

Measuring TVA's Success



You hear about it repeatedly. You read about it monthly. You see it everywhere. Your daily tasks are guided by it. It impacts your paycheck.

It is TVA's Balanced Scorecard. You are undoubtedly familiar with the basics of the scorecard. You know that every month, the company scorecard will be updated, revealing whether TVA is meeting its objectives. You know that your organization's scorecard impacts the overall TVA scorecard.

Perhaps the scorecard has become such a part of your daily routine, you rarely take the time to stop and think about the weights and measures.

- **Where do they come from?**
- **Why do they sometimes change?**
- **How does TVA's scorecard reflect changes in its business?**
- **What does it all mean to an individual employee?**
- **What does it all mean to you?**

As we begin 2004, the Business Education Series will take a close look at how TVA measures its success with a discussion of the Balanced Scorecard — its origins, its purpose and its importance.

Staying On Track— A New Balanced Scorecard.



Anda Ray, Vice President of Performance Initiatives, is responsible for aligning and integrating performance improvements throughout TVA. TVA's Balanced Scorecard is the "report card" for measuring progress toward specific goals in performance improvement that will enable TVA to achieve its Strategic Objectives.

The scorecard achieves balance by including measurements in four categories of performance: financial, customer, operations and people. Success for TVA means success in each of these areas.

Each category has its own unique measures. TVA's FY '04 Balanced Scorecard includes a few measures that have changed from previous years. Read on to learn about the new measures and why they all are important to TVA's success.

Each measure is shown with its "Key Contact" — an employee who has agreed to provide oversight, monitor progress, and to answer employees' questions about the measure.



Operating and Maintenance Costs

Andy Holmes, Senior Manager, Accounting & Performance Reporting, Chief Financial Officer organization

Controlling O&M expenses is an important financial measure of competitiveness and drives the rates that we charge customers for power. Customers view price as a deciding factor in whether or not they would switch suppliers. **Every dollar spent** on operating and maintenance activities impacts this measure, and each employee is accountable for how well we use the organization's resources.

Financial Strength

Andy Holmes

Financial Strength is a measure of the reduction in total financing obligations, not just statutory debt. We need to build more financial flexibility so TVA can weather the greater volatility of revenues that comes with competition. Lowering financing obligations over the long term will produce a more flexible cost structure, allowing TVA to respond more favorably to the changing power market. **Any reduction in cash expenditures** supports the reduction of financing obligations.



Productivity

Anthony Conkin, Senior Manager, Compensation and HR Planning, Corporate Human Resources

Through the Productivity measure, we are demonstrating the impact of labor costs required to generate, transmit and sell power in a competitive energy-services marketplace. These labor-cost components include both TVA and contract staff. They are directly controlled by TVA and are not subject to outside influences such as fuel and financing costs. This measure will help us all understand how our job performance, and the efficient use of resources, contributes to TVA's ability to deliver low-cost, reliable electric power.



Customer Satisfaction

Eddie Ricks, Manager, Business Planning, Customer Service & Marketing

Customer Satisfaction is a monthly measure of key TVA performance elements that impact TVA's long-term relationship with its customers. It measures actual performance in key areas customers have told us are important to them — power reliability, billing reliability, product timeliness and competitive price. It is a broad performance measure that allows employees to see how their work contributes to TVA's overall success at achieving customer satisfaction in the four areas listed above. It is a quantitative measure that supports CS&M's FY '04 performance objective *Retain TVA's Customers*. Success in this measure will be improved customer relationships/satisfaction and an increased likelihood of long-term relationships with customers.

Winning P



River and the environment



Affordable, reliable power



Sustainable development

FY 2004 TVA Ba

Financial

- O&M Costs (\$ million)
- Financial Strength (\$ million)
- Productivity (kWh/\$)

Customer

- Customer Satisfaction (%)
- Economic Development (index)

Operations

- Asset Availability (%)
- Environmental Impact (index)

People

- Safe Workplace** (all injuries/hours worked)

NOTES:

* Target equals Performance Plan Target

TVA began using a Balanced Scorecard in 2000 as part of an enterprise-wide performance management program called “Winning Performance.” It was created to measure our performance in critical areas and to give all employees a direct “line of sight” to see how their daily performance affects TVA’s overall success.

The Balanced Scorecard has four basic uses:

- establish priorities by identifying those things that must be done well
- measure and report performance in key areas
- provide line of sight between priorities and individual activities
- link individual incentive rewards to company-wide results

The Balanced Scorecard is the cornerstone of TVA’s success. It is how we judge our performance. It tells us what we did right and wrong yesterday, and more importantly, it tells us what we need to do better tomorrow. It gives us updates on how we’re meeting our performance objectives as individuals, as organizations and as a company.

The measurements used in the scorecard allow every employee to see how effectively the company is achieving its objectives.

Every month, the TVA Balanced Scorecard is updated to reflect progress toward meeting the performance objectives in key areas. A final scorecard is issued at the end of the fiscal year, reflecting the overall company performance for the year.

Employees can monitor performance by viewing the monthly updates on TVA’s internal Web site or in *Inside TVA*.

At the end of the fiscal year, based on final performance against the established objectives, employees have the opportunity to be financially rewarded through the Winning Performance Team Incentive Plan.

TVA’s Winning Behaviors provide the glue that holds all of this together. These behaviors center around the themes “how we treat each other” and “how we approach our work,” and ensure that the company and every individual employee has the best chance for success.

Performance



Balanced Scorecard

WEIGHT	GOALS		
	Target*	Mid	Stretch
15%	3,644	3,608	3,535
15%	225	275	375
10%	147.8	150.8	152.4
10%	100	117	130
10%	100	110	120
20%	98	100	102
10%	98	91	85
10%	2.41	2.36	2.31

** Payout at any performance level is contingent upon no TVA employee fatalities



Economic Development

*Chuck Shoopman, General Manager,
Economic Development*

The Economic Development measure shows the effectiveness of TVA’s sustainable economic-development efforts. It includes job growth in the Valley, investments by economic-development partners and a measure of the quality of jobs in the Valley. Measuring these areas provides a basis for demonstrating the positive economic impact of TVA on Valley communities.



Asset Availability

*Tom McGrath, Senior Project Manager,
System Integration & Optimization,
Chief Operating Officer organization*

The Asset Availability measure shows how well TVA’s electric-generation system performed compared to planned availability and price forecasts. This comparison provides a common expression of performance in terms of the market value of having generation assets available during peak demand. This measure increases the awareness of the effect of market prices on the value of generation availability and the need to manage all assets as a whole.



Environmental Impact

*Warren Behlau, Manager,
Performance Analysis and Reporting,
River System Operations & Environment*

The purpose of the Environmental Impact indicator is to measure our performance in managing impacts on air quality, water quality, land, waste production and energy consumption. Raising our awareness of operational impacts provides TVA the opportunity to improve environmental performance.



Safe Workplace

*Ed Lindler, Project Manager,
Corporate Safety, Corporate HR*

The Safe Workplace indicator is the all-injury rate, which is a measure of employee safety. It tracks the number and types of work-related injuries and illnesses reported by employees. This measure helps gauge our success at providing for the protection and well-being of employees, which in turn helps us avoid costs associated with workers’ compensation expense and contributes to improved productivity and employee satisfaction.

How will TVA's balanced scorecard reflect TVA's ability to adapt to changes in our industry?



Like other power companies, TVA faces the uncertainties of new market and regulatory developments associated with electricity-market restructuring in the United States. Our strategic challenge is to prepare for a more competitive future while continuing to craft business solutions that balance TVA's interests in energy, the environment and economic development and provide for the protection and well-being of the workforce.

The new Strategic Plan reflects TVA's plans to prepare for a more competitive market. The Balanced Scorecard is one of the primary mechanisms TVA will use to measure how successfully it adapts to future challenges.

Since the initial rollout of Winning Performance, our understanding of business performance has evolved. As we continue to learn how our various business objectives interact to produce value for our customers and stakeholders, and as we respond to the challenges outlined in TVA's Strategic Plan, the scorecard may be further modified to reflect a more strategic view, focusing on the "bigger picture" practices that will better allow TVA to meet its goals.

What does this mean to me?

TVA's Balanced Scorecard is employee driven. It is the work of *each employee* that determines the results for each scorecard measure.

As every employee works with his or her supervisor to understand the "line of sight" between their work and TVA's business objectives, it is important for employees to understand that each of us has the opportunity to impact TVA's scorecard, either positively or negatively. The cumulative effect of all employees' performances is reflected in the overall TVA Scorecard, by which we measure our success.

Take a moment to read and understand each of the measures on TVA's Balanced Scorecard. Know *your role* in helping TVA achieve these objectives.

Take a moment to become familiar with the Winning Performance site on the internal Web site to discover more information about each measure and to monitor monthly progress over the coming year. The site lists specific things employees can do to help TVA achieve its goals. They are listed for each indicator at the end of each definition sheet. Just click on a scorecard indicator to get to the definition sheet.

Future issues of Inside TVA also will provide more detail on these measures.

You can view this special insert on TVA's internal Web site. For more information about this topic, go to www.tva.com.



Why do measurements change?

There are several factors that result in the changing of an indicator on the Balanced Scorecard. One of the most important is changes in the business environment that may require a different behavior in order to be successful. Internal factors include changes in performance trends that must be addressed. External factors include legislation and economic drivers. And in some cases, we just figure out a better way to measure the intended results and drive desired behaviors. The changes you see in the FY '04 Balanced Scorecard reflect the focus that is needed to keep us on track for meeting the goals laid out for us in the Strategic Plan. Meeting these goals will help us be competitive in the future.