

No. 16-01

Approved by the Board of Directors  
at its May 5, 2016, meeting:

Original Signed by Sherry A. Quirk  
Executive Vice President, General  
Counsel and Secretary

MINUTES OF MEETING  
OF  
THE BOARD OF DIRECTORS  
TENNESSEE VALLEY AUTHORITY

February 11, 2016

A meeting of the Board of Directors of the Tennessee Valley Authority was held in the TVA Missionary Ridge Auditorium, Chattanooga Office Complex, 1101 Market Street, Chattanooga, Tennessee, on February 11, 2016. The meeting was called to order at 10:30 a.m. (EST) after an approximately twenty minute break following the listening session, which began at 8:30 a.m. (EST). The meeting was announced to the public on February 4, 2016. The meeting was open to public observation.

Board members in attendance were: Director and Chair Joe H. Ritch, and Directors Richard C. Howorth, V. Lynn Evans, Michael (Mike) McWherter, Marilyn A. Brown, Peter (Pete) Mahurin [by telephone], Virginia Tyler (Gina) Lodge, Ronald A. Walter, and Eric M. Satz.

Also present were TVA officers, including William D. (Bill) Johnson, President and Chief Executive Officer; Sherry A. Quirk, Executive Vice President, General Counsel and Secretary; John M. Thomas, III, Executive Vice President and Chief Financial Officer; Dwain K. Lanier, Vice President, Operational and Regulatory Assurance; Rebecca Chunn Tolene, Deputy General Counsel and Vice President, Natural Resources.

Chair Ritch 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 Directors of the Tennessee Valley Authority. A quorum was present.

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**16-01-1. Welcome**

Chair Ritch welcomed all, announced that Director Mahurin would attend this meeting via telephone, and acknowledged Director Howorth's reappointment to the Board. Chair Ritch then expressed the Board's appreciation to Chattanooga for its hospitality, and thanked those TVA customers attending, specifically recognizing the attendance of Greg Williams, General Manager and Executive Vice President of Appalachian Electric Cooperative and Chairman of the Tennessee Valley Public Power Association (TVPPA); Steve Clift, Supervisor of the City of Dayton, Tennessee, Electric Department; and John Olshefski, Vice President, Customer Care, Huntsville Utilities. Chair Ritch also recognized the presence of the Chairman of the Jackson County, Alabama, County Commission, and the mayor of Scottsboro, Alabama. Chair Ritch then requested and received remarks from Greg Williams, and from Lloyd Webb, Director of

Energy Procurement at Olin Corporation and Strategic Planning Chair of the Tennessee Valley Industrial Committee (TVIC).

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### **Old Business**

The Board approved the minutes of its November 20, 2015, meeting.

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### **New Business**

#### **16-01-2.                   President's Report**

President and Chief Executive Officer William D. (Bill) Johnson stated it is always a pleasure to be in Chattanooga, acknowledged the prominence of the Electric Power Board of Chattanooga, and discussed Chattanooga's downtown innovation center, the first for any mid-sized city in the country. He then spoke of the need for well-educated, skilled employees in the future, and the role TVA plays in inspiring students by sponsoring robotics clubs at more than 500 hundred schools throughout the Tennessee Valley, and more than 20 robotics competitions among those schools in 2016.

After reporting on recent TVA performance, Mr. Johnson concluded by awarding the Ike Zeringue Engineer of the Year Award to Robert Frye, who is a principal Design Electrical Engineer in the Protection & Control Engineering Department of TVA's Transmission organization. As a part of the presentation, Mr. Johnson introduced Mr. Frye's wife, April, as

well as his mother, Eleanor, a 97-year old former Navy WAVE who served in World War II, and received her own standing ovation from the Board and all in attendance.

Copies of the slides used by Mr. Johnson in his report are filed with the records of the Board as Exhibit 2/11/16A.

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Following the conclusion of the President's Report, Directors Mahurin, Lodge, Evans, Walter, Howorth, and Chair Ritch all made comments in support of the recently proposed plan intended to rehabilitate the TVA Retirement System.

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**16-01-3. Committee Charters**

The Board adopted the following resolutions:

WHEREAS, at its August 20, 2010, meeting, the Board established a committee of the Board of Directors, the "Finance, Rates, and Portfolio Committee," that is dedicated to assisting the Board in fulfilling its responsibilities under the TVA Act, including responsibilities related to TVA's financial health, electricity rates, and its overall energy resource portfolio planning; and

WHEREAS the Board also adopted a charter to govern the activities of the committee; and

WHEREAS, at its November 6, 2014, meeting the Board directed TVA's Corporate Secretary and Board Services offices to utilize gender neutral terminology wherever possible in future Board governance documents or when such documents are amended; and

WHEREAS the Finance, Rates, and Portfolio Committee has reviewed the charter and recommends changes to the charter to reflect gender neutral language, and a copy of the proposed amended charter is attached and designated as Exhibit 2/11/16B;

BE IT RESOLVED, That the Board hereby adopts the proposed amended Finance, Rates, and Portfolio Committee charter.

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WHEREAS, at its August 20, 2010, meeting, the Board established a committee of the Board of Directors, the “Audit, Risk, and Regulation Committee,” that is dedicated to overseeing TVA’s financial reporting process, including internal controls, regulatory policies for the distributors of TVA power, risk management programs, and TVA’s compliance and ethics program; and

WHEREAS the Board also adopted a charter to govern the activities of the committee; and

WHEREAS, at its November 6, 2014, meeting the Board directed TVA’s Corporate Secretary and Board Services offices to utilize gender neutral terminology wherever possible in future Board governance documents or when such documents are amended; and

WHEREAS the Audit, Risk, and Regulation Committee has reviewed the charter and recommends changes to the charter to reflect gender neutral language, and a copy of the proposed amended charter is attached and designated as Exhibit 2/11/16C;

BE IT RESOLVED, That the Board hereby adopts the proposed amended Audit, Risk, and Regulation Committee charter.

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WHEREAS, at its August 20, 2010, meeting, the Board established a committee of the Board of Directors, the “External Relations Committee,” that is dedicated to overseeing TVA’s environmental stewardship activities, relationship with TVA’s stakeholders, technology leadership role, and economic development efforts; and

WHEREAS the Board also adopted a charter to govern the activities of the committee; and

WHEREAS, at its November 6, 2014, meeting the Board directed TVA’s Corporate Secretary and Board Services offices to utilize gender neutral terminology wherever possible in future Board governance documents or when such documents are amended; and

WHEREAS the External Relations Committee has reviewed the charter and recommends changes to the charter to reflect gender neutral language, and a copy of the proposed amended charter is attached and designated as Exhibit 2/11/16D;

BE IT RESOLVED, That the Board hereby adopts the proposed amended External Relations Committee charter.

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WHEREAS, at its August 20, 2010, meeting, the Board established a committee of the Board of Directors, the "People and Performance Committee," that is dedicated to overseeing TVA's overall operational and safety performance, compensation and human resource issues, and talent and culture management; and

WHEREAS the Board also adopted a charter to govern the activities of the committee; and

WHEREAS, at its November 6, 2014, meeting the Board directed TVA's Corporate Secretary and Board Services offices to utilize gender neutral terminology wherever possible in future Board governance documents or when such documents are amended; and

WHEREAS the People and Performance Committee has reviewed the charter and recommends changes to the charter to reflect gender neutral language, and a copy of the proposed amended charter is attached and designated as Exhibit 2/11/16E;

BE IT RESOLVED, That the Board hereby adopts the proposed amended People and Performance Committee charter.

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**16-01-4. Board Practice For Information Security and Management**

The Board adopted the following resolution:

WHEREAS, the Board has from time to time adopted certain practices to address various Board and Board Committee processes and activities or to provide guidance in interpreting provisions of the Bylaws of the Tennessee Valley Authority; and

WHEREAS the Board believes it would be useful and appropriate to adopt a practice outlining the Board's process for the retention, protection, and management of records and communications; and

WHEREAS the Audit, Risk, and Regulation Committee has developed a TVA Board Practice to guide the TVA Board in the management of sensitive and confidential information;

BE IT RESOLVED, That the Board hereby adopts the TVA Board Practice entitled “Sensitive and Confidential Information Security and Management” as filed with the records of the Board as Exhibit 2/11/16F.

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**16-01-5. Report of the Audit, Risk, and Regulation Committee**

Director Evans, Chair of the Committee, reported the Committee had a full agenda during the quarter, including the regular briefings routinely considered by the Committee regarding TVA’s financial statements, enterprise risk, and regulatory assurance. Director Evans stated the Committee tends to focus on one or two specialized topics each quarter, and this quarter’s focus was TVA’s Disclosure Control Committee, one of the tools TVA uses to achieve accuracy and transparency in the reporting of its financial information.

In turning to her next topic, Director Evans explained that TVA carries out a very important regulatory role involving local power companies that distribute TVA power. Under Section 10 of the TVA Act, and its implementing regulations, TVA ensures that electric systems are operated for the benefit of electric ratepayers and that power is sold at the lowest rates feasible. She stated this is done largely through TVA’s wholesale power contracts with local power companies, and the Committee wants to ensure that local power companies are compensated for the use of electric system assets in a manner consistent with the wholesale power contracts. Director Evans reported that management has worked with the Committee to develop a proposal related to the rates charged to entities that attach to electric system assets, such as utility poles, for non-electric, communications purposes. Director Evans stated the proposal is designed to ensure that electric ratepayers are not subsidizing other business

activities. At this point, Director Evans requested and received a report from Dwain Lanier, Vice President, Operational and Regulatory Assurance, regarding Minute Item 16-01-6. Prior to the vote on Minute Item 16-01-6, Director Lodge announced that, because her husband and his law firm deal with the issue of pole attachments on a regular basis, she chose not to participate in any discussions on the issue, and would recuse herself from the Board's vote on Minute Item 16-01-6.

Copies of the slides used by Mr. Lanier in his report on Minute Item 16-01-6 are filed with the records of the Board as Exhibit 2/11/16G.

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**16-01-6. Regulation of Pole Attachment Fees**

The Board adopted the following resolution as recommended in a memorandum from the Executive Vice President and Chief Financial Officer, dated January 22, 2016, and filed with the records of the Board as Exhibit 2/11/16H:

WHEREAS TVA regulates the retail rates of the Local Power Companies (LPCs) that distribute TVA power and establishes the terms and conditions under which TVA power is sold to ensure that LPC systems are operated for the benefit of the electric consumers and that rates are kept as low as feasible; and

WHEREAS so that electric system assets and funds are not used in a manner that would result in the subsidization of non-electric activities, an LPC's electric system must be appropriately compensated for the use of electric system assets, including use by cable and telecommunication providers making or maintaining wireline attachments on an LPC's electric system poles; and

WHEREAS a memorandum from the Chief Financial Officer and Executive Vice President, Financial Services (CFO), dated January 22, 2016 (Memorandum), a copy of which is filed with the records of the Board as Exhibit 2/11/16H, recommends that the Board of Directors approve

the recommended methodology for regulation of pole attachment rates by adopting the Determination on Regulation of Pole Attachments as described in the Memorandum;

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 recommended methodology for regulation of pole attachment rates and adopts the Determination on Regulation of Pole Attachments attached to and described in the Memorandum;

RESOLVED further, That the Board hereby authorizes and directs the Chief Executive Officer (CEO) to take all actions necessary or appropriate to implement the Determination on Regulation of Pole Attachments as further described in the Memorandum.

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**16-01-7. Report of the Finance, Rates, and Portfolio Committee**

Director Mahurin, Chair of the Committee, requested and received a report from Executive Vice President and Chief Financial Officer, John Thomas, regarding Minute Item 16-01-8. Following the report by Mr. Thomas, Director Mahurin expressed his appreciation for the efforts to keep TVA on a sound fiscal footing, and for the support of Executive Vice President and Chief Operating Officer Chip Pardee as the Committee has focused on strategic topics around the financial plan and generation fleet.

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**16-01-8. Financial Performance Update**

John Thomas, Executive Vice President and Chief Financial Officer, reported on TVA's financial results during the first quarter of the current fiscal year, stating that the \$37 million loss in net income for the quarter is typical. Mr. Thomas discussed the impact of weather on results, mentioning that the first quarter was the mildest on record since 1962. Mr. Thomas then

reviewed TVA's income and cash flow statements for the quarter stating, in summary, that the quarter was marked by low electricity sales and low fuel costs, and that TVA is, overall, reasonably on plan for the year.

Copies of the slides used by Mr. Thomas in his report are filed with the records of the Board as Exhibit 2/11/16I.

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**16-01-9. Report of the Nuclear Oversight Committee**

Director Brown, Chair of the Committee, reported the Committee met in January, at which time Executive Vice President and Chief Nuclear Officer, Joe Grimes, gave a presentation on the performance of the nuclear fleet. Director Brown stated the fleet is performing consistently across a range of metrics, but does have some continuing issues and challenges, particularly at Sequoyah Nuclear Plant. The Committee has requested that Mr. Grimes keep management apprised of progress and any additional issues or challenges that might arise. Director Brown stated the Board is committed to its oversight role, and expressed her appreciation to Sam Collins, the Board's independent nuclear expert, who provides valuable analysis and information to the Committee on an ongoing basis.

Director Brown reported that the Committee's meeting in January also included an update from Senior Vice President, Watts Bar Operations and Construction, Mike Skaggs, regarding Watts Bar Unit 2 construction. Director Brown stated that Unit 2 continues to

progress, and that many pre-operational tests are being performed as part of the complicated and protracted power ascension program, which are prerequisites to Unit 2's Commercial Operation.

Director Brown congratulated TVA President and Chief Executive Officer, Bill Johnson, on his election as Chairman of the regional operations unit of the World Association of Nuclear Operators (WANO), then requested and received remarks from Mr. Johnson regarding WANO and its mission.

Following the conclusion of Mr. Johnson's remarks, Director Lodge commented on the many layers of oversight involved with TVA's nuclear fleet.

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#### **16-01-10. Report of the External Relations Committee**

Director McWherter, Chair of the Committee, reported the Committee heard updates from management on several customer topics, the economic development program, and TVA's technology initiatives. Director McWherter then reported that TVA's Regional Energy Resource Council (RERC) met in Memphis late in January, and both Director Evans and Director Walter were able to meet with members of the RERC at that time. Director McWherter then invited and received brief remarks from Director Walter regarding the meeting. Director McWherter next reported that the Committee received updates from management on a number of topics related to public land management, including efforts to protect land from encroachers and individuals who abuse public lands. The Committee also reviewed information regarding TVA's floating house

policy, and Director McWherter stated the Committee would be considering this issue for action at the next Board meeting.

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Following the conclusion of the Committee's report, Director Satz commented that protection of public lands is a part of TVA's mission that is often overlooked. Director Satz stated that taking action to remove encroachments and address violations can be difficult, but it is TVA's responsibility as steward of the land and TVA takes that responsibility seriously.

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**16-01-11. Report of the People and Performance Committee**

Director Howorth, Chair of the Committee, expressed appreciation for his re-appointment to the Board. He then recognized Kathy Black, Senior Vice President, Human Resources and Communications, and announced Ms. Black's retirement, and wished her good luck. Director Howorth then briefly discussed the Committee's support for management's diversity initiatives.

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**16-01-12. Selection of Board Chair**

Director Howorth stated the Committee discussed selection of a Board Chair in some depth, and announced the Committee's recommendation that Director Joe Ritch be selected to continue to serve as Board Chair for an additional two-year term. Director Howorth then officially submitted Director Ritch's nomination and called for any other nominations by

individual Directors. No other nominations were received, and the Board unanimously voted to re-appoint Director Ritch as Board Chair for a term beginning May 19, 2016, and ending May 18, 2018.

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### **Information Items**

#### **16-01-13. Kingston Insurance Arbitration Settlement**

As recommended in a confidential application for Notational Board Approval, a copy of which is filed with the records of the Board as Exhibit 2/11/16J, and in accordance with the TVA Board Practice, Notational Approvals, on August 16, 2013, the individual Board members approved delegation of authority to the Chief Executive Officer to approve settlements in arbitration proceedings brought by TVA against three excess liability insurers, to recover costs incurred as a result of the December 22, 2008, Kingston Fossil Plant ash spill, under excess liability insurance policies maintained by TVA at the time of the spill.

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#### **16-01-14. Watts Bar Unit 2 Capital Budget Increase**

As recommended in a confidential application for Notational Board Approval, a copy of which is filed with the records of the Board as Exhibit 2/11/16K, and in accordance with the TVA Board Practice, Notational Approvals, on January 26, 2016, the individual Board members

approved an increase in the capital project budget for completion of Watts Bar Unit 2 to \$4.7 billion.

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**16-01-15. Vehicular Accident Litigation Settlement**

As recommended in a confidential application for Notational Board Approval, a copy of which is filed with the records of the Board as Exhibit 2/11/16L, and in accordance with the TVA Board Practice, Notational Approvals, on November 30, 2015, the individual Board members approved settlement of a lawsuit against TVA arising from a November 11, 2013, vehicular accident in which plaintiff Clay S. Brown, Jr., was injured.

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The meeting was adjourned at 11:46 a.m. EST.