

AS PREPARED

**Remarks by Tom Kilgore  
At the Watts Bar 2 Event  
April 5, 2012**

Good morning. And it is great to be at Watts Bar.

Today is a significant day for TVA and for those we serve throughout our seven-state region.

For many of you in the audience here, I want to say thank you for your work every day at Watts Bar Nuclear Unit 1:

- 5,793 days in service or almost 16 years.
- More than 3.8 million safe work hours
- 140 billion kilowatt hours of electricity.
- 93.13 operating capacity factor through February 2012.

That's something you -- and all of us -- can be proud of!

Unit 2 has an excellent safety record, as well – more than 14 million safe work hours.

For the local communities, work at Watts Bar Nuclear Unit 2 means payments to cities and counties impacted by the construction of a new generating facility. In 2012, these payments will total more than \$2.9 million for 5 counties and 18 cities, including \$645,000 here in Rhea County.

For TVA to provide the energy that will fuel the jobs, the businesses and the homes across the Tennessee Valley, the reliable operation of Watts Bar and our other nuclear facilities is important.

To meet our Vision of being a leading provider of clean, low cost energy, nuclear generation is key.

And to be successful, we have to manage our business efficiently, focusing our performance on our business priorities.

We have to encourage openness in the way we do our business; we have to demonstrate every day how we engage in gathering information, how we thoroughly review our findings, how we challenge the status quo and how we set a standard of excellence in everything we do.

Working together, we earn your respect. Our customers expect it; we should expect no less from ourselves.

We set the performance bar high and if we do not reach it, we need to understand what happened, hold ourselves accountable, fix the hard spots, and move forward.

As we look ahead today, we know missteps occurred along the way at Watts Bar Unit 2. If we are to fuel the economic engine in our seven-state area, we have to listen, learn and improve.

For the past seven months, Mike Skaggs, our senior vice president of Nuclear Construction, has led a top-to-bottom review of our construction project at Watts Bar 2.

In 2007 when the project was approved, we reviewed a set of numbers and a period of time for construction that while aggressive, appeared doable.

Our estimates on time and cost were wrong.

We had a good track record for operating Watts Bar Unit 1 and Sequoyah Nuclear Plant. We were moving from a successful restart at Browns Ferry Unit 1 and planned to benefit from the lessons learned.

Our intentions were well founded.

Our execution and progress reviews were not.

Four areas – leading, estimating, executing and overseeing – were inadequate.

When I look back, it is now obvious: I was not asking the right questions and failed to verify the rigor in the cost and the schedule.

We – and I – have learned. Our management model did not work and the information flow was not adequate. A new leadership team now is in place and basic human performance tools are being used.

For example, our work planning has to be designed to meet the needs of the technician. Three-inch, 100-page notebooks have to be reduced to manageable size. Even a car manual has a quick index card and is user friendly.

Mike Skaggs and his team have results from their review at Watts Bar Unit 2.

I want to ask Mike to share his assessment, findings and estimates for the completion of Watts Bar Unit 2.

And then Preston Swafford, who is responsible for our nuclear operations including Watts Bar Unit 1, will discuss nuclear generation as part of TVA's Integrated Resource Plan and balanced energy mix.

*(Skaggs and Swafford speak; Kilgore concludes.)*

**Remarks by Mike Skaggs  
At the Watts Bar 2 Event  
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Good morning, and thank you Tom.

To those of you onsite and those watching us remotely, let me welcome you, as well.

Sometimes you are given a job that is challenging to get your hands around. You need to understand how things began, where they went off track and how to refocus on getting the job done.

That is a good description of what we found at Watts Bar Unit 2 and the approach we have used in doing a rigorous assessment.

I reported to TVA management and the board in February that four things went wrong with the completion project at Watts Bar 2 following the board approval in 2007:

- 1) Leadership, in terms of organization and management capabilities, was misaligned to the unique characteristics of the project.
- 2) The cost estimate was too low because of an incomplete understanding of the work that was required, and the planning was impeded.
- 3) Management failed to execute the project as defined in its plans and did not fully use available capabilities.
- 4) There were no early catch metrics that are part of oversight.

The 2007 DSEP – the detailed scoping, estimating and planning project document – was not robust. Walk downs to support the initial estimate were not completed.

For example, work estimates were based on other nuclear reactors that turned out to be poor comparisons.

At Watts Bar 2 the space is tighter. It is smaller inside and it's more difficult to get materials into the plant. And it is more difficult to have the number of people working in unison.

At one point last year, 3,200 people were on site every day. By reducing the workforce to roughly 2,000, productivity has actually increased.

There are lessons we knew and lessons we did not apply as we should have:

- 1) Construction was started too early.
- 2) Work was difficult to execute.
- 3) Solid project controls have to be in place with clear metrics and transparency.
- 4) Better communication channels with key stakeholders are needed, with periodic updates on where we are, how we are doing, and how the cost is being managed.
- 5) Employees here and throughout TVA have to feel empowered, engaged.

Success here and elsewhere means you are proud to come to work; you are comfortable in bringing up issues; you know you can fix things on your own, and at the end of the day, you are proud of what you accomplished.

You create a feeling of Trust and Empowerment.

To me, that is what we have achieved during our seven-month review and what will be in place as Watts Bar Unit 2 moves ahead.

Our assessment has been confirmed by two outside, independent reviews, and the recommendation that will go to the TVA board is:

- The emerging estimate to complete Watts Bar Nuclear Unit 2 requires additional funding of \$1.5 to \$2 billion. The total completion cost estimate range is \$4 billion to \$4.5 billion.
- The estimated time to complete is between September and December of 2015.
- The team's comprehensive Estimate to Complete, or ETC, is based on lessons learned from the project, along with a detailed analysis of remaining areas to be completed.
- Important corrective actions undertaken by current Watts Bar 2 management will address root cause findings and help assure delivery on the ETC estimate. These actions will be supported and amplified by additional actions on-site, within the nuclear construction group, and at TVA corporate levels.

The result is a high-confidence cost estimate and milestone schedule.

Our construction review process has been rigorous and is a roadmap for efficient, productive and high-quality work as we move toward completion of Watts Bar Unit 2.

The new leadership team here increases experience levels and improves the span of control. These actions already have created a more direct line-of-sight to top management.

The safe and quality cost-effective completion of Watts Bar Unit 2 is an integral part of achieving TVA's energy goals as set out in the Integrated Resource Plan.

Thank you, and now let me bring Preston Swafford to the microphone.

**Remarks by Preston Swafford  
At the Watts Bar 2 Event  
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Thank you. I too am pleased to join Tom and Mike here today as we look toward completion of the companion facility to Watts Bar Unit 1.

When you look at TVA's nuclear energy fleet, we strive for excellence every single day.

For our customers, nuclear energy is a low-cost provider of electricity when it is done right.

From a TVA management perspective, when we assess our nuclear fleet, we do not cut corners. We maintain quality facilities. We operate safely. And philosophically, we manage the entire nuclear fleet as a group, leveraging the strengths of each operating team with strong governance and oversight support.

We support and are committed to a healthy, robust and excellent nuclear program, encouraging behaviors that build a work environment that is high performing, responsible and accountable.

And let me add a point as it relates to the Watts Bar Unit 2 review.

We are within several hundred feet of the companion facility – Unit 1 – an operating nuclear facility that supports the energy needs of TVA’s customers. There is little doubt that the additional overhead to operate a second unit is not that much different from operating one unit.

This will be a cost-efficient addition to the nuclear fleet and a low cost provider of energy for our customers whether in their homes or their places of business.

To achieve our balanced energy approach, TVA has to provide safe, clean and reliable nuclear energy.

We will fuel job growth, reduce air emissions and advance energy and environmental technologies in our national transition to improved energy independence.

I look forward to adding this asset to our energy mix.

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**Concluding Remarks by Tom Kilgore  
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Thank you, Preston and Mike, for your leadership.

There should be no doubt about TVA's commitment to nuclear energy as part of our Vision to provide clean, reliable power at low, competitive rates.

Watts Bar Unit 2 remains a cost-effective solution to supply TVA's base load requirements with clean energy at a competitive rate. Even with the estimated added cost, Unit 2 at Watts Bar will still be a competitive, reliable generation source.

Based on Mike's teams' findings to date, we will be asking the TVA board of directors to approve the continued funding and the extended construction time for Unit 2.

When Watts Bar Unit 2 comes online, it will produce more than 1,100 megawatts of energy at competitive prices and will be another major source of our goal of providing more emission-free electricity. Our goal is to be about 50 percent carbon-free by 2020.

As I stated earlier, we all learned lessons from the missteps with Watts Bar Unit 2.

We need better communication and span of control. Our recent organizational realignment places Preston as head of nuclear generation and Mike as the head of nuclear construction in direct reporting lines to me as CEO.

The communication and accountability lines flow up and down our nuclear organization, as well as other business units within TVA.

Perhaps the most important question to answer is – why should you trust us that things will work better in the future?

I want to turn to a former President of the United States, Ronald Reagan, when faced with reassuring all Americans that the terms of a treaty with the former Soviet Union would be met.

He said to “Trust but verify.”

There is a measure of trust earned by a leader and a leadership team. I believe we are worthy of your trust.

At the same time, we will verify that the decisions being made, the money being spent, and the unfettered flow of information are accurate, as part of how we ensure transparency and conduct our business.

There is an improved leadership team at the site. There are improved processes and procedures in place.

There will be a culture that demonstrates that every employee should feel empowered to raise issues that need to be answered.

There will be at least quarterly detailed progress reports to measure work and cost against expected results.

“Trust but verify” -- a phrase applied to a different set of circumstances, but expressing a similar meaning.

Finally, I want to go back to a few points that I made earlier.

For TVA to provide the energy that will fuel the jobs, the businesses and the homes across the Tennessee Valley, the reliable operation of Watts Bar and our other nuclear facilities is important.

To meet our Vision of being a leading provider of clean, low cost energy, nuclear generation is key.

And to be successful, we have to manage our business efficiently, focusing our performance on our business priorities.

Thank you for your attendance, for your good work, and for your support.

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