

## **OFFERING CIRCULAR**

**\$491,863,000**

# **Tennessee Valley Authority**

**\$22,409,000 2.25% Power Bonds 2009 Series A Due November 15, 2015**

**\$469,454,000 3.77% Power Bonds 2009 Series B Due June 15, 2034**



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The 2.25% Power Bonds 2009 Series A Due November 15, 2015 (the "2009 Series A Bonds"), and the 3.77% Power Bonds 2009 Series B Due June 15, 2034 (the "2009 Series B Bonds" and, together with the 2009 Series A Bonds, the "Bonds") of the Tennessee Valley Authority ("TVA") will be issued in minimum denominations of \$1,000.00 and integral multiples of \$1.00 in excess thereof.

TVA will redeem (1) a portion of the 2009 Series A Bonds on each May 15 and November 15 from May 15, 2009, to and including November 15, 2015, and (2) a portion of the 2009 Series B Bonds on each June 15 and December 15 from June 15, 2009, to and including June 15, 2034. The portion of the 2009 Series A Bonds and the 2009 Series B Bonds that TVA will redeem on these dates is set forth under the heading "Amortization Amount" in the Amortization Schedules set forth in Annex I and Annex II, respectively. See "Description of Bonds" — "Redemption of Bonds by TVA."

The Bonds will be issued, maintained, and transferred only on the book-entry system of The Depository Trust Company ("DTC") as described herein. Except in limited circumstances, the Bonds will not be exchangeable for definitive securities. See "Description of Bonds" — "Book-Entry System" and "Discontinuance of Book-Entry System."

Principal and interest on the Bonds are generally exempt from state and local income taxes. See "Tax Matters."

TVA is a wholly owned corporate agency and instrumentality of the United States of America. Principal and interest will be payable solely from TVA's Net Power Proceeds (as defined herein).

Investment in the Bonds will involve a number of risks. See "Risk Factors" on page 7.

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**The Bonds will not be obligations of, nor will payment of the principal thereof or the interest thereon be guaranteed by, the United States of America. TVA is exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 3(a)(2) thereof. TVA files annual reports, quarterly reports, and current reports with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934.**

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### Offering Price

100% of the principal amount of the Bonds and accrued interest, if any, from February 13, 2009 to date of delivery.

The Bonds offered by this Offering Circular are offered by the Underwriter (as defined herein) subject to prior sale, withdrawal, cancellation, or modification of the offer without notice, to delivery to and acceptance by the Underwriter, and to certain further conditions. The Underwriter expects to deliver the Bonds through the facilities of DTC on or about February 13, 2009, against payment therefor in immediately available funds.

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**Morgan Stanley**

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**The date of this Offering Circular is February 9, 2009.**

## **STABILIZATION**

THE UNDERWRITER MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE BONDS. SPECIFICALLY, THE UNDERWRITER MAY OVERALLOT IN CONNECTION WITH THE OFFERING, MAY BID FOR, AND PURCHASE, BONDS IN THE OPEN MARKET, AND MAY IMPOSE PENALTY BIDS. SUCH TRANSACTIONS MAY BE EFFECTED IN AN OVER-THE-COUNTER MARKET OR OTHERWISE AND MAY INCLUDE SHORT SALES AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES.

## **ABOUT THIS OFFERING CIRCULAR**

This Offering Circular provides you with a description of the Bonds that TVA is offering. This Offering Circular should be read in connection with the SEC Filings (as defined below), which are incorporated herein by reference. This Offering Circular and the SEC Filings are collectively referred to herein as the “Offering Documents.” See “Where You Can Find More Information” for more information about the SEC Filings.

No dealer, salesperson, or any other person has been authorized by TVA to give any information or to make any representations on behalf of TVA other than those contained in the Offering Documents or any supplement to any of the Offering Documents prepared by TVA for use in connection with the offer made by this Offering Circular. If given or made, such information or representations must not be relied upon as having been authorized by TVA. Neither the delivery of any Offering Documents nor any sale of Bonds described herein shall under any circumstances create an implication that the information provided herein is correct at any time subsequent to its date, and TVA assumes no duty to update any Offering Document except as it deems appropriate. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy the Bonds described herein in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

This Offering Circular has been prepared by TVA solely for use in connection with the offering of the Bonds described herein. TVA has taken reasonable care to ensure that the information contained in this Offering Circular is true and accurate in all material respects and that there are no material facts the omission of which would make misleading any statements herein in light of the circumstances under which such statements are made. TVA accepts responsibility accordingly.

In the Offering Documents, references to “U.S. dollars,” “dollars,” and “\$” are to United States dollars, and references to “£” are to British pounds sterling.

## **WHERE YOU CAN FIND MORE INFORMATION**

TVA files annual, quarterly, and current reports with the SEC. You may read and copy any of these documents at the SEC’s public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. In addition, TVA’s SEC filings are available to the public over the Internet at the SEC’s website at [www.sec.gov](http://www.sec.gov) and at TVA’s website at [www.tva.gov](http://www.tva.gov). Information contained on TVA’s website shall not be deemed to be incorporated into, or to be a part of, this Offering Circular except to the extent otherwise expressly incorporated herein.

TVA incorporates by reference into this Offering Circular certain information that TVA files with the SEC. This means that TVA discloses important information to you by referring you to another document. The information that TVA incorporates by reference is considered to be part of this Offering Circular, and information that TVA subsequently files with the SEC will automatically update and, where different, supersede the information in this Offering Circular and in TVA’s other SEC Filings.

TVA is incorporating by reference into this Offering Circular the following documents that TVA has filed with the SEC, as well as any future filings that TVA makes with the SEC under Section 37 of the Securities Exchange Act of 1934 (collectively, the “SEC Filings”):

- TVA’s annual report on Form 10-K for the year ended September 30, 2008 (the “Annual Report”); and

- TVA's current reports on Form 8-K filed on December 23, 2008, January 6, 2009, January 20, 2009, and February 9, 2009 (provided that, for the avoidance of doubt, no information from the web site identified in the current report filed on December 23, 2008, is incorporated into this Offering Circular).

You may request a copy of these filings at no cost by writing or calling TVA at the following address:

Tennessee Valley Authority  
400 West Summit Hill Drive  
Knoxville, TN 37902-1401  
Attention: Treasury & Investor Relations  
E-mail: [Investor@tva.com](mailto:Investor@tva.com)  
Telephone: 1-888-882-4975 (toll-free)

### **FORWARD-LOOKING STATEMENTS**

The Offering Documents contain forward-looking statements relating to future events and future performance. All statements other than those that are purely historical may be forward-looking statements.

In certain cases, forward-looking statements can be identified by the use of words such as "may," "will," "should," "expect," "anticipate," "believe," "intend," "project," "plan," "predict," "assume," "forecast," "estimate," "objective," "possible," "probably," "likely," "potential," or other similar expressions.

Examples of forward-looking statements include, but are not limited to:

- Statements regarding strategic objectives;
- Projections regarding potential rate actions;
- Forecasts of costs of certain asset retirement obligations;
- Estimates regarding power and energy forecasts;
- Expectations about the adequacy of TVA's funding of its pension plans, nuclear decommissioning trust, and asset retirement trust;
- The anticipated results of TVA's Extended Power Uprate project at Browns Ferry Nuclear Plant;
- TVA's plan to reduce the growth in peak demand by up to 1,400 megawatts by the end of 2012;
- TVA's plans to borrow under its credit facility with the U.S. Treasury during 2009;
- TVA's plans to continue using short-term debt to meet current obligations;
- The anticipated cost and timetable for placing Watts Bar Unit 2 in service; and
- Estimates of costs to comply with environmental laws and regulations.

Although TVA believes that the assumptions underlying the forward-looking statements are reasonable, TVA does not guarantee the accuracy of these statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things:

- New laws, regulations, and administrative orders, especially those related to:
  - TVA's protected service area,
  - The sole authority of the TVA board of directors to set power rates,
  - Various environmental matters including laws, regulations, and administrative orders restricting emissions, preferring certain fuels or generation sources over others, and regulating coal combustion by-products,
  - The use of containment ponds at power plants,
  - The licensing, operation, and decommissioning of nuclear generating facilities,
  - TVA's management of the Tennessee River system,
  - TVA's credit rating, and
  - TVA's debt ceiling;
- Loss of customers;
- The performance or failure of TVA's generation, transmission, and related assets (including waste storage facilities such as ash ponds);
- Disruption of fuel supplies, which may result from, among other things, weather conditions, production or transportation difficulties, labor challenges, or environmental regulations affecting TVA's fuel suppliers;
- Purchased power price volatility;
- Events at facilities not owned by TVA that affect the supply of water to TVA's generation facilities;
- Compliance with existing or future environmental laws and regulations;

- Significant delays or cost overruns in construction of generation and transmission assets;
- Inability to obtain regulatory approval for the construction of generation assets;
- Significant changes in demand for electricity;
- Legal and administrative proceedings, including awards of damages and amounts paid in settlements;
- Weather conditions, including drought;
- Failure of TVA's transmission facilities or the transmission facilities of other utilities;
- Events at a nuclear facility, even one that is not operated by or licensed to TVA;
- Catastrophic events such as fires, earthquakes, floods, tornadoes, pandemics, wars, terrorist activities, and other similar events, especially if these events occur in or near TVA's service area;
- Reliability of purchased power providers, fuel suppliers, and other counterparties;
- Changes in the market price of commodities such as coal, uranium, natural gas, fuel oil, construction materials, electricity, and emission allowances;
- Changes in the prices of equity securities, debt securities, and other investments;
- Changes in interest rates;
- Creditworthiness of TVA, its counterparties, and its customers;
- Rising pension costs and health care expenses;
- Increases in TVA's financial liability for decommissioning its nuclear facilities and retiring other assets;
- Unplanned contributions to TVA's pension or other postretirement benefit plans or to TVA's nuclear decommissioning trust;
- Limitations on TVA's ability to borrow money;
- Changes in the economy and the success of any economic stimulus plans;
- Ineffectiveness of TVA's disclosure controls and procedures and its internal control over financial reporting;
- Changes in accounting standards;
- The loss of TVA's ability to use regulatory accounting;
- Problems attracting and retaining skilled workers;
- Changes in technology;
- Changes in TVA's plans for allocating its financial resources among projects;
- Differences between estimates of revenues and expenses and actual revenues and expenses incurred;
- Volatility in financial markets;
- Changes in the market for TVA securities; and
- Unforeseeable events.

Additionally, other risks that may cause actual results to differ materially from the predicted results are set forth in Item 1A, Risk Factors and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report. New factors emerge from time to time, and it is not possible for management to predict all such factors or to assess the extent to which any factor or combination of factors may impact TVA's business or cause results to differ materially from those contained in any forward-looking statement.

TVA undertakes no obligation to update any forward-looking statement to reflect developments that occur after the statement is made.

## TABLE OF CONTENTS

### Offering Circular

	Page
Stabilization .....	1
About This Offering Circular.....	1
Where You Can Find More Information.....	1
Forward-Looking Statements.....	2
Summary of Offering.....	5
Tennessee Valley Authority.....	7
Risk Factors .....	7
Use of Proceeds .....	7
Recent Developments .....	7
Description of Bonds .....	8
Certain Provisions of the Basic Resolution.....	12
Legality of Investment .....	14
Tax Matters.....	15
Underwriting.....	18
Validity of Bonds.....	19
Annex I: Amortization Schedule for 2009 Series A Bonds.....	20
Annex II: Amortization Schedule for 2009 Series B Bonds.....	21

## SUMMARY OF OFFERING

*The information below is qualified in its entirety by the detailed information appearing in TVA's SEC Filings (and any amendments thereto) and elsewhere in this Offering Circular. Capitalized terms used and not defined herein have the meanings defined in TVA's SEC Filings and elsewhere in this Offering Circular.*

Issuer.....	TVA is a wholly owned corporate agency and instrumentality of the United States of America established by the Tennessee Valley Authority Act of 1933, as amended (the "TVA Act").
Securities Offered .....	<p>\$22,409,000 aggregate principal amount of 2.25% Power Bonds 2009 Series A Due November 15, 2015</p> <p>\$469,454,000 aggregate principal amount of 3.77% Power Bonds 2009 Series B Due June 15, 2034</p>
Interest .....	<p>The Bonds will bear interest from February 13, 2009, at the interest rates set forth below, payable semiannually in arrears (1) on each May 15 and November 15, commencing May 15, 2009 for the 2009 Series A Bonds and (2) on each June 15 and December 15, commencing June 15, 2009 for the 2009 Series B Bonds:</p> <p style="padding-left: 40px;">2009 Series A: 2.25%</p> <p style="padding-left: 40px;">2009 Series B: 3.77%</p>
Redemption.....	TVA will redeem (1) a portion of the 2009 Series A Bonds on each May 15 and November 15 from May 15, 2009, to and including November 15, 2015, and (2) a portion of the 2009 Series B Bonds on each June 15 and December 15 from June 15, 2009, to and including June 15, 2034. The portion of the 2009 Series A Bonds and the 2009 Series B Bonds that TVA will redeem on these dates is set forth under the heading "Amortization Amount" in the Amortization Schedules set forth in Annex I and Annex II, respectively. See "Description of Bonds" — "Redemption of Bonds by TVA."
Depository .....	The Depository Trust Company
Ratings.....	The Bonds are expected to be rated Aaa by Moody's Investors Service, Inc., AAA by Fitch Ratings, and AAA by Standard & Poor's Ratings Services.
Use of Proceeds .....	The net proceeds received by TVA from the sale of the Bonds will be used to refinance existing debt and for other power program purposes.
Source of Payment.....	The interest and principal on the Bonds are payable solely from Net Power Proceeds (as defined herein) and are not obligations of, or guaranteed by, the United States of America. See "Certain Provisions of the Basic Resolution."
Form and Denomination of Bonds.....	The Bonds will be issued, maintained, and transferred through the book-entry system of DTC. See "Description of Bonds" — "Book-Entry System." Except in limited circumstances, the Bonds will not be exchangeable for definitive securities. The Bonds will be issued and must be maintained and transferred in minimum denominations of \$1,000.00 and integral multiples of \$1.00 in excess thereof.
Legality of Investment .....	<p>The laws of some jurisdictions limit the type and amount of securities that certain investors may acquire. You should consult with your own counsel regarding legality of investment in the Bonds. Generally, Power Bonds are:</p> <ul style="list-style-type: none"> <li>• acceptable as security for all fiduciary, trust, and public funds,</li> </ul>

the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America;

- eligible as collateral for U.S. Treasury tax and loan accounts;
- among those obligations which U.S. national banks may deal in, underwrite, and purchase for their own accounts in an amount up to 10 percent of unimpaired capital and surplus;
- eligible as collateral for advances by U.S. Federal Reserve Banks to member banks;
- legal investments for U.S. federal savings associations and U.S. federal savings banks to the extent specified in applicable regulations;
- eligible as collateral for advances by U.S. Federal Home Loan Banks to members for which Power Bonds are legal investments; and
- legal investments for U.S. federal credit unions, subject to applicable regulations.

See “Legality of Investment.”

No Acceleration .....

The Bonds will not contain any provisions permitting the Holders to accelerate the maturity thereof on the occurrence of any default or other event. See “Certain Provisions of the Basic Resolution.”

Taxation .....

The Bonds are subject to various tax consequences. Principal and interest on the Bonds are generally exempt from state and local income taxes. See “Tax Matters.”

CUSIP Numbers .....

2009 Series A Bonds: 880591EE8

2009 Series B Bonds: 880591EF5

## **TENNESSEE VALLEY AUTHORITY**

In 1933, President Franklin D. Roosevelt proposed and the U.S. Congress created TVA as a government corporation. TVA was created, among other things, to improve navigation on the Tennessee River, reduce the damage from destructive flood waters within the Tennessee River System and downstream on the lower Ohio and Mississippi Rivers, further the economic development of TVA's service area in the southeastern United States, and sell the electricity generated at the facilities TVA operates.

Today, TVA operates the nation's largest public power system and supplies power in most of Tennessee, northern Alabama, northeastern Mississippi, and southwestern Kentucky and in portions of northern Georgia, western North Carolina, and southwestern Virginia to a population of nearly nine million people. In 2008, the revenues from TVA's power program were \$10.4 billion and accounted for virtually all of TVA's revenues.

TVA also manages the Tennessee River and its tributaries — the United States' fifth largest river system — to provide, among other things, year-round navigation, flood damage reduction, and affordable and reliable electricity. Consistent with these primary purposes, TVA also manages the river system to provide recreational opportunities, adequate water supply, improved water quality, and economic development.

Initially, all TVA operations were funded by federal appropriations. Direct appropriations for the TVA power program ended in 1959, and appropriations for TVA's stewardship, economic development, and multipurpose activities ended in 1999. Since 1999, TVA has funded all of its operations almost entirely from the sale of electricity and power system financings.

### **RISK FACTORS**

Your investment in the Bonds will involve a number of risks. Before you decide that an investment in the Bonds is suitable for you, you should carefully consider the risks set forth in Item 1A, Risk Factors and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report as well as in other filings that TVA makes from time to time with the SEC. In addition, you should consult your own financial and legal advisors regarding the risks and suitability of an investment in the Bonds.

### **USE OF PROCEEDS**

TVA will use the net proceeds from the sale of the Bonds to refinance existing debt and for other power system purposes.

### **RECENT DEVELOPMENTS**

On February 6, 2009, Tom Kilgore, TVA's President and Chief Executive Officer, gave an interview in which he discussed the potential cost of TVA's response to the December 22, 2008 failure of a dike at an ash pond at TVA's Kingston Fossil Plant (the "Kingston Event"). Mr. Kilgore stated that while the estimates of the cost of TVA's response to the Kingston Event are still preliminary, the cost is expected to be hundreds of millions of dollars. Actual costs that TVA incurs in connection with its response to the Kingston Event may be substantially higher than any preliminary estimates due to a variety of factors. For example, the actual costs that TVA incurs will depend to a significant extent on the corrective action plan that is ultimately followed by TVA. In addition, any preliminary estimates do not include any costs associated with litigation arising from the Kingston Event. The costs associated with litigation could be substantial. Any preliminary estimates also do not cover any costs to modify TVA's facilities or operating procedures to comply with any legislative or regulatory changes that may be enacted or adopted as a result of the attention given to the Kingston Event. Furthermore, any preliminary estimates do not cover any costs that TVA may incur to remove substances in the river bottom sediment that predated the Kingston Event and might be disturbed by dredging activities. TVA continues to develop its preliminary estimates of the cost and anticipates having a more fully developed range of estimates to include in its quarterly report on Form 10-Q for the period ended December 31, 2008, which TVA plans to file with the SEC no later than February 17, 2009.

On January 20, 2009, TVA filed a current report on Form 8-K with the SEC in which TVA reported that the United States District Court for the Western District of North Carolina issued its decision in the lawsuit brought by North Carolina against TVA alleging that TVA's operation of its eleven coal-fired power plants in the states of Tennessee, Alabama, and Kentucky constitute public nuisances. The court held that emissions from the Bull Run Fossil Plant ("Bull Run"), the Kingston Fossil Plant ("Kingston"), the John Sevier Fossil Plant ("John Sevier"), and the Widows Creek Fossil Plant ("Widows Creek") constitute a public nuisance and ordered TVA to take certain actions related to these plants. TVA was already in the process of performing or planning to perform some of the actions ordered by the

court. For example, the court's instructions with respect to Bull Run and Kingston are consistent with TVA's current operating procedures and construction schedule, and the modernization of the two Widows Creek flue gas desulfurization systems ("scrubbers") is complete or nearly complete. The court's order would require TVA to accelerate its schedule at John Sevier by adding scrubbers and selective catalytic reduction systems ("SCRs") by 2011, when the current schedule calls for doing so by 2015. In addition, the court's order would require TVA to add scrubbers and SCRs at the six small units at Widows Creek by 2013 (the largest two units already have scrubbers and SCRs), and TVA's current plans do not include installation of these controls on the small units. TVA currently estimates that the total cost of taking all of the actions required by the court would be approximately \$1.8 billion. Of this amount, TVA was already planning to spend approximately \$0.8 billion before the court issued its order. TVA is evaluating its alternatives.

The cost estimates above are forward-looking statements. Numerous factors could cause actual results to differ materially from those in the estimates. Several of these factors are set forth above under the caption "Forward-Looking Statements" and in TVA's Annual Report, and in other filings TVA makes from time to time with the SEC. TVA undertakes no obligation to update any forward-looking statement to reflect developments that occur after the statement is made.

## DESCRIPTION OF BONDS

### General

The Bonds are to be issued pursuant to authority vested in TVA by the TVA Act and pursuant to the Basic Tennessee Valley Authority Power Bond Resolution adopted on October 6, 1960, as amended on September 28, 1976, October 17, 1989, and March 25, 1992 (the "Basic Resolution"), the Supplemental Resolution authorizing the Bonds adopted on August 20, 2008 (the "Supplemental Resolution" and, together with the Basic Resolution, the "Resolutions"), and an authorization as of February 2, 2009, from Tom D. Kilgore and Kimberly S. Greene authorizing the issuance of the Bonds. The U.S. Secretary of the Treasury has approved the time of issuance of, and the maximum rate of interest to be borne by, the Bonds in compliance with Section 15d(c) of the TVA Act. The Bonds represent obligations of TVA payable solely from TVA's Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America.

TVA will issue the Bonds through the book-entry system of DTC. As long as the Bonds remain in book-entry form, DTC, its nominee, a successor securities depository, or its nominee will be the sole registered holder (the "Holder") of the Bonds for all purposes of the Resolutions. Each person owning a beneficial interest in the Bonds (a "Beneficial Owner") must rely on the procedures of DTC. If you are a Beneficial Owner but do not hold your interest in the Bonds directly through DTC, you must rely on the procedures of the participant in DTC through which you hold your interest in order to exercise any rights of a Holder under the Resolutions. See "Book-Entry System" below.

The TVA Act authorizes TVA to issue and sell bonds, notes, and other evidences of indebtedness (hereinafter collectively referred to as "Evidences of Indebtedness") to assist in financing its power program and to refund such Evidences of Indebtedness. Evidences of Indebtedness issued pursuant to Section 2.2 of the Basic Resolution designated as Tennessee Valley Authority Power Bonds are herein referred to as "Power Bonds." The aggregate amount of Evidences of Indebtedness at any one time outstanding is limited to \$30 billion. As of September 30, 2008, TVA had approximately \$21.8 billion and £600 million (£200 million issued in December 1998, £250 million issued in July 2001, and £150 million issued in June 2003) of Evidences of Indebtedness outstanding. At the time TVA issued the British pound sterling Evidences of Indebtedness, TVA entered into currency swap agreements to hedge against fluctuations in the U.S. dollar - British pound sterling currency exchange rate. For information with respect to TVA's Power Bonds and the Basic Resolution, see "Certain Provisions of the Basic Resolution."

The summaries herein of certain provisions of the TVA Act and the Resolutions do not purport to be complete and are qualified in their entirety by reference to all the provisions of the TVA Act and the Resolutions, copies of which may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401, Attention: Treasury and Investor Relations, by sending an e-mail to [investor@tva.com](mailto:investor@tva.com), or by calling 1-888-882-4975.

The Bonds will be Power Bonds as defined above and will be payable as to both principal and interest solely from TVA's Net Power Proceeds, which are defined as the remainder of TVA's Gross Power Revenues (as defined in the Basic Resolution) after deducting the costs of operating, maintaining, and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and payments to states and counties in lieu of taxes, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds of the sale or other disposition of any Power Facility (as defined in the Basic Resolution) or interest therein. The TVA Act also requires TVA to make certain payments to the U.S. Treasury

each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment (as defined in the Basic Resolution). See “Certain Provisions of the Basic Resolution.”

The Bonds rank equally as to the application of Net Power Proceeds with all other Power Bonds and all other outstanding Evidences of Indebtedness. For a further discussion of the application of Net Power Proceeds, see “Certain Provisions of the Basic Resolution.”

There is no limit on other indebtedness or securities that may be issued by TVA and no financial or similar restrictions on TVA exist, except, in each case, as provided under the TVA Act, the Basic Resolution, and the Supplemental Resolution. TVA issues its Discount Notes (as described in the Annual Report) pursuant to Section 15d of the TVA Act and in accordance with Section 2.5 of the Basic Resolution. TVA may also issue other indebtedness in addition to Power Bonds and Discount Notes. Other indebtedness is issued pursuant to Section 15d of the TVA Act and under appropriate authorizing resolutions. See “Certain Provisions of the Basic Resolution.”

In accordance with Public Law No. 105-62, enacted in 1997, TVA is required, in the absence of sufficient appropriations, to fund nonpower programs and the nonpower portion of multiple-purpose facilities that constitute “essential stewardship activities” with revenues derived from one or more of various sources, including power program revenues, notwithstanding provisions of the TVA Act and Resolutions to the contrary. Under the Supplemental Resolution, actions taken pursuant to Public Law No. 105-62 shall not be considered an event of default or breach under the Resolutions.

### **Possible Future Issuances**

Additional Bonds may be issued in one or more future installments without the consent of Holders of the Bonds. The aggregate principal amount of such future installments, together with all previously issued Bonds, may exceed the aggregate limit set forth in the Supplemental Resolution. Additional Bonds so issued shall be identical in all respects to the Bonds offered hereby (except for any appropriate related changes, including changes in the issue date, issue price, redemption provisions, and interest commencement date).

### **Payment of Principal and Interest**

The Bonds will consist of \$22,409,000 aggregate principal amount of 2.25% Tennessee Valley Authority Power Bonds 2009 Series A Due November 15, 2015 and \$469,454,000 aggregate principal amount of 3.77% Tennessee Valley Authority Power Bonds 2009 Series B Due June 15, 2034. Each date on which a series of Bonds becomes due is referred to herein as a “Maturity Date.” The Bonds will be issued in minimum denominations of \$1,000.00 and integral multiples of \$1.00 in excess thereof in book-entry form only through DTC as described below under “Book-Entry System.” Interest will be payable semiannually in arrears on (1) each May 15 and November 15, commencing May 15, 2009 for the 2009 Series A Bonds and (2) each June 15 and December 15, commencing June 15, 2009 for the 2009 Series B Bonds (each such May 15, June 15, November 15, and December 15, an “Interest Payment Date”). Such interest payments will include any interest accrued from and including February 13, 2009, or the preceding Interest Payment Date, as the case may be, to but excluding the relevant Interest Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.

TVA will make payments of principal and interest on the Bonds on the applicable payment dates to Holders as of the close of business on the Business Day (as defined herein) preceding such payment dates. As long as the Bonds are in book-entry form, the Holder will be DTC, its nominee, a successor securities depository, or its nominee. Direct Participants in DTC’s book-entry system and other financial intermediaries in the chain to the beneficial owner will have the responsibility of remitting payments for the accounts of their customers.

In any case in which an Interest Payment Date, a Redemption Date (as defined herein), or a Maturity Date is not a Business Day, payment of principal or interest, as the case may be, by TVA to the Holders shall be made on the next succeeding Business Day with the same force and effect as if made on the Interest Payment Date, Redemption Date, or Maturity Date. The term “Business Day” shall mean any day other than a Saturday or Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to be closed.

### **Redemption of Bonds by TVA**

TVA will redeem (1) a portion of the 2009 Series A Bonds on each May 15 and November 15 from May 15, 2009, to and including November 15, 2015, and (2) a portion of the 2009 Series B Bonds on each June 15 and December 15 from June 15, 2009, to and including June 15, 2034 (each such May 15, June 15, November 15, and December 15, a “Redemption Date”). The portion of the 2009 Series A Bonds and the 2009 Series B Bonds that TVA will redeem on each Redemption Date is set forth under the heading “Amortization Amount” in the Amortization Schedules set forth in

Annex I and Annex II, respectively.

The Bonds are not entitled to the benefit of any sinking fund, and no notice will be given to the holders of the Bonds prior to any Redemption Date. TVA will select by lot the Bonds of each respective series to be redeemed. Beneficial Owners' interests in the Bonds may be selected for redemption based on the procedures of the participants in DTC through with they hold such interests in the Bonds. See "Book-Entry System" below.

### **Book-Entry System**

DTC, New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificated bond will be issued for the 2009 Series A Bonds, in the aggregate principal amount of such issue, and one fully-registered certificated bond will be issued for the 2009 Series B Bonds, in the aggregate principal amount of such issue (together, the "Global Securities"). The Global Securities will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Direct and Indirect Participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial

Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has

agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Direct Participants may have in place their own procedures for determining the interests of the Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to TVA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal payments, interest payments, and redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct or Indirect Participant and not of DTC or TVA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of TVA, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to TVA. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

TVA may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that TVA believes to be reliable, but TVA takes no responsibility for the accuracy thereof.

#### **Discontinuance of Book-Entry System**

If use of the book-entry system is discontinued and no successor depository is selected by TVA, the provisions of this section shall apply.

DTC (or a successor depository) shall instruct TVA in whose name the Bonds should be registered, and TVA will register the Bonds accordingly. Registration instructions are expected to be based on information that Direct Participants provide DTC regarding beneficial interests in the Global Securities.

After the initial registration, registration of transfer or exchange of certificates representing the Bonds may be made at the office of TVA or a securities registrar appointed by TVA (a "Registrar") in the Borough of Manhattan, City of New York. Neither TVA nor any Registrar will impose any service charge for registration of transfer or exchange of certificates representing Bonds. TVA may, however, require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the register of transfer or exchange of Bonds.

TVA will make payment of principal of and interest on the Bonds at the office or agency of TVA maintained for this purpose in the Borough of Manhattan, City of New York. TVA may, however, at its option, pay interest by check mailed to the address of each Beneficial Owner that appears in the register maintained by TVA or a Registrar or by electronically transferring funds to the Beneficial Owner.

TVA will establish appropriate procedures for Beneficial Owners to return their Bonds to TVA in the event that Beneficial Owners are entitled to return their Bonds to TVA. TVA will notify Beneficial Owners who appear in the register maintained by TVA or a Registrar of these procedures at the time the book-entry system is discontinued.

## **Governing Law**

The Bonds shall be governed by and construed in accordance with the laws of the State of New York, to the extent such laws are not inconsistent with U.S. federal law. Any litigation regarding the Bonds would have to be brought in a court with competent venue and jurisdiction.

## **Notices**

All notices and other communications regarding the Bonds will be delivered in writing to the Holder. If at the time of such notice the Bonds are represented by a Global Security, such notice shall be delivered to DTC or to the successor depository. If at the time of such notice the Bonds are not represented by a Global Security, such notice shall be delivered to the registered holders of the Bonds.

## **Modification and Amendment**

TVA may modify or amend any of the terms or provisions of the Bonds in accordance with the provisions for such modifications and amendments contained in the Basic Resolution. See “Certain Provisions of the Basic Resolution” – “Modifications of Resolutions and Outstanding Bonds.”

## **CERTAIN PROVISIONS OF THE BASIC RESOLUTION**

*The following summary of certain provisions of the Basic Resolution is not complete and is qualified in its entirety by reference to the full text of the Basic Resolution.*

### **Application of Net Power Proceeds**

*Section 2.3 of the Basic Resolution provides as follows:*

Net Power Proceeds shall be applied, and the Corporation hereby specifically pledges them for application, first to payments due as interest on Bonds, on Bond Anticipation Obligations, and on any Evidences of Indebtedness issued pursuant to section 2.5 which rank on a parity with Bonds as to interest; to payments of the principal due on Bonds for the payment of which other provisions have not been made and on any Evidences of Indebtedness issued pursuant to section 2.5 which rank on a parity with Bonds as to principal and for the payment of which other provisions have not been made; and to meeting requirements of sinking funds or other analogous funds under any Supplemental Resolutions. The remaining Net Power Proceeds shall be used only for:

- (a) Required interest payments on any Evidences of Indebtedness issued pursuant to section 2.5 which do not rank on a parity with Bonds as to interest.
- (b) Required payments of or on account of principal of any Evidences of Indebtedness which do not rank on a parity with Bonds as to principal.
- (c) Minimum payments into the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment.
- (d) Investment in Power Assets, additional reductions of the Corporation’s capital obligations, and other lawful purposes related to the Power Program; provided, however, that payments into the United States Treasury in any fiscal year in reduction of the Appropriation Investment in addition to the minimum amounts required for such purpose by the Act may be made only if there is a net reduction during such year in the dollar amount of outstanding Evidences of Indebtedness issued for capital purposes, and only to such extent that the percentage of aggregate reduction in the Appropriation Investment during such year does not exceed the percentage of net reduction during the year in the dollar amount of outstanding Evidences of Indebtedness issued for capital purposes.

*Section 2.5 of the Basic Resolution provides as follows:*

To assist in financing its Power Program the Corporation may issue Evidences of Indebtedness other than Bonds and Bond Anticipation Obligations, which may be payable out of Net Power Proceeds subject to the provisions of section 2.3 hereof. Such other Evidences of Indebtedness may rank on parity with but shall not rank ahead of the Bonds as to payments on account of the principal thereof or the interest thereon.

## **Rate Covenant**

*Section 3.2 of the Basic Resolution provides as follows:*

The Corporation shall fix, maintain, and collect rates for power sufficient to meet in each fiscal year the requirements of that portion of the present subsection (f) of section 15d of the Act which reads as follows:

The Corporation shall charge rates for power which will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to States and counties in lieu of taxes; debt service on outstanding bonds, including provision and maintenance of reserve funds and other funds established in connection therewith; payments to the Treasury as a return on the Appropriation Investment pursuant to subsection (e) hereof; payment to the Treasury of the repayment sums specified in subsection (e) hereof; and such additional margin as the Board may consider desirable for investment in power system assets, retirement of outstanding bonds in advance of maturity, additional reduction of appropriation investment, and other purposes connected with the Corporation's power business, having due regard for the primary objectives of the Act, including the objective that power shall be sold at rates as low as are feasible.

For purposes of this Resolution, "debt service on outstanding bonds," as used in the above provision of the Act, shall mean for any fiscal year the sum of all amounts required to be (a) paid during such fiscal year as interest on Evidences of Indebtedness, (b) accumulated in such fiscal year in any sinking or other analogous fund provided for in connection with any Evidences of Indebtedness, and (c) paid in such fiscal year on account of the principal of any Evidences of Indebtedness for the payment of which funds will not be available from sinking or other analogous funds, from the proceeds of refunding issues, or from other sources; provided, however, that for purposes of clause (c) of this definition Bond Anticipation Obligations and renewals thereof shall be deemed to mature in the proportions and at the times provided for paying or setting aside funds for the payment of the principal of the authorized Bonds in anticipation of the issuance of which such Bond Anticipation Obligations were issued.

The rates for power fixed by the Corporation shall also be sufficient so that they would cover all requirements of the above-quoted provision of subsection (f) of section 15d of the Act as if, in such requirements, there were substituted for "debt service on outstanding bonds" for any fiscal year the amount which if applied annually for 35 years would retire, with interest at the rates applicable thereto, the originally issued amounts of all series of Bonds and other Evidences of Indebtedness, any part of which was outstanding on October 1 of such year.

Rates set by the Board are not subject to review or approval by any state or federal regulatory body. In a future restructured electric power industry, it is possible, however, that the ability of the TVA Board to set rates as specified in the TVA Act and the Basic Resolution could be adversely affected by legislative changes or by competitive pressures. See Item 1A, Risk Factors in the Annual Report.

## **Covenant for Protection of Bondholders' Investment**

Under the TVA Act and Section 3.3 of the Basic Resolution, TVA must, in successive five-year periods, use an amount of Net Power Proceeds at least equal to the sum of (1) depreciation accruals and other charges representing the amortization of capital expenditures and (2) the net proceeds from any disposition of power facilities for either (a) the reduction of its capital obligations (including Evidences of Indebtedness and the government's Appropriation Investment) or (b) investment in power assets. TVA must next meet this test for the five-year period ending September 30, 2010.

## **Modifications of Resolutions and Outstanding Power Bonds**

The Basic Resolution provides for amendments to it, to any Supplemental Resolution, and to any outstanding Power Bonds. Generally, TVA may make amendments to the respective rights and obligations of TVA and the bondholders with the written consent of the holders of at least 66 2/3 percent in principal amount of the outstanding Power Bonds to which the amendment applies. However, TVA may not make changes in the maturity of the principal of any Power Bond or any interest installment thereon or reduction in the principal amount, redemption premium, or rate of interest with respect to any Power Bond, or in the above percentage for any such consent, without the consent of the holder of such Power Bond.

Additionally, TVA may amend the Basic Resolution or any Supplemental Resolution without the consent of the bondholders in order (1) to close the Basic Resolution against the issuance of additional Power Bonds or to restrict such

issuance by imposing additional conditions or restrictions; (2) to add other covenants and agreements to be observed by TVA or to eliminate any right, power, or privilege conferred upon TVA by the Basic Resolution; (3) to modify any provisions to release TVA from any of its obligations, covenants, agreements, limitations, conditions, or restrictions, provided that such modification or release shall not become effective with respect to any Power Bonds issued prior to the adoption of such amendment; (4) to correct any defect, ambiguity, or inconsistency in, or to make provisions in regard to matters or questions arising under, the Basic Resolution or any Supplemental Resolution, so long as such amendments are not contrary to, or inconsistent with, the Basic Resolution or such Supplemental Resolution; or (5) to make any other modification or amendment which the Board by resolution determines will not materially and adversely affect the interests of holders of the Power Bonds; provided, however, that no such amendatory resolution shall be deemed to waive or modify any restriction or obligation imposed by the Basic Resolution or any Supplemental Resolution upon TVA in respect of, or for the benefit of, any of the then outstanding Power Bonds.

#### **Events of Default**

Any of the following shall be deemed an Event of Default (as defined in the Basic Resolution) under the Basic Resolution: (1) default in the payment of the principal or redemption price of any Power Bond when due and payable at maturity, by call for redemption or otherwise; (2) default in the payment of any installment of interest on any Power Bond when due and payable for more than 30 days; or (3) failure of TVA to duly perform any other covenant, condition, or agreement contained in the Power Bonds or in the Basic Resolution or any Supplemental Resolution for 90 days after written notice specifying such failure has been given to TVA by the holders of at least five percent in aggregate principal amount of the then-outstanding Power Bonds.

Upon any such Event of Default, the holders of the Power Bonds may proceed to protect and enforce their respective rights, subject to the restrictions described below. The holders of at least five percent in aggregate principal amount of Power Bonds then outstanding shall, subject to certain restrictions, have the right and power to institute a proceeding (1) to enforce TVA's covenants and agreements, (2) to enjoin any acts in violation of the rights of holders of Power Bonds, and (3) to protect and enforce the rights of holders of Power Bonds. Such holders have no right to bring any such action or proceeding against TVA unless they have given TVA written notice of an Event of Default and TVA has had a reasonable opportunity to take appropriate corrective action with respect thereto and has failed or refused to do so. Power Bonds do not provide for acceleration upon an Event of Default.

Holders of a majority in aggregate principal amount of the outstanding Power Bonds have the right to direct the time, method, and place of conducting any proceeding for any remedy available and may waive any default and its consequences, except a default in the payment of the principal of or redemption premium, if any, or interest on any Power Bonds.

#### **LEGALITY OF INVESTMENT**

Each person or entity is advised to consult with its own counsel with respect to the legality of investment in the Bonds. Generally the following describes the legality of investment in the United States in Power Bonds in their fully constituted form.

Power Bonds are lawful investments and may be accepted as security for all fiduciary, trust and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America. 16 U.S.C. § 831n-4(d).

Power Bonds are acceptable as collateral for U.S. Treasury tax and loan accounts pursuant to 31 C.F.R. § 203.21(d) and 31 C.F.R. § 380.3.

U.S. national banks may deal in, underwrite and purchase Power Bonds for their own accounts in an amount not to exceed 10 percent of unimpaired capital and surplus. 12 U.S.C. § 24, seventh paragraph.

U.S. Federal Reserve Banks may accept Power Bonds as eligible collateral for advances to member banks. 12 U.S.C. § 347 and 12 C.F.R. § 201.108(b)(13).

U.S. federal savings associations and U.S. federal savings banks may, to the extent specified in applicable regulations, invest in Power Bonds without regard to limitations generally applicable to investments. 12 U.S.C. § 1464(c)(1)(F).

Power Bonds are eligible as collateral for advances by U.S. Federal Home Loan Banks to members for which Power Bonds are legal investments. 12 U.S.C. § 1430(a) and 12 C.F.R. § 950.7(a)(2).

U.S. federal credit unions may purchase Power Bonds, subject to applicable regulations. 12 U.S.C. § 1757(7)(E) and 12 C.F.R. Part 703.

Power Bonds are “obligations of a corporation which is an instrumentality of the United States” within the meaning of Section 7701(a)(19)(C)(ii) of the Internal Revenue Code for purposes of the 60 percent of assets limitation applicable to U.S. building and loan associations.

## TAX MATTERS

**The following discussion of United States tax matters was written to support the promotion and marketing of the Bonds and was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding United States federal income tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer’s particular circumstances from an independent tax advisor.**

The following summary of certain United States federal income and estate tax and certain limited state and local tax consequences (where specifically noted) of the purchase, ownership, and disposition of the Bonds has been prepared by Orrick, Herrington & Sutcliffe LLP, as special U.S. tax counsel to TVA, and is based upon laws, regulations, rulings, and decisions, which are subject to change at any time, possibly with retroactive effect. The discussion does not address all aspects of United States federal income and estate taxation that may be relevant to a particular investor in light of its personal investment circumstances or to certain types of investors subject to special treatment under the United States federal income tax laws (for example, brokers, security dealers, traders in securities that elect to mark to market, banks, expatriates, life insurance companies, tax-exempt organizations, and, with limited exceptions, foreign investors), and generally does not address state and local taxation. Further, the discussion is limited to persons who will hold the Bonds as capital assets and does not deal with United States federal income tax consequences applicable to persons who will hold the Bonds in the ordinary course or as an integral part of their trade or business, or as part of a hedging, straddle, integrated or conversion transaction or persons whose functional currency is not the U.S. dollar. Furthermore, it does not address alternative minimum tax consequences or the indirect effects on the holders of equity interests in a Bond holder. Each prospective owner of a Bond is urged to consult with its own tax advisor with respect to the United States federal, state, and local tax consequences associated with the purchase, ownership, and disposition of a Bond, as well as the tax consequences arising under the laws of any other taxing jurisdiction, and may not construe the following discussion as legal advice. In this regard, it should be noted that the Bonds are not subject to redemption by reason of the imposition of withholding or other tax by any jurisdiction, and TVA has no obligation to pay additional interest or other amounts if any withholding or other tax is imposed on payments on the Bonds (including any withholding tax that may be imposed as a result of a failure to provide an applicable United States Internal Revenue Service form).

For purposes of this subsection, “U.S. Person” means a citizen or resident of the United States, a corporation organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is includible in gross income for United States tax purposes regardless of its source, or a trust if a United States court is able to exercise primary supervision over administration of the trust and one or more U.S. Persons have authority to control all substantial decisions of the trust. The term “U.S. beneficial owner” means a U.S. Person that is a beneficial owner of a Bond and any other person which is a beneficial owner of a Bond that is otherwise subject to United States federal income taxation on a net basis in respect of income attributable to a Bond. If a partnership holds the Bonds, the United States federal income tax treatment of a partner will generally depend on the status of the partner as a U.S. Person or non-U.S. Person and the tax treatment of the partnership. Partners of partnerships that hold Bonds should consult their own tax advisors regarding the tax consequences applicable to their indirect ownership of the Bonds and their status as U.S. beneficial owners or non-U.S. beneficial owners.

### *U.S. Beneficial Owners*

A U.S. beneficial owner is subject to federal income taxation on income on a Bond. The TVA Act, however, provides that bonds issued by TVA are “exempt both as to principal and interest from all taxation now or hereafter imposed by any State or local taxing authority except estate, inheritance and gift taxes.” This exemption might not extend to franchise or other nonproperty taxes in lieu thereof imposed on corporations or to gain or loss realized upon the sale or exchange of a Bond, notwithstanding that such gain might in some cases be treated as interest income for United States federal income tax purposes.

Interest on a Bond will be taxable to a U.S. beneficial owner at the time that it is received or accrued, depending upon the U.S. beneficial owner’s method of accounting for United States federal income tax purposes. The Bonds are not exempt from United States federal income, estate, or gift tax.

Upon a sale or exchange of a Bond (including a redemption), a U.S. beneficial owner generally will recognize capital gain or loss (subject to the exception for certain Bonds acquired at a market discount, as discussed in the following paragraph) in an amount equal to the difference between the amount realized on the sale or exchange (not

including any amounts attributable to accrued and unpaid interest) and the U.S. beneficial owner's adjusted basis for the Bond for federal income tax purposes.

If a U.S. beneficial owner purchases a Bond for less than its stated redemption price at maturity, in general, that difference will be market discount (unless the discount is less than  $\frac{1}{4}$  of 1 percent of the stated redemption price at maturity of the Bond multiplied by the number of complete years remaining to maturity). In general, under the market discount rules, unless the U.S. beneficial owner elects to include market discount in income currently, any gain on a disposition of a market discount Bond will be ordinary income to the extent of accrued market discount, and deductions for some or all of the interest on any indebtedness incurred or continued to purchase or carry the Bond may be deferred until the disposition of the Bond. Generally, any election to include market discount in income currently applies to all debt instruments acquired by the electing U.S. beneficial owner during or after the first taxable year to which the election applies and is irrevocable without the consent of the United States Internal Revenue Service. A U.S. beneficial owner should consult a tax advisor before making the election.

A U.S. beneficial owner who purchases a Bond for an amount greater than the amount payable at maturity of the Bond may elect to treat the excess as amortizable bond premium. In the case of a U.S. beneficial owner that makes an election to amortize bond premium or has previously made an election that remains in effect, amortizable bond premium on the Bond generally will be treated as a reduction of the interest income on a Bond on a constant-yield basis (except to the extent regulations may provide otherwise) over the term of the Bond. The basis of a debt obligation purchased at a premium is reduced by the amount of amortized bond premium. An election to amortize bond premium generally applies to all debt instruments (other than tax-exempt obligations) held by the electing U.S. beneficial owner on the first day of the first taxable year to which the election applies or thereafter acquired by such owner, and is irrevocable without consent of the United States Internal Revenue Service. A U.S. beneficial owner should consult a tax advisor before making the election.

A U.S. beneficial owner may elect to include in gross income all interest that accrues on a debt instrument using the constant-yield method. For purposes of this election, interest includes stated interest, original issue discount ("OID"), de minimis OID, market discount and de minimis market discount, as adjusted by any amortizable bond premium or acquisition premium. If this election is made with respect to a debt instrument with amortizable bond premium, the electing U.S. beneficial owner will be deemed to have elected to apply amortizable bond premium against interest with respect to all debt instruments with amortizable bond premium (other than debt instruments the interest on which is excludible from gross income) held by the electing U.S. beneficial owner as of the beginning of the taxable year in which the debt instrument with respect to which the election is made is acquired or thereafter acquired. The deemed election with respect to amortizable bond premium may not be revoked without the consent of the United States Internal Revenue Service. If this election is made with respect to a debt instrument with market discount, the electing U.S. beneficial owner will be deemed to have elected to include market discount in income currently (as discussed above) with respect to all debt instruments acquired by the electing U.S. beneficial owner during or after the first taxable year to which the election applies, which election may not be revoked without the consent of the United States Internal Revenue Service.

#### *Non-U.S. Beneficial Owners*

Generally, a Bond holder that is not a U.S. Person and that has no connection with the United States other than holding the Bond (a "non-U.S. beneficial owner") will not be subject to United States federal withholding tax on interest paid by TVA on a Bond provided that the last U.S. Person in the chain of payment prior to payment to the non-U.S. beneficial owner has received in the year in which the payment occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner under penalties of perjury, (ii) certifies that such owner is not a U.S. beneficial owner and (iii) provides the name and address of the beneficial owner. The statement may be made on a United States Internal Revenue Service Form W-8BEN or, in the case of certain non-U.S. beneficial owners, Form W-8EXP (collectively, "Form W-8") or substantially similar substitute form, and the beneficial owner must inform the withholding agent of any change in the information on the statement within 30 days of such change. In certain circumstances, the above-described certification can be provided by a securities clearing organization or by certain other financial institutions and qualified intermediaries provided that the non-U.S. beneficial owner of the Bond has provided such entity with the appropriate certification or documentation establishing its foreign status. Additionally, in the case of Bonds held by a foreign partnership (a) the certification described above must be provided by the partners rather than by the foreign partnership and (b) the partnership must provide certain information.

Generally, any amount which constitutes capital gain to a non-U.S. beneficial owner upon retirement or disposition of a Bond (including a redemption) will not be subject to U.S. federal income taxation. Certain exceptions may be applicable and individual non-U.S. beneficial owners are particularly urged to consult a tax advisor. Generally, the Bonds will not be includible in the U.S. federal estate of a non-U.S. beneficial owner.

### *Backup Withholding*

Backup withholding of United States federal income tax, currently at a rate of 28 percent, may apply to payments made in respect of the Bonds to beneficial owners who are not exempt recipients and who fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the manner required. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the Bonds to a U.S. beneficial owner must be reported to the United States Internal Revenue Service, unless such U.S. beneficial owner is an exempt recipient or establishes an exemption. Compliance with the identification procedures (described in the preceding section) would generally establish an exemption from backup withholding for those non-U.S. beneficial owners who are not exempt recipients.

In addition, upon the sale of a Bond to (or through) a broker, the broker must withhold a percentage of the gross sales proceeds (currently 28 percent), unless either (i) the broker determines that the seller is a corporation or other exempt recipient or (ii) the seller provides, in the required manner, certain identifying information and, in the case of a non-U.S. beneficial owner, certifies that such seller is a non-U.S. beneficial owner (and certain other conditions are met). Such a sale must also be reported by the broker to the United States Internal Revenue Service, unless either (i) the broker determines that the seller is an exempt recipient or (ii) the seller certifies its non-U.S. status (and certain other conditions are met). Certification of the beneficial owner's non-U.S. status usually would be made on Form W-8 under penalties of perjury, although in certain cases it may be possible to submit other documentary evidence. The term "broker" generally includes all persons who, in the ordinary course of a trade or business, stand ready to effect sales made by others, as well as brokers and dealers registered as such under the laws of the United States or a state. These requirements generally will apply to a United States office of a broker, and the information reporting requirements generally will apply to a foreign office of a United States broker, as well as to a foreign office of a foreign broker if the broker is (i) a controlled foreign corporation within the meaning of Section 957(a) of the Internal Revenue Code, (ii) a foreign person 50 percent or more of whose gross income from all sources for the 3-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the foreign broker has been in existence) was effectively connected with the conduct of a trade or business within the United States or (iii) a foreign partnership if it is engaged in a trade or business in the United States or if 50 percent or more of its income or capital interests are held by U.S. Persons.

Generally, any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or credit against such beneficial owner's United States federal income tax.

## UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement dated February 9, 2009 (the “Underwriting Agreement”), relating to the Bonds, TVA has agreed to sell to Morgan Stanley & Co. Incorporated (the “Underwriter”), and the Underwriter has agreed to purchase, \$22,409,000 of 2009 Series A Bonds and \$469,454,000 of 2009 Series B Bonds. The Underwriting Agreement provides that the obligations of the Underwriter are subject to certain conditions precedent and that the Underwriter will be obligated to purchase all of the Bonds if any are purchased.

The Underwriter has advised TVA that it proposes to offer all or part of the Bonds directly to the public initially at the offering prices set forth on the cover page of this Offering Circular and may offer the Bonds to dealers at such prices less a concession not in excess of 0.30% of the principal amount thereof. The Underwriter may allow and such dealers may re-allow discounts not in excess of 0.15% of the principal amount of the Bonds to certain other dealers. After the initial offering, the public offering price and concession may be changed.

Purchasers of Bonds may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price set forth above.

All secondary trading in Bonds will settle in immediately available funds.

TVA has agreed to indemnify the Underwriter against certain civil liabilities.

The Underwriter and/or its affiliates have performed, and may in the future perform, services for TVA in the normal course of business.

It is expected that delivery of the Bonds will be made against payment therefor on or about the date specified in the last paragraph of the cover page of this Offering Circular, which will be the fourth Business Day following the date of pricing of the Bonds (such settlement cycle being herein referred to as “T + 4”). Trades in the secondary market generally are required to settle in three Business Days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Bonds on the date of pricing or the next Business Day will be required, by virtue of the fact that the Bonds initially will settle in T + 4, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Bonds who wish to trade Bonds on the date of pricing or the next Business Day should consult their own advisors.

## VALIDITY OF BONDS

The validity of the Bonds will be passed upon for TVA by either Maureen H. Dunn, Esq., Executive Vice President and General Counsel of TVA, or Michael L. Wills, Assistant General Counsel, Finance, for TVA and for the Underwriter by Orrick, Herrington & Sutcliffe LLP, 666 Fifth Avenue, New York, New York 10103.

\* \* \* \* \*

Any statements in this Offering Circular involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Offering Circular is not to be construed as a contract or agreement with the purchaser of any of the Bonds.

TENNESSEE VALLEY AUTHORITY

By: /s/ John M. Hoskins

John M. Hoskins  
Senior Vice President and Treasurer

Dated February 9, 2009

**ANNEX I**

**Amortization Schedule for 2009 Series A Bonds**

<b>Interest Payment Date</b>	<b>Principal Amount Remaining</b>	<b>Amortization Amount</b>
5/15/2009	22,409,000.00	1,639,178.00
11/15/2009	20,769,822.00	1,709,173.00
5/15/2010	19,060,649.00	1,535,324.00
11/15/2010	17,525,325.00	1,733,455.00
5/15/2011	15,791,870.00	1,547,320.00
11/15/2011	14,244,550.00	1,754,685.00
5/15/2012	12,489,865.00	1,557,192.00
11/15/2012	10,932,673.00	1,780,912.00
5/15/2013	9,151,761.00	1,568,336.00
11/15/2013	7,583,425.00	1,763,902.00
5/15/2014	5,819,523.00	1,573,133.00
11/15/2014	4,246,390.00	1,774,049.00
5/15/2015	2,472,341.00	905,131.00
11/15/2015	1,567,210.00	1,567,210.00

**ANNEX II**

**Amortization Schedule for 2009 Series B Bonds**

<b>Interest Payment Date</b>	<b>Principal Amount Remaining</b>	<b>Amortization Amount</b>
6/15/2009	469,454,000.00	18,992,721.00
12/15/2009	450,461,279.00	1,150,066.00
6/15/2010	449,311,213.00	1,171,745.00
12/15/2010	448,139,468.00	1,164,898.00
6/15/2011	446,974,570.00	1,186,856.00
12/15/2011	445,787,714.00	1,432,471.00
6/15/2012	444,355,243.00	1,227,307.00
12/15/2012	443,127,936.00	1,487,900.00
6/15/2013	441,640,036.00	1,277,293.00
12/15/2013	440,362,743.00	1,303,277.00
6/15/2014	439,059,466.00	24,869,828.00
12/15/2014	414,189,638.00	1,253,515.00
6/15/2015	412,936,123.00	25,503,811.00
12/15/2015	387,432,312.00	1,199,396.00
6/15/2016	386,232,916.00	26,270,338.00
12/15/2016	359,962,578.00	1,139,926.00
6/15/2017	358,822,652.00	27,032,247.00
12/15/2017	331,790,405.00	1,074,877.00
6/15/2018	330,715,528.00	27,852,638.00
12/15/2018	302,862,890.00	1,003,800.00
6/15/2019	301,859,090.00	28,711,055.00
12/15/2019	273,148,035.00	926,179.00
6/15/2020	272,221,856.00	26,753,638.00
12/15/2020	245,468,218.00	852,034.00
6/15/2021	244,616,184.00	27,531,428.00
12/15/2021	217,084,756.00	771,492.00
6/15/2022	216,313,264.00	27,632,701.00
12/15/2022	188,680,563.00	689,116.00
6/15/2023	187,991,447.00	28,352,939.00
12/15/2023	159,638,508.00	600,254.00
6/15/2024	159,038,254.00	21,380,735.00
12/15/2024	137,657,519.00	532,733.00
6/15/2025	137,124,786.00	21,554,442.00
12/15/2025	115,570,344.00	462,374.00
6/15/2026	115,107,970.00	19,728,590.00
12/15/2026	95,379,380.00	395,340.00
6/15/2027	94,984,040.00	20,077,792.00
12/15/2027	74,906,248.00	323,914.00
6/15/2028	74,582,334.00	15,620,020.00
12/15/2028	58,962,314.00	265,365.00
6/15/2029	58,696,949.00	11,826,200.00
12/15/2029	46,870,749.00	217,777.00
6/15/2030	46,652,972.00	12,114,382.00
12/15/2030	34,538,590.00	166,711.00
6/15/2031	34,371,879.00	12,412,353.00
12/15/2031	21,959,526.00	111,960.00
6/15/2032	21,847,566.00	11,664,071.00
12/15/2032	10,183,495.00	60,752.00
6/15/2033	10,122,743.00	4,991,898.00
12/15/2033	5,130,845.00	31,377.00
6/15/2034	5,099,468.00	5,099,468.00