

DISCOUNT NOTES OFFERING CIRCULAR

Tennessee Valley Authority

DISCOUNT NOTES

The Tennessee Valley Authority (“TVA” or the “Corporation”) is a wholly owned corporate agency and instrumentality of the United States of America. TVA issues Discount Notes pursuant to its authorization under the TVA Act of 1933, as amended, to issue evidences of indebtedness. The Discount Notes will have maturities of less than one year from their dates of issue. They will be sold at a discount, in book-entry form only, in principal amounts of \$100,000 and additional integral multiples of \$1,000. TVA will pay the principal amount of the Discount Notes solely from its Net Power Proceeds as herein defined (but may, at its option, make payment from the proceeds of refunding obligations or other funds legally available for this payment).

TVA will offer the Discount Notes for sale on a periodic basis to a group of investment dealers and dealer banks (the “Selling Group”) selected by TVA. TVA may also sell original issue Discount Notes to any member of the Selling Group acting as principal. You may obtain current quotations for Discount Notes of varying maturities by contacting any Selling Group member. You may obtain a list of current Selling Group members by writing, calling, or e-mailing TVA at the address set forth under “Where You Can Find More Information.” For a list of the Selling Group members as of the date hereof, see “Selling Group.”

You should read this Discount Notes Offering Circular, as it may be amended or supplemented, together with the relevant Short-Term Debt Certificate (as described herein) and the annual, quarterly, and current reports that TVA has filed or will file with the Securities and Exchange Commission (“SEC”) (collectively, the “Offering Documents”). See “Where You Can Find More Information” for more information about TVA’s SEC’s 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 Discount Notes 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 Discount Notes described herein shall under any circumstances create an implication that the information provided in any Offering Document 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 Discount Notes Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy the Discount Notes described herein in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The Discount Notes are not obligations of the United States of America, and it does not guarantee payments on the Discount Notes. TVA is not required under the Securities Act of 1933 to register the Discount Notes with the SEC. TVA files annual reports, quarterly reports, and current reports with the SEC under the Securities Exchange Act of 1934.

Discount Notes Offering Circular Dated December 18, 2009

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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 web site at www.sec.gov and at TVA's website at www.tva.gov. Information contained on TVA's website shall not be deemed to be incorporated into, or to be a part of, this Discount Notes Offering Circular except to the extent otherwise expressly incorporated herein.

TVA incorporates by reference into this Discount Notes 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 Discount Notes Offering Circular, and information that TVA subsequently files with the SEC will automatically update and, where different, supersede the information in this Discount Notes Offering Circular and in TVA's other SEC filings. Nothing in this Discount Notes Offering Circular shall be deemed to incorporate information furnished to, but not filed with, the SEC, including information furnished pursuant to Item 2.02 or Item 7.01 of Form 8-K and corresponding information furnished under Item 9.01 of Form 8-K or included as an exhibit to such Form 8-K.

TVA is incorporating by reference into this Discount Notes Offering Circular TVA's annual report on Form 10-K for the year ended September 30, 2009 (the "Annual Report"), and TVA's current report on Form 8-K filed on December 4, 2009, as well as any future filings that TVA makes with the SEC under Section 37 of the Securities Exchange Act of 1934.

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

Tennessee Valley Authority
400 West Summit Hill Drive
Knoxville, TN 37902-1401
Attention: Investor Relations
E-mail: Investor@tva.com
Telephone:
1-888-882-4975 (toll-free in the United States)
1-888-882-4967 (toll-free outside the United States)

FORWARD-LOOKING STATEMENTS

This Offering Circular contains or incorporates by reference 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.

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 or changed laws, regulations, and administrative orders, including those related to environmental matters, and the costs of complying with these new or changed, as well as existing, laws, regulations, and administrative orders;
- Unplanned contributions to TVA’s pension or other post-retirement benefit plans or to TVA’s nuclear decommissioning trust;
- Significant delays or cost overruns associated with the cleanup and recovery activities associated with the ash spill at TVA’s Kingston Fossil Plant (“Kingston”) or in construction of generation and transmission assets;
- Fines, penalties, and settlements associated with the Kingston ash spill;
- The outcome of legal and administrative proceedings, including, but not limited to, proceedings involving the Kingston ash spill and the North Carolina public nuisance case;
- Significant changes in demand for electricity;
- Loss of customers;
- The performance or failure of TVA’s generation, transmission, and related assets (including facilities such as coal combustion product facilities);
- 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 and disruption of purchased power supplies;
- Events at transmission lines and other facilities not operated by TVA, including those that affect the supply of water to TVA’s generation facilities;
- Inability to obtain regulatory approval for the construction of generation assets;
- Weather conditions;
- Events at a nuclear facility, even one that is not operated by or licensed to TVA;

- Catastrophic events such as fires, earthquakes, solar events, floods, tornadoes, pandemics, wars, terrorist activities, and other similar events, especially if these events occur in or near TVA's service area;
- Reliability and creditworthiness of 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 market price of equity securities, debt securities, and other investments;
- Changes in interest rates, currency exchange rates, and inflation rates;
- Rising pension costs and health care costs;
- Increases in TVA's financial liability for decommissioning its nuclear facilities and retiring other assets;
- Changes in the market for TVA's debt, changes in TVA's credit rating, or limitations on TVA's ability to borrow money;
- Changes and volatility in the economy and financial markets;
- Inability to eliminate identified deficiencies in TVA's systems, standards, controls, and corporate culture;
- Ineffectiveness of TVA's disclosure controls and procedures and its internal control over financial reporting;
- Changes in accounting standards, including any change that would eliminate TVA's ability to use regulatory accounting;
- Problems attracting and retaining a qualified workforce;
- Changes in technology;
- Differences between estimates of revenues and expenses and actual revenues and expenses incurred; 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.

Discount Notes Offering Circular Summary

Because this is a summary, it does not contain all the information that may be important to you. You should carefully read the entire Discount Notes Offering Circular together with TVA's SEC filings incorporated herein and the relevant Short-Term Debt Certificate.

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.
Discount Notes.....	TVA offers the Discount Notes on a discounted basis, in book-entry form only, with maturities of less than one year and in principal amounts of \$100,000 and additional integral multiples of \$1,000. See "Description of the Discount Notes" - "General."
Offering Procedure.....	TVA offers the Discount Notes on a periodic basis for sale to Selling Group members selected by TVA. See "Description of the Discount Notes" - "Distribution Arrangements."
Fiscal Agent.....	The Federal Reserve Banks will act as TVA's fiscal agent.
Form of Discount Notes.....	The Discount Notes will be issued and maintained only on the book-entry system of the Federal Reserve Banks. The Discount Notes may be held of record and transferred only by entities eligible to maintain book-entry accounts on that system (these entities being referred to as "Holders"). Unless you are a Holder, you must hold your Discount Notes indirectly through a financial intermediary. See "Description of the Discount Notes" - "Book-Entry System."
Use of Proceeds.....	TVA will use the net proceeds from the sale of the Discount Notes to assist in financing its power program, including refinancing power program debt.
Source of Payment.....	TVA will pay the principal amount of the Discount Notes solely from its Net Power Proceeds (but may, at its option, make payment from the proceeds of refunding obligations or other funds legally available for this payment). The Discount Notes are not obligations of or guaranteed by the United States. See "Description of the Discount Notes" - "Debt Service."
Legality of Investment.....	The laws of some jurisdictions limit the type and amount of securities that certain institutional investors may acquire. You should consult with

your own counsel regarding the legality of investment in the Discount Notes. Generally, Discount Notes are:

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

See “Legality of Investment.”

Taxation.....

Discount Notes are subject to various tax consequences. See “Tax Matters.”

TENNESSEE VALLEY AUTHORITY

TVA is a wholly-owned corporate agency and instrumentality of the United States. TVA was created by the U.S. Congress in 1933 by virtue of the Tennessee Valley Authority Act of 1933, *as amended*, 16 U.S.C. §§ 831-831ee (as amended, the “TVA Act”). 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.

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. TVA’s power system operations, however, constitute the majority of its activities and provide virtually all of its revenues.

USE OF PROCEEDS

TVA will use the net proceeds from the sale of the Discount Notes to assist in financing its power program, including refinancing power program debt.

DESCRIPTION OF THE DISCOUNT NOTES

General

TVA offers the Discount Notes, which have maturities of less than one year, on a periodic basis. TVA issues the Discount Notes in principal amounts of \$100,000 and additional integral multiples of \$1,000. On a daily basis, TVA establishes the maturities of the Discount Notes and the purchase prices for Discount Notes of varying maturities. You may obtain information with respect to the maturities available and current prices from members of the Selling Group to whom TVA offers the Discount Notes. See “Distribution Arrangements.” TVA sells the Discount Notes on a discounted basis. The purchase price of a Discount Note will be the difference between the principal amount of the Discount Note and the number derived from the following formula:

$$\frac{\text{Principal Amount of Discount Note} \times \text{Percentage of Discount}}{\text{Number of Days Between Issue Date and Maturity Date of Discount Note} \div 360 \text{ days}} \times \text{X}$$

Issuance Authority

The TVA Act authorizes TVA to issue and sell bonds, notes (including Discount 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. The aggregate amount of Evidences of Indebtedness at any one time outstanding is limited to \$30 billion by the TVA Act.

TVA issues the Discount Notes pursuant to Section 15d of the TVA Act and pursuant to Section 2.5 of 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”) and the

resolution authorizing the issuance of certain short-term debt adopted on January 23, 1991, as amended on February 17, 1993, May 9, 1994, and October 16, 1998 (the “Resolution” and together with the Basic Resolution, the “Resolutions”). The Resolution authorizes the issuance of short-term debt not to exceed \$6.5 billion at any one time outstanding through the use of the book-entry system of the Federal Reserve Banks. The Discount Notes shall be in the form and upon the terms and conditions as deemed appropriate by TVA’s Chief Financial Officer, or duly authorized representatives, and set forth in a Short-Term Debt Certificate as provided for under the Resolution. TVA has entered into a Fiscal Agency Agreement dated as of October 7, 1997 (the “Fiscal Agency Agreement”), with the Federal Reserve Banks, as fiscal agents (together, the “Fiscal Agent”).

The summaries herein of certain provisions of the TVA Act, the Resolutions, and the Fiscal Agency Agreement are not complete and are qualified in their entirety by reference to all the provisions of the TVA Act, the Resolutions, and the Fiscal Agency Agreement. You may obtain copies of these documents upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401, Attention: Investor Relations, or by calling 1-888-882-4975 (toll-free in the United States) or 1-888-882-4967 (toll-free outside the United States) or e-mailing investor@tva.gov.

Debt Service

TVA will pay the principal amount of the Discount Notes and other Evidences of Indebtedness solely from its Net Power Proceeds (but may, at its option, make payment from the proceeds of refunding obligations or other funds legally available for this payment). “Net Power Proceeds” are the remainder of TVA’s gross revenues from its power program,

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 interest in TVA’s power properties that constitute an operating unit or system.

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 to the application of Net Power Proceeds, the payment of Discount Notes ranks on parity with the payment of the principle of and the interest on bonds issued by TVA under Section 2.2 of the Basic Resolution (“Power Bonds” or “Bonds”). There is no limit on other indebtedness or securities TVA may issue and no financial or similar restrictions on TVA, except as provided under the TVA Act, the Basic Resolution, and the Resolution. See “Certain Provisions of the Basic Resolution” - “Application of Net Power Proceeds.”

Payment of Principal Amount

Payment of the Discount Notes is due in full on each respective maturity date. TVA will make payments on the applicable payment dates to Holders (as defined in “Book-Entry System”) of the Discount Notes that are Holders as of the close of business on the Business Day, as defined below, preceding the

payment dates, by credit of the payment amount to the Holders' accounts at the Federal Reserve Banks. The Holder and each other financial intermediary in the chain to the beneficial owner are responsible for remitting payments for the account of their customers.

In any case in which the maturity date is not a Business Day, TVA will make payment of the Discount Notes on the next succeeding Business Day with the same force and effect as if made on the maturity date. The term "Business Day" means 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.

Book-Entry System

Pursuant to the Fiscal Agency Agreement, the Discount Notes will be issued and maintained and will be transferred only on the book-entry system of the Federal Reserve Banks in principal amounts of \$100,000 and additional integral multiples of \$1,000. The Federal Reserve Banks will maintain book-entry accounts for the Discount Notes and make payments of the principal amount of the Discount Notes to Holders on behalf of TVA. The Federal Reserve Banks will make these payments by crediting Holders' Federal Reserve Bank accounts. You may not have Discount Notes exchanged for definitive securities.

Regulations governing the use of the book-entry system for the Discount Notes are contained in 18 C.F.R. Part 1314. These regulations relate primarily to the registration, transfer, exchange, and pledge of the Discount Notes. Applicable Federal Reserve Bank operating circulars govern the accounts of the Holders. Applicable Federal Reserve Bank operating circulars, TVA's book-entry regulations, and any other applicable federal book-entry regulations exclusively govern the Federal Reserve Banks' handling of, and rights, duties, and obligations with respect to, the Discount Notes notwithstanding inconsistent procedures or requirements of any depository or exchange.

Only entities eligible to maintain book-entry accounts with the Federal Reserve Banks may be record holders of the Discount Notes. "Holders" are those entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts Discount Notes have been deposited. Though beneficial owners of Discount Notes may be Holders, Holders are typically large financial institutions such as the members of the Selling Group; accordingly, beneficial owners will ordinarily hold Discount Notes indirectly through members of the Selling Group or through other financial intermediaries such as banks, brokerage firms, and securities clearing organizations. Holders and other financial intermediaries in the chain to beneficial owners will be responsible for establishing and maintaining accounts of their respective customers. A beneficial owner of a Discount Note may exercise its rights respecting TVA and the Federal Reserve Banks only through the Holder. TVA and the Federal Reserve Banks will have no obligation to a beneficial owner of a Discount Note that is not also the Holder except as may be required by law. The Federal Reserve Banks will act only upon the instructions of Holders in recording transfers of Discount Notes.

Distribution Arrangements

TVA offers the Discount Notes on a periodic basis for sale to Selling Group members selected by TVA. The sales may be held on a daily basis and there may be more than one sale on a given day. You may obtain current quotations for Discount Notes of varying maturities by contacting any member eligible to participate in the sale of Discount Notes. Each eligible member has entered into a Selling Group Agreement with TVA establishing the terms and conditions for resale of the Discount Notes, and each member has agreed to use its best efforts to maintain a secondary market in the Discount Notes; however, any member may cancel its Selling Group Agreement with TVA upon written notice to TVA. You may obtain a list of current members of the Selling Group upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401, Attention: Investor Relations, or by calling 1-888-882-4975 (toll-free in the United States) or 1-888-882-4967 (toll-free outside the United States) or e-mailing investor@tva.gov. For a list of the Selling Group members as of the date hereof, see "Selling Group."

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 TVA 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.

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 Appropriation Investment) or (b) investment in power assets.

Public Law No. 105-62

In accordance with Public Law No. 105-62, enacted in 1997, TVA is required, in the absence of sufficient appropriations, to fund nonpower programs that constitute "essential stewardship activities" with revenues derived from one or more of various sources, including power revenues, notwithstanding provisions of the TVA Act and the Basic Resolution to the contrary. The terms of the Short-Term Debt Certificates provide that actions taken pursuant to Public Law No. 105-62 shall not be considered an event of default or breach under the Resolutions.

LEGALITY OF INVESTMENT

The laws of some jurisdictions limit the type and amount of securities that certain institutional investors may acquire. You should consult with your own counsel regarding the legality of investment in the Discount Notes. The following generally describes the legality of investment in Discount Notes.

- The Discount Notes 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).
- The Discount Notes 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.
- National banks may deal in, underwrite, and purchase the Discount Notes for their own accounts in an amount not to exceed 10 percent of unimpaired capital and surplus. 12 U.S.C. § 24, seventh paragraph.
- Federal Reserve Banks may accept the Discount Notes as eligible collateral for advances to member banks. 12 U.S.C. § 347 and 12 C.F.R. § 201.108(b)(13).
- Federal savings associations and federal savings banks may, to the extent specified in applicable regulations, invest in the Discount Notes without regard to limitations generally applicable to investments. 12 U.S.C. § 1464(c)(1)(F).
- The Discount Notes are eligible as collateral for advances by Federal Home Loan Banks to members for which the Discount Notes are legal investments. 12 U.S.C. § 1430(a) and 12 C.F.R. § 950.7(a)(2).
- Federal credit unions may purchase the Discount Notes, subject to applicable regulations. 12 U.S.C. § 1757(7)(E) and 12 C.F.R. Part 703.
- The Discount Notes 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 domestic building and loan associations.

TAX MATTERS

The following discussion of United States federal income tax and certain limited federal estate and state and local tax consequences (where specifically noted) of the purchase, ownership and disposition of the Discount Notes has been prepared by Orrick, Herrington & Sutcliffe LLP, as special 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 is limited to certain tax consequences applicable to beneficial owners of the Discount Notes described herein (as of the date hereof) and does not purport to describe the tax consequences applicable to beneficial owners of any other securities which have been or may be issued by TVA. 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 United States federal income tax laws (for example, brokers, security dealers, traders in securities that elect to mark to market, banks, life insurance companies, expatriates, tax-exempt organizations, and, with limited exceptions, foreign investors), and generally does not address state and local taxation. The discussion is limited to persons who will hold the Discount Notes as capital assets and does not deal with United States federal income tax consequences applicable to persons who will hold the Discount Notes 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 Holder.

The following discussion of United States tax matters was written to support the promotion and marketing of the Discount Notes 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 prospective owner of a Discount Note 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 Discount Note, 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 Discount Notes 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 Discount Notes (including any withholding tax that may be imposed as a result of a failure to provide an applicable United States Internal Revenue Service (“IRS”) form).

For purposes of this section (“Tax Matters”), “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 any U.S. Person which is a beneficial owner of a Discount Note and any person which is a beneficial owner of a Discount Note that is otherwise subject to United States federal income taxation on a net income basis in respect of income attributable to a Discount Note. If a partnership holds Discount Notes, 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 Discount Notes should consult their own tax advisors regarding the tax consequences applicable to their indirect ownership of the Discount Notes 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 United States federal income taxation on income on a Discount Note, and there is no special exemption for a Discount Note from United States federal estate and gift taxes. The TVA Act, however, provides that bonds, notes, and other indebtedness issued by TVA, such as the Discount Notes, 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 non-property taxes in lieu thereof imposed on corporations or to gain or loss realized upon the sale or exchange of a Discount Note, notwithstanding that such gain might in some cases be treated as interest income for United States federal income tax purposes.

The Discount Notes will be issued with original issue discount - that is, the face amount of the Discount Notes will be in excess of their issue price (defined, as to any particular issue of Discount Notes, as the first price at which a substantial amount of such issue is sold to the public). Accrual basis U.S. beneficial owners and certain other U.S. beneficial owners who purchase a Discount Note (including banks, regulated investment companies, dealers in securities, common trust funds, U.S. beneficial owners who hold the debt instruments as part of certain identified hedging transactions, certain pass-thru entities, and cash basis U.S. beneficial owners who so elect) will be required to include the original issue discount on the Discount Notes in income on an accrual basis for United States federal income tax purposes, computed on a straight-line basis or, if the U.S. beneficial owner so elects, on a constant yield basis (based on daily compounding). Such a U.S. beneficial owner may additionally elect (which election is only revocable with the consent of the IRS and applies to all obligations acquired by the electing U.S. beneficial owner on or after the first day of the first taxable year to which the election applies) to apply the foregoing rules by reference to the amount by which the face amount of the Discount Notes exceeds the owner’s initial tax basis in the Discount Notes (“acquisition discount”) rather than by reference to the amount of the Discount Notes’ original issue discount.

The original issue discount on the Discount Notes will not be includible in income on an accrual basis by a cash basis U.S. beneficial owner (absent an election to the contrary, and subject to the exceptions noted above). Instead, the income will be deferred, with any gain realized on the sale or retirement of the Discount Note being characterized as ordinary income to the extent of the original issue discount that has accrued on the Discount Note through the date of the sale or retirement by the cash basis U.S. beneficial owner, computed on a straight line basis (unless an election is made to accrue the original issue discount on

a constant yield basis). Additionally, such a U.S. beneficial owner will be required to defer deductions for interest paid or accrued on indebtedness which is incurred or continued to purchase or carry the Discount Note in an amount not exceeding the deferred income (until the deferred income is realized).

Except as otherwise provided in the preceding paragraph, upon a sale or exchange of a Discount Note, a U.S. beneficial owner generally will recognize capital gain or loss equal to the difference between the amount realized on the sale or exchange and the beneficial owner's adjusted basis for the Discount Note, provided the Discount Note is held as a capital asset. The adjusted basis for the Discount Note will generally be equal to the amount paid by the U.S. beneficial owner for the Discount Note, increased by the amount of original issue discount or acquisition discount previously included in the gross income of the U.S. beneficial owner.

Non-U.S. Beneficial Owners

Generally, an owner of a Discount Note that is not a U.S. Person and that has no connection with the United States other than holding the Discount Note (a "non-U.S. beneficial owner") will not be subject to United States federal withholding tax on the original issue discount payable with respect to a Discount Note. To qualify for the exemption from withholding (other than in the case of a Discount Note having a term of 183 days or less), the last U.S. Person in the chain of payment prior to payment to a non-U.S. beneficial owner (the "Withholding Agent") must have received in the year in which such a 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 Form W-8BEN or permitted 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 cases, this 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 has provided such entity with appropriate certification or documentation establishing its foreign status. Additionally, in the case of Discount Notes 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, including a United States taxpayer identification number.

Subject to certain exceptions, any amount which constitutes capital gain to a non-U.S. beneficial owner upon retirement or disposition of a Discount Note will not be subject to United States 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 Discount Notes 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 to beneficial owners of Discount Notes (including beneficial owners of Discount Notes having a maturity of 183 days or less) 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. Compliance with the identification procedures described above under "Non-U.S. Beneficial Owners" would generally establish an exemption from backup withholding for those non-U.S. beneficial owners who are not exempt recipients (including compliance by beneficial owners of Discount Notes having a maturity of 183 days or less).

In addition, upon the sale of a Discount Note to (or through) a broker, the broker must withhold a percentage of the gross 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 IRS, 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-8BEN or permitted substitute form 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 of 1986, as amended, or (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 a credit against such beneficial owner's United States federal income tax.

SELLING GROUP

The Selling Group members may receive a concession for Discount Notes confirmed to them. Certain Selling Group members and affiliates thereof engage in transactions with and perform services for TVA in the ordinary course of business. Upon TVA's prior consent, any member of the Selling Group may purchase, as principal, original issue Discount Notes.

Payment of the purchase price of the Discount Notes is required to be made through the Federal Reserve Banks' book-entry system.

Each member of the Selling Group has severally agreed that it will comply with all applicable laws and regulations relating to the sale of Discount Notes in each jurisdiction in which a member offers, sells, or otherwise distributes Discount Notes.

As of the date hereof, members of the Selling Group are:

Banc of America Securities LLC

Barclays Capital Inc.

Credit Suisse First Boston LLC

FTN Financial

Goldman, Sachs & Co.

Jefferies & Company, Inc.

J.P. Morgan Securities Inc.

Morgan Stanley & Co., Incorporated

SunTrust Robinson Humphrey

The Williams Capital Group, L.P.

Any statements in this Discount Notes Offering Circular involving matters of opinion, regardless of whether expressly so stated, are intended only as opinions and not as representations of fact. This Discount Notes Offering Circular is not a contract or agreement with the purchaser of any of the Discount Notes.

TENNESSEE VALLEY AUTHORITY

By: /s/ John M. Hoskins

John M. Hoskins
Senior Vice President and Treasurer

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