Tennessee Valley Authority

Budget Proposal and Management Agenda
(Performance Report)

For the Fiscal Year Ending
September 30, 2016

Submitted to Congress
February 2015

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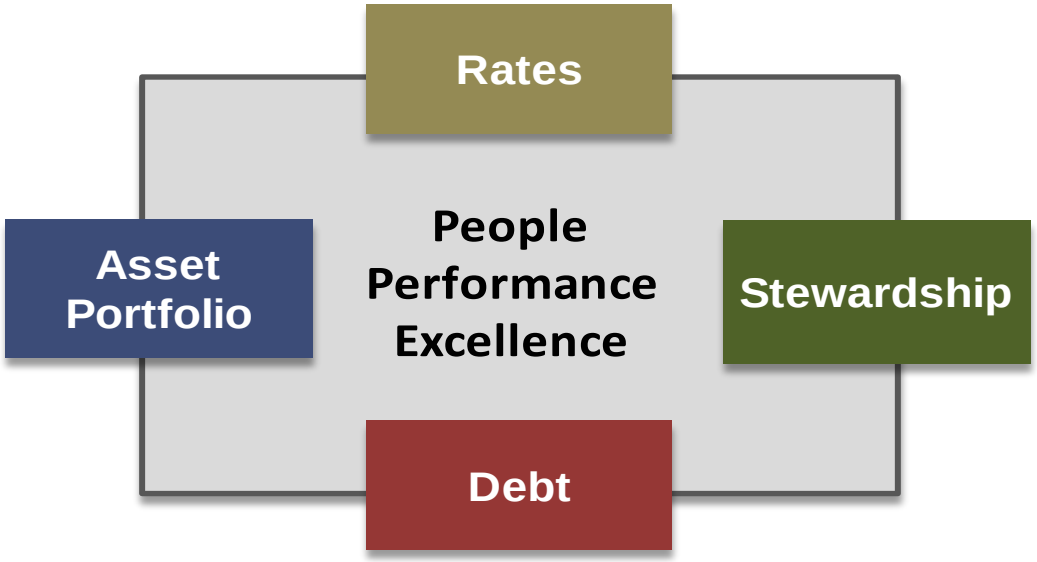
Introduction

TVA's Mission

TVA was built for the people, created by Congress in 1933 and charged with a unique mission – to improve the quality of life in a seven-state region through the integrated management of the region's resources. As it helped lift the Tennessee Valley out of the Great Depression, TVA built dams for flood control, provided low-cost power and commercial shipping, restored depleted lands, and raised the standard of living across the region. As times have changed, TVA has changed with them by updating and refining its work to accomplish its mission of providing affordable electricity, economic and agricultural development, environmental stewardship, integrated river system management, and technological innovation. While TVA's mission has not changed since its inception, the environment in which TVA operates continues to evolve. The business and economic environment has become more challenging, and demand for power and related revenues have decreased due to reduced customer usage and increased energy efficiency and demand response.

Strategic Imperatives

In order to continue TVA's mission of service to the region, TVA must address four strategic imperatives: (1) maintain rates as low as feasible, (2) live within its means, (3) manage its assets to meet reliability expectations and provide a balanced portfolio, and (4) be responsible stewards of the region's natural resources. Through people performance excellence, TVA intends to improve in these areas and become safer, better, faster, and leaner.



Rates

TVA is committed to providing all of its customers power at the lowest feasible rates. This customer focus requires scrutiny of all projects and use of resources so that the organization operates as efficiently and responsibly as possible.

Debt

TVA is committed to long-term debt management through employing a conservative approach as it relates to capital projects. While financing continues to be an important tool for funding TVA's long-term power system investments, the organization is committed to managing its debt under the ceiling established by Congress.

Asset Portfolio

Balancing TVA's assets with a diverse portfolio is vital to serving its customers reliably and at the lowest cost. In 2011, the TVA Board of Directors ("Board" or "TVA Board") accepted the Integrated Resource Plan ("IRP"), which recommends a strategic direction focusing on a diverse mix of electricity generation sources, including nuclear power, renewable energy, and natural gas, as well as traditional coal and hydroelectric power. TVA is increasing its low or no emission generation. TVA considers many factors, including fuel mix, in making decisions about generation, and

plans to rely on a mix of assets including nuclear, natural gas-fired capacity, hydro, renewables, and energy efficiency to meet future electricity needs. TVA is refreshing the IRP, and the report is expected to be published in 2015.

Stewardship

TVA's responsibility for stewardship of the waters and public lands of the Tennessee Valley was established in the Tennessee Valley Authority Act of 1933, as amended ("TVA Act"). These responsibilities include flood control, improved navigation of the Tennessee River, land and shoreline management as well as agricultural and industrial development. TVA is committed to increasing its role in many of these areas as activities are planned for dam safety and reservoir operation enhancements, stabilization of eroding shorelines, and the redevelopment of Muscle Shoals properties. This redevelopment is expected to improve public relations, enhance marketability, and reduce the maintenance cost of ownership.

Since the 1970's, TVA has spent approximately $5.9 billion on controls to reduce emissions from its coal-fired power plants. In addition, TVA has reduced emissions by idling or retiring coal-fired units and relying more on cleaner energy resources including natural gas and nuclear generation.

To reduce SO_2 emissions, TVA installed scrubbers on 17 coal-fired units, with scrubbers planned on six more units, and switched to lower-sulfur coal at 24 coal-fired units. To reduce NO_X emissions, TVA installed selective catalytic reduction systems ("SCRs") on 20 coal-fired units with SCRs planned on six more units, operates selective non-catalytic reduction systems on four units, installed low-NO_X burners or low-NO_X combustion systems on 25 units, optimized combustion on five units, and operates NO_X control equipment year round when units are operating (except during start-up, shutdown, and maintenance periods). TVA has also retired or announced plans to retire 32 of 59 coal-fired units and expects all coal-fired units will either have scrubbers and SCRs, be repowered to renewable biomass, or be retired.

To reduce particulate emissions of air pollutants, TVA has equipped all of its coal-fired units with scrubbers, mechanical collectors, electrostatic precipitators, and/or bag houses.

Primarily due to the actions described above, emissions of NO_x and SO_2 on the TVA system have been reduced by 91 percent below peak 1995 levels and by 95 percent below 1977 levels, respectively. These controls also have provided a cobenefit of reducing hazardous air pollutants, including mercury, at some units. For calendar year ("CY") 2013, TVA's emission of CO_2 from its sources was 72 million tons, a 32 percent reduction from 2005 levels. To remain consistent and provide clear information and to align with the Environmental Protection Agency's ("EPA") reporting requirements, TVA will continue to report CO_2 emissions on a CY basis.

There could be additional material costs if reductions of greenhouse gases, including CO_2, are mandated by legislative, regulatory, or judicial actions and if more stringent emission reduction requirements for conventional pollutants are established. These costs cannot reasonably be predicted at this time because of the uncertainty of these actions. A number of emerging EPA regulations establishing more stringent air, water, and waste requirements could result in significant changes in the structure of the U.S. power industry, especially in the eastern half of the country. One such emerging regulation is the EPA's proposed Clean Power Plan.

On June 2, 2014, the EPA proposed the Clean Power Plan, a rule under section 111(d) of the Clean Air Act ("CAA"), as part of President Obama's Climate Action Plan, to reduce carbon emissions from existing power plants. The Clean Power Plan proposes state-specific emission rate goals to lower CO_2 emissions from power plants, targeting a 30 percent nationwide reduction in CO_2 emissions from 2005 levels by 2030. Each state's guideline is an output-based emissions rate (fossil CO_2 lbs/adjusted megawatt hours ("MWh")) based on 2012 historical emissions and generation. The EPA identified four sets of measures or "building blocks" that are in use today by some states and utilities, and that together make up the best system of emission reduction for reducing carbon pollution: (1) heat rate improvements at coal-fired units, (2) increased dispatch of natural gas combined cycle units, (3) increased utilization of non-emitting resources, and (4) increased demand-side energy efficiency. Each state's emission guideline is calculated by applying these four building blocks to 2012 historical fossil emissions and generation. The EPA is proposing an "interim goal" that a state must meet on average over the 10-year period from 2020-2029 and a "final goal" that a state must meet at the end of that period in 2030 and thereafter based on a three-year average. States must develop and submit plans to meet their goals and can comply individually or within a multi-state framework. States would be required to submit their plans to the EPA by June 30, 2016. The final form of these standards is uncertain. Comments on the proposed rule were due to the EPA by December 1, 2014, and the EPA expects to finalize the rule by summer 2015.

TVA currently anticipates spending significant amounts on environmental projects through 2025 including investments in new clean energy generation including natural gas, nuclear, and renewables to reduce TVA's overall environmental footprint.

Power Program

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 over 9 million people. TVA has not received appropriated funds from the federal government for its power program since 1959 although appropriated funds for its nonpower and multi-purpose programs continued through 1999. The 1959 amendment to the TVA Act required TVA, beginning in 1961, to make annual payments to the U.S. Treasury from net power proceeds as a repayment of and as a return on the government's appropriation investment in the power program until $1.0 billion of the total had been repaid. With the 2014 payment, TVA fulfilled its requirement to repay an additional $1.0 billion of the Power Program Appropriation Investment. The TVA Act requires TVA to continue making payments to the U.S. Treasury as a return on the remaining $258 million of the Power Program Appropriation Investment.

TVA now primarily funds all of its operations from the sale of electricity and power system financings. TVA's power system financings consist primarily of the sale of debt securities and secondarily of alternative forms of financing such as lease arrangements.

TVA is primarily a wholesaler of power. It sells power to local power company customers ("LPCs") which then resell power to their customers at retail rates. TVA's LPCs consist of: (1) municipalities and other local government entities ("municipalities"), and (2) customer-owned entities ("cooperatives"). These municipalities and cooperatives operate public power electric systems that are not doing business for profit but are operated primarily for the purpose of supplying electricity to the general public or members. TVA also sells power to directly served customers, consisting primarily of federal agencies and industrial customers with large or unusual loads. In addition, power that exceeds the needs of the TVA system may, where consistent with the provisions of the TVA Act, be sold under exchange power arrangements with other electric systems. In FY 2016, TVA expects sales of about 158 billion kilowatt-hours ("kWh") of electricity.

Power generating facilities operated by TVA at September 30, 2014, included 29 conventional hydroelectric sites, a pumped-storage hydroelectric site, 10 coal-fired sites, three nuclear sites, 14 natural gas and/or oil-fired sites, and a diesel generator site, although certain of these facilities were out of service as of September 30, 2014. TVA's renewable energy program, Green Power Switch®, includes 16 solar energy sites, digester gas co-firing capacity at a coal-fired site, biomass co-firing potential (located at coal-fired sites), and a wind energy site (out of service).

As of September 30, 2014, TVA's coal-fired units had 11,933 megawatts ("MW") of net summer capability. The 10 coal-fired plants generated about 44 percent of the power from TVA-operated facilities during FY 2014. TVA's system also includes 98 generators powered by natural gas and/or oil-fired units with a total net summer capability of 9,242 MW. These generators can be quickly started and are vital for meeting peak electricity demands. These generators provided nine percent of the power from TVA-operated facilities in FY 2014.

The six nuclear units have a combined net summer capability of 6,724 MW and generated 38 percent of the power from TVA-operated facilities in FY 2014.

TVA-owned hydroelectric units have a combined net summer capability of 5,418 MW and generated about nine percent of the power from TVA-operated facilities in FY 2014.

Integrated Resource Plan

TVA's mission sets the stage for its strategic planning process that includes strategic objectives, initiatives, and scorecards for performance designed to provide clear direction for improving TVA's core business. An important element of the planning process is the IRP.

The 2011 IRP study, entitled *TVA's Energy and Environmental Future*, supports TVA's comprehensive mission, which includes providing the region with an affordable, reliable, environmentally sustainable supply of electricity. The power supply plans evaluated in this study identified the most likely new resources needed to satisfy expected energy demand in the region during a 20-year planning horizon under various scenarios of the future. The resulting recommended planning direction is consistent with TVA's Environmental Policy.

The IRP guides TVA in meeting its customers' power needs while addressing the substantial challenges facing the electric utility industry. The recommended planning direction provides flexibility to make sound choices as economic and regulatory changes occur. Resource recommendations in the IRP seek to balance cost, risk, system reliability, and environmental responsibility in providing power for TVA's customers.

In the fall of 2013, TVA started a refresh of the 2011 IRP. This effort responds to changes in the industry and in the TVA service area that were not fully captured in that study. In addition to realigning some planning assumptions for this current effort, TVA is also enhancing the analytic framework used to model energy efficiency and renewable energy resources while maintaining the comprehensive treatment of uncertainty used in the prior study. The updated IRP report, along with a supplemental Environmental Impact Statement, is expected to be published in 2015.

Transmission System

The approximately 2,500 miles of 500 kilovolt lines in TVA's transmission system are a critical link in moving electricity throughout the eastern United States. TVA continues to invest in transmission assets to strengthen system reliability and incorporate new technology which provides a clearer picture of grid conditions over a wider area at any given time.

The TVA transmission system is one of the largest in North America. TVA's transmission system has 69 interconnections with 12 neighboring electric systems, and delivered nearly 161 billion kWh of electricity to TVA customers in FY 2014. In carrying out its responsibility for grid reliability in the TVA service area, TVA has operated with 99.999 percent reliability over the last 15 years in delivering electricity to customers.

TVA's transmission system interconnects with systems of surrounding utilities and consisted primarily of the following assets at September 30, 2014:

- Approximately 2,500 circuit miles of 500 kilovolt, 11,500 circuit miles of 161 kilovolt, and 2,200 circuit miles of other voltage transmission lines
- 511 transmission substations, power switchyards, and switching stations
- 1,278 customer connection points (customer, generation, and interconnection)

Natural Resource Stewardship

TVA has stewardship responsibility for about 11,000 miles of reservoir shoreline, approximately 293,000 acres of reservoir land, and 49 reservoirs encompassing approximately 650,000 surface acres of reservoir water used for recreation, aquatic and wildlife habitat, water supply, and industrial access. In addition, TVA manages over 170 agreements with private entities for commercial recreation (such as commercial campgrounds and marinas), manages 130 agreements with public agencies for public recreation (such as public parks, day use areas, boat launches, and swimming areas), and is responsible for over 80 public recreation areas throughout the Tennessee Valley. In accordance with its 2008 Environmental Policy, the TVA Board accepted the Natural Resource Plan ("NRP") in 2011 to guide TVA's cultural and natural resource stewardship efforts for the next 20 years. Programs within the NRP enhance TVA's stewardship of recreation and water resources, as well as biological and cultural resources on TVA lands and reservoirs, land planning, and public engagement. The NRP will be reviewed and updated approximately every 5 years.

Tennessee River System

Approximately 42,000 miles of rivers, streams, and tributaries, including the 652-mile-long Tennessee River, and the 49 dams and 14 navigation locks are a vital part of the nation's inland waterway system, transporting more than 50 million tons of cargo annually. In addition to supporting commercial navigation, TVA's integrated management of the river system supports recreation, public and industrial water supply needs, aquatic habitat protection, flood risk reduction, hydroelectric power production, and cooling water for TVA's generation units. The watersheds of the Tennessee River and its 16 tributaries encompass more than 41,000 square miles across 125 counties in portions of seven states.

Economic Development

Since its creation in 1933, TVA has promoted the development of the Tennessee Valley. Economic development, along with energy production and environmental stewardship, is one of the core missions of TVA. TVA works with LPCs, regional, state, and local agencies and communities to showcase the advantages available to businesses locating or expanding in TVA's service area. TVA's primary economic development goals are to recruit major business operations to locate in the Tennessee Valley, encourage the location and expansion of companies that provide quality jobs, prepare communities in the Tennessee Valley for economic growth, and offer support to help grow and sustain small businesses. TVA seeks to meet these goals through a combination of initiatives and partnerships designed to provide program support, technical services, industry expertise, and site-selection assistance to new and existing businesses. TVA's economic development efforts helped recruit or expand over 190 companies into the TVA service area during FY 2014. These companies announced capital investments of approximately $8.5 billion and the expected creation and/or retention of over 60,300 jobs.

Technology Innovation

Consistent with the TVA Act, TVA makes investments in science and technological innovation to assist the agency in meeting future business and operational challenges in key areas and to establish national leadership in research, development, and demonstration. In addition to research that directly supports optimization of its generation and delivery assets, TVA is also focused on emerging technological advances in small modular nuclear reactors ("SMRs"), grid modernization, energy utilization technologies, and distributed energy resources. TVA's goal is to demonstrate how technologies can be used to improve/sustain reliability, reduce costs, lower emissions to the environment, and position TVA for a sustainable future.

TVA also seeks to leverage research and development activities and investments through partnerships with LPCs, the Electric Power Research Institute ("EPRI"), the Department of Energy ("DOE"), the Oak Ridge National Laboratory ("ORNL") and other national labs, research consortiums, peer utilities, universities, and vendors and participation in professional societies.

Commitment to the Future

TVA is a leader in public power, a model built on trust and partnerships with the people TVA serves. This model continues to deliver reliable, affordable electricity to more than 9 million people and 700,000 businesses. It enables effective, integrated resource management and environmental stewardship in parts of seven southeastern states. TVA promotes alliances with others that help attract and retain jobs and investments that support economic development in the Tennessee Valley.

TVA recognizes that the environment in which TVA does business continues to evolve. TVA is more flexible in its planning and more nimble in its execution. TVA is also working to respond more quickly than ever to continually changing market conditions.

TVA is taking steps to improve its operating and financial performance. TVA plans to control operating and maintenance costs and adjust capital spending based on market and regulatory conditions. One thing will not change – TVA's commitment to provide reliable electricity at rates as low as are feasible.

TVA is proud to honor this commitment.

Budget Overview

Asset Portfolio

TVA, like the rest of the electric utility industry, is challenged to meet customer demand with cleaner, reliable, low-cost energy resources. This will require substantial capital investments during the next decade. TVA funds asset investments through power revenues, the issuance of bonds up to a limit set by Congress, and alternative financings including lease financings.

TVA faces significant uncertainty from external factors such as weather, the economy, and decreased demand from energy efficiency and demand response initiatives. TVA's financial information includes estimates, which are affected by these and other changing conditions. TVA projects total revenue to be $10.9 billion in FY 2016, which includes revenues related to fuel cost recovery and an adjustment to fund investments associated with TVA's clean air program. The fuel cost recovery mechanism adjusts power rates monthly to reflect the changing costs of fuel, purchased power, and emission allowances.

In March 2013, TVA announced it is proceeding with an emissions control project at Gallatin Fossil Plant ("Gallatin"). The project includes the installation of SCR systems and scrubbers at all four units of the 976 MW plant. The scrubbers are expected to be completed in 2016, with the SCR systems to follow in 2018. Due to the age, lower capacity, and lower efficiency of TVA's older coal-fired units, it may not be economical to continue to operate some units in the future, particularly if new environmental laws or regulations become effective. However, discontinuing the use of some coal-fired units may be constrained by transmission reinforcement that will be required before the units are taken out of service.

In November 2013, the TVA Board approved the completion of a natural gas-fired facility at the Paradise Fossil Plant ("Paradise") site and subsequent retirement of Paradise coal-fired Units 1 and 2. Paradise Unit 3, a coal-fired unit, will continue to be operated. At its August 21, 2014 meeting, the TVA Board approved the completion of a natural gas-fired facility at the Allen Fossil Plant ("Allen") site. TVA plans to retire the Allen coal-fired units no later than December 31, 2018. On December 30, 2014, the TVA Board also approved adding additional pollution controls on Units 1 and 4 at the Shawnee Fossil Plant ("Shawnee") site.

TVA is also planning to convert its wet fly ash and gypsum facilities to dry collection facilities. The estimated cost of this conversion is between $1.5 billion and $2.0 billion, and the current schedule for completion is December 2022.

TVA's nuclear construction is an important element in a diversified portfolio for the future. Construction of Watts Bar Unit 2 is continuing in accordance with the schedule and budget expectations approved by the TVA Board in April 2012. The total estimated cost of completion is between $4.0 billion and $4.5 billion. Construction is currently expected to be completed by December 2015.

Although work on the Bellefonte Unit 1 site was slowed in 2014, TVA believes that the resulting budgeting and staffing levels should be sufficient to preserve Bellefonte for potential future development. TVA plans to utilize its integrated resource planning process to help determine how Bellefonte best supports TVA's overall efforts to continue to meet customer demand with low-cost, reliable power.

In FY 2016, TVA estimates that it will invest about $2.3 billion in capital projects for the power system. These investments are subject to approval in the FY 2016 budgeting process.

Stewardship

TVA operates and maintains one of the nation's largest systems of dams, reservoirs, and lands. Based on the provisions in the Energy and Water Development Appropriations Act, 1998, TVA funds its traditional essential water and land stewardship activities including the NRP with power revenues, user fees, and sources other than appropriations. No federal appropriations have been received by TVA for water and land stewardship since FY 1999, and none are requested for FY 2016.

TVA Operating Budget

(Millions of dollars)

	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Revenue	11,137	10,697	10,902
Operating Expenses			
Fuel & Purchased Power	(3,824)	(3,552)	(3,486)
Operating, Maintenance, & Other	(3,341)	(2,989)	(2,917)
Depreciation & Amortization	(1,843)	(1,863)	(2,008)
Tax Equivalents	(540)	(532)	(524)
Total Operating Expenses	(9,548)	(8,936)	(8,935)
Operating Income	1,589	1,761	1,967
Other Income	49	35	36
Interest Expense, net	(1,169)	(1,202)	(1,398)
Net Income	469	594	605

Capital Budget & Cash Flow

(Millions of dollars)

	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate
Cash flows from operating activities			
Net income	469	594	605
Items affecting operating activities	2,511	1,888	2,141
Net cash provided by operating activities	**2,980**	**2,482**	**2,746**
Cash Used in Capital Budget			
Capital Projects			
Nuclear	(212)	(302)	(317)
Power Operations	(219)	(189)	(195)
River Operations	(89)	(88)	(88)
Transmission	(129)	(169)	(206)
Other Base Capital	(184)	(211)	(195)
Total Base Capital	(833)	(959)	(1,001)
Clean Air	(332)	(296)	(170)
Ash Remediation	(96)	(77)	(48)
Water Remediation	-	-	(26)
Total Environmental Costs	(428)	(373)	(244)
Watts Bar Unit 2	(896)	(823)	(146)
Paradise CC	(137)	(436)	(216)
Allen CC	-	(99)	(363)
Other Capacity Expansion	(90)	(646)	(316)
Total Capacity Expansion	(1,123)	(2,004)	(1,041)
Nuclear Fuel Capital	(326)	(382)	(302)
Other Investing Activities	(46)	(50)	(50)
Net cash used in investing activities	**(2,756)**	**(3,768)**	**(2,638)**
Borrowings (net of redemptions)	(1,213)	1,225	36
Other financing activities	(113)	(139)	(144)
Net cash provided by financing activities	**(1,326)**	**1,086**	**(108)**
Net change in cash and cash equivalents	(1,102)	(200)	-
Cash and cash equivalents at beginning of year	1,602	500	300
Cash and cash equivalents at end of year	500	300	300
Cash Payments to U.S. Treasury *	(15)	(8)	(8)
Reduction/(Increase) in Total Debt and Debt-Like Obligations	1,402	(1,016)	178

* For federal reporting purposes Payments to U.S. Treasury are not considered disbursements.

Note: Included budget estimates are subject to change by TVA management and the TVA Board.

Business Plan

TVA is governed by the nine-member TVA Board of Directors, which is responsible for approving an annual budget. The information in this document is based on the FY 2015 annual budget, which was approved by the TVA Board in August 2014. The following were considered in preparing the budget.

Borrowing Limit

TVA must live within its means to achieve its mission of supplying low-cost, reliable power, supporting environmental stewardship, and stimulating economic development. In achieving its mission while following sound financial principles, TVA uses financing selectively. Generally, financing is used to fund capital investments for new generation capacity and environmental controls while maintenance of the power system and other capital expenditures are generally funded with revenues.

TVA has the authority in the TVA Act to issue bonds, notes, and other evidence of indebtedness subject to a $30 billion limit, sometimes referred to as TVA's statutory debt limit. TVA's bonds are not backed by the full faith and credit of the federal government and do not count against the United States federal debt limit. Congress last raised TVA's borrowing authority in 1979. As of September 30, 2014, TVA had $23.6 billion of bonds and notes outstanding. Bonds and notes are generally the lowest cost form of financing available to TVA.

While the $30 billion limit on bonds and notes has not been raised since 1979, TVA's business and operations have continued to grow along with the power needs of the Tennessee Valley. Since 1979, TVA has increased its total assets from $13.0 billion to $45.6 billion (as of September 30, 2014). TVA's balance of financing obligations is projected to increase in FY 2015 to meet expected capital investment needs which are primarily driven by capacity expansion projects, including the completion of Watts Bar Unit 2 and projects at Paradise and Allen. However, TVA will continue to remain below the statutory debt limit.

Nuclear Program

TVA is making a significant investment in safe and reliable nuclear power. The estimated completion cost of Watts Bar Unit 2 is between $4.0 billion and $4.5 billion.

Pension Fund

As of September 30, 2014, TVA's qualified pension plan had assets of $7.5 billion compared with liabilities of $12.2 billion. The plan has approximately 35,000 participants, of which approximately 23,400 are retirees or beneficiaries currently receiving benefits. Benefits of approximately $650 million were paid to participants in 2014.

Coal-Fired Fleet Evaluation

TVA began its coal-fired plant construction program in the 1940s, and its coal-fired units were placed in service between 1951 and 1973. Coal-fired units are either active or inactive. TVA considers units to be in an active state when the unit is generating, available for service, or temporarily unavailable due to equipment failures, inspections, or repairs. As of September 30, 2014, TVA had 10 coal-fired plants consisting of 41 active units, accounting for 11,933 MW of summer net capability. As of September 30, 2014, TVA had 18 inactive units. Inactive units may be in three categories: retired, mothballed, or inactive reserve. Retired units are unavailable for service and are not expected to return to service in the future. As of September 30, 2014, TVA had 11 retired units: John Sevier Fossil Plant ("John Sevier") Units 1-4, Shawnee Unit 10, and Widows Creek Fossil Plant ("Widows Creek") Units 1-6. Mothballed units are unavailable for service but can be brought back into service after some maintenance with an appropriate amount of notification, typically weeks or months. As of September 30, 2014, TVA had seven mothballed units: Johnsonville Fossil Plant ("Johnsonville") Units 5-10 and Colbert Fossil Plant ("Colbert") Unit 5. Inactive reserve units are unavailable for service but can be brought back into service after some repairs in a relatively short duration of time, typically measured in days. As of September 30, 2014, TVA had no units in inactive reserve. TVA refers to units which are in inactive reserve or mothballed status as idled. In addition, as of October 1, 2014, TVA mothballed Widows Creek Unit 8.

During FY 2014, the TVA Board took several actions related to the retirement of certain coal-fired units. Upon the completion of a natural gas-fired generation facility at the Paradise site, coal-fired Units 1 and 2 at Paradise with a summer net capability of 1,230 MW will be retired, and upon the completion of a natural gas-fired generation facility at the Allen site, coal-fired Units 1-3 at Allen with a summer net capability of 741 MW will be retired. The TVA Board also approved the retirement of Colbert Unit 5 with a summer net capability of 472 MW no later than December 31, 2015, Colbert Units 1-4 with a summer net capability of 712 MW no later than June 30, 2016, and Widows Creek Unit 8 with a summer net capability of 465 MW in the future. Additionally, on December 30, 2014, the TVA Board approved adding additional pollution controls on Shawnee Units 1 and 4.

Coal-fired plants have been subject to increasingly stringent regulatory requirements over the last few decades, including those of the CAA and subsequent laws and regulations. Increasing regulatory costs require consideration of whether to make the required capital investments to continue operating, or to decommission these facilities. In April 2011, TVA entered into two agreements (collectively, the "Environmental Agreements"). The first agreement is a Federal Facilities Compliance Agreement with the EPA. The second agreement is with Alabama, Kentucky, North Carolina, Tennessee, and three environmental advocacy groups: the Sierra Club, National Parks Conservation Association, and Our Children's Earth Foundation. Under the Environmental Agreements, TVA agreed to retire 18 of its 59 coal-fired units by the end of 2017 and was generally absolved from any liability, subject to certain limitations and exceptions, under the New Source Review requirements of the CAA for maintenance, repair, and component replacement projects that were commenced at TVA's coal-fired units prior to the execution of the agreements. Failure to comply with the terms of the Environmental Agreements would subject TVA to penalties stipulated in the agreements. TVA is taking the actions necessary to comply with the Environmental Agreements. TVA is confident that it has adequate capacity to meet the needs of its customers after these units are retired.

Fossil Plant	Total Units	Existing Scrubbers and SCRs	Requirements Under Environmental Agreements	Actions Taken or Planned to be Taken by TVA
Allen	3	SCRs on all three units	Install scrubbers or retire no later than December 31, 2018	- The Board approved the construction of a gas-fired plant at the current Allen coal-fired site - Retire Units 1-3 after completion of the gas-fired plant
Bull Run	1	Scrubber and SCRs on unit	Continuously operate current and any new emission control equipment	Continuously operate existing emission control equipment
Colbert	5	SCR on Unit 5	- Remove from service, control, convert, or retire Units 1-4 no later than June 30, 2016 - Remove from service, control, or retire Unit 5 no later than December 31, 2015 - Control or retire removed from service units within three years	- Idled Unit 5 in October 2013 - Retire Unit 5 no later than December 31, 2015, and Units 1-4 no later than June 30, 2016
Cumberland	2	Scrubbers and SCRs on both units	Continuously operate existing emission control equipment	Continuously operate existing emission control equipment
Gallatin	4	None	Control, convert, or retire all four units no later than December 31, 2017	Add scrubbers and SCRs on all four units by December 31, 2017
John Sevier	4	None	- Retire Units 1 and 2 no later than December 31, 2012 - Remove from service Units 3 and 4 no later than December 31, 2012 and control, convert, or retire those units no later than December 31, 2015	- Retired Units 1 and 2 effective December 31, 2012 - Retired Units 3 and 4 in June 2014
Johnsonville	10	None	- Retire six units no later than December 31, 2015 - Retire four units no later than December 31, 2017	- Retire six units by December 31, 2015 - Retire four units by December 31, 2017 - Idled Units 7 and 8 effective March 1, 2012 - Idled Units 5-6 and Units 9-10 on October 1, 2013
Kingston	9	Scrubbers and SCRs on all nine units	Continuously operate existing emission control equipment	Continuously operate existing emission control equipment
Paradise	3	Scrubbers and SCRs on all three units	- Upgrade scrubbers on Units 1 and 2 no later than December 31, 2013 - Continuously operate emission control equipment on all three units	- On November 14, 2013, the Board approved the retirement of Units 1 and 2, and replacement with gas-fired generation, with effective dates to be determined. - Continuously operate emission control equipment on Unit 3

Shawnee	10	None	Control, retire, or convert Units 1 and 4 no later than December 31, 2017	- On December 30, 2014, the Board approved adding additional pollution controls on Units 1 and 4 - Retired Unit 10 in June 2014
Widows Creek	8	Scrubbers and SCRs on Units 7 and 8	- Retire two of Units 1-6 no later than July 31, 2013 - Retire two of Units 1-6 no later than July 31, 2014 - Retire two of Units 1-6 no later than July 31, 2015 - Continuously operate existing emissions control equipment on Units 7 and 8	- Retired Units 3 and 5 effective July 31, 2013 - Retired Units 1,2,4, and 6 in June 2014 - Continuously operate existing emissions control equipment on Units 7 and 8 - Idled Unit 8 on October 1, 2014, and plan to retire Unit 8 in the future

Kingston Ash Spill

In December 2008, a dike around one of the dredge cells at the Kingston Fossil Plant failed, releasing approximately 5.4 million cubic yards of coal ash. TVA estimates the cost of cleanup and recovery efforts to be $1.1 billion. Costs incurred since the event through September 30, 2014, totaled $1.1 billion. The remaining estimated liability at September 30, 2014, was $21 million.

Approximately 3.0 million cubic yards were recovered from the adjacent Emory River in 2009 and 2010. It was transported off-site for disposal. In June 2013, TVA finished recovering and placing approximately 2.4 million cubic yards of ash from the adjacent Swan Pond Embayment into the on-site ash landfill. The ash landfill will be closed by constructing a multi-layer cap over the ash. In June 2013, TVA began placing the first section of the multi-layer cap. The final cap is forecasted to be completed by early FY 2015. A perimeter wall was constructed to stabilize the perimeter of the landfill to contain the ash. The wall construction was completed in mid-August 2013, and repairs were completed in February 2014.

Long-term monitoring of the Emory River was initiated in the spring of 2013 and will continue for up to 30 years. Results of this monitoring will be used to evaluate the ecological resources in the river system and the river's natural processes for remediating any residual ash in the river. In addition, TVA is restoring the ecological habitat along the Emory River and in the Swan Pond Embayment. That work began in the second quarter of FY 2014, and is expected to be finished by the spring of 2015. A final assessment, issuance of a completion report, and approval by the State of Tennessee and the EPA are expected to occur by the third quarter of FY 2015.

Coal Combustion Residuals Facilities

TVA retained an independent third-party engineering firm to perform a multi-phased evaluation of the overall stability and safety of all existing embankments associated with TVA's coal combustion residual ("CCR") facilities. The first phase of the evaluation, which was completed in June 2009, involved a detailed inspection of all CCR facilities, detailed documentation reviews, and a determination of any immediate actions necessary to reduce risks. The second phase of the program, which was completed in April 2011, included geotechnical explorations, material testing, stability analyses, and studies. The studies determined that none of TVA's other coal-fired plants showed the same set of conditions that existed at Kingston at the time of the ash spill and that the ongoing remediation work being done at the plants should bring all of them within industry standards in terms of stability. The third phase of the program, which is implementation of recommended actions, is ongoing. This phase includes risk mitigation steps such as performance monitoring, designing and completing repairs, developing planning documents, obtaining permits, and generally implementing the lessons learned from the Kingston ash spill at TVA's other CCR facilities. As a part of this effort, an ongoing dam oversight program has been undertaken, and TVA employees have received additional training in dam safety and monitoring.

TVA is converting its wet fly ash, bottom ash, and gypsum facilities to dry collection processes and facilities. In addition, TVA has implemented strategies that have decreased the risk classification of CCR facilities that were classified as "high" risk during the preliminary reassessment. The classifications, such as "high," do not measure the structural integrity of the facility or the possibility of whether a failure could occur. Rather, they are designed to identify where loss of life or significant economic or environmental damage could occur in the event of a failure. The expected cost of the CCR work is between $1.5 billion and $2.0 billion, and currently the work is scheduled to be completed in December 2022. Costs incurred since the start of the work through September 30, 2014 totaled $618 million.

Southaven

On August 9, 2013, TVA entered into a lease financing arrangement with Southaven Combined Cycle Generation, LLC ("SCCG") for the lease by TVA of the Southaven Combined Cycle Facility ("Southaven CCF"). SCCG is a special single-purpose limited liability company formed in June 2013 to finance the Southaven CCF through a $360 million

secured notes issuance (the “SCCG notes”) and the issuance of $40 million of membership interests subject to mandatory redemption. The membership interests were purchased by Seven States Southaven, LLC. Southaven Holdco, LLC (“SHLLC”) is a special single-purpose entity, also formed in June 2013, established to acquire and hold the membership interests of SCCG. A non-controlling interest in SHLLC is held by a third party through nominal membership interests, to which none of the income, expenses, and cash flows of SHLLC are allocated. The membership interests held by SHLLC were purchased with proceeds from the issuance of $40 million of secured notes and are subject to mandatory redemption pursuant to scheduled amortizing, semi-annual payments due each August 15 and February 15, with a final payment due on August 15, 2033.

Wholesale Rate Structure Changes

TVA implemented a revised wholesale rate structure in April 2011. The rate structure provides price signals intended to encourage LPCs and end-use customers to shift energy usage from high-cost generation periods to less expensive generation periods. Under the revised wholesale structure, weather can positively or negatively impact both volume and average rates, while only volume was impacted under the former wholesale structure. This is because the wholesale structure includes two components: a demand charge and an energy charge. The demand charge is based on the customer's peak monthly usage and increases as the peak increases. The energy charge is based on the kWhs used by the customer. In conjunction with the change, the rate structure was also revised to establish a separate fuel rate that includes the costs of natural gas, fuel oil, purchased power, coal, emission allowances, nuclear fuel and other fuel-related commodities; realized gains and losses on derivatives purchased to hedge the costs of such commodities; and tax equivalents associated with the fuel cost adjustments.

Renewable Energy

In accordance with the 2011 IRP, TVA plans to obtain between 1,500 to 2,500 MW of cost-effective renewable energy by 2020. TVA defines its renewable energy as energy that is sustainable and often naturally replenished, such as wind, solar, biomass, and hydroelectric generation.

TVA’s renewable energy portfolio is made up of TVA-owned and purchased clean and renewable energy including: hydro, wind, solar, and biomass. As of September 30, 2014, TVA maintained 29 conventional hydroelectric dams, accounting for 3,802 MW of summer net capability. TVA also controls 16 solar energy sites, digester gas co-firing at Allen Fossil Plant, and three wind turbines. The wind turbines did not provide any summer net capability as of September 30, 2014, because they were not operational. The digester gas co-firing capacity is accounted for as coal-fired generation summer net capability. The solar sites provide less than one MW of summer net capability.

TVA has entered into eight contracts with eight Midwest wind farms for the purchase of renewable wind energy. Since December 1, 2012, energy has been provided to TVA under all eight contracts. The first wind farm, located in Illinois, began providing 300 MW (nameplate capacity) under a 20-year contract in May 2010. TVA does not purchase the renewable attributes for this energy but has the opportunity to obtain them in the future. The other seven contracts provide TVA with an additional 1,215 MW (nameplate capacity) that include renewable attributes. These wind farms are located in Illinois, Kansas, and Iowa. In addition, TVA has contracted for 27 MW (nameplate capacity) of renewable energy generation from 15 wind turbine generators located on Buffalo Mountain near Oak Ridge, Tennessee.

In 2003, TVA developed a Generation Partners ("GP") pilot program to test the interest and feasibility of renewable consumer-owned generation as a source of power for TVA. In October of 2012, the GP program transitioned to a long-term, sustainable program called Green Power Providers (“GPP”). Since 2009, TVA has seen strong growth in small scale renewable energy projects, from fewer than 80 installations to more than 2,200 installations in operation providing close to 90 MW of solar, wind, low-impact hydro, and biomass generation. Solar installations alone total approximately 77 MW of this generation.

The Renewable Standard Offer ("RSO") program is a voluntary program that began in October 2010 to increase the amount of renewable energy generated in TVA's service territory. Under this program, TVA will purchase certain types of renewable energy at market rates from projects that meet the requirement of the RSO program as long as there is sufficient available capacity in the program. Solar, wind, and specific biomass projects are included in the program. Projects must be greater than 50 kilowatts ("kW"), but no greater than 20 MW in nameplate capacity. Since October 2010, TVA has offered 300 MW of RSO renewable capacity through CY 2014 and currently has nearly 230 MW of projects including 20 MW of biomass, nearly 18 MW of landfill gas and 192 MW of solar technologies operating or committed. TVA is taking steps that could significantly increase TVA’s solar energy capacity while ensuring TVA’s green power programs remain sustainable and cost effective. TVA is offering a total of 130 MW of renewable capacity in CY 2015 through a variety of power-purchasing programs for homes, businesses and commercial installations. TVA will continue to add capacity and reduce pricing incentives to reflect lower technology costs for generators and to support lower electric rates for the Tennessee Valley’s nine million residents.

The Solar Solution Initiative ("SSI") is a pilot program that began in February 2012 and provides incentive payments for mid-sized (greater than 50 kW up to 1 MW) solar projects in TVA's RSO program if the projects use local certified installers in the Tennessee Valley region. SSI is a targeted incentive that aims to support the existing local solar industry, while also serving to add renewable investment and jobs. Since February 2012, TVA has offered 36 MW of renewable solar capacity through SSI, with over 32 MW operating or committed.

TVA's Green Power Switch® ("GPS") program is a voluntary purchase program that supports and promotes the production of renewable energy. In 2000, TVA became the first utility in the Southeast to offer consumers the choice to purchase renewable energy. In FY 2014, GPS had approximately 199,000 MWh sales through the three GPS program options. TVA continued the original GPS program and the testing of two new customer options. In the original GPS, consumers have the option to purchase 150 kWh renewable energy blocks for $4 per month. Supply includes certified Green-e Energy generated from TVA-owned and purchased solar, wind, digester gas, and landfill gas generation. The two additional pilot options test customer demand for a 100-percent solar option sourced from TVA's growing GPP supply as well as a lower priced bulk option for larger commercial and industrial customers. As of September 30, 2014, supply for the bulk option is sourced from TVA-contracted renewable energy credits in the greater Southeastern region.

Payments in Lieu of Taxes

TVA provided $533 million in tax equivalent payments in FY 2014 to state and local governments where it sells electricity or has power properties. TVA pays tax equivalent payments annually to the eight states where it sells electricity or owns generating plants, transmission lines, substations or other power assets, and directly to 146 county governments where TVA owns power properties that were previously privately owned and operated and subject to ad valorem taxes.

The TVA Act requires TVA to return five percent of gross revenues from the sale of power during the previous fiscal year (excluding sales or deliveries to other federal agencies and off-system sales with other utilities, with a provision for minimum payments under certain circumstances) in the form of tax equivalent payments. The payments compensate state and local governments that cannot levy property or sales tax on TVA as a federal entity, and makes TVA one of the largest “taxpayers” in Tennessee and Alabama.

State and local governments distribute the funds according to their own formulas and discretion to support a variety of initiatives, including schools, fire departments and other emergency response agencies, tourism and recreation, and human service organizations.

Since 1941, TVA has made more than $11.4 billion in tax equivalent payments, with payments in the past 10 years totaling $4.8 billion.

Management Initiatives

Rates/Debt

TVA is undertaking cost and debt reduction initiatives with the goal of keeping rates as low as feasible, keeping reliability high, maintaining a healthy financial position, and continuing to fulfill its broader mission of environmental stewardship and economic development. TVA is focused on reducing operating and maintenance costs through further efficiency gains and streamlining the organization. The goal is to reduce TVA's operating and maintenance costs by $500 million by FY 2015 as compared to its FY 2013 budget. As part of these cost reduction initiatives, an organizational restructuring occurred in 2014, which resulted in approximately 2,000 position reductions achieved through attrition, elimination of vacant positions, and employees leaving TVA either voluntarily or involuntarily.

Asset Portfolio

TVA is focusing on delivering more energy efficiency as part of its balanced portfolio approach. TVA uses a variety of programs that reduce the use of energy ("energy efficiency") and also support system optimization through programs that shift or reduce peak demand ("demand response"). TVA collaborates with its customers, such as LPCs, directly served industrial customers and governmental agencies, to establish and implement effective programs across the Tennessee Valley. TVA is also working with industry experts to tailor these programs to produce the best results.

TVA continues to expand the EnergyRight® Solutions program to include residential, commercial, industrial and power systems initiatives.

- **EnergyRight® Solutions for the Home** - Allows residential customers to play an active role in saving energy in their homes through improvements to weatherization, HVAC systems and water heating.
- **EnergyRight® Solutions for Business** - Offers energy information and assistance to help businesses save energy with rebates and other financial incentives available to help offset project expenses.
- **EnergyRight® Solutions for Industry** - Provides customized technical evaluations to assess plant-wide energy efficiency opportunities, along with financial incentives for qualified projects.
- **EnergyRight® Solutions for Customer Systems -** Works to optimize power delivery systems by shifting or reducing consumer demand at peak times of the day to avoid supplying high-priced peak power and improve system optimization and reliability through physical (e.g., direct cycling of residential and commercial equipment), contractual (e.g., voluntary reductions for payment) and voltage optimization (e.g., regulating voltage to the lower region of the prescribed range) means.

The 2011 IRP provides a summary of TVA's last analysis of diversified energy resources and recommends a strategic direction focusing on a diverse mix of electricity generation sources, including nuclear power, renewable energy, and natural gas, as well as traditional coal and hydroelectric power. TVA is currently undertaking a refresh of the 2011 IRP with the new report expected to be published in 2015.

Completion of Watts Bar Unit 2 is an integral part of TVA's balanced portfolio approach. Watts Bar Unit 2 is expected to be completed in December 2015 and to provide approximately 1,180 MW of summer net capability. The work on Watts Bar Unit 2 is continuing within the schedule and budget expectations approved by the TVA Board in April 2012.

Cyber Security

TVA has an established risk-based Cyber Security Program that is designed to ensure alignment with applicable regulations, industry requirements, and best practices. The program has established security standards, training, and metrics that assign clear accountability for all cyber security activities throughout TVA. Security controls have been integrated into business processes, enabling timely, coordinated, effective, and efficient execution of the program across TVA. Cyber security management processes have been implemented agency-wide with the goal of being systematic, repeatable, and effective in achieving the strategic security goals of the program. Governance for the program is provided by TVA's Chief Information Officer.

The budget of the Cyber Security Program is allocated to responsible organizations to improve accountability and provide transparency. Budgeting and planning for the program's components are integrated into the business planning process and are maintained in a three-year cyber security strategic plan covering all information security functions. The plan will be modified to upgrade TVA's capabilities as technology advances and threat vectors and business requirements change.

TVA understands that timely, accurate and reliable information is critical to the success of the TVA mission and the role it plays as a National Critical Infrastructure Key Resource and Bulk Electric System provider. The program objectives are aligned with business strategy and support the goals of the enterprise. TVA uses a full spectrum defense security model to prevent, detect, respond to and recover from threats against its systems. TVA plans to invest approximately $25 million to $35 million in its Cyber Security programs between FY 2014 and FY 2016 to ensure it meets its mission objectives.

People/Stewardship

Environmental Stewardship and River Management

TVA manages the Tennessee River system to provide public benefits including navigation, flood risk reduction, power production, water supply, improved water quality, and recreation. TVA routinely involves the public in its environmental decision-making. Due to the increasing level and complexity of environmental requirements and expectations, TVA developed a high-level Environmental Policy. The current Environmental Policy was initially approved by the TVA Board in 2008 and is reviewed on a biennial basis. The overarching environmental objective is to provide clean, reliable, and affordable energy, support sustainable economic growth, and engage in proactive environmental stewardship in a balanced and ecologically sound manner. In August 2012, TVA conducted its most recent review of the 2008 Environmental Policy. The review found that progress has been made on the Environmental Objectives for all six guiding principles of the Environmental Policy and policy revisions were not needed. The Environmental Policy remains consistent with stated TVA Board strategy and policy.

On June 27, 2014, TVA submitted its fifth Strategic Sustainability Performance Plan ("SSPP") to the White House Council on Environmental Quality and the Office of Management and Budget ("OMB"). Implementing TVA's SSPP is expected to reduce greenhouse gas emissions, reduce solid waste generation and disposal, improve water use efficiency, improve building and energy efficiency, promote electronic stewardship, and encourage the purchase of sustainable products and services while reducing TVA's long-term operational costs and risks.

TVA anticipates future federal legislation and regulations requiring reductions in emissions of greenhouse gases and conventional air pollutants, as well as mandatory increases in power generation from renewable resources. In light of an increasing national focus on renewable and clean energy and in accordance with TVA's Environmental Policy, TVA is obtaining additional power supply from clean and renewable sources.

Specifically, the TVA Board has approved guiding principles for an Energy Efficiency and Demand Response plan and a Renewable and Clean Energy plan. The Energy Efficiency and Demand Response plan seeks to slow the rate of growth in the region's power demand by providing opportunities for residential, commercial and industrial consumer groups to use energy more efficiently. The Renewable and Clean Energy plan strives to add clean energy resources to TVA's generating mix to help reduce carbon emissions as well as reduce the carbon intensity of TVA's power generation and purchased power in a cost-effective manner by utilizing conservation measures, reviewing regional renewable and clean energy supply options, and considering technology innovations that address intermittency issues associated with renewable options.

In August 2011, the TVA Board accepted the NRP, a companion document to TVA's IRP, which focused on the agency's power supply assets portfolio. The NRP provides strategic guidance to integrate TVA's management and protection of the natural and cultural resources and recreation on TVA managed lands and waterways within the Tennessee River Watershed. The NRP includes programs that address biological resources (plants and animals including aquatic species), cultural resources (archaeological sites, historical sites, and artifacts), recreation, water resources, reservoir lands planning, and public engagement. TVA's investment will help it sustain the cultural and natural resources and recreational opportunities for the region's stakeholders and visitors in an efficient and effective manner.

The NRP was developed with public input including participation from federal and state resource management agencies and TVA's Regional Resource Stewardship Council, which was established under the guidelines of the Federal Advisory Committee Act. The NRP, which is TVA's first long-term natural resource management plan, provides a model for other agencies involved in similar stewardship activities. Implementation of NRP programs will be staged over a 20-year period with reviews and updates occurring approximately every five years.

River System

TVA has federal jurisdiction for managing the Tennessee River and its tributaries to deliver multiple benefits, including year-round navigation, reduced flood damage, affordable and reliable electricity, recreation opportunities, adequate water supply, improved water quality, and economic growth.

Navigation on the Tennessee River is made possible by a system of dams and locks and contributes to the regional economy. TVA owns 14 lock chambers at 10 dam sites on the Tennessee River and one tributary. The U.S. Army Corps of Engineers operates and maintains these locks and dams for navigation. This provides an alternative mode of transportation for businesses in the region to ship their products. Barges can move bulk cargo on 652 miles of this river, which ends where it flows into the Ohio River near Paducah, Kentucky.

TVA also manages the river system to provide water for hydroelectric generation and cooling water for TVA power plants. Other water supply activities include issuing permits for water intake structures and promoting regional water supply planning and project implementation.

TVA has installed and is maintaining equipment at several dams to help provide the flows and oxygen levels needed for a healthy aquatic community in tailwaters (the areas immediately downstream from dams). In managing the watershed, TVA balances water quality protection with other demands for water use. As part of the NRP, TVA has implemented several programs including Tennessee Valley Clean Marinas, Nutrient Source-Watershed Identification and Improvement, Climate Change Sentinel Monitoring and Aquatic Ecological Management and a Strategic Partnership Initiative. Under the Stream and Tailwater Monitoring Program in the NRP, TVA performs annual monitoring and analysis of streams and rivers within the Tennessee River Watershed. Upon request, TVA provides the monitoring data to other agencies, educational institutions, non-government organizations, and stakeholders.

TVA and Air Quality in the Tennessee Valley

The latest annual air-quality trends report issued by the EPA shows air quality in the nation has steadily improved with significant declines in collective emissions of the six principal pollutants: sulfur dioxide, nitrogen dioxide, ozone, carbon monoxide, particulate matter, and lead. Data for the Tennessee Valley region has shown a significant improvement in air quality, and TVA continues reducing emissions from its coal-fired plants while supplying affordable, reliable electric power. Over the past several years, TVA has made notable efforts to enhance its environmental performance including improvements in air quality through controls at Bull Run and Kingston Fossil Plants and is making further improvement in air quality through construction of new scrubbers and SCRs on all four Gallatin units by December 31, 2017.

In addition, TVA has reduced emissions by idling or retiring coal-fired units and relying more on cleaner energy resources including natural gas and nuclear generation. During FY 2014, the TVA Board took several actions related to the retirement of certain coal-fired units. Upon the completion of a natural gas-fired generation facility at Paradise, coal-fired Units 1 and 2 at Paradise will be retired, and upon the completion of a natural gas-fired generation facility at Allen, coal-fired Units 1-3 at Allen will be retired. The TVA Board also approved the retirement of Colbert Units 1-4 and 5 no later than June 30, 2016, and December 31, 2015, respectively, as well as the retirement of Widows Creek Unit 8 in the future. Additionally, on December 30, 2014, the TVA Board approved adding additional pollution controls on Shawnee Units 1 and 4.

The Environmental Agreements also require that all emission control equipment be continuously operated to ensure optimum removal of air pollutants. The Environmental Agreements set yearly fleet wide emission caps for SO_2 and NO_x which become more stringent year-to-year as more units are required to be retired.

Economic Development

TVA's partnerships with its customers and communities have helped create quality jobs and attract significant capital investments by new and existing companies. Economic development efforts are done in partnership with private and public organizations, including local, regional, and state agencies. TVA serves the needs of its stakeholders for regional economic development which contributes to a better quality of life for Tennessee Valley residents. TVA's innovative programs and services combine to create effective tools for sustainable economic development. These programs and services include, but are not limited to, the following:

- **Industrial Recruiting Services -** TVA works with LPCs and their customers and local, state, and regional economic development organizations to recruit companies through an integrated package of economic development resources.

- **Regional Development -** TVA assigns a regional development specialist with economic development expertise to serve counties in a specific area to help create and sustain job growth.

- **Community Preparedness -** TVA helps communities increase their competitiveness in attracting investment and creating jobs by delivering resources and training to local community leaders.

- **Rural Initiative Strategy -** TVA helps rural communities develop and better market their sites and buildings to prospective companies. TVA also offers leadership development, planning and project assistance.

- **Retail Development -** Retail Development is a program that links communities with retail business opportunities, insights, and market intelligence.

- **Research -** TVA provides economic and market research to help build the business case for the location and expansion of companies and prepare communities for future growth opportunities.

- **Business Development Support -** An array of products and services are geared to meet the needs of prospective or existing industries. These include financial support and industry consulting services. This work provides vision to businesses for locating and being successful in the Tennessee Valley.

- **Technical Services -** TVA offers general engineering design services to help industrial prospects make sound location decisions and to help communities market themselves for prospects and growth.

- **Diversity Alliance -** TVA helps the region's high-growth sectors of woman-owned and minority-owned businesses increase their job creation and capital investment opportunities by partnering with local organizations that provide business tools and opportunities that help grow and sustain these targeted businesses.

Results

The results of some of TVA's innovative economic development programs and offerings are briefly described below.

- For the ninth consecutive year, TVA made *Site Selection* magazine's list of the top 10 utilities in North America for economic development activity, one of only three utilities to earn this distinction.
- TVA Economic Development recruits new companies and investments to the region in these primary targeted industry sectors: Transportation-Related Manufacturing, Food Processing and General Manufacturing, Advanced Manufacturing, Data Centers and Product Development.
- There are a total of 24 available, ready-for-development data center sites across the TVA region.
- TVA staff provided ongoing economic development assistance through technical services, economic research, proposal writing, training and other services.
- Financial support, offered by TVA and LPCs, continues to be very successful in helping new and existing companies which locate or expand and make a commitment to enhance economic development in the region.
- Assisting communities to be prepared for economic growth opportunities continued to be a focus and more than 250 communities were directly assisted.
- The Valley Sustainable Communities Program was launched in 2013. It is a community preparedness offering to assist communities in cataloging their sustainable assets and improve their competitiveness when companies are looking to invest in new or expanded locations in the Valley. To date, there are 25 communities which have completed this program to highlight and increase their sustainability efforts to differentiate their communities.
- TVA's Rural Development strategy focuses on supporting economic development efforts in rural and economically distressed areas.
- TVA's Retail Development program helps foster business growth for commercial businesses.
- TVA offers two award-winning Economic Development websites, TVAed.com and TVAsites.com, containing demographics, a searchable building and land database, and other key information about the benefits of the Tennessee Valley region.
- FY 2014 announcements include:
    - Alabama: 5,800 jobs and $428 million
    - Kentucky: 4,600 jobs and $909 million
    - Middle Tennessee: 18,800 jobs and $2.3 billion
    - Mississippi: 4,700 jobs and $1.2 billion

- Northeast Tennessee and Virginia: 11,800 jobs and $1.1 billion
- Southeast Tennessee, Georgia and North Carolina: 7,000 jobs and $1.4 billion
- West Tennessee: 7,600 jobs and $1.2 billion.

Technological Innovation

The TVA Act specifies that members of the TVA Board shall affirm support for the objectives and missions of TVA, including being a national leader in technological innovation. A key element in achieving this vision is an annual investment in science and technology that enables TVA to be at the forefront of innovation in the utility industry and to help the agency meet future business and operational challenges. TVA's goal is to demonstrate how technologies can be used to improve/sustain reliability, reduce costs, lower emissions to the environment, and position TVA for a sustainable future.

Each year TVA's annual research portfolio and research strategic plan is updated based on a broad range of operational and industry drivers that help assess key technology gaps, performance issues, or other significant issues that should be addressed through research and development. Core research activities directly support optimization of TVA's generation and delivery assets, air and water quality, and clean energy integration. Additional focus is placed on emerging technological advances in SMRs, grid modernization for transmission and distribution systems, energy utilization technologies, and distributed energy resources. Technology evaluations are most often accomplished through studies and field scale demonstrations to document performance, needs and requirements. TVA delivers or transfers results to the operating organizations and other stakeholders through reporting, technology transfer events, and educational outreach. TVA also serves as a technology advisor for LPCs and directly served customers.

Investments in TVA's research portfolio are highly leveraged through partnership and collaboration with LPCs, EPRI, DOE, other research consortiums, ORNL and other national labs, federal agencies, peer utilities, universities, and vendors and participation in professional societies.

Key Focus Areas

Small Modular Reactors

SMRs are a next generation nuclear technology with potential for improved safety and increased flexibility while providing an important option for clean, reliable energy for TVA's customers. TVA is preparing an early site permit application to the Nuclear Regulatory Commission ("NRC") to license SMRs at its Clinch River Site in Oak Ridge, Tennessee. TVA's project has a great deal of flexibility at this early stage of new technology development, and TVA will be ready to implement whatever decision is in the best interests of the people of the Tennessee Valley.

Grid Modernization

TVA's grid modernization research focuses on technology development and demonstration activities that help sustain reliability, lower costs, and mitigate risks to the bulk power system and the distributor network systems. In cooperation with the Tennessee Valley Public Power Association, LPCs, and EPRI, TVA has developed a vision and roadmap for coordinated grid modernization in the Tennessee Valley. Guided by overarching principles of sustaining reliability, increasing energy efficiency, and integrating clean energy sources, the roadmap identifies: industry and regulatory drivers that necessitate modernization; barriers and interdependencies that must be addressed for successful implementation; critical gaps in technology deployment; key opportunities for investment guided by overall benefits; system planning requirements; and system operational needs. Key focus areas include asset optimization, situational awareness, system modeling, advanced control strategies, and information and communication strategies. Current key initiatives include:

- Demonstration of a number of low-cost, multi-purpose sensors that enable the capability to monitor, maintain, optimize, and extend the life of critical power system equipment assets. Specific monitoring applications of interest include: temperature, pressure, voltage, vibration, current, acoustic emission, sag/displacement, geo-magnetically induced currents, and gas-in-oil. Successful sensor applications are anticipated to become part of TVA's overall smart grid deployment.
- Collaboration with EPRI to develop a standardized approach to field data integration and application for both asset management and grid operations. This collaboration with EPRI will take advantage of TVA's sensor research and conventional asset monitoring to develop standardized data architecture and user applications for improved asset management.
- Partnership with DOE, Smart Wire Grid, and the National Electric Energy Testing Research & Applications Center to demonstrate a power flow control device, called Smart Wire Distributed Series Reactor ("DSR"), that will enable TVA to better manage underutilized transmission line assets. The Smart Wire DSR clamps onto existing transmission lines and provides real time control of power flow on the grid to mitigate line congestion and improve utilization of transmission lines.

- Partnership with EPRI and other utilities, through participation in the SunBurst Network, to deploy sensors that monitor the magnitude of geomagnetically induced current ("GIC") on select transformers in the TVA service territory and to model the GICs and their impacts on the system. The product will be national models that can help mitigate the impacts of GICs and solar storms to the bulk power system.

Energy Utilization

TVA's near-term concentration is on the development and maintenance of a pipeline of emerging energy efficiency and load management technologies for market and program readiness. TVA's efforts are directed towards demonstrating and validating the performance, reliability, and consumer acceptance of new efficiency technology as well as the value of energy efficiency and load management technologies for both the consumer and the utility. TVA also coordinates investment and activities with EPRI and industry stakeholders related to transportation electrification to support operational fleet requirements and the needs of regional distributors of TVA power to provide guidance on matters of plug-in electric vehicle grid integration and readiness for on-road and non-road transportation electrification technologies. Current key initiatives include:

- Three residential test houses in the Knoxville area to further residential research efforts and evaluate residential building techniques, energy efficiency, demand response technologies, and consumer smart grid concepts in a controlled, simulated occupancy research environment. Test results are being used to educate builders, developers, consumers, and TVA program designers to develop the best, most cost-effective residential energy efficiency and demand reduction programs. Example technology evaluations include: building construction and envelopes, windows, advanced heat pump water heaters, variable capacity air-source heat pumps, and load managed heat pump water heaters.
- Partnership with LPCs to evaluate the energy and demand savings potential of grid-enabled residential appliances and to evaluate consumer behavior using such devices. Example technology evaluations include: a suite of smart grid demand responsive Energy Star appliances, home energy management systems, programmable communicating thermostats, grid-connected heat pump water heaters with higher temperature storage, and other home energy management devices in residential test sites.
- Partnership with LPCs to implement three transportation-related projects to support the Environmental Agreements. These include the bucket /pickup truck and charging infrastructure project, solar assisted charging, and non-road electrification and infrastructure development. The bucket truck project received EPA approval in March 2012 and DOE approval of EPRI's revised project plan in January 2013. TVA received EPA approval on the remaining two projects in January 2013.

Clean Energy Integration

TVA seeks to understand the scope and impact of integrating distributed energy resources ("DER") on operations and business economics to develop strategies, in the form of programs, policy/regulatory approaches, and organizational practices/protocols, for adapting to the evolving electricity landscape in the Tennessee Valley. Of particular interest is analyzing existing and expected solar power deployments and modeling selected distribution feeders to evaluate system impacts and to determine the full extent of the positive and/or negative impacts of the DER as it relates to size/location, feeder characteristics, and DER technology. In turn, a cost-benefit analysis will be conducted to value the DER to a distribution system and subsequently the bulk system as a whole.

Operational Research

The following are areas of additional technology innovation that have potential for helping TVA achieve its mission.

Air and Water Quality

The following projects are in collaboration with EPRI:

- Addressing knowledge gaps in the linkage between acid/nutrient deposition, water quality, and aquatic ecosystem health. Data will inform regulation development regarding potential secondary SO_2/NO_x standards proposed by the EPA.
- Assessing the air quality impacts of introducing electric vehicles into the U.S. transportation fleet.
- Conducting fugitive emissions studies to sample airborne particles resulting from material handling operations at fossil plants. Results will be used to support air permits issued under more stringent Particulate Matter 2.5 regulations.
- Collaborating with EPRI, ORNL, and Tennessee Tech University on a thermal plume study at Cumberland Fossil Plant to monitor the behavior of fish residing in and near a heated discharge to determine impacts of thermal discharges on the fish community in situ.
- Addressing challenges regarding closure of ponds containing coal combustion products in a cost-effective, timely, and safe manner in accordance with anticipated EPA regulations and developing monitoring strategies and long-term land use options.

- Conducting long-term acidic deposition monitoring across five southern states since 1986 in support of the National Atmospheric Deposition Program. The purpose is to determine the magnitude of acid deposition across North America. TVA's involvement in this work ended in September 2014.
- Testing a new aerosol monitoring technology that may provide information about the organic compounds that comprise the airborne particles contributing to the total particle mass smaller than 2.5 micrometers. This could have possible future regulatory applications (i.e., the $PM_{2.5}$ standard). TVA's involvement in this ended in September 2014.
- The Ohio River Basin Water Quality Trading Program to develop a cost effective and mutually beneficial mechanism to improve nutrient levels and water quality in regional watersheds. The project has initiated the first interstate water quality trading program for nutrients in the U.S.
- Demonstrating and evaluating treatment technologies for flue gas desulfurization wastewater to meet EPA's future Effluent Limitation Guidelines in a cost-effective and reliable manner.

Power Generation

To support long-term operations of generation assets, TVA is participating in the following developmental projects:

- Continuing flexible operation research for lower load operation, ramp rate procedures, and fuel flexibility alternatives supporting load dispatch requirements with increased reliability and mitigating the effects of cycling on the coal fleet.
- Conducting fossil plant material degradation research to reduce the impacts to high-temperature materials used in boiler and heat recovery steam generator components caused by fast ramping and increased load-following.
- Conducting coal plant assessments for environmental control integration strategies and long-term impacts related to SCR and bag house operation and maintenance. Conducting research through a Maintenance and Diagnostic Center to support remote monitoring and diagnostics of coal, gas, pumped storage, and hydro site component assets; integration of advanced pattern recognition for condition assessment; and application of advanced communication technologies for centralized assessment of component alarms, failure analysis, and repair recommendations.

Sustainability

Sustainability relates to everything TVA does to remain healthy and thriving long into the future for the benefit of the environment, economy and stakeholders. Sustainability is incorporated into the work performed at TVA to protect the miles of reservoir shoreline, to keep electricity rates as low as feasible, to reinforce TVA's commitment to a safe employee workplace and public safety, and to support TVA's economic development efforts throughout the region. In short, it is TVA's commitment to keeping the Tennessee Valley a vibrant place to live, work and play.

Sustainability is embedded in TVA's mission and TVA's Environmental Policy. Additionally, as directed by Presidential Executive Order 13514, Federal Leadership in Environmental, Energy, and Economic Performance, TVA maintains and annually updates a SSPP that captures and enhances TVA's ongoing sustainability focus given TVA's unique mission to sustain the people, economy and natural resources in the region. TVA submitted its fifth SSPP in June 2014.

Oversight and Governance

In December 2004, Congress passed legislation to make TVA's governance structure more like other large corporations. The TVA Board changed from three full-time members to nine part-time members who are responsible for providing strategic direction, governance, and oversight. In addition, a full-time Chief Executive Officer ("CEO") position was established to supervise day-to-day activities. The CEO is appointed by and reports directly to the TVA Board. The December 2004 legislation also amended the Securities Exchange Act of 1934 by adding Section 37. This section requires TVA, as a non-accelerated filer under Securities and Exchange Commission ("SEC") rules, to file financial reports with the SEC. In December 2006, TVA filed its first Annual Report on Form 10-K with the SEC and now files Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K with the SEC. As an SEC filer:

- The management reporting requirements of Section 404(a) of the Sarbanes-Oxley Act became effective for TVA for FY 2008.
- As a non-accelerated filer, the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act are not applicable. However, TVA implemented the auditor attestation requirements of Section 404(b) in FY 2009 and continues to do so on a voluntary basis.
- The Dodd-Frank Act deferred indefinitely the auditor attestation requirements of Section 404(b) for non-accelerated filers; however, management has chosen to continue to have external auditor attestations.

TVA Oversight

TVA is a government-owned corporation and federal agency, and its mission is fundamentally different than that of publicly traded companies. TVA has oversight similar to other utilities such as a board of directors, SEC requirements, credit rating agencies, and Sarbanes-Oxley requirements. In addition, TVA has oversight from Congress, the Government Accountability Office ("GAO"), OMB, the U.S. Treasury, and an independent inspector general.

TVA is governed by the TVA Board. The TVA Board has nine part-time members, at least seven of whom shall be legal residents of the TVA service area. The TVA Board members are appointed by the President of the United States with the advice and consent of the U.S. Senate. The TVA Board's responsibilities include formulating broad goals, objectives, and policies for TVA, approving plans for their implementation, reviewing and approving annual budgets, setting and overseeing rates, and establishing a compensation plan for employees.

Audit Committee

The TVA Board established the Audit, Risk, and Regulation Committee. The committee is responsible for, among other things, recommending an external auditor to the TVA Board, overseeing the auditor's work, and reviewing reports of the auditor and the TVA Inspector General.

Independent Auditor

An independent auditor audits TVA's annual financial statements in accordance with standards of the Public Company Accounting Oversight Board and with Government Auditing Standards issued by the Comptroller General of the U.S. The auditor also provides an opinion as to whether those statements are presented in conformity with Generally Accepted Accounting Principles ("GAAP").

Independent Inspector General

An independent Office of Inspector General ("OIG") conducts ongoing audits of TVA's operational and financial matters in accordance with Government Auditing Standards, which incorporate the American Institute of Certified Public Accountants Generally Accepted Auditing Standards. The OIG has about 110 employees, including more than 50 auditors. TVA's Inspector General is appointed by the President of the United States and confirmed by the U.S. Senate. The OIG provides semi-annual reports to Congress on the results of its audit and investigative work.

As required by the Inspector General Reform Act of 2008 (Pub. L. No. 110-409), the TVA OIG made an aggregate budget request of $24 million for FY 2016, which includes amounts for OIG training and support of the Council of the Inspectors General on Integrity and Efficiency. TVA's FY 2016 budget assumes OIG activities at the level requested. TVA received no additional comments from the OIG with respect to the budget proposal.

OIG Actual/Proposed Spend

($ millions)

2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 OIG Proposed	2016 OIG Proposed
$19	$21	$21	$21	$22	$23	$24

Congressional Oversight

Congress provides formal oversight of TVA through two committees, the U.S. House of Representatives Transportation and Infrastructure Committee and the U.S. Senate Environment and Public Works Committee. The audit arm of Congress, the GAO, also conducts audits of various TVA activities and programs, generally at the request of members of Congress.

Executive Branch

TVA routinely submits budget information to OMB, and TVA's budget is included in the consolidated budget of the U.S. Government. TVA's financial results also are included in the federal government's financial statements, which are coordinated with the U.S. Treasury and are subject to audit by GAO.

The TVA Act

TVA's congressional charter, the TVA Act of 1933, as amended, defines the range of TVA's business activities. TVA is also subject to the Government Performance and Results Act, which requires that a strategic plan and an annual performance report be submitted to Congress.

Other Regulatory Oversight

In aspects of its operations, TVA is subject to regulations issued by other governmental agencies, including the EPA, state environmental agencies, the SEC, and the NRC. TVA also complies with applicable regulations of other federal agencies, such as the Department of Labor's Occupational Safety and Health Administration. While TVA is generally not subject to regulations issued by the Federal Energy Regulatory Commission ("FERC"), this commission has some regulatory authority over TVA activities. Other organizations with major influence on TVA and others in the electric utility industry include the North American Electric Reliability Corporation and the industry-based Institute of Nuclear Power Operations.

Auditor Independence – Providing Assurance to Stakeholders

The TVA OIG conducts an annual audit of the work of TVA's independent auditor to help ensure compliance with generally accepted Government Auditing Standards. Additionally, a peer review audit of the OIG is conducted every three years by another federal Inspector General's office.

Accounting and Financial Reporting

On an annual basis, TVA submits a closing package, which is a set of special purpose financial statements and notes that represent TVA's comparative, consolidated, department-level financial statements, to the U.S. Treasury to comply with the requirements of the U.S. Treasury Financial Manual, for the purpose of providing financial information to the U.S. Treasury and the GAO to use in preparing the Financial Report of the U.S. Government. TVA's independent auditor also provides an opinion on whether the closing package is prepared in accordance with accounting standards and other pronouncements issued by the Federal Accounting Standards Advisory Board. TVA's financial transactions are subject to audit by the Comptroller General under various statutes.

TVA also submits financial information to the OMB, SEC, NRC, U.S. Treasury, Energy Information Administration, and others, in accordance with applicable regulatory and statutory requirements. As required by the TVA Act, TVA maintains its accounting records in accordance with the FERC's Uniform System of Accounts for Public Utilities. In addition, TVA presents its financial statements and related disclosures in conformity with GAAP promulgated by the Financial Accounting Standards Board. These financial statements are annually audited by an independent financial auditor.

Consistent with the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, TVA has determined that none of its programs or activities are susceptible to significant improper payments.

Monthly Reporting Process

Internal financial performance reporting is done on a monthly basis at all levels within the enterprise. The monthly financial performance reports contain analysis for the income statement, cash flow statement, and statement of capital expenditures. The reports also include a balance sheet analysis detailing significant changes during the reporting period. TVA also performs agency-wide financial forecasts on a monthly basis in order to anticipate and respond to events that may have a significant impact on financial performance during the year.

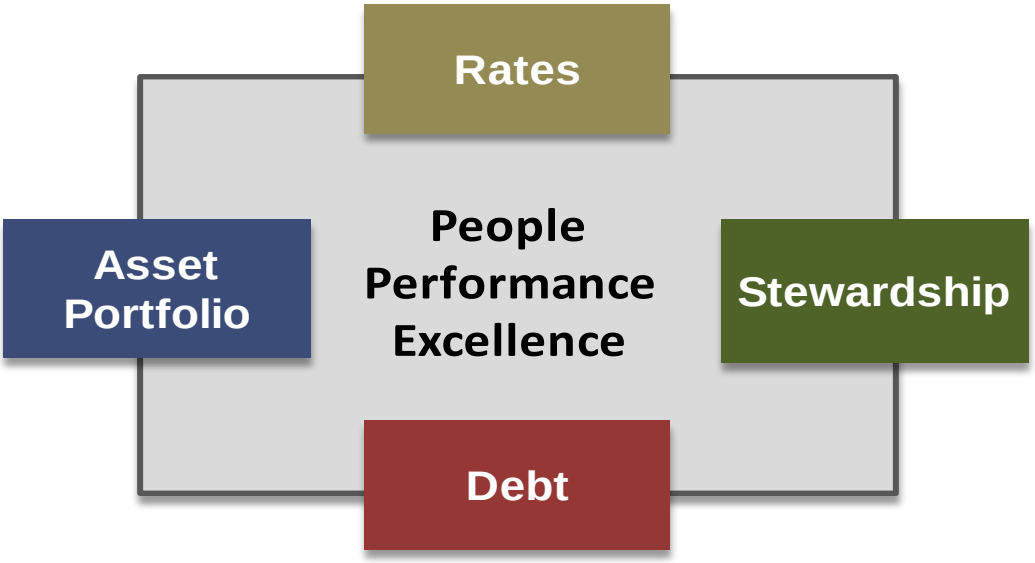
Enterprise Risk Management

Enterprise Risk Management ("ERM") is a strategic business function with its core mission to provide the business with a comprehensive risk perspective to more effectively identify and manage risks, capitalize on opportunities, and improve the risk management behaviors at TVA. ERM is specifically responsible for overseeing the risk governance structure, performing risk assessments and analysis, and facilitating enterprise risk discussions to evaluate the risk as an interrelated portfolio to support risk informed decisions.

Strategic Goals, Strategic Objectives, and Performance Goals

Strategic Goals

As discussed above, TVA has established four strategic goals: (1) maintain rates as low as feasible, (2) live within its means, (3) manage its assets to meet reliability expectations and provide a balanced portfolio, and (4) be responsible stewards of the region's natural resources. Through people performance excellence, TVA intends to bring these goals to life and become safer, better, faster, and leaner.



Strategic Objectives

In order to help ensure that TVA accomplishes its strategic goals, TVA is focusing on the following strategic objectives:

- Maintain low rates and align O&M spending with revenues
- Effectively manage debt to ensure long-term financial health
- Work safely and effectively
- Proactively seek opportunities for continuous improvement
- Focus on values and behaviors
- Pursue operational excellence
- Position Watts Bar Unit 2 for successful commercial operations in 2015
- Balance the portfolio to provide cleaner, reliable, and affordable energy
- Stimulate economic development and investment in the Tennessee Valley
- Strengthen customer loyalty and relationships
- Manage the Tennessee River system
- Protect and improve the natural resources and the use and enjoyment of public lands

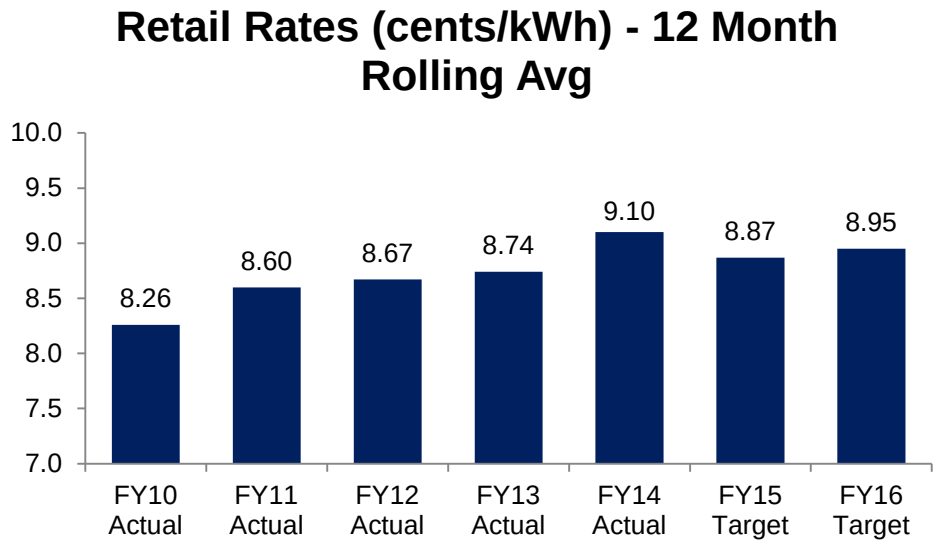
Performance Goals

To help measure how effective TVA is in achieving its strategic objectives, TVA has established several performance goals. These performance goals include the following:

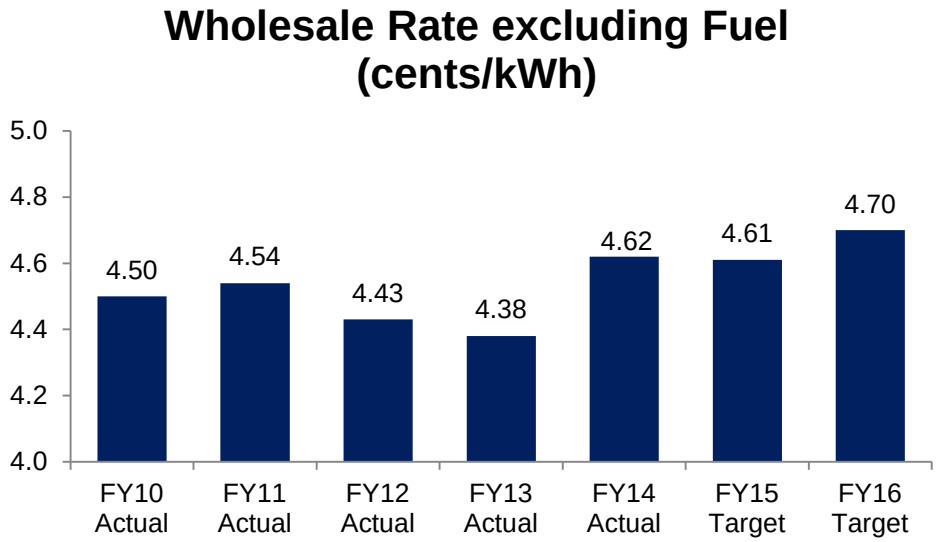
- Rates/Debt
    - Retail Rates
    - Wholesale Rates, excluding Fuel
    - Operating Cash Flow
    - Net Income
    - Total Financing Obligations
- Asset Portfolio
    - Load Not Served
    - Coal Seasonal Equivalent Forced Outage Rate (“EFOR”)
    - Institute of Nuclear Power Operations (“INPO”) Index
    - Combined Cycle Seasonal EFOR
    - Nuclear Unit Capability Factor
    - Energy Savings
- People/Stewardship
    - Recordable Incident Rate
    - CO_2 Emissions Rate
    - Reportable Environmental Events
    - Jobs Created and Retained

Each of these performance goals is described in more detail below.

Rates/Debt

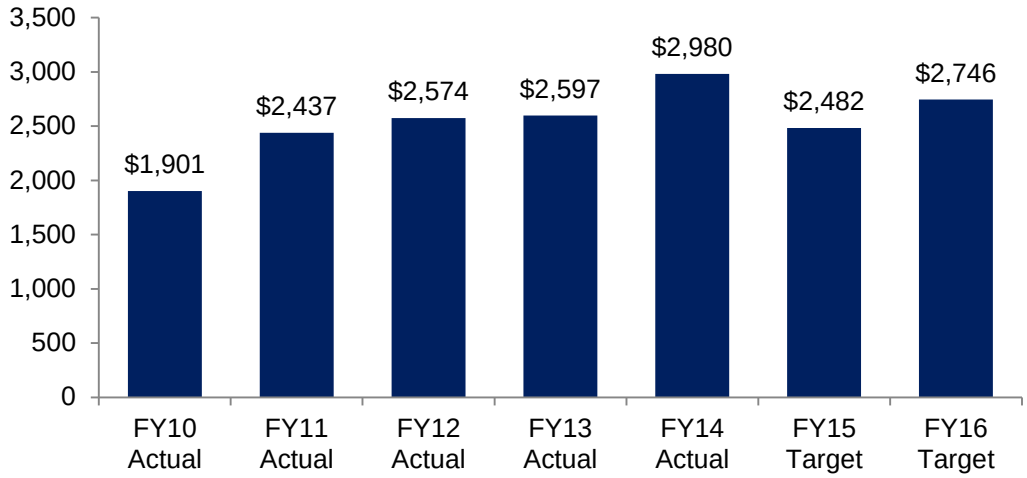


Definition	Average of the previous twelve months' LPC reported retail power revenue and directly served power revenue divided by LPC reported retail power sales and directly served power sales
Calculation	(LPC reported retail power revenue + Directly served power revenue) / (LPC reported retail power sales + Directly served power sales)



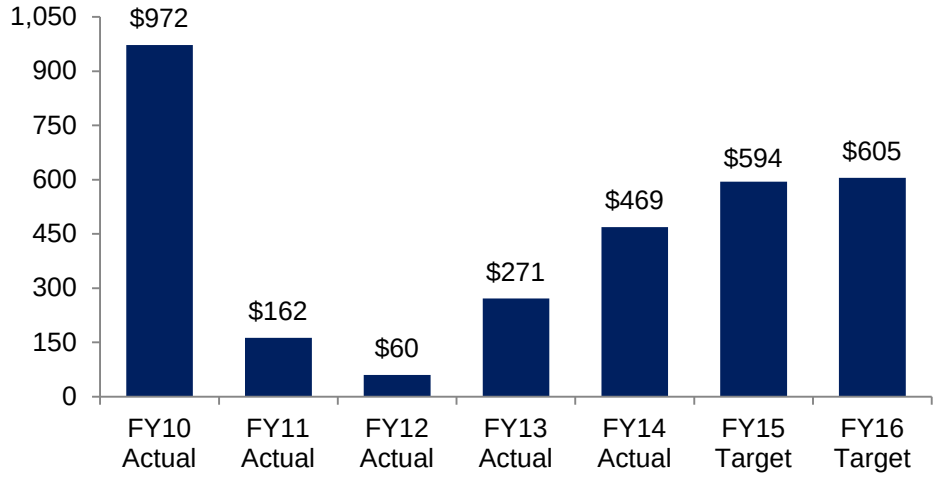
Definition	The Wholesale Rate excluding Fuel measure represents TVA's electric sales revenue excluding fuel divided by electric power sales.
Calculation	TVA's electric sales revenue excluding fuel / TVA's electric power sales

Operating Cash Flow ($M)

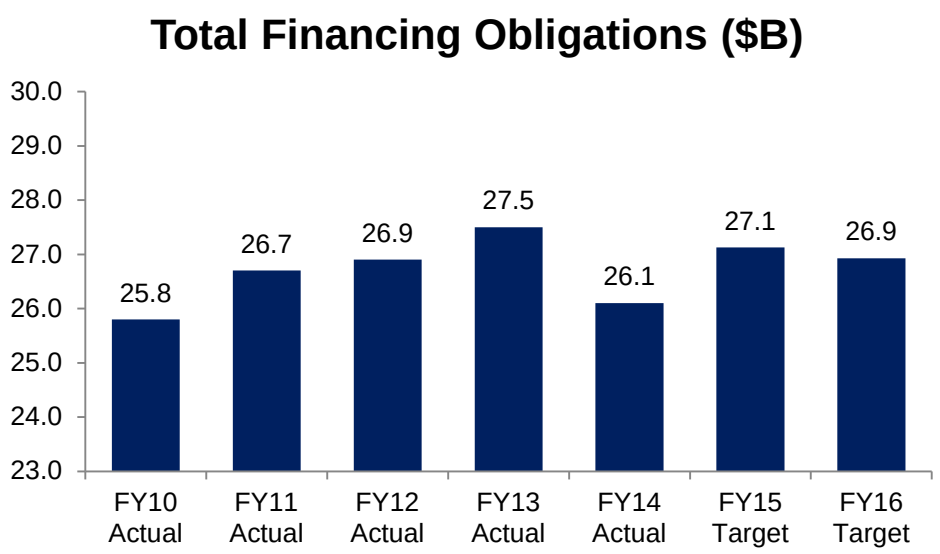


Definition	Operating Cash Flow refers to the amount of cash generated from power production and other mission-related activities and is generally defined as Operating Revenues received less cash payments made for Operating Expenses. This amount can be found on the Statement of Cash Flows under Cash Flow from Operating Activities.
Calculation	Net income + Non-cash expenses + Impact of changes in working capital and other deferred operating items

Net Income ($M)



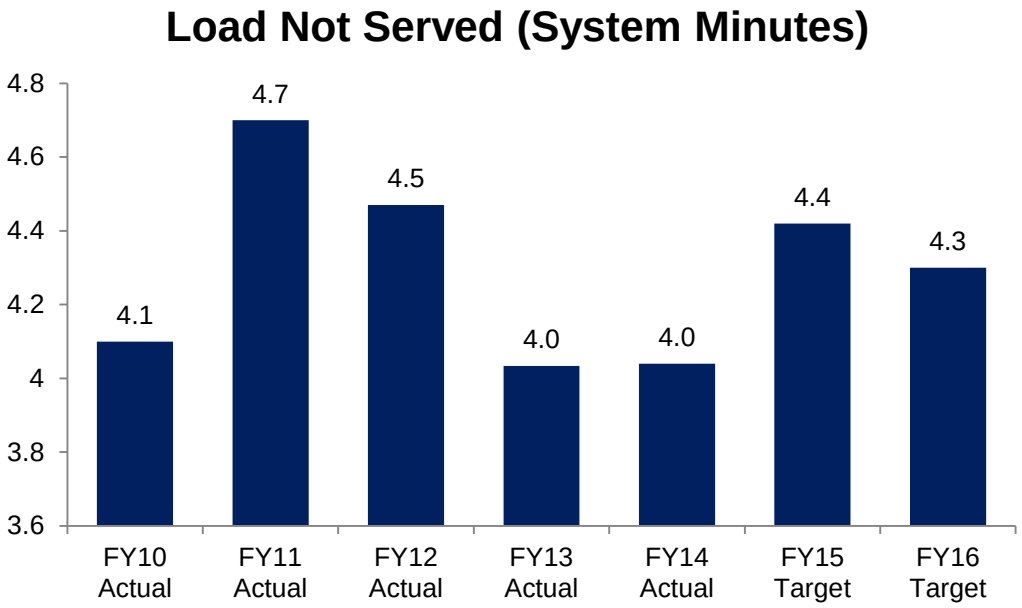
Definition	Net Income is an entity's net earnings derived by adjusting revenues for the cost of doing business, including cost of sales, depreciation, interest, taxes, and other expenses. This amount is shown on the bottom line of the Statement of Operations.
Calculation	Operating Revenues - Operating Expenses + Other Income/(Expense) - Net Interest Expense



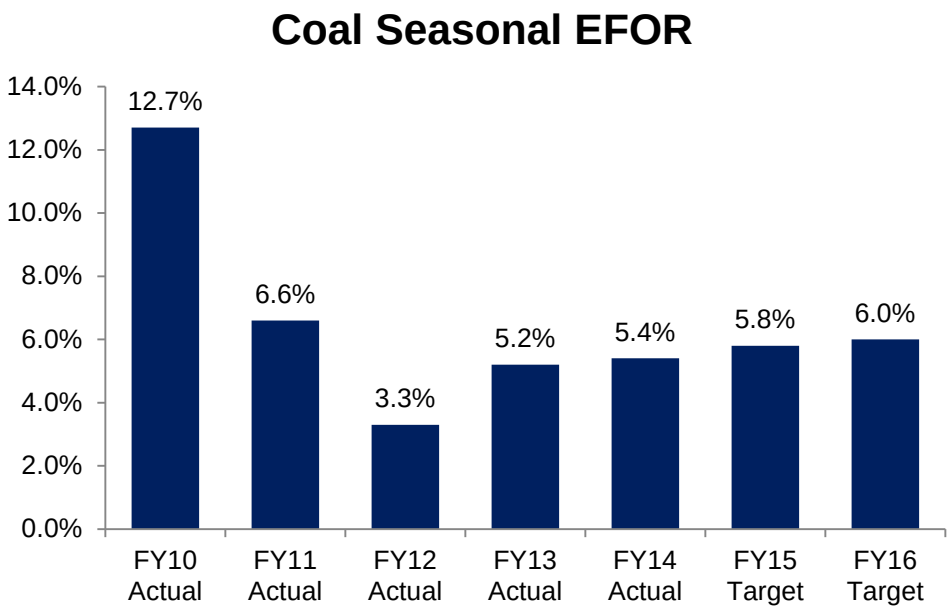
Definition	Total Financing Obligations ("TFOs") include all statutory debt and other financing obligations, as shown on TVA's balance sheet.
Calculation	Long-term Debt + Short-Term Debt + Leaseback Obligations + Energy Prepayment Obligations + Debt of Variable Interest Entities

* See Appendix A for a calculation of Total Financing Obligations utilizing financial statement line items reported in accordance with Generally Accepted Accounting Principles.

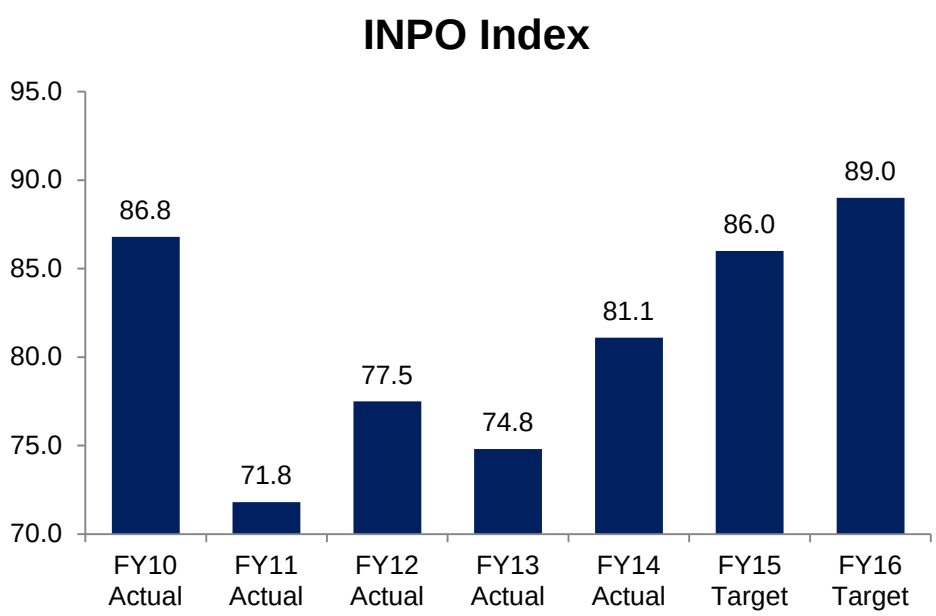
Asset Portfolio



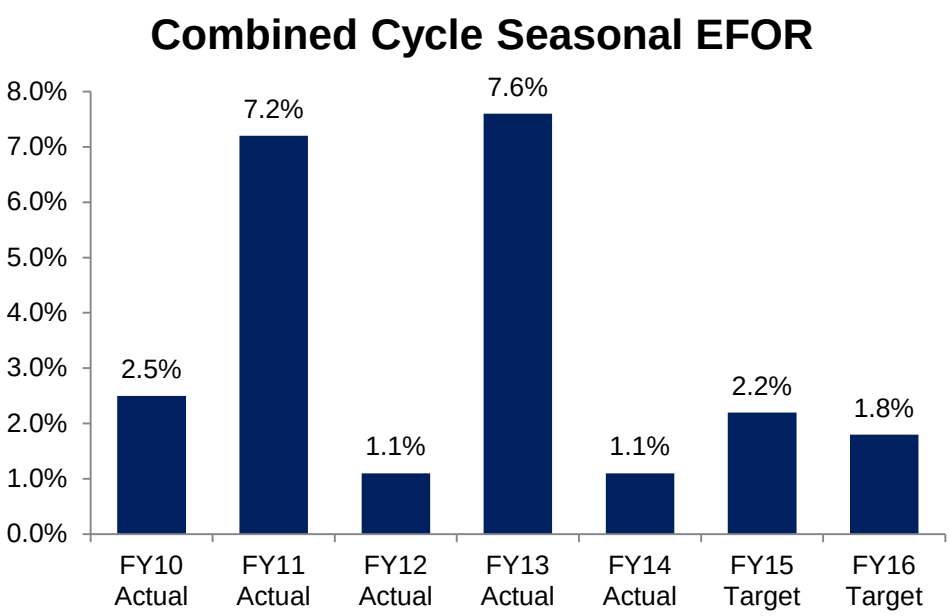
Definition	Load Not Served measures the magnitude and duration of transmission system outages that affect TVA customers. This measure is expressed in system minutes and excludes events during declared major storms.
Calculation	Percent of total load not served x Number of minutes in period



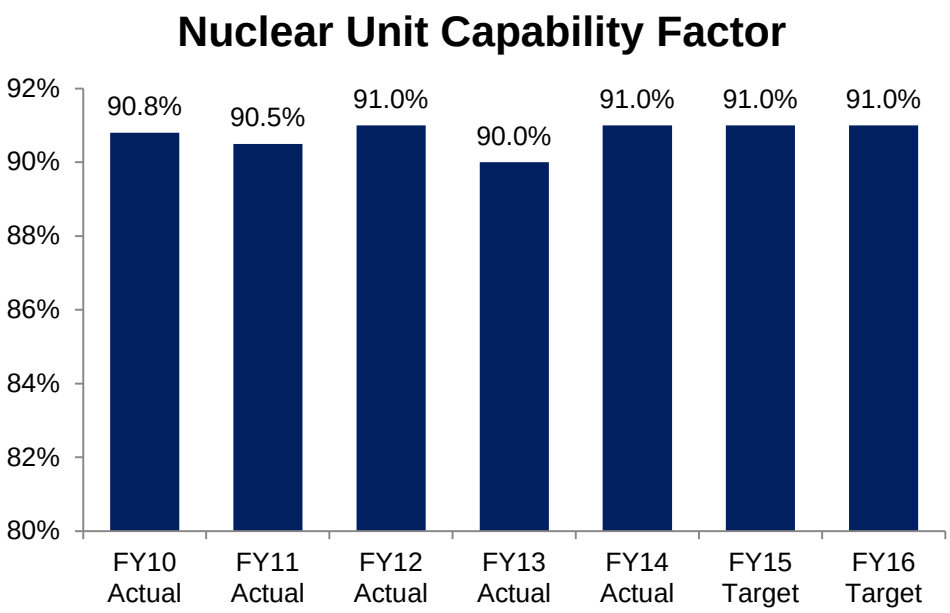
Definition	Coal Seasonal EFOR measures the generation lost due to forced events as a percentage of time the unit would have been scheduled to run. This measure runs from December through March and June through September and includes the Allen, Cumberland, Gallatin, Kingston, Paradise and Shawnee coal plants. This measure excludes events that are classified as "Outside Management Control."
Calculation	((FOH X WNDC) + Forced MWhL) / [(FOH + SH) X WNDC]) X 100 FOH = Forced Outage Hours SH = Service Hours WNDC = Winter Net Dependable Capacity Forced MWhL = MWh Losses Due to Forced Derating



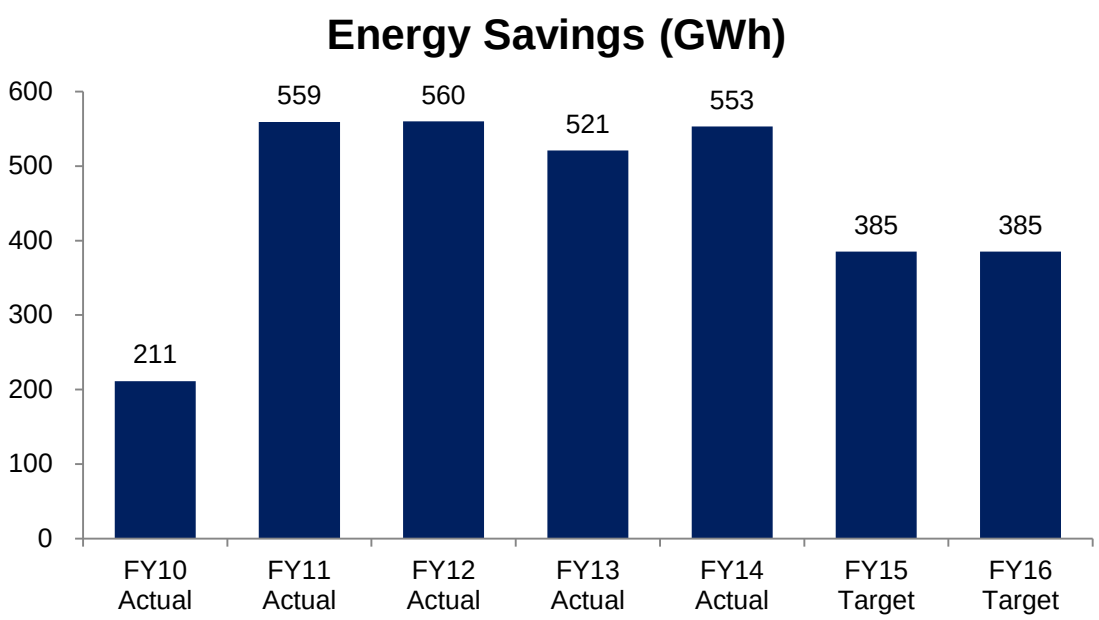
Definition	The INPO Index is a weighted combination of the Institute of Nuclear Power Operations' key performance indicators based on standard nuclear industry definitions for station performance.
Calculation	The INPO Index for each unit is calculated using a weighted combination of key performance indicators based on standard nuclear industry definitions, with the maximum obtainable being 100 points. TVA's fleet-level INPO Index is a simple average of the performance of each unit.



Definition	Combined Cycle Seasonal EFOR measures the generation lost due to forced events as a percentage of time the unit would have been scheduled to run. This measure runs from December to March and June to September and includes Caledonia, John Sevier, Lagoon Creek, Magnolia and Southaven combined cycle plants. This measure excludes events that are classified as "Outside Management Control."
Calculation	((FOH X NDC) + Forced MWhL) / [(FOH + SH) X NDC]) X 100 FOH = Forced Outage Hours SH = Service Hours NDC = Net Dependable Capacity Forced MWhL = MWh Losses Due to Forced Derating

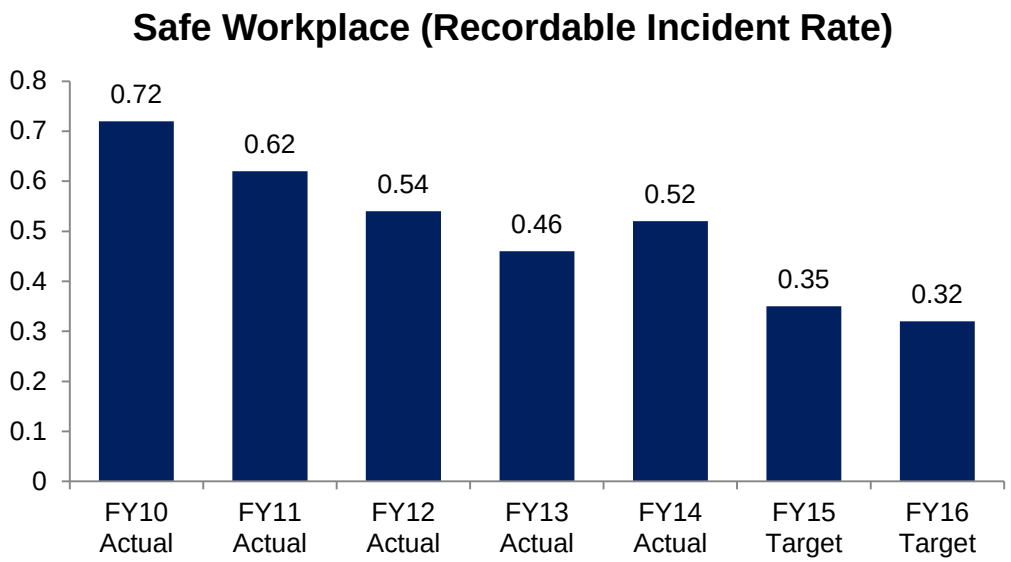


Definition	Nuclear Unit Capability Factor is the ratio of available energy generation over a given period of time to the reference energy generation over the same time period, expressed as a percentage.
Calculation	[(REG - PEL - UEL - OEL) / REG] X 100 REG = Reference Energy Generation PEL = Planned Losses UEL = Unplanned Losses OEL = Outage Extension Losses

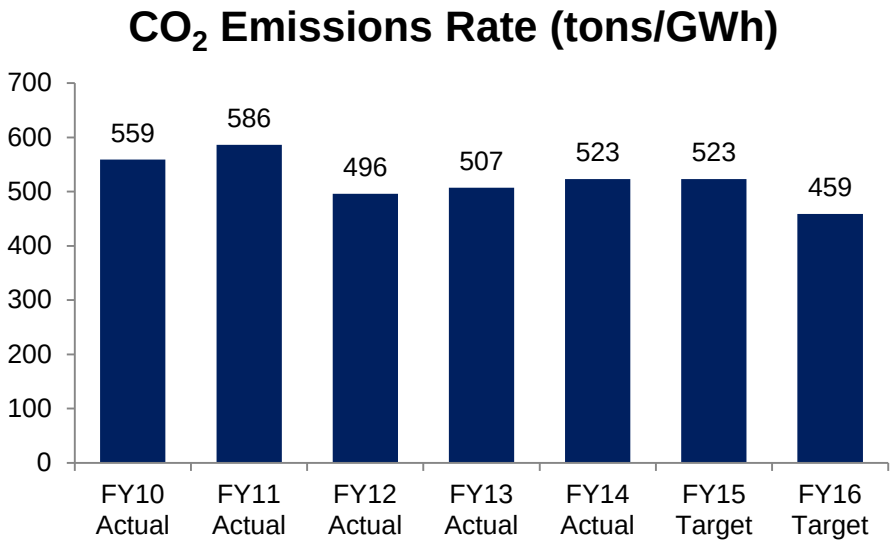


Definition	Total All-In Program Cost for entire energy efficiency and demand response portfolio divided by the sum of the individual program impacts multiplied by their associated life spans.
Calculation	[(Individual EnergyRight Solutions product kWh impacts) * (Individual EnergyRight Solutions installations)/1,000,000] + [kWh energy efficiency achieved by industrial and commercial projects + kWh energy efficiency impacts from demand response programs + kWh energy efficiency impacts achieved through information/outreach programs + kWh energy efficiency impacts achieved by wholesale and retail pricing products + kWh energy efficiency impacts from TVA facilities improvements + kWh energy efficiency impacts from TVA-supported loan funds administered by others + kWh energy efficiency impacts from state programs receiving TVA support + kWh energy efficiency impacts from other TVA initiatives] / 1,000,000

People/Stewardship

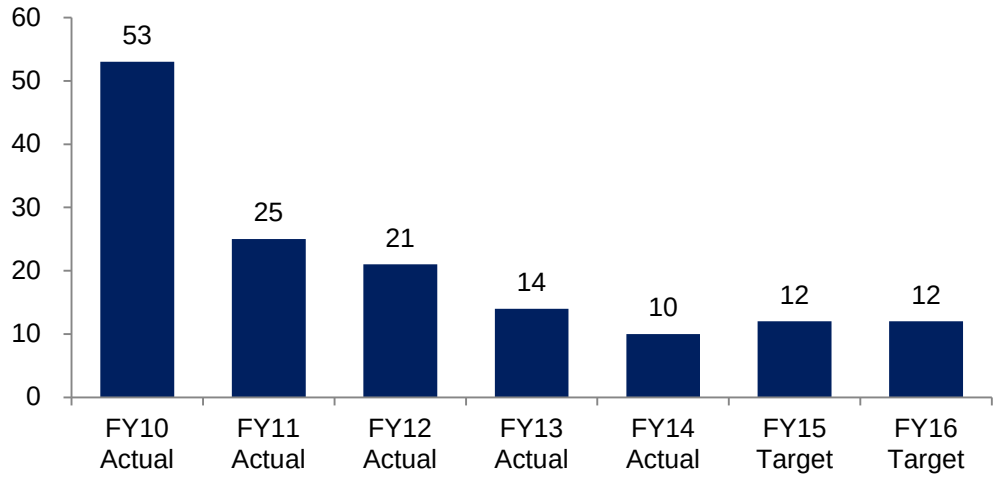


Definition	The number of recordable injuries (as defined by TVA's safety program) per 200,000 employee-hours worked by TVA employees and staff augmentation contractors
Calculation	(Number of recordable injuries x 200,000) / (Number of employee-hours worked)



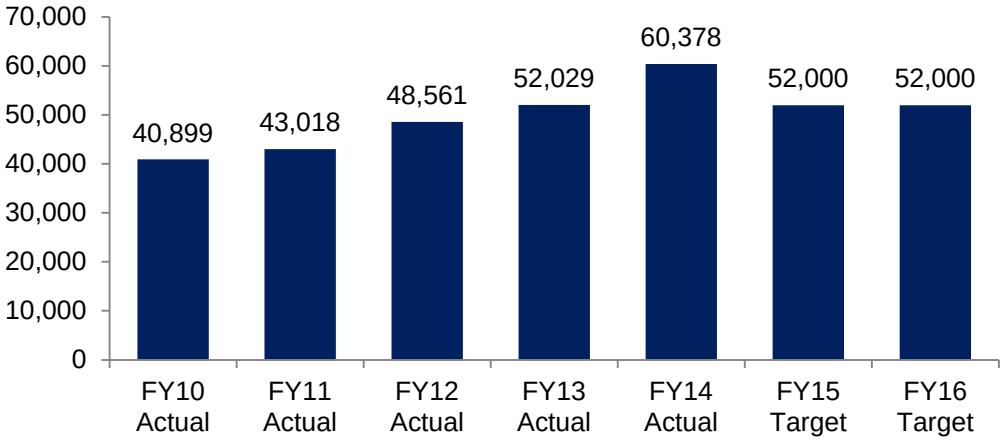
Definition	This measure reflects TVA's commitment to manage greenhouse gas emissions through efficient operation of its diverse generation mix.
Calculation	Tons of CO_2 emissions reduced / GWh of generation

Reportable Environmental Events



Definition	An environmental event at a TVA facility or elsewhere caused by TVA or TVA contractors that violates permit conditions or other regulatory requirements and triggers regulatory required oral or written notification to or enforcement action by a regulatory agency. Multiple parameters or multiple media/regulatory violations that result from the same root cause/event are counted as one reportable environmental event ("REE"). However, repeat occurrences count as separate REEs if they occur in a different reporting period. In cases where there is lag time between the event and receipt of a Notice of Violation ("NOV"), the receipt date for the NOV will be used as the date of the REE if the NOV has not previously been counted as a REE, and if the fiscal year reporting deadline for TVA-level environmental metrics has passed.
Calculation	Number of Reportable Environmental Events

Economic Development - Jobs Created & Retained



Definition	Jobs Created and Retained measures the number of new or retained jobs in the Tennessee Valley for which TVA has played a role in the recruitment or retention of the economic development project.
Calculation	Number of Jobs Created and Retained as reported through TVA channels

Other Information

Data Validation and Verification

Much of the data contained in this Performance Report was derived from TVA's Annual Report on SEC Form 10-K for the year ended September 30, 2014 (the "Annual Report"). TVA filed the Annual Report with the SEC, and TVA's Chief Executive Officer and Chief Financial Officer certified the Annual Report in accordance with the requirements of the Sarbanes-Oxley Act. In addition, TVA's independent auditor, Ernst & Young LLP, audited the financial statements contained in the Annual Report.

TVA's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934 and required by Section 404 of the Sarbanes-Oxley Act. TVA's internal control over financial reporting is designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. Because of the inherent limitations in all control systems, internal controls over financial reporting and systems may not prevent or detect misstatements.

TVA's management, including the Chief Executive Officer, the Chief Financial Officer, and the Controller, evaluated the design and effectiveness of TVA's internal control over financial reporting as of September 30, 2014, based on the framework in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, TVA's management concluded that TVA's internal control over financial reporting was effective as of September 30, 2014.

Although management's report on the effectiveness of internal control over financial reporting was not required to be subject to attestation by TVA's registered public accounting firm, TVA has chosen to obtain such a report. Ernst & Young LLP issued an attestation report on TVA's internal control over financial reporting as of September 30, 2014.

Lower-Priority Program Activities

TVA has determined that it does not have any lower-priority program activities for purposes of 31 U.S.C. § 1115(b)(10).

Hyperlinks

Hyperlinks to documents discussed in this Performance Report are set forth below:

Document	Hyperlink
Integrated Resource Plan	http://www.tva.gov/environment/reports/irp/archive/index.htm
Natural Resource Plan	http://www.tva.gov/environment/reports/nrp/
Annual Report	http://www.snl.com/IRWebLinkX/docs.aspx?iid=4063363

Appendix A

Total Financing Obligations ("TFO") is a financial measure that, although commonly used, is not calculated and presented in accordance with Generally Accepted Accounting Principles ("GAAP"). TFO is measured by summing bonds and notes, gross, debt related to variable interest entities ("VIE"), leaseback obligations, energy prepayment obligations and the membership interests issued in connection with the Southaven lease financing transaction. A calculation of TFO utilizing financial statement line items reported in accordance with GAAP follows:

TENNESSEE VALLEY AUTHORITY
Unaudited Reconciliation of Total Financing Obligations
(in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 Projected	FY 2016 Projected
Total Financing Obligations	**$ 25,803**	**$ 26,659**	**$ 26,912**	**$ 27,473**	**$ 26,071**	**$ 27,087**	**$ 26,909**
Energy prepayment obligations	(822)	(717)	(611)	(510)	(410)	(310)	(210)
Leaseback obligations	(1,354)	(1,282)	(1,204)	(761)	(691)	(616)	(537)
Membership interests of VIE subject to mandatory redemption	-	-	-	(40)	(39)	(37)	(35)
Debt of VIE	-	-	(994)	(1,341)	(1,311)	(1,279)	(1,246)
Bonds and Notes, gross	**23,627**	**24,660**	**24,103**	**24,821**	**23,620**	**24,845**	**24,881**
Exchange loss	14	7	41	43	44	-	-
Unamortized discounts, premiums, and other	(217)	(236)	(60)	(85)	(88)	(9)	(9)
Debt of variable interest entities	-	-	994	1,341	1,311	1,279	1,246
Total outstanding debt	$ 23,424	$ 24,431	$ 25,078	$ 26,120	$ 24,887	$ 26,115	$ 26,118

Tennessee Valley Authority | 400 W. Summit Hill Drive | Knoxville, Tennessee 37902 | **www.tva.com**