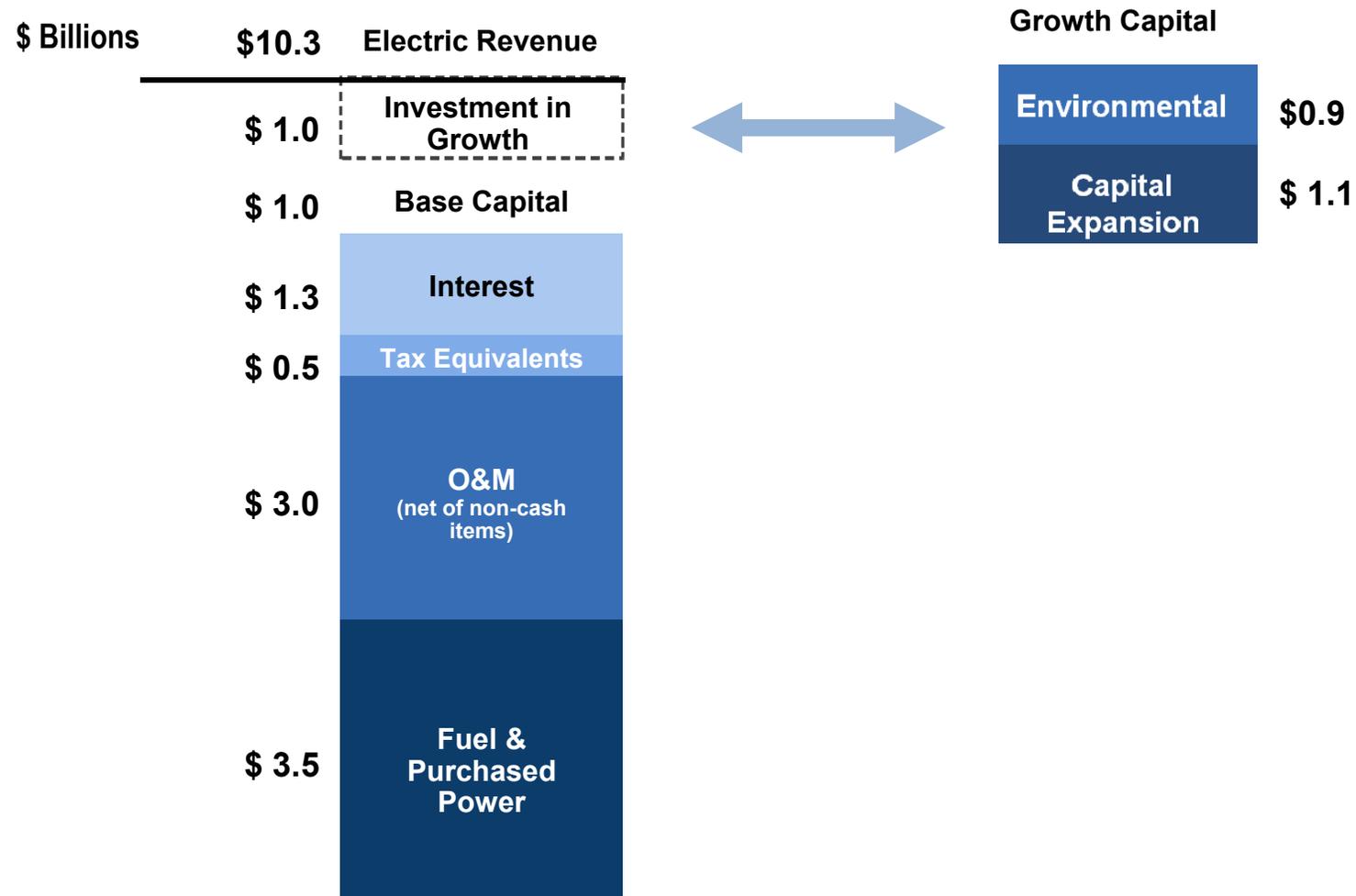
Demand: summer peak increases 0.4% from 29,914 MW in FY13 to 30,027 MW in FY14; 0% growth with TVA DR programs.

REVENUE TREND



Excludes other revenues

LIVING WITHIN OUR MEANS

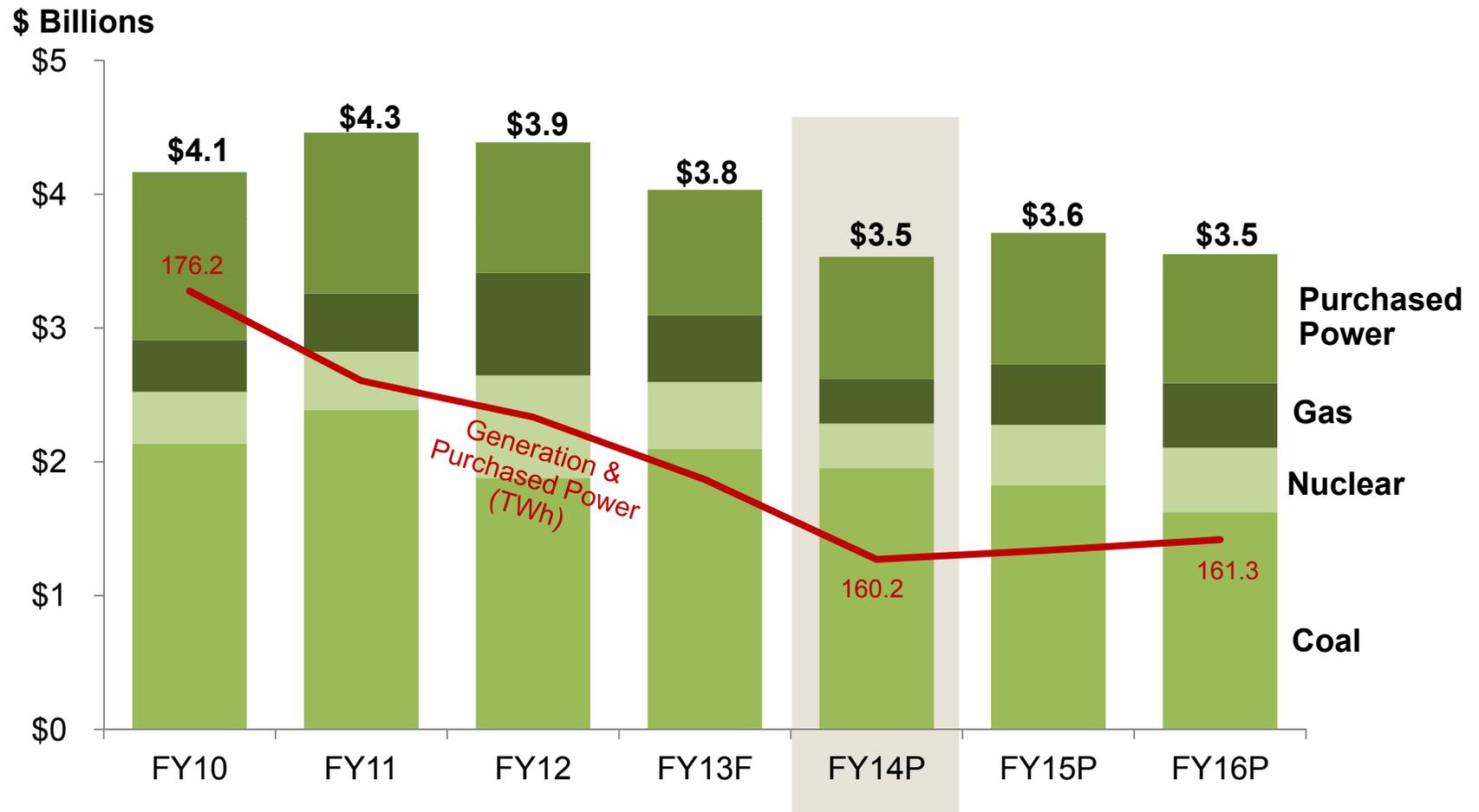


Excludes other revenues

FISCAL YEAR 2014 FINANCIAL PLAN

COST DRIVERS

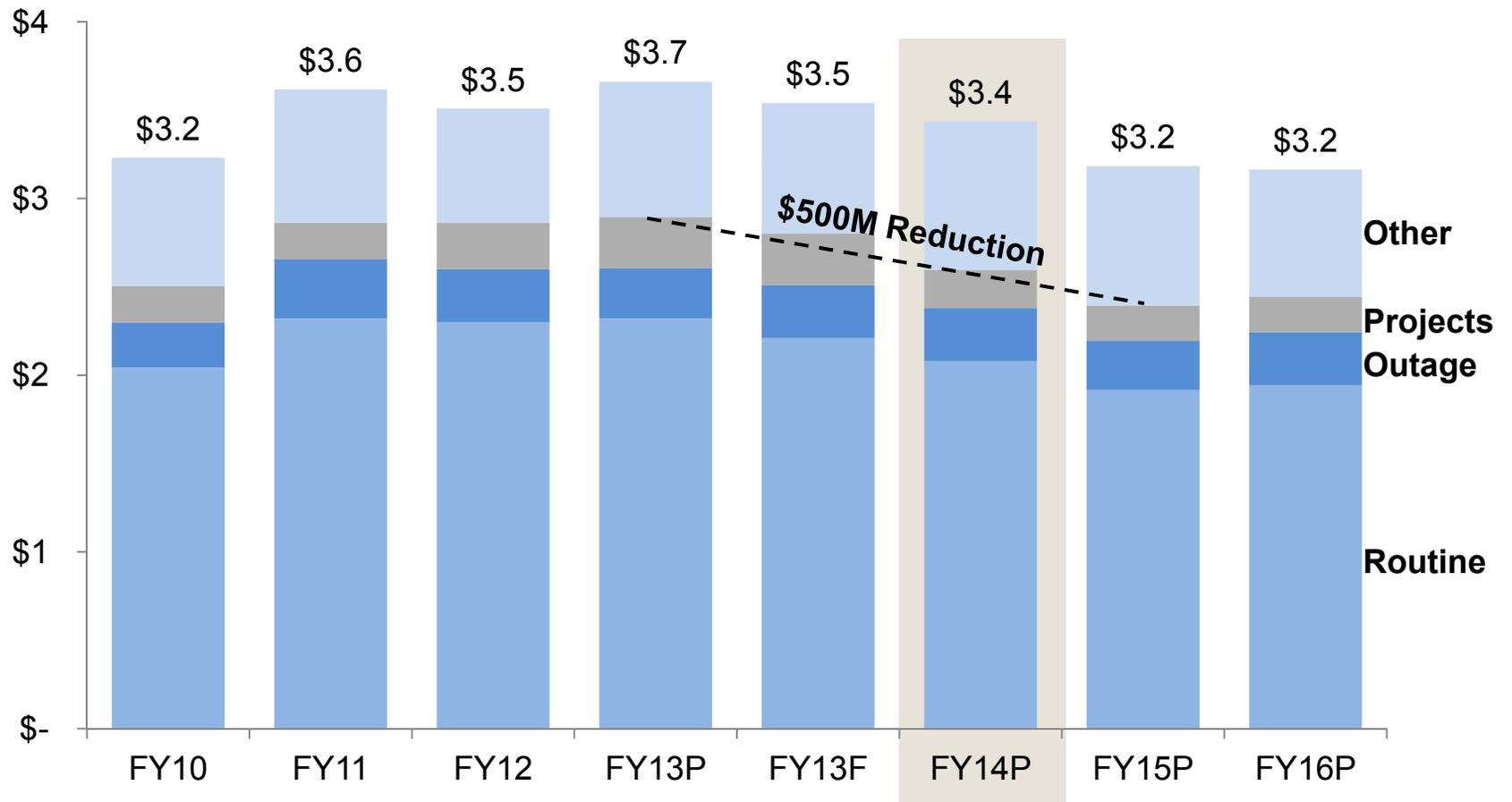
FUEL AND PURCHASED POWER



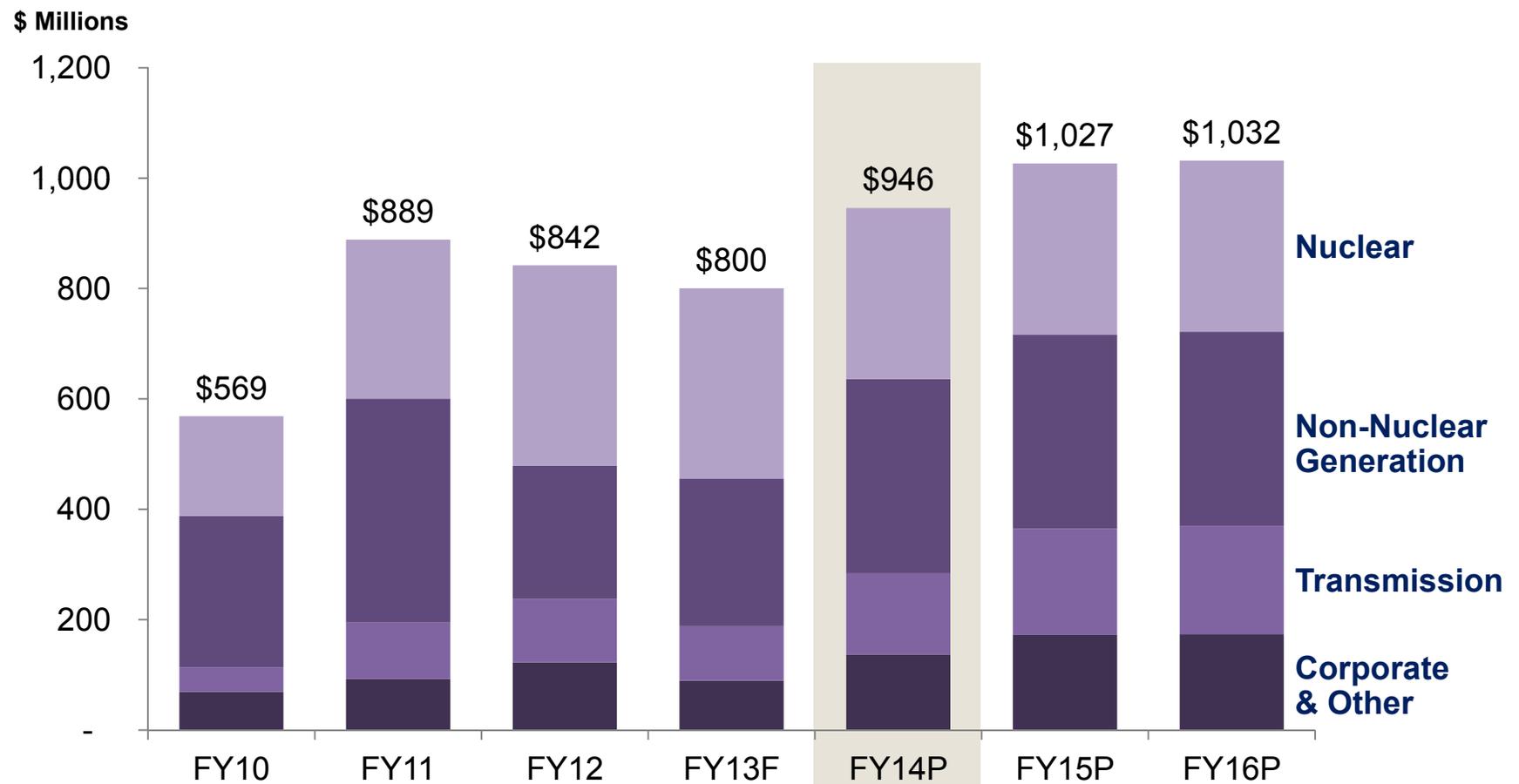
NOTE: Excludes adjustments to fuel expense related to FCA fuel revenue over/under recovery.

O&M EXPENSE TRENDS

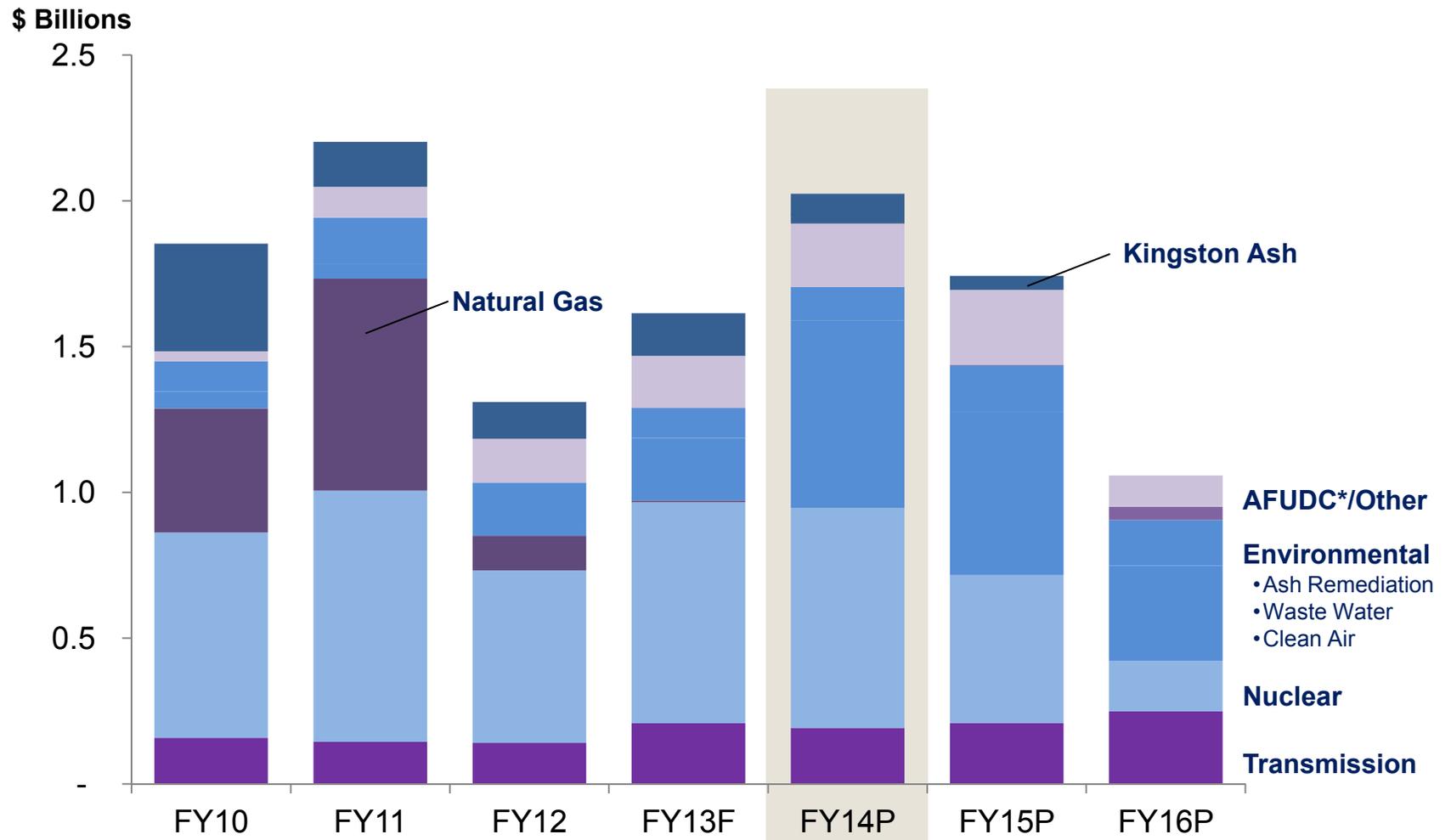
\$ Billions



BASE CAPITAL SPENDING

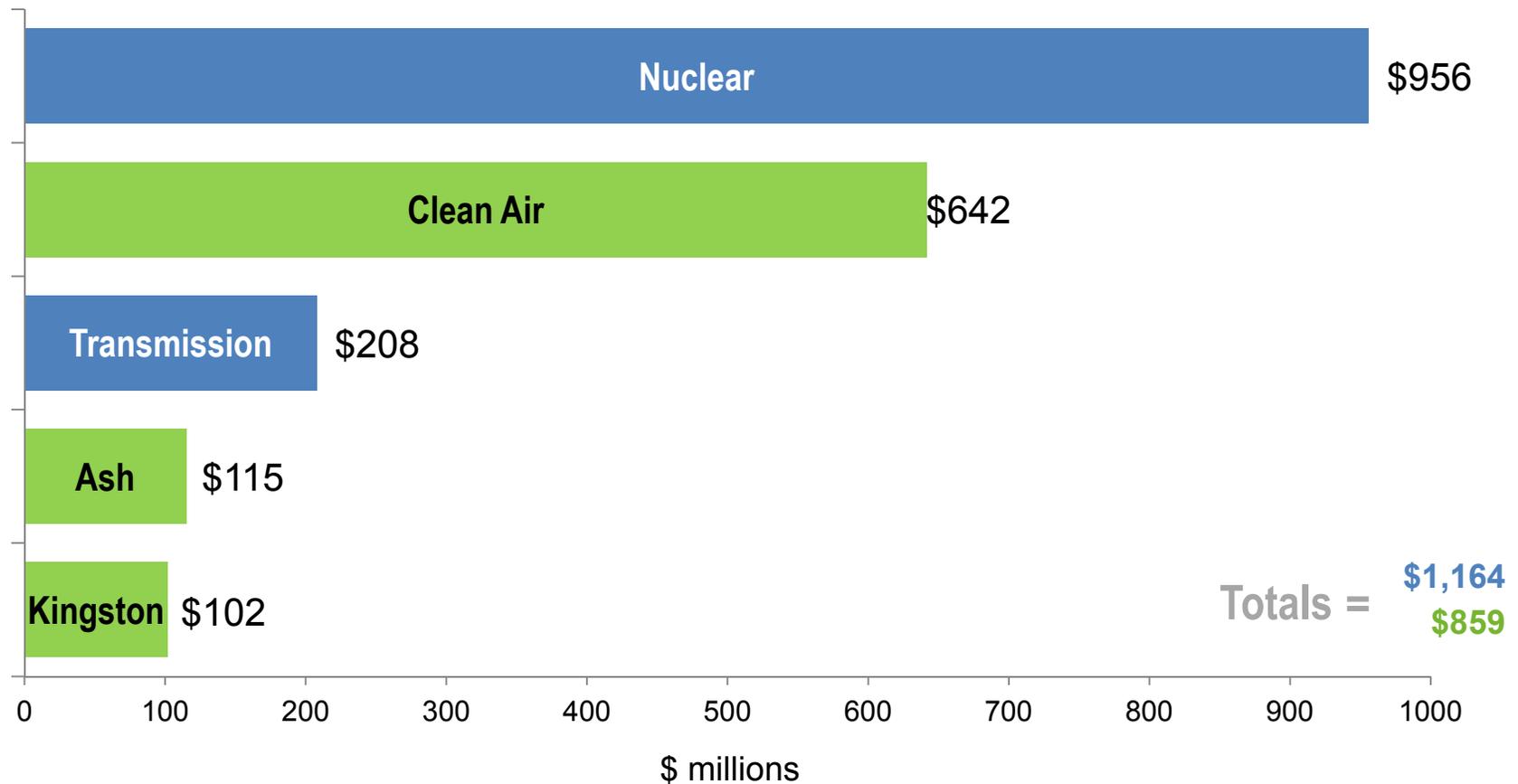


CAPACITY EXPANSION AND ENVIRONMENTAL CAPITAL



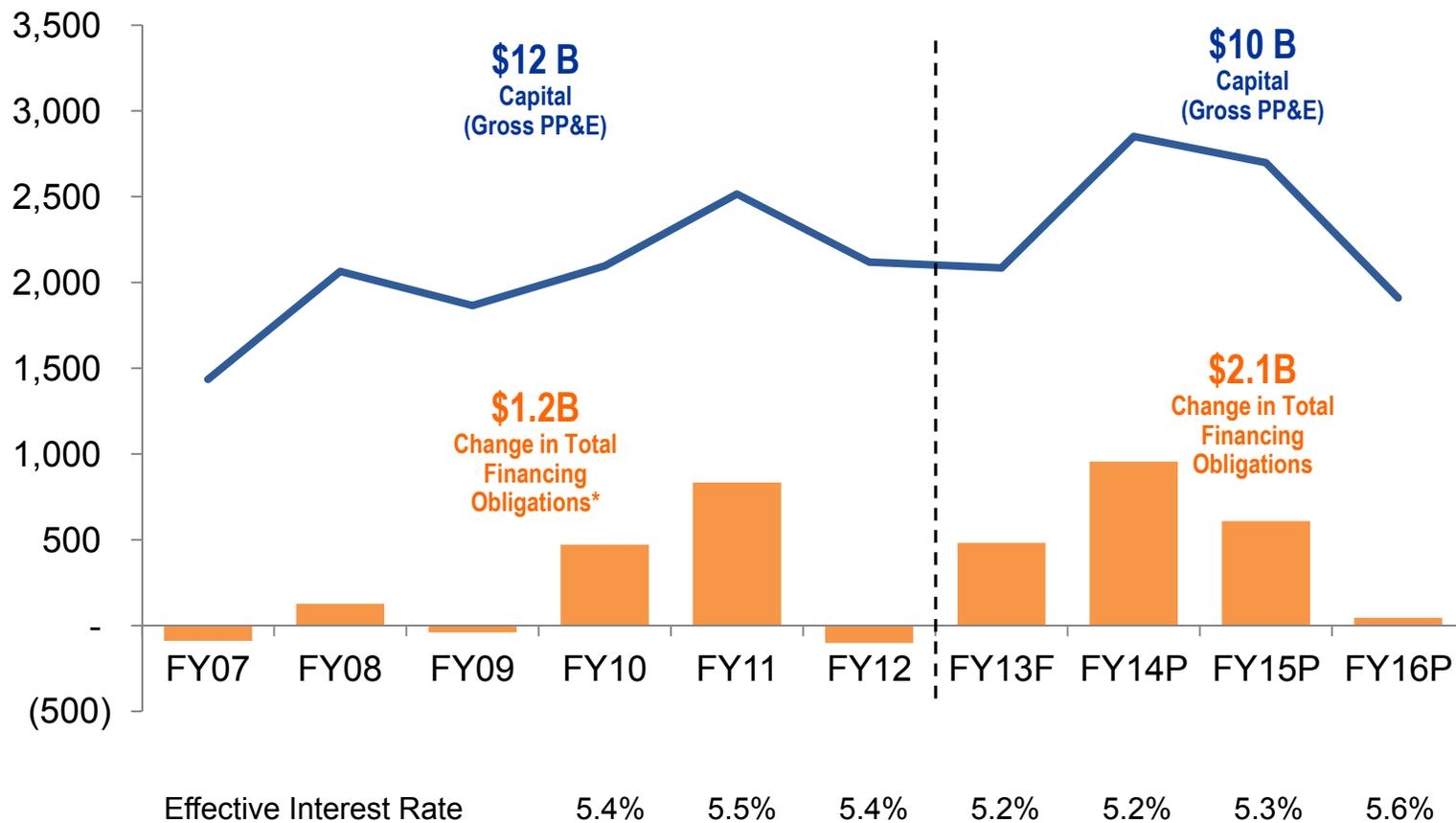
*Allowance for funds used during construction

FISCAL YEAR 2014 SPEND: CAPACITY EXPANSION AND ENVIRONMENTAL



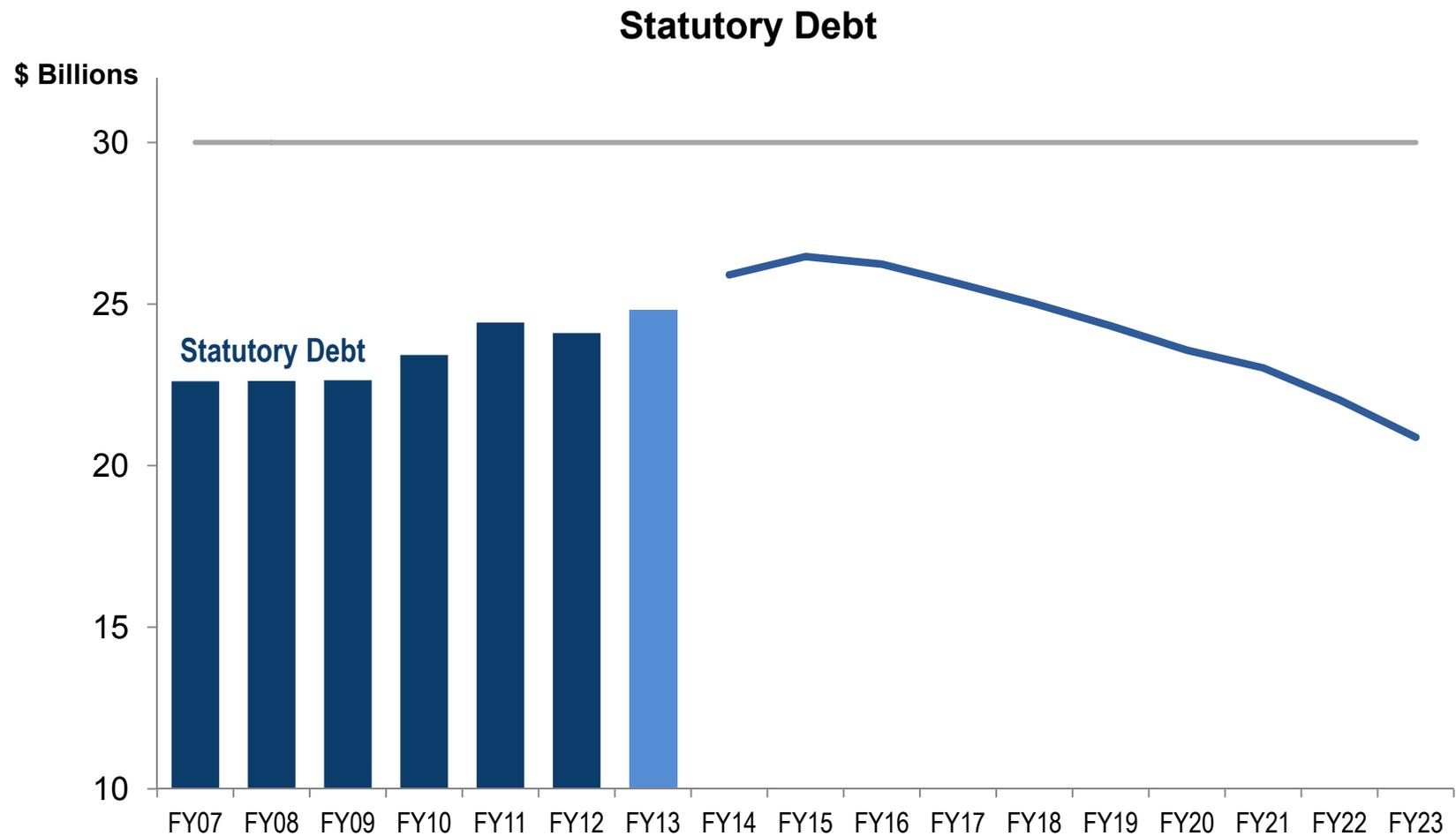
MANAGING CASH AND DEBT

Increasing productive assets with cash generated from operations



*TFO net of cash

LONG-TERM DEBT REDUCTION PLAN



Based off current load projections (32,366 MW in FY23)

FISCAL YEAR 2014 FINANCING NEEDS DRIVEN BY NUCLEAR CAPACITY

FY 14 Beginning Balance - Total Financial Obligations **\$ 27.5**
(\$ Billions)

FY 14 Debt:	New Issuance	Maturing/ Reduction	
Nuclear Expansion	\$ 1.0		
New Debt to Replace Maturing Debt	0.2		
Converting Short Term Debt	2.8		
Total FY 14 Financing Shelf	\$ 4.0	(3.1)	0.9

FY 14 Ending Balance - Total Financing Obligations **\$ 28.4**

FY14 Ending Statutory Debt balance is \$25.9 billion.

RISKS AND CHALLENGES

- Weather
- Commodity Prices
- Sales: Economy/Customer Impacts
- New Regulations
- Asset Risk Management: Material Condition
- Sustainable Productivity Improvements

FISCAL YEAR 2014 FINANCIAL PLAN

RATE OUTLOOK

FY14 SUMMARY INCOME STATEMENT

<i>\$ millions</i>	
Operating Revenue	\$ 10,468
Fuel & Purchased Power	3,498
Operations, Maintenance	3,437
Depreciation, Amortization, Accretion	1,791
Tax Equivalents	513
Operating Expenses	9,239
Other Income	41
Interest Expense	1,269
Net Income	\$ 1

FY14 SUMMARY CASH FLOW

\$ millions

Cash From Operations	\$ 2,230
Cash (Used in) Investing	(3,282)
Cash From Financing	952
Net Change in Cash	<hr/> (100)
Beginning Cash Balance	1,287
Ending Cash Balance	<hr/> \$ 1,187 <hr/>

RECOMMENDATION

Approve the 2014 budget:

- Revenues of \$10.5 billion
- Operating Expenses of \$8.7 billion
- Capital Expenditures of \$3.3 billion

Approve Contracting Plan for Fuel and Purchased Power

- Fuel & Purchased Power of \$3.5 billion (In Operating Expenses)

Rate actions effective October 1

- Extension of Environmental Adjustment
- Effective retail rate increase of 1.5%

Approve Financial Shelf for issuance of up to \$4 billion of long-term bonds

- New debt of \$0.9 billion

FINANCE, RATES, AND PORTFOLIO COMMITTEE

HYDRO-MODERNIZATION CONTRACT

AUGUST 22, 2013

FOR BOARD CONSIDERATION

Approval to enter into hydro-modernization contracts with Voith Hydro, Andritz Hydro and any future supplier meeting similar minimum requirements to improve reliability and provide additional hydroelectric capacity



BACKGROUND

- TVA's hydro-modernization (HMOD) program began in 1992 to address the reliability issues of an aging fleet and to provide additional hydroelectric capacity
- 55 conventional units have been completed for a gain of 421.9 megawatts
- All four Raccoon Mountain Units have been completed with a gain of 109.4 megawatts
- Currently Voith Hydro is the sole supplier for HMOD Services to TVA

GOING FORWARD

- HMOD program will address 51 units with an average age of 70 years
- A total capacity increase of 184 megawatts
- Contracts would carry an initial five-year term with option to extend up to an additional five years
- Total requested dollar amount for all contracts is \$350 Million



CONTRACTING STRATEGY

- Proposed HMOD contracting strategy will expand the supplier base of these services, thereby ensuring availability of suppliers and encouraging competition, resulting in lower costs to TVA
- TVA would, at its option, award managed tasks using any combination of the following pricing methods
 - Fixed Price
 - Time and Material
 - Target pricing / Cost reimbursable
- Awards would be based on: Contractor task cost estimates and proposals; Schedule and Contractor availability; and Contractor experience and capabilities
- No minimum amount of work is guaranteed

RECOMMENDATION

Approval to enter into hydro-modernization contracts with Voith Hydro, Andritz Hydro and any future supplier meeting similar minimum requirements to improve reliability and provide additional hydroelectric capacity



FINANCE, RATES, AND PORTFOLIO COMMITTEE

TRANSMISSION CONSTRUCTION CONTRACT

AUGUST 22, 2013

FOR BOARD CONSIDERATION

Approval to enter into transmission system construction and modification services contracts



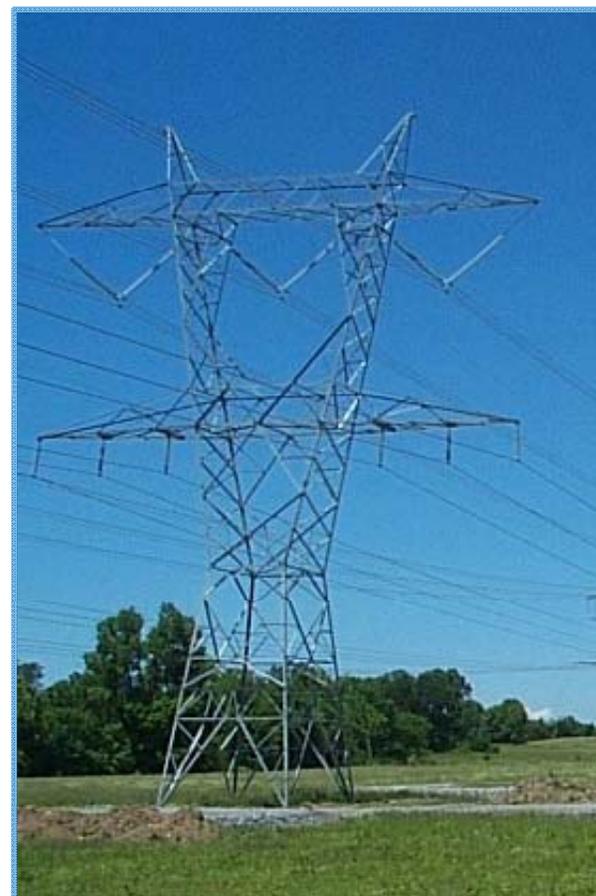
BACKGROUND

- Suppliers perform baseline transmission line and substation construction work along with TVA Employees
- Work-load based on project needs as well as outage seasons



GOING FORWARD

- L. E. Myers Company, Henkels & McCoy, Asplundh Construction Corporation and Service Electric Company were selected after a competitive solicitation
- Requested contracts would carry an initial five-year term with options to extend up to five additional years
- Combined spend of \$400 million



CONTRACTING STRATEGY

- Proposed contracting strategy solidifies the supplier base of these services, thereby ensuring availability of suppliers and encouraging competition, resulting in lower costs to TVA
- TVA would, at its option, award managed tasks using any combination of the following pricing methods
 - Fixed Price
 - Time and Material
 - Target pricing / Cost reimbursable
- Awards would be based on: Contractor task cost estimates and proposals; Schedule and Contractor availability; and Contractor experience and capabilities
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RECOMMENDATION

- Approval to enter into transmission system construction and modification services contracts

FINANCE, RATES, AND PORTFOLIO COMMITTEE

ECONOMIC GROWTH STRATEGY

FOR BOARD CONSIDERATION

Request Board approval of short-term actions to attract, retain, and expand industry through TVA Valley Commitment Program and Small Manufacturing Program.

INDUSTRIAL RATE COMPETITIVENESS

- Electricity is a significant cost for industry in the Valley
- Many industrial customers within the Valley compete with sister facilities and competitors outside the Valley



INDUSTRY IN THE VALLEY

- 10,000 manufacturing companies
- 527,000 direct jobs
- \$32 billion direct wages



PRESERVING VALLEY INDUSTRY

- Long-term actions
 - Cost Management
 - Long-Term Pricing Strategy
- Near-term actions
 - Valley Commitment program
 - Small manufacturing rate schedule

VALLEY COMMITMENT PROGRAM

- Voluntary program for all industrial and manufacturing customers
- Requires two-year commitment
- Two-year program with CEO option to extend up to an additional two years

SMALL MANUFACTURING PROGRAM

- Optional rate schedule
- Applies to industrial customers with contract demands from one megawatt to five megawatts
- Aligns customer's bill with Local Power Company's cost to serve
- Provides incentive for customers to operate outside of Local Power Company's peak-demand period

RECOMMENDATION

- 1) Approve the Valley Commitment Program for two years with a delegation to the CEO to extend the program for two years
- 2) Approve the Optional Manufacturing Service Rate and the Direct Service Manufacturing Power Rate for small industrial and manufacturing customers under 5MW



NUCLEAR OVERSIGHT

COMMITTEE

AUGUST 22, 2013

PEOPLE AND PERFORMANCE COMMITTEE

NUCLEAR SAFETY POLICY



PEOPLE AND PERFORMANCE

COMMITTEE

PEOPLE AND PERFORMANCE COMMITTEE

ANNUAL AND LONG-TERM GOALS

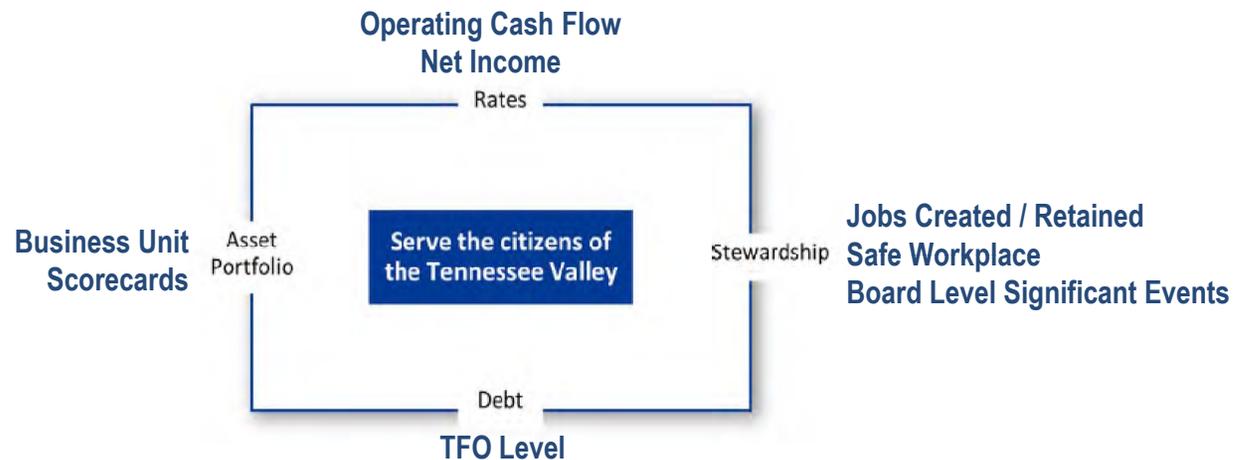
FISCAL YEAR 2014 PERFORMANCE GOALS

- Adopt design changes to TVA Performance Goal Programs and approve scorecards for FY14
 - **Annual Incentive Program (Winning Performance)**
Designed to promote teamwork, create a high performance culture, and motivate and reward all eligible employees for achieving goals
 - **Executive Long-Term Incentive Plan (ELTIP)**
Designed to support achievement of long-term strategic goals

WINNING PERFORMANCE DESIGN CHANGE

- Adjust board modifier to a corporate multiplier between 0 and 1.0
- Board defines key strategic imperatives to be included in multiplier
- Board / CEO assess performance above or below the target to determine final multiplier
- CEO establishes operational scorecards
- Multiplier applied to operational scorecard results
- Board continues to use judgment in all aspects of corporate performance

CORPORATE MULTIPLIER



TVA must be successful....

Corporate Multiplier

*Aligns to Financial and Stewardship
Strategic Imperatives Outlined by Board
"Manage the Business"*

0 – 1.0
multiplier



- Corporate Measures include only a target
- CEO / Board will assess performance

...to enable business unit payouts

Business Measures

*Align to Operational Plans & Benchmarks
Demonstrated Improvement
"Run the Business"*

0% - 150%
of payout

- Business Measures include a threshold, target, and stretch performance (formulaic) for line of sight

MULTIPLIER MEASURES

Corporate Multiplier

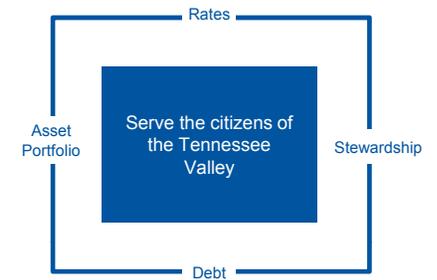
*Aligns to Financial and Stewardship
Strategic Imperatives Outlined by Board
“Manage the Business”*

0 – 1.0 multiplier

| Target |

Safe Workplace	◆ — 0 — ◆
Operating Cash Flow	◆ — Budget — ◆
Net Income	◆ — Budget — ◆
TFO Level	◆ — 50,000 — ◆
Jobs Created / Retained	◆ — 0 — ◆
Board Level Significant Events	◆ — Budget — ◆

- Corporate Measures include only a target
- CEO / Board will qualitatively assess performance



CHANGES TO EXECUTIVE LONG-TERM INCENTIVE PLAN

- Organizational Health Survey
 - 2013 – use Pulse Organizational Health Survey
- Retail Rate (2014-2015)
 - Change measure to wholesale rate less fuel
 - Align targets to Board-approved financial plan
- Adopt External Measures indicator
- Approve 2016 Executive Long-term incentive plan cycle scorecard

CORPORATE MEASURES – ALIGNED TO MISSION

		TVA Mission				
Measure		Low-Cost Reliable Power	Economic Development	Environmental Stewardship	Technological Innovation	River Management
Corporate Multiplier (Winning Performance)	Operating Cash Flow	✓	✓	✓	✓	✓
	Net Income	✓	✓			
	TFO Level	✓		✓		
	Jobs Created & Retained	✓	✓	✓		✓
	Safe Workplace	✓		✓		✓
	Board Level Significant Events	✓	✓	✓	✓	✓
Executive Long Term Incentive Plan	Wholesale Rate excluding Fuel	✓	✓	✓		
	Load Not Served	✓	✓		✓	
	External Measures:					
	INPO Index	✓	✓	✓	✓	✓
	Stakeholder Survey	✓	✓	✓		✓
	Media Tone	✓	✓	✓	✓	✓
Customer Loyalty	✓	✓		✓	✓	

RECOMMENDATION

Winning Performance

- Approve change to corporate multiplier
- Approve multiplier measures and targets

Executive Long-term Incentive Plan

- 2013 Cycle
 - Approve use of Pulse Survey for Organizational Health goal
- 2014 and 2015 Cycle
 - Approve changes to Rates and Organizational Health measures
 - Approve External Measures indicator
- 2016 Cycle
 - Approve scorecard and targets

PEOPLE AND PERFORMANCE COMMITTEE

COMMITTEE CHARTER AMENDMENTS

AUGUST 22, 2013



AUDIT, RISK, AND REGULATION

COMMITTEE

AUDIT, RISK, AND REGULATION COMMITTEE

FISCAL YEAR 2014 EXTERNAL AUDITOR SELECTION

AUGUST 22, 2013

AUDIT, RISK, AND REGULATION COMMITTEE

AMENDMENT TO RATE REVIEW PROCESS

AUGUST 22, 2013



EXTERNAL RELATIONS

COMMITTEE

AUGUST 22, 2013

EXTERNAL RELATIONS COMMITTEE

NONCONFORMING LOADS POLICY AMENDMENT

AUGUST 22, 2013

FOR BOARD CONSIDERATION

Allow nonconforming loads to participate in TVA incentive programs provided they participate in TVA's Instantaneous Response product and meet guidelines

NONCONFORMING LOADS

- Industrial loads greater than 50 megawatts that use power intermittently and subject the system to extreme fluctuations
- Require extra generation assets to be allocated to follow their load swings

PILOT PROGRAM

- January 2012 pilot program using instantaneous response product
- Pilot demonstrates that it is cost effective for TVA to incentivize these companies to locate and grow in the valley

RECOMMENDATION

Allow nonconforming loads to participate in TVA incentive programs provided they participate in TVA's Instantaneous Response product and meet guidelines

EXTERNAL RELATIONS COMMITTEE

STAKEHOLDER GROUP MEMBERSHIP



TVA BOARD
MEETING

AUGUST 22, 2013