

No. 16-02

Approved by the Board of Directors
at its August 25, 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
May 5, 2016

A meeting of the Board of Directors of the Tennessee Valley Authority was held in the Paris Landing State Park Conference Center, Room C, 400 Lodge Road, Buchanan, Tennessee, on May 5, 2016. The meeting was called to order at 12:37 p.m. (CDT) after an approximately thirty minute break following the listening session, which began at 8:55 a.m. (CDT). The meeting was announced to the public on April 28, 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, 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; Joseph Patrick (Joe) Grimes, Executive Vice President and Chief Nuclear Officer; Rebecca Chunn Tolene, Vice President, Natural Resources, and Deputy General Counsel; Ricardo G. (Ric) Perez, Senior Vice President, Shared Services; John J. Bradley, Senior Vice President, Economic Development; Robert M. (Bob) Deacy, Senior Vice President, Generation Construction, Projects and Services; Jacinda B. Woodward, Senior Vice President, Transmission and Power Supply; and James R. (Bob) Dalrymple, Senior Vice President, Power Operations.

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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16-02-1. Welcome

Chair Ritch welcomed everyone, requested and received comments from Director McWherter, who resides in the area and chose the location of the meeting, and expressed appreciation for the time taken by local officials, TVA customers, and stakeholders to attend. Chair Ritch then recognized John Etheridge, General Manager of the Paris Board of Public Utilities, congratulating Mr. Etheridge on his upcoming retirement. Chair Ritch also recognized and received remarks from Jack Simmons, President and Chief Executive Officer of the

Tennessee Valley Public Power Association (TVPPA), and Pete Mattheis, Chairman of the Tennessee Valley Industrial Committee (TVIC), then welcomed all who were watching the meeting on TVA's internet site.

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Old Business

The Board approved the minutes of its February 11, 2016, meeting.

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New Business

16-02-2. President's Report

President and Chief Executive Officer William D. (Bill) Johnson wished everyone a good morning and expressed his pleasure to be at Paris Landing State Park, as well as his appreciation for the hospitality of the entire community. Mr. Johnson then briefly alluded to floating houses and defined the issue as a question of who owns public resources. Mr. Johnson stated TVA is proud to partner with the Paris Board of Public Utilities and the more than twenty local power companies in western Tennessee.

Mr. Johnson discussed the April 11, 2016, death of TVA employee Wendell Smith at Wilson Dam powerhouse and expressed TVA's deepest sympathy for Mr. Smith's family. He then called for a moment of silence in memory of Mr. Smith.

At this point, Mr. Johnson discussed TVA's performance, future generation needs, economic development efforts, and other matters in which TVA is engaged. Mr. Johnson closed with comments on and thanks for the quality of effort put forth by employees of Colbert Fossil Plant, right up to the time the breaker was opened to separate the plant's last operating unit from the TVA grid, after 60 years of operation.

Copies of the slides used by Mr. Johnson in his report are filed with the records of the Board as Exhibit 5/5/16A.

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Following the conclusion of the President's Report, Chair Ritch, on behalf of the Board, offered condolences to the family of Wendell Smith and expressed appreciation for Mr. Smith's thirty-four years of service.

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16-02-3. Committee Assignments

The Board adopted the following resolution:

WHEREAS Section 2(g)(1) of the TVA Act requires that the Board create and maintain an "audit committee" and directs the Board to create such other committees of Board members as the Board considers to be appropriate; and

WHEREAS Section 2.1 of the Bylaws further provides that appointees for the membership of committees shall be submitted by the Chair of the Board to the Board for its approval as a single slate of appointees; and

WHEREAS the Chair hereby recommends the following slate of committee members:

Audit, Risk, and Regulation Committee

Lynn Evans, Chair
 Richard Howorth
 Gina Lodge
 Joe Ritch

External Relations Committee

Mike McWherter, Chair
 Marilyn Brown
 Lynn Evans
 Eric Satz

Finance, Rates, and Portfolio Committee

Pete Mahurin, Chair
 Mike McWherter
 Eric Satz
 Ron Walter

People and Performance Committee

Richard Howorth, Chair
 Gina Lodge
 Pete Mahurin
 Ron Walter

Nuclear Oversight Committee

Marilyn Brown, Chair
 Lynn Evans
 Gina Lodge
 Joe Ritch

BE IT RESOLVED, That the Board of Directors hereby approves the slate of committee members as recommended by the Chair, with said assignments to become effective immediately, and to continue in place as provided in the Bylaws or until modified by further action of the Board.

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16-02-4. Report of the Nuclear Oversight Committee

Director Brown, Chair of the Committee, reported that TVA has been engaged in a dialogue with the Nuclear Regulatory Commission (NRC) regarding the perception of work environment issues at Watts Bar Nuclear Plant, resulting in the issuance of a “Chilling Effect” letter by the NRC in March targeted at ensuring TVA is taking appropriate actions to foster a workforce environment that encourages employees to raise safety concerns without fear of retaliation. Director Brown stated the Board is committed to this goal and has been working with management to address any perception concerns, then declared on behalf of the Board that employees can raise a safety concern at any time in any setting, and that all TVA employees are

encouraged to follow the motto: “See something, say something.” Director Brown stated TVA responded to the NRC’s letter in April, and will continue to engage with NRC to ensure that the agency is satisfied with TVA’s efforts.

Director Brown next reported that the Watts Bar Unit 2 project is nearing completion, with the unit currently in thermal ascension test mode. The date for commercial operation is yet to be determined. Director Brown stated the Committee paid particular attention to the Watts Bar Unit 2 project when it met at Watts Bar in April, and the Board will continue to work closely with management and the various oversight entities involved in nuclear operations to ensure the safety of TVA’s nuclear fleet and its continued pursuit of excellence. During its April meeting, the Committee, joined by its independent adviser Sam Collins, was also briefed on overall nuclear fleet performance.

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16-02-5. Report of the External Relations Committee

Director McWherter, Chair of the Committee, stated the Committee would have two recommendations for the Board, the first involving the future of the Bellefonte nuclear site. Director McWherter then announced that neither Director Walter or Director Lodge had participated in the Committee’s consideration of this issue. Director Walter then reported that, pursuant to an agreement he entered into during his confirmation process, he would be recusing himself from participating in the Board’s consideration of the future use of the Bellefonte site,

and further reported that he had not participated in the Committee's previous consideration of the issue. Director Lodge then stated the same is true for her.

At this point, Director McWherter requested and received a report from Sherry Quirk, Executive Vice President and General Counsel, regarding Minute Item 16-02-6. Following the completion of Ms. Quirk's report, Director McWherter requested and received a report from Rebecca Chunn Tolene, Vice President, Natural Resources, and Deputy General Counsel, regarding Minute Item 16-02-7. Following the completion of Ms. Tolene's report, but prior to the vote on Minute Item 16-02-7, the members of the Board discussed the issue extensively, offered comments, and voted on and rejected a motion to postpone consideration until the next meeting of the Board.

Following the votes on Minute Items 16-02-06 and 16-02-7, Director McWherter reported the Committee received updates from management on several topics, including TVA's efforts to leverage social media and TVA's research and development programs. Director McWherter stated that every quarter the Committee spends significant time devoted to important stakeholder and customer topics, and this quarter the Committee learned about TVA's Federal Energy Services Program, an effort to provide support to TVA's very large, directly served federal customers that is sometimes connected to TVA's economic development efforts. At this point, Director McWherter requested and received a report from John Bradley, Senior Vice President, Economic Development, regarding some of TVA's economic development initiatives and their results.

Copies of the slides used by Ms. Quirk in her report on Minute Item 16-02-6 are filed with the records of the Board as Exhibit 5/5/16B. Copies of the slides used by Ms. Tolene in her report on Minute Item 16-02-7 are filed with the records of the Board as Exhibit 5/5/16C. Copies of the slides used by Mr. Bradley in his report on economic development are filed with the records of the Board as Exhibit 5/5/16D.

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16-02-6. Bellefonte Nuclear Plant Site

The Board, with both Director Lodge and Director Walter abstaining, adopted the following resolution as recommended in a memorandum from the President and Chief Executive Officer, dated April 25, 2016, and filed with the records of the Board as Exhibit 5/5/16E:

WHEREAS, as detailed in the April 25, 2016, memorandum from the Chief Executive Officer, a copy of which is filed with the records of the Board as Exhibit 5/5/16E, TVA has no further need of the fee interest in the property that comprises most of the Bellefonte Nuclear Plant (BLN) site for any of the purposes of the Tennessee Valley Authority Act of 1933, as amended; and

WHEREAS the BLN site consists of approximately 1,600 acres on a peninsula on Guntersville Reservoir near Hollywood, Alabama; and

WHEREAS TVA completed acquisition of the BLN site in 1974; and

WHEREAS two partially constructed Babcock & Wilcox pressurized light water reactors and associated facilities have been constructed on the site including two cooling towers, office buildings, warehouses, a training center, a simulator building, parking lots, railroad spurs, a helicopter landing pad, and 161-kV and 500-kV switchyards; and

WHEREAS TVA halted construction of the two nuclear units in 1988, and considered converting plant infrastructure to a natural gas combined cycle plant in 1997 and restarting construction of one of the nuclear units in 2010; and

WHEREAS TVA determined in its 2015 Integrated Resource Plan that it likely would not need large base load resources like the BLN units for the next 20 years; and

WHEREAS the planned annual budget for maintaining the BLN site is \$6.5 million; and

WHEREAS a center for training transmission and distribution line personnel is located near the outskirts of the plant site on approximately 18.3 acres and is actively used by TVA and Local Power Companies; and

WHEREAS TVA has been approached in the past and recently about leasing or selling the site to another entity that proposes to complete the nuclear units; and

WHEREAS TVA obtained comments from the public, including public officials and customers, about potentially selling the BLN site; and

WHEREAS a majority of those commenting, including all of the public officials at the federal, state and local levels who commented, supported selling the BLN site; and

WHEREAS there is no permanent dam, hydroelectric power plant, or munitions plant located on the site; and

WHEREAS it has been determined that sale of the BLN site at public auction is not adverse to the interests of the United States or TVA; and

WHEREAS the Executive Vice President and Chief Financial Officer (CFO) recommends that the Board of Directors approve recognition of a regulatory asset for (1) all costs attributable to (a) the expected disposition of BLN assets, including preparing or preserving the site, and (b) associated liabilities directly related to those assets, (2) any related future operating and project costs until the assets are sold, (3) the amount by which the book value of BLN exceeds its fair market value less cost to sell, and (4) any subsequent gains and losses resulting from the disposition of BLN, as all such amounts are probable of collection in rates over future periods; and

WHEREAS the CFO also recommends that the Board of Directors combine the newly created regulatory asset referenced above with the existing regulatory asset related to BLN (Deferred Nuclear Generating Units) and adjust the period over which these regulatory assets are recovered by collectively recovering the cost of these assets in rates at an amount of \$236.3 million per year until fully recovered;

BE IT RESOLVED, That the Board of Directors hereby finds and declares that the BLN plant site, except for the area upon which the training center is located if it cannot be relocated, is not necessary to carry out any plans and projects actually decided upon and is otherwise surplus to TVA's needs, and hereby authorizes and directs the Senior Manager of Realty Services, GIS, and Land Records, upon a determination by the Chief Executive Officer that market conditions warrant selling the fee simple interest in all or a portion of the plant site at public auction pursuant to Section 31 of the TVA Act of 1933, as amended, to execute and deliver to the successful bidder, upon payment of the auction bid price and associated administrative costs, a special warranty deed in such form as the General Counsel shall approve, subject to such terms

and conditions as may be necessary to cover and protect TVA's statutory obligations, program requirements, and other interests;

RESOLVED further, That the Board of Directors directs TVA to update and supplement the environmental reviews that have been conducted for use of the BLN site, as appropriate, in light of the successful bidder's planned use of the site, authorizes the Chief Executive Officer to terminate the property transfer process before closing if any such reviews do not satisfactorily address potential environmental impacts, and requires TVA to include the costs of any additional reviews in the administrative costs to be paid by the successful bidder;

RESOLVED further, That the Board of Directors hereby approves the recognition of a new regulatory asset as described above;

RESOLVED further, That the Board of Directors hereby combines this new regulatory asset with the existing regulatory asset related to BLN and approves recovery of the costs of these assets collectively at a rate of \$236.3 million per year until fully recovered.

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16-02-7. Floating House Policy

The Board adopted the following resolution as recommended in a memorandum from the Vice President, Natural Resources, dated May 4, 2016, and filed with the records of the Board as Exhibit 5/5/16F:

WHEREAS TVA has been charged by Congress with managing the Tennessee River and its tributaries to improve navigation, reduce floods, and to the extent consistent with these purposes for the generation of electricity; and

WHEREAS TVA created and manages a reservoir system that encompasses more than 11,000 miles of shoreline and 600,000 acres of water; and

WHEREAS the TVA Board of Directors (Board) decided in 1971 and reaffirmed in 1978 that the mooring of nonnavigable houseboats on TVA reservoirs converted public waters under TVA's stewardship to private use and should be prohibited; and

WHEREAS subsequently a new type of nonnavigable houseboat, floating houses, have been moored on TVA reservoirs; and

WHEREAS TVA conducted a comprehensive public review of the environmental and economic impacts of various alternative policies to addressing floating houses and has issued a Final Environmental Impact Statement (FEIS), *Floating Houses Policy Review* (February 2016); and

WHEREAS TVA identified a preferred policy for addressing floating houses in the FEIS; and

WHEREAS the Board has considered the FEIS, including the public comments that TVA received during the review process; and

WHEREAS the Board finds that floating houses are not in any real sense watercraft, but instead are used primarily for habitation rather than regularly navigating along and across TVA reservoirs and convert public waters to private use; and

WHEREAS the Board also finds that floating houses pose navigation, safety, and water pollution risks and actions should be taken to reduce these risks; and

WHEREAS the Board recognizes that owners of floating houses have economic concerns about and oppose the removal of their houses from TVA's reservoirs while other commenters recommend that TVA require the immediate removal of all floating houses; and

WHEREAS the Board has determined that deferring the removal of floating houses for 30 years appropriately balances these competing concerns and viewpoints;

BE IT RESOLVED, That the Board approves the Proposed Policy Governing Floating Houses on the TVA Reservoir System, a copy of which is filed with the records of the Board as Exhibit 5/5/16G, and directs the Vice President, Natural Resources, or their delegate to take such actions as necessary to implement the policy, including amending TVA's regulations implementing Section 26a of the TVA Act;

RESOLVED further, That the Board delegates to the Vice President, Natural Resources, the authority to approve amendments to TVA's Section 26a regulations in a form approved by the Office of the General Counsel, including amendments to implement the Floating Houses Policy;

RESOLVED further, That the Vice President, Natural Resources, shall review options and reasonable restraints on transferability and report to the Board's External Relations Committee on this review; and

RESOLVED further, That the Vice President, Natural Resources, report to the Board's External Relations Committee on the comments TVA receives during the comment period on proposed amendments to the Section 26a regulations before finally approving them;

RESOLVED further, That the Board directs staff to institute sufficient fees on non-navigable houseboats and floating houses to help TVA recover the costs of implementing the Floating Houses policy and delegates to the Vice President, Natural Resources, the authority to amend TVA's administrative cost recovery regulations for this purpose.

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16-02-8. Report of the Finance, Rates, and Portfolio Committee

Director Mahurin, Chair of the Committee, stated the Committee would present two recommendations to the Board and that a third, initially scheduled to be presented by the Committee, was transferred to the People and Performance Committee due to a potential conflict of interest discovered during screening. At this point, Director Mahurin requested and received a report from John Thomas, Executive Vice President and Chief Financial Officer, regarding Minute Item 16-02-9. Director Mahurin praised Mr. Thomas for the results reflected in his report on Minute Item 16-02-9, then requested and received a report from Robert M. (Bob) Deacy, Senior Vice President, Generation Construction, Projects and Services, regarding Minute Item 16-02-10. Following the completion of Mr. Deacy's report, Director Mahurin requested and received a report from Jacinda B. Woodward, Senior Vice President, Transmission and Power Supply, regarding Minute Item 16-02-11.

Copies of the slides used by Mr. Deacy in his report on Minute Item 16-02-10 are filed with the records of the Board as Exhibit 5/5/16H. Copies of the slides used by Ms. Woodward in her report on Minute Item 16-02-11 are filed with the records of the Board as Exhibit 5/5/16I.

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16-02-9. Financial Update

John Thomas, Executive Vice President and Chief Financial Officer, reported on the first six months of financial results in Fiscal Year 2016. Mr. Thomas stated operating revenues are down due to mild weather, but this has been offset to some degree by TVA's balanced generation portfolio, low natural gas prices, and efficiencies and cost reduction. Mr. Thomas then briefly discussed the weather, underlying economic conditions in the Tennessee Valley region, TVA's income and cash flow statements, debt, and the status of TVA's debt reduction plan.

Copies of the slides used by Mr. Thomas in his report are filed with the records of the Board as Exhibit 5/5/16J.

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16-02-10. Fleet-wide Non-Nuclear Maintenance and Modifications Contract

The Board adopted the following resolution as recommended in a memorandum from the Executive Vice President and Chief Operating Officer, dated April 11, 2016, and filed with the records of the Board as Exhibit 5/5/16K:

WHEREAS it is in TVA's interest to enter into Valley-wide alliance contracts for the performance of modifications, outages, supplemental maintenance work, managed task support, and craft augmentation (collectively, the "Services") at TVA's fossil, hydro, and gas generation locations, and coatings work across the Valley; and

WHEREAS TVA conducted a competitive procurement for the Services and G•UB•MK Constructors was the highest evaluated offeror; and

WHEREAS a memorandum from the Executive Vice President and Chief Operating Officer dated April 11, 2016, which is filed with the records of the Board as Exhibit 5/5/16K,

recommends that the Board authorize entry into a contract with G•UB•MK Constructors for the performance of the Services, with said contract having a base term of five years and a contract ceiling of \$950 million;

BE IT RESOLVED, That, subject to any needed final negotiations, the Board authorizes the award of a contract to G•UB•MK Constructors for performance of the Services as recommended in the Chief Operating Officer's April 11, 2016, memorandum.

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16-02-11. Delegated Authority to Execute Large Generator Interconnection Agreements

The Board adopted the following resolution as recommended in a memorandum from the Executive Vice President and Chief Operating Officer, dated April 21, 2016, and filed with the records of the Board as Exhibit 5/5/16L:

WHEREAS independent generation developers and owners seek to interconnect large generation projects (those in excess of 20 MW) to the TVA transmission system; and

WHEREAS TVA has standard procedures and model agreements for studying and addressing the interconnection of such generation projects; and

WHEREAS a memorandum from the Executive Vice President and Chief Operating Officer, dated April 21, 2016 (the "Memorandum"), a copy of which is filed with the records of the Board as Exhibit 5/5/16L, recommends that the Board delegate to the Chief Executive Officer the authority to negotiate, execute, administer, and amend large generator interconnection agreements 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, and hereby delegates the authority to negotiate, execute, administer, and amend large generator interconnection agreements to the Chief Executive Officer as described in the Memorandum and consistent with approved Board policies. New agreements executed under this delegation will be reported to the Finance, Rates, and Portfolio Committee at least annually.

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16-02-12. Report of the People and Performance Committee

Director Howorth, Chair of the Committee, requested and received a report from James R. (Bob) Dalrymple, Senior Vice President, Power Operations, regarding Minute Item 16-02-13. Following the completion of Mr. Dalrymple's report, Director Howorth reported on the Committee's recent meeting, stating the Committee heard a regular report on year-to-date performance and conducted its initial review of the corporate goals for Fiscal Year 2017. Director Howorth stated the Committee also worked closely with management and independent advisers regarding TVA's compensation plan, and may consider updates to that plan next quarter. The Committee also took a closer look at matters related to TVA's performance and human capital, including TVA's labor relations strategy, its whistleblower program, its employee concerns program, the succession planning process, and safety programs.

Copies of the slides used by Mr. Dalrymple in his report are filed with the records of the Board as Exhibit 5/5/16M.

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16-02-13. Long-Term Service Agreement with General Electric International, Inc.

With Director Evans acting in the place of Chair Ritch, and Chair Ritch, Director McWherter, and Director Mahurin all abstaining due to a potential conflict of interest, the Board adopted the following resolution as recommended in a memorandum from the Executive Vice President and Chief Operating Officer, dated April 11, 2016, and filed with the records of the Board as Exhibit 5/5/16N:

WHEREAS given the expected future operational demands on the Caledonia, Magnolia, and Southaven Combined Cycle Plants, located in Mississippi (CC Plants), failure to enter into long-term service agreements for planned and unplanned outages, and parts and services, for such CC Plants could reduce their reliability and availability; and

WHEREAS General Electric International, Inc. (GEII) is the original equipment manufacturer for the gas turbines and generators at the CC Plants; and

WHEREAS GEII is most familiar with the components and designs of the CC Plants' gas turbines and generators, and is willing to execute long-term contracts now for outage and maintenance parts and services, and upgrade the CC Plants' existing gas turbines to reduce future maintenance costs and enhance their operational flexibility; and

WHEREAS entering into long-term service agreements (LTSAs) with GEII now provides the best technical and risk solution, and minimizes cost impacts and volatility for TVA, while helping to secure long-term, optimal commercial operation of the CC Plants; and

WHEREAS a memorandum dated April 11, 2016, a copy of which is filed with the records of the Board as Exhibit 5/5/16N (Memorandum), recommends that the Board approve funding of up to \$513 million for long-term (up to 24 year) contracts with GEII , for outage work, parts, services, and upgrades for the CC Plants;

BE IT RESOLVED, That the Board of Directors hereby authorizes entering into three separate LTSAs with GEII for the scope of work as described in the Memorandum, subject to an aggregate contract ceiling of \$513 million, and each for a maximum twenty-four year term.

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6-02-14. Report of the Audit, Risk, and Regulation Committee

Director Evans, Chair of the Committee, stated the Committee met on two occasions since the last Board meeting. At its April 20, 2016, meeting, the Committee received regular updates on a number of topics, including operational and regulatory assurance, the regulation of TVA's local power companies, and enterprise risk. The Committee also learned more about several important topics, including TVA's cybersecurity programs, the field invoice process, and both physical and electronic access to TVA's facilities and systems. Director Evans stated TVA's legal staff supports many of the essential functions performed by the Committee, and

General Counsel Sherry Quirk updated the Committee on several matters related to these functions. Director Evans stated that the staff of the Office of the Inspector General (OIG) is another group that provides independent insight to the Committee, and the OIG staff briefed the Committee on a number of topics being tracked closely by the Board. Louise Beck of the OIG staff also updated the Committee on the management of TVA's contract with its external auditor, Ernst & Young. Director Evans stated the Committee also met on April 28, 2016, for the purpose of reviewing TVA's quarterly 10-Q report, which will be filed with the Securities and Exchange Commission (SEC). Director Evans expressed appreciation to several people who made presentations to the Committee during the quarter.

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The meeting was adjourned at 2:47 p.m. CDT.