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“Making it Better”

CEO’s Report to
The People of the Tennessee Valley
January 21, 2010

It is a good time to review the past year. And I can think of no better place to do this than here with the Chattanooga Rotary Club. Rotarians have a long tradition of service and involvement in the community qualities that are also associated with TVA that I would like to see expanded and strengthened.

What you’re going to get from me today are the facts: *“the good, the bad and the ugly.”* I don’t think I have to tell you what the ugly is but even with the Kingston ash spill, there is hopeful progress to report. There is some bad and we’re not going to deny it. But there is also much good to share with you.

Just the Facts

Before we get to the good, the bad and the ugly, let’s start, as Sergeant Joe Friday used to say on Dragnet, with “Just the Facts.”

I’m going to give you a lot of numbers, but don’t worry . . . there’ll be no test afterward, and we’ll have all these stats available later for anyone who likes to keep score.

In 2009:

- TVA operated three nuclear plants, 11 coal plants, 29 hydro electric dams and 11 natural gas-fired plants. as well as a small, but growing fleet of wind, solar and bio-fuel generators.
- We used more than 37 million tons of coal almost 84 billion cubic feet of natural gas, and we passed more than 1 trillion cubic feet of water through our hydro electric turbines at Chickamauga.
- All of this was used to provide almost 164 billion kilowatt-hours of electric power for communities and businesses across the TVA region.

Millions, billions and trillions sounds like a lot, doesn't it? But what does it mean?

Well, with the energy TVA produced last year, you could launch almost 5,000 Saturn 5 moon rockets and put their payloads in orbit.

Or, put another way, if you were able to route all the rivers and flowing waters in North America through a giant generator, it would still take four months night and day to produce that much electricity.

Those 164 billion kilowatt-hours were carried over 16,000 miles of transmission lines enough to span the continent six times, and we have to keep the trees away from all of that to avoid outages and this 16, 000 miles of line were supported by more than 100,000 steel, wood and concrete structures, each with several insulators attached that cannot be broken or dirty if we are to keep all of the lights on.

This electricity was delivered to 158 local power distributors like Chattanooga's EPB who serve more than nine million people in their homes, schools and businesses in Tennessee and parts of six other states.

This power was also delivered directly to 50 large industries and six other federal installations that together employ more than 100,000 workers all, with 99.999 per cent reliability for the 10th consecutive year.

Let me repeat that: TVA has delivered electricity to our distributor and industrial customers for 10 consecutive years with 99.999 percent reliability. How many businesses can claim a decade of performance like that? Even Ivory Snow is only 99 and 44 one hundredths percent pure. To make that happen, we, of course, need a very strong and well-managed transmission system, but we also need careful planning and solid operations to produce that amount of power in the first place.

And, working together, that is how the TVA team and good folks like the Electric Power Board kept the lights on in the Tennessee Valley last year 24 hours a day, seven days a week, 365 days a year, in all weather conditions, despite how the morning headlines read, and with a great sense of pride and accomplishment.

In some ways, TVA is the victim of its own success people generally don't think twice about electricity until it's not there when they flip on a light switch. I'm the same way.

That's a problem I'll gladly accept any day, because it means we're doing our jobs well and for the right reasons.

We have a skilled and dedicated workforce of just over 12,000 employees, almost a third of which, about 3,700, are your neighbors, living and working in the Chattanooga/Soddy-Daisy area.

We have a deep commitment to maintaining a safe work environment for your friends and neighbors who work at TVA. Many jobs in the power business can be dangerous, and I'm proud to note that our injury rate in 2009 was among the very best in the industry.

While electric power is the part of our business that gets the most attention, we also operated and maintained "The Great Lakes of the South" in 2009 a system of 49 dams that control more than 600,000 acres of water with more than 11,000 miles of shoreline that provide recreation and wildlife habitat in abundance.

We also fielded one of the most successful economic development teams in the Southeast, and I'll detail their accomplishments momentarily.

The Good News

Those are the facts and, clearly, they include many things we're proud of at TVA. Now let me turn to the good, the bad and the ugly.

The good news begins like this:

- On January 16, 2009, we hit our all-time winter peak demand of 32,572 megawatts and thanks to hard work and good planning we met that demand just as we did during the long cold spell this year. You probably didn't notice because we met your high expectations.

But it gets better...

- We saw rainfall return to better-than-normal levels in 2009, for the first time in several years. This is essentially free fuel and served to push our hydro generation well above projections for the year.
- Added to that was the reversal in fuel prices. After months of escalating fuel costs, we saw coal drop steeply back to near its January 2008 levels. The prices of natural gas and electricity moved even lower. It was great to see those savings and to be able to pass them on to our customers at a time when everyone really needed a break on their bills.

- And electricity rates continued to be a good story in 2009. In December, the average residential bill in the TVA area for 1,000 kilowatt-hours was 15 percent lower than the median for 23 surrounding utilities.
- I think that's worth repeating: in 2009, the average residential bill for 1,000 kilowatt-hours including TVA and distributor charges was 15 percent lower than the median for 23 of our neighboring utilities.
- We have a graph in the handout package showing the utilities we are compared to.

In other good news:

- One of our Sequoyah nuclear units was ranked 6th among the world's 439 nuclear units in 2009 in a ranking of capacity factors that simply means comparing what a generator actually produces vs. what it could have produced. Sequoyah scored very nearly perfect.
- We moved forward on our commitment to clean air with \$170 million expended in 2009 to add more sulfur and ozone controls at our coal-fired plants.
- Our total investment in clean air is now \$5.3 billion, and we have reduced the two most prevalent emissions from our plants sulfur dioxide and nitrogen oxide by more than 80 percent each.
- We made solid progress on our commitment to improve the safety of our ash and gypsum storage ponds across the TVA system and to convert all our plants to safer dry storage.
- Here are a couple of before-and-after shots of plant other than Kingston showing how we're strengthening several of our storage ponds and reducing pressure on the dikes. The total scope of this work is huge. It will take eight to 10 years to complete and when we do TVA will have the strongest, safest coal waste storage systems in the business.

The Bad News

And now I'd like to turn to the bad news.

The worst news for the TVA region in 2009, as it was for entire nation, was the economy.

Like all of America, we suffered from the recession but for some in the region we serve, it's been even worse:

- Overall, unemployment in our region reached 10 percent which is about the national average.
- However, of the 170 counties TVA serves, 136 had higher unemployment rates than the national average some reaching over 18 percent.
- We lost more than 170,000 jobs across the Tennessee Valley and manufacturing employment was down more than 11 percent for most of 2009.
- At TVA, electricity demand dropped by more than 7 percent from 2008 levels. Most of that was directly related to lower business activity in the region.

- People endured bankruptcies and foreclosures one in 250 homes was foreclosed in our region and many families saw their dreams deferred or lost entirely.

But, even through the worst of the recession, many regional businesses soldiered along including Blue Cross and Unum here in Chattanooga and segments of the auto supply industry across the region showed remarkable strength and perseverance.

And, despite the recession, TVA played a strong role in 2009 helping to attract \$4.2 billion in new capital investment to the region which resulted in 26,000 new or retained jobs.

In fact, going back to mid-2008, three of the largest industrial announcements in the nation occurred in the TVA service area: Dow Chemical/Hemlock Semiconductor in Clarkesville, Tennessee; Wacker Chemie, in Charleston, Tennessee; and a little car company you may have heard of that is building as we speak right here in Chattanooga.

Together, these three announcements represent \$3 billion in new investment and 3,000 direct jobs for Tennesseans.

TVA was just a part of a large team that worked tirelessly to get these new employers to locate in this region.

But I would be remiss if I didn't emphasize that the Megasite program which basically offers turn-key locations to large industrial prospects played an important role.

We do take our mission to foster quality economic development very seriously. And the results prove that. *Site Selection* magazine has named TVA one of North America's best power companies for economic development for the last four years.

The Ugly

The Kingston ash spill that actually occurred in December, 2008, is the worst news of, at least the last decade for TVA.

The facts are well known and I'm not going to rehash them. The spill was the result of a number of bad decisions or lack of decisions over many years. Looking back, that first decision over 50 years ago to put ash in the shallow waters of the embayments does not look good. There were few rules back then, but it started a process whereby one layer was added to another until the failure last December.

As you have no doubt read, the total cost of the Kingston cleanup could exceed \$1 billion.

And while no one would ever associate the words “good news” with this awful event, I am pleased that we can report tremendous progress in our cleanup efforts:

- More than 2.3 million cubic yards of ash or some two thirds of the ash in and near the Emory River have been removed. (enough for a two lane road from here to Orlando)
- As federal and state agencies closely monitor our work, we are dredging about 60 thousand to 70 thousand cubic yards per week. (enough to repave corridor J from downtown to Soddy Daisy every week).
- We expect to have substantially all of the ash out of the river by this spring and will then focus our efforts on the remaining ash on land.
- We have an EPA-approved location in Alabama that is taking the ash . . . more than 134 train loads to date . . . although shipments have slowed in recent weeks due to the extremely wet and cold weather.
- Completing this entire job is still some years ahead, but we are determined to do it right and restore this area.
- We continue rigorous testing of area drinking water and air quality . . . and independent analyses continue to show both water and air meeting national standards.

Making TVA Better

Despite TVA’s many attributes, we know from recent experience that there is much we can do to make it a better organization. And my message to you today is that we’re doing it. We will never make it perfect, but we can make it better.

We learned important and painful lessons from the Kingston spill and we’re using them to make TVA better:

- As I noted earlier, we have examined all our existing coal waste impoundments we’re making improvements where necessary and we’re converting them to a much safer form of dry storage. In addition, we’ve placed the responsibility for managing all of our coal wastes in an organization that reports directly to the Chief Operating Officer.
- We’re creating a culture of accountability ensuring that every individual not out of fear but out of a sense of pro-active duty takes responsibility individually so the organization can be responsible collectively.
- We’ve begun one of the most comprehensive assessments of TVA in its history. This is not a “shuffle-the-deck-chairs” reorganization nor is it any sort of attempt to reduce staff. It is a comprehensive, top-to-bottom effort to improve how TVA is structured, governed and operated.
- Finally, we are continuing to push toward our goal of more clean energy production.

We want to ensure that TVA is ready for the tough challenges that are surely coming. We don't want TVA to simply survive; we want it to thrive and most of all we want the people we serve to see us once again as a great organization that is focused on making their lives better.

Each of these will make TVA better and I am relentlessly determined to do just that.

In conclusion, I would note that like any organization run by human beings TVA has made mistakes and will doubtless make more in the future. That's the human condition.

To stop making the same mistakes and to reduce the number of mistakes requires change and the path we are on today *will* change TVA.

I am determined that TVA will learn and improve building on the good, dealing with the bad and reducing the ugly Making TVA BETTER one day at a time.

No less than the founder of TVA—Franklin D. Roosevelt—had the same opinion. He said: “Wise and prudent men have long known that in a changing world, worthy institutions can be conserved only by adjusting them to the changing time.”

Well, I'm not claiming the “wise and prudent” part, but I believe FDR was right. I think my job at TVA is to instill a sense that things *are* going to change for the better in big ways and small every day.

This is never easy to do – especially in a large organization and especially now.

This is a tough time to be part of the electric utility industry; there are environmental and technological changes on the way that are already beginning to transform the entire industry. Things like a smart grid connecting us to your homes and businesses, electric vehicles, cleaner energy production, even reduced energy consumption are just a few of the challenges we face.

It's going to take the best we can do to navigate the next several years and to make the decisions that will be profoundly important to our economy and our way of life.

You expect us to deliver reliable and affordable electricity and you expect us to preserve and improve the Tennessee Valley, environmentally and economically.

My goal is to meet those expectations.

Thank you, and I look forward to seeing you again in the future.