

No. 14-01

Approved by the Board of Directors
at its May 8, 2014, meeting:

Original signed by Ralph E. Rodgers
Executive Vice President, General
Counsel and Secretary

MINUTES OF MEETING
OF
THE BOARD OF DIRECTORS
TENNESSEE VALLEY AUTHORITY
FEBRUARY 13, 2014

A meeting of the Board of Directors of the Tennessee Valley Authority was held at the TVA Missionary Ridge Auditorium, 1101 Market Street, Chattanooga, Tennessee, on February 13, 2014. The meeting was called to order at 9:04 a.m. (EST) after an approximately seven minute break following the listening session, which began at 8:30 a.m. (EST). The meeting was announced to the public on February 6, 2014. The meeting was open to public observation.

All current Board members attended, as follows: Director and Chairman William B. (Bill) Sansom, and Directors Barbara S. Haskew, Richard C. Howorth, V. Lynn Evans, C. Peter (Pete) Mahurin (by telephone), Michael (Mike) McWherter, Joe H. Ritch, and Marilyn A. Brown.

Also present were TVA officers, including William D. (Bill) Johnson, President and Chief Executive Officer; Ralph E. Rodgers, Executive Vice President, General Counsel and Secretary; John M. Thomas, III, Executive Vice President and Chief Financial Officer; Joseph P. (Joe) Grimes, Executive Vice President and Chief Nuclear Officer; Michael D. (Mike) Skaggs, Senior Vice President, Watts Bar Nuclear Operations and Construction; and Rebecca C. Tolene, Vice President, Natural Resources.

Chairman Sansom presided over the meeting, which was duly called, notice to each Director having been delivered pursuant to section 1.2 of the Bylaws governing meetings of the Board of the Tennessee Valley Authority. A quorum was present.

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14-01-1. Welcome

Chairman Sansom called the meeting to order, then thanked TVA employees and the employees of TVA's customers for their efforts in keeping the power on during the cold weather. Chairman Sansom then introduced Jack Simmons with the Tennessee Valley Public Power Association (TVPPA), and both Pete Mattheis and Rob Hoskins of the Tennessee Valley Industrial Committee (TVIC), expressing the Board's appreciation to both organizations for working with TVA to resolve problems.

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Old Business

The Board approved the minutes of its November 14, 2013, meeting.

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New Business**14-01-2. President's Report**

President and Chief Executive Officer William D. (Bill) Johnson expressed appreciation for the hospitality in Chattanooga, and then welcomed the employees, public officials, and members of the public in attendance or watching online. Mr. Johnson stated that TVA, the City of Chattanooga, Hamilton County, and surrounding areas have long been partners for quality development, and that Chattanooga has the distinction of holding the top rating, Platinum status, in TVA's program for recognizing community sustainability and economic development.

Mr. Johnson stated that, since the new (calendar) year began, the Tennessee Valley and much of the United States have experienced record cold temperatures and winter storms, and January was one of the most demanding months in TVA's generation history. On January 7, Tennessee Valley residents set a record for the amount of electricity used in a 24-hour period. During the peak hour of that day, energy efficiency and demand response played a key role, resulting in 2,000 MW of load that TVA did not have to serve. On January 24, a new record was set for winter peak demand and, during the last week of January, TVA met its second highest peak ever. By the end of January, the region experienced five of the top ten days for energy

usage in TVA history. Mr. Johnson reported that because January demand exceeded projections, TVA will review its performance over the next several months, and identify ways to improve its forecasts and generation plan. Mr. Johnson stated that keeping energy affordable and reliable is a TVA priority, and during the first quarter of FY 2014 TVA added 29 MW of the lowest cost power, which is power that TVA does not have to generate due to its energy efficiency and demand response efforts.

Mr. Johnson stated that, by definition, TVA's power rates must cover the cost of all that TVA does in generating and delivering electricity. Controlling costs and aligning spending with revenues is one of several priorities for improving performance during FY 2014, and TVA is on track to achieve sustainable reductions of \$500 million in operations and maintenance spending by 2015. In doing so, TVA is making difficult but necessary decisions that directly affect its workforce. To reduce the impact on employees, TVA is offering an opportunity for employees to leave with severance benefits, and is also offering a number of outplacement services.

Mr. Johnson stated that last week TVA reported its financial results for the first quarter of the fiscal year. Sales to local power companies were up, operations and maintenance (O&M) costs were down, and fuel costs were lower compared to last year. Because power demand is typically lower in the fall and the spring, TVA expects and plans for a net loss in the first quarter of each year. However, due to the aforementioned factors, current results were improved over results during the first quarter of last year.

Mr. Johnson stated that as TVA manages down its O&M costs, it is also improving its operational performance, particularly in the nuclear program. Work on Watts Bar Unit 2 remains on budget and on schedule. Getting Watts Bar Unit 2 online will add 1,150 MW of carbon-free energy to the TVA system, an important contribution as coal capacity is retired. By 2020, TVA expects to have reduced its carbon emissions by 40 percent compared to 2005 levels. At Browns Ferry and other operating nuclear plants, TVA is focused on ensuring that regulatory and performance standards for safe, effective commercial operations are met. Mr. Johnson reported that on January 30, the Nuclear Regulatory Commission (NRC) announced that it will close the “red” regulatory finding that has brought increased inspections and attention to Browns Ferry, and in early February, the NRC closed all regulatory findings at the Sequoyah and Watts Bar Nuclear Plants related to risks in the unlikely event of a probable maximum flood.

Mr. Johnson stated that TVA continues to evaluate its coal fleet as TVA moves toward a more balanced and cleaner generating mix. Good progress is being made at Gallatin Fossil Plant on construction of environmental equipment, which supports both reliability and cleaner air. Also, after the Board’s November decision to retire two coal units at the Paradise Fossil Plant, and an evaluation of various options, TVA determined that replacing the retiring coal units with a combined cycle gas plant at Paradise will provide the best long-term advantage to ratepayers and TVA’s power system. Based on TVA’s analysis, this new plant should be completed by the summer of 2017, at an estimated capital investment cost of \$1 billion. Mr. Johnson reported that TVA continues to work on the update of its Integrated Resource Plan, and he thanked all of those across the region involved in this effort.

Reporting on economic development, Mr. Johnson stated that in the first quarter of this (fiscal) year, the TVA team helped create or retain a total of 14,500 jobs, and capital investment of \$2.2 billion, across TVA's seven state region. Mr. Johnson stated that TVA's "megasite" certification program celebrates its tenth anniversary this year, and then briefly discussed some of that program's impacts on the Tennessee Valley.

Mr. Johnson stated TVA is also strengthening its relationships with its customers, the 155 local power companies in the region, and the 57 local industries to which TVA provides power directly. Mr. Johnson stated it was his pleasure to be in Tupelo, Mississippi, earlier in the month with Director Howorth, to help celebrate the eightieth anniversary of Tupelo as the first TVA city. Mr. Johnson reported that TVA is working closely with TVPPA and the local power companies on issues of mutual interest, including rates, long-term pricing, improvement of communications with each other and Valley consumers, energy efficiency, and demand response.

With regard to river management, Mr. Johnson reported that TVA is in the process of performing health checks (geotechnical evaluations) on all 49 dams in TVA's system. Mr. Johnson emphasized that the dams are safe, and stated the health checks are part of a continuous improvement program to make sure TVA meets today's stringent industry standards.

Mr. Johnson next presented TVA's Ike Zeringue Engineer of the Year Award to Casey Scoggins, Manager, Transmission Engineering, who leads a team that makes sure TVA's customers can count on TVA power to be 99.999 percent reliable every year. Mr. Johnson discussed Mr. Scoggins' broad experience at TVA, his training, and his involvement in his

community, after which Chairman Sansom elicited remarks from Mr. Scoggins regarding his choice of engineering as a career.

Copies of the slides used by Mr. Johnson in his report are filed with the records of the Board as Exhibit 2/13/14A.

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Following the conclusion of Mr. Johnson's report, Chairman Sansom requested information on TVA's inventory of megasites, and suggested that Mr. Johnson might come back to the Board with further information on that subject in the future.

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14-01-3. Report of the External Relations Committee

Director Howorth, Chairman of the External Relations Committee, reported that the Committee met on January 23, 2014, and discussed a number of topics, including energy efficiency, TVA's renewable portfolio, and the ongoing work to update TVA's Integrated Resource Plan. Director Howorth stated the Committee also received a briefing on TVA's work with local power providers, and he commended those providers on their work during the recent cold weather. Director Howorth also commended Mr. Johnson on his relationship building with local power providers. Director Howorth, on behalf of the Committee, then recommended adoption of the resolution set forth in Minute Item 14-01-4.

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14-01-4. Regional Resource Stewardship Council Charter Renewal

The Board adopted the following resolution as recommended in a memorandum from the Vice President, Stakeholder Relations, dated February 3, 2014, and filed with the records of the Board as Exhibit 2/13/14B:

WHEREAS the Tennessee Valley Authority (TVA) established the Regional Resource Stewardship Council (Council) to advise TVA about its resource stewardship activities, and Council members have worked diligently to reach a common understanding of resource issues and a common approach to the resolution of such issues; and

WHEREAS the Council's seventh term will expire on April 30, 2014; and

WHEREAS the Council has proven to be an effective tool in obtaining input from and achieving collaboration among the numerous public and private entities involved in the stewardship of the natural resources of the Tennessee Valley region; and

WHEREAS as detailed in a February 3, 2014, memorandum, a copy of which is filed with the records of the Board as Exhibit 2/13/14B, the Vice President, Stakeholder Relations, has recommended the renewal of the Council for an eighth term and the reappointment of the seventh-term members, including the Council Chairperson, for the eighth term; and

WHEREAS the Board has been informed that such individuals possess demonstrated professional or personal qualifications relevant to achieving the mission of regional resource stewardship, and the Board has determined that the appointment of such individuals will ensure that the membership of the Council is balanced and represents the broad range of diverse views and interests established in the Council charter, including recreation, environment, industrial, business, consumer, educational, and community leadership interests; and

WHEREAS the Federal Advisory Committee Act requires the appointment of a Designated Federal Officer to call meetings of the Council and conduct other administrative functions; and

WHEREAS the resignation of a Council member during the term would create a vacancy in membership that must be filled; and

WHEREAS the delegation of authority to the Chief Executive Officer to fill any vacancies in Council membership that may arise during the eighth term would allow the timely appointment of a full complement of Council members;

BE IT RESOLVED, That the Board of Directors hereby approves the Regional Resource Stewardship Council charter, a copy of which is filed with the records of the Board as Exhibit 2/13/14C; authorizes the renewal of this charter for an additional two years; and directs the Vice President, Stakeholder Relations, to complete the charter renewal process in accordance with the Federal Advisory Committee Act;

RESOLVED further, That the Board of Directors hereby appoints the Vice President, Stakeholder Relations, to serve as the Designated Federal Officer for the Council and the Director, Environmental Policy and Performance, to serve as the Alternate Designated Federal Officer for the Council;

RESOLVED further, That the Board of Directors hereby reappoints the individuals identified in the February 3, 2014, memorandum, which is filed with the records of the Board, as members of the Regional Resource Stewardship Council for its eighth term and designates Russell Townsend as Council Chairperson for the eighth term;

RESOLVED further, That the Board of Directors hereby delegates to the Chief Executive Officer the authority, following consultation with the External Relations Committee of the Board, to fill any vacancies in Council membership that may arise during the course of the eighth term.

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14-01-5. Report of the Audit, Risk, and Regulation Committee

Director Evans, Chairman of the Audit, Risk, and Regulation Committee, reported that the Committee met on January 30, 2014. In accordance with its normal practices, the Committee met with TVA's external auditor and representatives from TVA's Office of the Inspector General (OIG), both of which provide independent assessments of TVA. Director Evans stated that shortly after the Board's November 14, 2013, meeting, TVA filed its annual 10K report with the Securities and Exchange Commission (SEC). At the January 30, 2014, meeting, the Committee reviewed TVA's 10Q report, and also completed its annual review of the Disclosure Control Committee. During that meeting, TVA's external auditor presented its annual audit plan for the Audit, Risk, and Regulation Committee's review. The Committee also received reports from management regarding ongoing initiatives related to the Dodd-Frank legislation, and TVA's risk management

program. Director Evans reported that the Committee continues to oversee work with local power companies, and also continues to evaluate TVA's service practice standards.

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14-01-6. Report of the People and Performance Committee

Director Haskew, Chairman of the People and Performance Committee, reported that the Committee met on two occasions following the last Board meeting. Management updated the Committee on year-to-date performance and the Committee reviewed TVA's Diversity Program. Director Haskew, on behalf of the Committee, then recommended adoption of the resolution set forth in Minute Item No. 14-01-7.

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14-01-7. Bylaws Conforming Amendment

The Board adopted the following resolution authorizing an amendment to the Bylaws of the Tennessee Valley Authority as set forth in the amended copy of the Bylaws filed with the records of the Board as Exhibit 2/13/14D:

WHEREAS Section 4(e) of the Tennessee Valley Authority Act of 1933 provides that the Corporation may adopt, amend, and repeal bylaws; and

WHEREAS the Board by action on June 10, 2010 (Minute Item No. 10-03-8), amended the Bylaws of the Tennessee Valley Authority in the respects necessary to revise its committee structure, address the amendment of the Bylaws, and for other stated purposes; and

WHEREAS Section 1.7 of the Bylaws as amended retains an outdated reference to the previous committee structure, which formerly included a governance committee; and

WHEREAS Section 6.8 of the Bylaws provides that the Board shall have the power to amend the Bylaws of the Corporation; and

WHEREAS Section 6.8 of the Bylaws further establishes that to provide for notice and consideration of any such amendments, a vote on a motion to approve any amendments of the TVA Bylaws shall be taken no sooner than the next meeting of the Board following the meeting at which such motion is presented; and

WHEREAS Director Barbara Haskew moved on November 14, 2013, that at its February meeting, the Board take up the question of amending the outdated language in TVA's Bylaws with regard to the designation of a Director to act as the Board Chairman in the absence of the elected Chairman;

BE IT RESOLVED, That the Board hereby amends Section 1.7 of the Bylaws replacing the outdated reference to "Chairman of the governance committee" with "Chairman of the audit committee".

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14-01-8. Selection of Board Chairman

Director Haskew, Chairman of the People and Performance Committee, stated that since the Board's last meeting, the Committee has identified interested candidates for the position of Board Chairman, to fill a two-year term starting on May 19, 2014. Director Haskew thanked all Board members for their feedback, and also thanked her fellow Committee members for their efforts. She then, on behalf of the Committee, submitted the nomination of Director Ritch for Chairman. Chairman Sansom called for other nominations. Receiving none, Chairman Sansom then called for a second to Director Ritch's nomination. Director Evans seconded the nomination, and the Board then unanimously elected Director Ritch to be the next Board Chairman.

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14-01-9. Report of the Finance, Rates, and Portfolio Committee

Director Mahurin, Chairman of the Finance, Rates, and Portfolio Committee, reported the Committee met January 30, 2014, and received updates on TVA's year-to-date financial performance and long range financial plan. The Committee also discussed TVA's hedging programs and policies, and Director Mahurin stated the Committee is pleased with the direction taken by management. Director Mahurin reported the Committee also received additional information regarding generation fleet planning and the decisions regarding Paradise Fossil Plant, and believes that the size of the planned new gas plant is appropriate. At this point, Director Mahurin requested and received a report from John Thomas, Executive Vice President and Chief Financial Officer, regarding Minute Item No. 14-01-10. Following Mr. Thomas's report, Director Mahurin requested and received reports from Joe Grimes, Executive Vice President and Chief Nuclear Officer, regarding Minute Item Nos. 14-01-11 and 14-01-12.

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14-01-10. Financial Performance Update

John Thomas, Executive Vice President and Chief Financial Officer, reported on TVA's financial results for the first quarter of FY 2014. Mr. Thomas discussed weather's effect on first quarter results, noting that there were 53 more heating degree days and 25 more cooling degree days than normally experienced during the first quarter of TVA's fiscal year. Sales to local power companies were 7 percent higher than in the first quarter of FY 2013, of which 5 percent is attributed to weather, and 2 percent attributed to real growth. After removing lost sales to United States Enrichment Corporation (USEC) from the calculation, sales to direct served customers were

down 2 percent from the first quarter of FY 2013. Overall, sales increased year-to-year 5 percent, with real growth accounting for approximately 1 percent of that increase and weather accounting for the rest.

Mr. Thomas reported that fuel rates were considerably lower during the last part of calendar year 2013, as compared to the same period in calendar year 2012, and explained why January's cold weather will increase fuel rates, beginning in March. Discussing TVA's income statement for the first quarter, Mr. Thomas reported that base revenue was \$97 million favorable to plan and operating expenses were \$104 million less than planned. One component of operating expenses, routine and project-related Operations and Maintenance, was \$46 million less than planned. Mr. Thomas stated that interest expense was \$14 million less than planned. TVA operated at a loss during the first quarter, but the \$67 million loss was \$192 million better than planned, a result Mr. Thomas attributed to higher revenue and lower operating expenses. Referring to the cash-flow statement for the first quarter, Mr. Thomas reported that cash flow, at \$508 million, was \$133 million better than planned, and investment, at \$800 million, was \$35 million better than planned. In addition, Mr. Thomas stated that TVA ended the quarter \$980 million favorable to plan with regard to statutory debt, which equates to an absolute reduction of \$378 million compared to the prior year.

In summary, Mr. Thomas reported higher sales to local power companies, driven by both colder weather and some underlying growth, and lower overall effective rates due to the impacts of hydroelectric generation, efficiency efforts, and lower overall interest expense.

Copies of the slides used by Mr. Thomas in his report are filed with the records of the Board as Exhibit 2/13/14E.

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At the conclusion of his report, Mr. Thomas addressed comments from Chairman Sansom and Director Howorth, then responded to a question from Director Mahurin regarding the effect of energy efficiency on direct sales by stating that, since TVA re-initiated its energy efficiency programs in 2007, due to TVA's efforts and other factors including efficiency standards, TVA has seen a 6 percent reduction in overall demand for electricity.

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14-01-11. Purchase of Fuel Fabrication Services - Browns Ferry Nuclear Plant

The Board adopted the following resolution as recommended in a memorandum from the Executive Vice President and Chief Operating Officer, dated February 13, 2014, and filed with the records of the Board as Exhibit 2/13/14F:

WHEREAS TVA requires fuel fabrication services for the three units at its Browns Ferry Nuclear Plant (BFN); and

WHEREAS TVA conducted a competitive procurement for these services and AREVA Inc. submitted the highest rated offer; and

WHEREAS a memorandum dated February 13, 2014, a copy of which is filed with the records of the Board as Exhibit 2/13/14F (Memorandum), recommends that the Board authorize entry into a contract with AREVA Inc. for the purchase of fuel fabrication services for BFN from FY2014 through FY2025 for a total spend not to exceed \$250 million;

BE IT RESOLVED, That, subject to any final negotiations, the Board of Directors hereby authorizes the award of a contract to AREVA Inc. for the purchase of BFN fuel fabrication services as requested in the Memorandum.

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14-01-12. Replacement Steam Generators – Watts Bar Nuclear Plant Unit 2

The Board adopted the following resolution as recommended in a memorandum from the Executive Vice President and Chief Operating Officer, dated February 13, 2014, and filed with the records of the Board as Exhibit 2/13/14G:

WHEREAS given the age and operating history of the existing models of steam generators in the Watts Bar Unit 2 plant (WBN2), operation of these steam generators beyond seven years from WBN2's expected commercial operation in FY 2016 risks a de-rate or prolonged shutdown of the unit; and

WHEREAS there is a world-wide scarcity of manufacturing capacity and design expertise for replacement steam generators (RSGs) for plants such as WBN2, and TVA seeks to assure supply of such RSGs when required; and

WHEREAS in 2005, Westinghouse Electric Company LLC (WEC) successfully replaced steam generators in Watts Bar Unit 1, which were similar to the existing WBN2 steam generators; and

WHEREAS WEC is familiar with the plant and needed RSG designs, willing to contract now for future (2018) manufacture and subsequent delivery of RSGs for WBN2, and TVA's payment obligations to WEC would be deferred until FY 2016; and

WHEREAS approving a contract for WEC now provides the best technical and risk solution, and minimizes cost impacts and volatility for TVA, while ensuring availability of the equipment essential to secure long-term, optimal commercial operation of WBN2; and

WHEREAS a memorandum dated February 13, 2014, a copy of which is filed with the records of the Board as Exhibit 2/13/14G (Memorandum), recommends that the Board approve funding of up to \$160 million for a long-term (twelve year) contract with WEC for design, manufacture, and delivery of RSGs and related equipment for WBN2;

BE IT RESOLVED, That the Board of Directors hereby authorizes entering into a contract with WEC for the design, manufacture, and delivery of four replacement steam generators and one reactor head forging for WBN2, as described in the Memorandum, subject to a contract ceiling of \$160 million, and for a twelve-year term.

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14-01-13. Report of the Nuclear Oversight Committee

Director Ritch, Chairman of the Nuclear Oversight Committee, reported that the Committee met on January 29, 2014, and received an update from Executive Vice President and Chief Nuclear Officer Joe Grimes regarding performance of the nuclear fleet. Director Ritch also noted that, since the last Board meeting, the NRC closed its regulatory “red” finding on Browns Ferry, which reflects the efforts of TVA’s leadership and the hard work of employees and management at Browns Ferry. Director Ritch then requested and received a report from Mike Skaggs, Senior Vice President, Watts Bar Nuclear Operations and Construction, regarding Minute Item No. 14-01-14.

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14-01-14. Watts Bar Unit 2 Status

Mike Skaggs, Senior Vice President, Watts Bar Nuclear Operations and Construction, reported that work on Watts Bar Unit 2 is continuing to meet safety, quality, budget, and schedule targets. Specifically, more than 25 million man-hours have been worked without a lost time accident; the quality-acceptance rate continues to track at greater than 95 percent; the budget still has a target band at project completion of \$3.95 billion to \$4.2 billion; and the schedule continues on track to meet the December 2015 commercial operation date. Mr. Skaggs stated the project is shifting away from bulk construction work, and the focus is moving toward start-up testing. Currently, this involves functional, component level testing. Mr. Skaggs stated that pre-operational testing is on schedule, and open vessel testing remains on schedule for this coming spring. The

systems required for open vessel testing were turned over to the unit's start-up group ahead of schedule. Mr. Skaggs explained that the phases of start-up testing are: component testing; system testing; then, system integration. With regard to dual-unit operational readiness, Mr. Skaggs reported that a complete set of transition plans has been prepared to ensure that the Watts Bar site is ready to operate two units. The results of a recently-completed internal team assessment of dual-unit operational readiness show that the dual-unit readiness plan is sound. The assessment also includes several recommendations that the project will adopt and implement. Mr. Skaggs observed that the power ascension program, used to ascend in power at the very end of the project, is continuing to track on schedule in support of the commercial operation date. TVA's response to Fukushima also continues to track on plan. Specifically, the design work for Fukushima modifications required by NRC's orders has been completed, and TVA is currently implementing those designs, including construction of the new FLEX Equipment Storage Building, and a new auxiliary feed-water storage tank.

Mr. Skaggs identified challenges as: the growing complexity of work as the project approaches completion; conducting Unit 1/Unit 2 shared safety system testing without impacting the operating unit; emergent work and component failure during testing; emerging licensing issues as work progresses; and dual-unit operational readiness in terms of staffing capacity and capabilities.

Copies of the slides used by Mr. Skaggs in his report are filed with the records of the Board as Exhibit 2/13/14H.

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At the conclusion of Mr. Skaggs' report, Director Ritch, Director McWherter, and Director Mahurin questioned Mr. Skaggs regarding the safety record for the project and the number of employees (approximately 3,400) involved in construction. Finally, Director Ritch reported that an independent evaluation of construction activities on Watts Bar Unit 2, conducted by the Nuclear Construction Review Board and received by the Committee, confirms the report provided by Mr. Skaggs.

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The meeting was adjourned at 10:34 a.m. EST.