

No. 14-02

Approved by the Board of Directors
at its August 21, 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
MAY 8, 2014

A meeting of the Board of Directors of the Tennessee Valley Authority was held in the De La Salle Hall/University Theatre, Christian Brothers University, 650 East Parkway South, Memphis, Tennessee, on May 8, 2014. The meeting was called to order at 10:34 a.m. (CDT) after an approximately sixteen minute break following the listening session, which began at 9:02 a.m. (CDT). The meeting was announced to the public on May 1, 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, 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; and Charles G. (Chip) Pardee, Executive Vice President and Chief Operating Officer.

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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14-02-1. Welcome

Chairman Sansom called the meeting to order, thanked those who participated in the listening session, and then welcomed everyone to the meeting. After brief remarks about the Board's visit to Allen Fossil Plant and an expression of appreciation to Memphis Light, Gas and Water (MLGW) for hosting the Board at breakfast, Chairman Sansom turned his time over to Director Lynn Evans, who is from Memphis and is a former MLGW Board member.

Director Evans explained that the Board travels throughout TVA's territory in order to be accessible in a public setting to as many stakeholders as possible, and stated she was excited about the Board meeting being in Memphis for the first time since she joined the Board. Director Evans commented on the fact that Directors McWherter and Howorth are also from areas on the western side of TVA's territory, then invited and received brief remarks from the

President of Christian Brothers University, Dr. John Smarelli, Jr. Director Evans next acknowledged the presence of several individuals in the audience, including legislative aides, former colleagues, and local officeholders, welcomed all in attendance, and thanked the management and employees of Allen Fossil Plant for hosting a visit by members of the Board earlier in the week.

Chairman Sansom then thanked MLGW and Christian Brothers University for hosting the Board, and recognized Raul Alfonso, Plant Manager at Allen Fossil Plant, for doing a great job at what Chairman Sansom described as one of TVA's best production plants. Chairman Sansom then invited and received remarks from Wayne Henson, Chairman of the Board of Directors of the Tennessee Valley Public Power Association (TVPPA), and from Pete Mathias, Chairman of the Tennessee Valley Industrial Committee (TVIC), after which he acknowledged the presence of several members of the management of local power companies who were in attendance.

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New Business

14-02-2. Committee Assignments

The Board adopted the following resolution upon the motion of Chairman Sansom, which was duly seconded:

WHEREAS Section 2(g)(1) of the TVA Act requires that the Board create and maintain an "audit committee" and directs the Board to create such other committees of Board members as the Board considers to be appropriate; and

WHEREAS Section 2.1 of the Bylaws further provides that appointees for the membership of committees shall be submitted by the Chairman of the Board to the Board for its approval as a single slate of appointees; and

WHEREAS the Chairman hereby recommends the slate of committee members as set forth on Attachment A (Exhibit 5/8/14A);

BE IT RESOLVED, That the Board of Directors hereby approves the slate of committee members as set forth in Attachment A (Exhibit 5/8/14A), with said assignments to become effective May 19, 2014, and to continue in place as provided in the Bylaws or until modified by further action of the Board.

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Old Business

The Board approved the minutes of its February 13, 2014, meeting.

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New Business

14-02-3. President's Report

President and Chief Executive Officer William D. (Bill) Johnson welcomed those present and expressed appreciation for the hospitality received in Memphis, then stated that the occasion had been a great opportunity to meet with MLGW, TVA's largest customer, and help celebrate its 75th anniversary.

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Mr. Johnson thanked MLGW, the other customers present, and the employees of public officials and members of the public present or listening in. Mr. Johnson then commented on the recent storms and tornados in the TVA service area, extending TVA's condolences to those lost and support to those suffering, and his thanks to those who worked to restore service.

Mr. Johnson next discussed the Tennessee River's link to the Mississippi River and the national inland waterway system, noting that barges on the Tennessee River carry almost 40 million tons of goods each year. Mr. Johnson stated that TVA works with the Army Corps of Engineers to reduce flooding not only on the Tennessee River, but also on the Ohio River and the Mississippi River. Mr. Johnson stated that as TVA carries out its responsibilities it is committed to working safely and efficiently, and in excellence with its partners. Mr. Johnson noted that TVA sends a Voice of the Customer Survey to its customers every year, and this year nearly 90 percent of local power companies and direct served customers responded. Mr. Johnson expressed appreciation for the level of participation, and reported that preliminary results show continuing improvement in TVA's relationships with its customers. Mr. Johnson attributed this progress to TVA's efforts to listen better and collaborate on shared priorities such as rates and reliability. Mr. Johnson next expressed appreciation for the support voiced by TVA's stakeholders during the recent review of TVA by the Office of Management and Budget.

Mr. Johnson then provided the Board with an update on TVA's operational and financial performance. He reported that TVA is on track to meet its goal of achieving \$500 million in sustainable reductions in operating and maintenance costs by 2015, and that TVA has restructured its organization to be leaner, more flexible, and focused on the work that matters the most. Mr. Johnson stated that sales to local power companies are up over this time last year,

which he attributed to the unusually cold winter, but he also reported that overall sales of electricity continue to be flat. Mr. Johnson stated that utilities nationwide are seeing slower growth in demand for electricity and TVA expects that trend to continue nationally and in the TVA region. Mr. Johnson stated that the Fiscal Year 2015 budget, which will be presented to the Board in August, will reflect TVA's commitment to living within its means while producing reliable, affordable, and cleaner energy to the region. Mr. Johnson stated that TVA is continuing to manage its power system in light of flatter power demand and increasing environmental regulation, moving towards a more diverse generating portfolio. This includes evaluating TVA's coal units and weighing a number of economic, operational, and environmental factors.

Mr. Johnson reported that work on emissions control equipment at Gallatin Fossil Plant is on schedule and on budget, and that at the Paradise Fossil Plant site in Kentucky, excavation has begun on the natural gas plant that will replace two of the three coal units. Mr. Johnson stated that Allen Fossil Plant and others are being evaluated, and the Johnsonville Fossil Plant will be retired. Mr. Johnson went on to say that generation of some type at Allen will be required for transmission system reliability and stability, and TVA has begun an environmental assessment process. Mr. Johnson explained that this process will include a public meeting and a public comment period. He stated that TVA understands the impact decisions like this have on communities and employees, and works hard to mitigate those impacts to the greatest extent possible.

Mr. Johnson stated that TVA is pleased with the progress of its nuclear program. He reported that work on Watts Bar Unit 2 is meeting goals for safety, quality, cost, and schedule,

and that it is on track to be operational by December 2015. When operational, Watts Bar Unit 2 will be the U.S.'s first new nuclear unit to generate power in the 21st century. Mr. Johnson commented that the recently completed refueling outage at Watts Bar Unit 1 will assist in the transition to dual unit operation at Watts Bar.

Mr. Johnson stated that TVA continues to increase its use of renewable energy, and is working with its customers to increase energy efficiency in homes, businesses, and industries. He gave the example of a program idea that MLGW originated, which encouraged consumers to make their homes more energy efficient, and became the eScore® program. TVA and MLGW now are partnering with Home Depot to expand this pilot program. Mr. Johnson stated TVA also may build a combined heat and power project with a customer, which would recover waste heat to produce additional power and steam. In addition, Mr. Johnson stated that TVA has an arrangement in Memphis to burn methane gas from the city's wastewater treatment plant along with coal at Allen Fossil Plant, making productive use of methane that otherwise would escape into the environment, and saving about 8,000 tons of coal per year.

Mr. Johnson stated that TVA manages approximately 300,000 acres of public land, and operates more than 80 public recreation areas, including campgrounds, day-use areas, and boat ramps. Mr. Johnson stated that TVA's employees share TVA's commitment to a healthy environment, and acknowledged the work done in March by TVA employees at Allen Fossil Plant to clean up McKellar Lake in Memphis, during an event sponsored by TVA and a group known as Living Lands and Waters.

Mr. Johnson reported that the TVA area has had relatively little rain, particularly in the east and in the tributaries of the Tennessee River, and that three of the most popular recreational lakes, Norris, Cherokee, and South Holston, have low lake levels. With less water in the rivers, the water temperature increases, and it becomes necessary to operate cooling towers and other equipment earlier than would otherwise be necessary. Mr. Johnson explained that this means there could be less output from nuclear and hydroelectric units.

With regard to economic development, Mr. Johnson reported that during the first six months of the fiscal year TVA's partnerships have helped create or retain more than 33,000 jobs in the TVA region, representing a capital investment of approximately \$5.2 billion. Mr. Johnson mentioned several companies that recently expanded or opened in the Memphis area, then referenced several other businesses recently recruited across the Tennessee Valley. Mr. Johnson stated that companies that invest in new or larger facilities increasingly want to locate in communities that are committed to economic growth and a healthy environment. TVA's Valley Sustainable Communities program helps communities market themselves as environmentally sustainable, and communities across the region are participating. Mr. Johnson stated that Memphis/Shelby County is beginning the process to be recognized as a sustainable community, and Germantown has already received platinum status.

Copies of the slides used by Mr. Johnson in his report are filed with the records of the Board as Exhibit 5/8/14B.

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14-02-4. Report of the External Relations Committee

Director Howorth, Chairman of the External Relations Committee, reported that the Committee met on April 22, at which time the Committee discussed a number of things, including energy efficiency and renewable energy. Director Howorth stated TVA has made a concerted effort to work more closely with local power companies, who have close relationships with the residential, commercial, and industrial loads they serve, and are often the first stop when a customer seeks assistance in cutting power bills.

The Committee received updates on customer relations, economic development, and government relations which, along with energy efficiency and renewables, offer opportunities for the type of collaboration that helps TVA effectively provide environmental stewardship, economic development, and reliable electricity. The Committee also heard a more detailed update on TVA's technology development programs. Director Howorth stated TVA is involved in an array of efforts, most notably technologies that can help improve the reliability and operation of the whole system, and is working with a consortium of utility participants on research initiatives. By leveraging these resources with others, the entire industry can see far more return on investment than through pursuit of individual initiatives.

The Committee also received and reviewed advice offered to the Board by both of TVA's federal advisory committees, the Regional Resource Stewardship Council and the Regional Energy Resource Council, each of which met during the first quarter of calendar year 2014. Director Howorth also reported that the Committee discussed stakeholder perceptions of TVA. The

Committee recognizes that TVA must be relevant to the lives and interests of its stakeholders, delivering consistent, satisfactory, and positive results to those it serves, and must understand and respond in kind to the attitudes and wishes of a diverse population.

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14-02-5. Report of the Audit, Risk, and Regulation Committee

Director Evans, Chairman of the Audit, Risk, and Regulation Committee, reported that the Committee met in person on April 23, and also met via videoconference on May 1 to review TVA's quarterly 10-Q report prior to its filing with the Securities and Exchange Commission (SEC). On April 23, the Committee received a report from Inspector General Richard Moore and his staff, providing an independent assessment of activities at TVA. Director Evans stated the Committee has benefitted tremendously from the insights provided by the Inspector General's office and looks forward to continuing to work with the Inspector General and his staff. Subsequently at that meeting, TVA staff provided updates on a number of topics, including regulatory assurance and enterprise risk. In light of recent, external events, the Committee asked TVA staff to provide a detailed look at TVA's cyber security risks. Director Evans stated that while these risks are constantly changing, TVA has an effective plan to cope with or mitigate them. The Committee also received an update on regulatory accounting matters related to pension accounting, and a litigation update from the General Counsel.

Director Evans stated that the Committee has responsibility for a variety of mechanisms aimed at making certain TVA receives high quality information related to its financial statements,

and that employees are empowered to report problems when they arise without fear of reprisal. The Committee received an update on TVA's whistleblower and employee concerns programs. The Committee also reviewed TVA's policy on audit and permissible non-audit services during the April 23 meeting. Director Evans stated that there are potential revisions to this policy that may be helpful and reflect best practices in the accounting industry and, accordingly, the Committee expects to bring a recommendation to the full Board later this summer.

Director Evans stated that the meeting on May 1 was aimed at ensuring the Committee receives accurate, timely information about TVA's financial statements and, again, reviewing the aforementioned 10-Q statement prior to filing with the SEC. Director Evans stated the Committee carried out its financial reporting responsibilities in two ways. First, the Committee met with TVA management to review the financial statements, then the Committee met with TVA's external auditor to receive its independent assessment of the information prior to its filing. Director Evans then gave a brief presentation and, on behalf of the Committee, recommended adoption of the resolution set forth in Minute Item No. 14-02-6.

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14-02-6. End-User Exemption Under Dodd-Frank Act

The Board adopted the following resolution as recommended in a memorandum from the Executive Vice President and Chief Financial Officer, dated April 25, 2014, and filed with the records of the Board as Exhibit 5/8/14C:

WHEREAS the Dodd-Frank Act requires most swaps to be cleared through a derivatives clearing organization ("Mandatory Clearing Requirement"); and

WHEREAS there is an exemption to the Mandatory Clearing Requirement for end users that enter into swaps to hedge or mitigate commercial risk (“End-User Exemption”); and

WHEREAS to take advantage of the End-User Exemption, end users that file reports with the Securities and Exchange Commission must generally obtain approval of the decision not to clear swaps from the board of directors or a committee of the board of directors; and

WHEREAS it is desirable for TVA to continue to enter into swaps that are not cleared;

BE IT RESOLVED, That the Board of Directors hereby authorizes TVA to use the End-User Exemption in connection with (1) all swaps, and any amendments or modifications thereto, that TVA enters into during fiscal year 2014 under the Financial Hedging Program established by the Board on May 17, 2005, and amended on August 1, 2007, February 12, 2009, and August 20, 2009, (2) all swaps, and any amendments or modifications thereto, that TVA enters into under the fiscal year 2014 financing resolutions adopted by the Board on August 22, 2013, and (3) all of TVA’s swaps outstanding on the date hereof as well as any amendments or modifications thereto that TVA enters into during fiscal year 2014.

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14-02-7. Report of the Finance, Rates, and Portfolio Committee

Director Mahurin, Chairman of the Finance, Rates, and Portfolio Committee, reported that the Committee met on April 23 and received updates on year-to-date financial performance and corporate cash considerations. Director Mahurin requested a report from John Thomas, Executive Vice President and Chief Financial Officer, regarding Minute Item No. 14-02-8. Immediately prior to receiving Mr. Thomas’s report, Director Mahurin commented that when he joined the Board he was aware of conversations regarding TVA approaching its debt limit and things TVA could not do because of financial constraints. He stated his expectation that the efficiency steps that have (since) been taken, and TVA’s better operating performance and reduced costs, will result in TVA being able to finance itself from within indefinitely. Following Mr. Thomas’s report, Director Mahurin requested and received a report from Chip Pardee, Executive Vice President and Chief

Operating Officer, regarding Minute Item No. 14-02-9. Director Mahurin then gave a brief presentation and, on behalf of the Committee, recommended adoption of the resolution set forth in Minute Item No. 14-02-10.

Copies of the slides used by Mr. Pardee in his report are filed with the records of the Board as Exhibit 5/8/14D.

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14-02-8. Financial Performance Update

John Thomas, Executive Vice President and Chief Financial Officer, reported on TVA's financial results for the first two quarters of FY 2014. Mr. Thomas started with a high level overview of financial performance focusing on net income, base revenue, operating expenses, fuel costs, and interest expense related to debt. Mr. Thomas then discussed specific information related to the weather and its effect on sales, compared planned sales and last year's sales, and highlighted the effect of losing United States Enrichment Corporation as a customer. Mr. Thomas stated that approximately 1 percent underlying economic growth is embedded in this fiscal year's results. Such low to modest economic growth is in line with TVA's planning assumptions.

Mr. Thomas next discussed FY 2014's second quarter income statement. He reported that base revenue is \$312 million ahead of plan, routine and project related operation and maintenance expenses are \$87 million better than plan and \$150 million less than last year, interest expense is

\$38 million better than plan, and net income is \$504 million better than plan. Mr. Thomas stated that TVA ended the first half of the (fiscal) year with \$228 million of net income.

Moving to the cash flow statement, Mr. Thomas stated that TVA had \$1.4 billion of cash flow from operations, which is \$216 million ahead of plan. Investments in assets, reliability, and major construction (including Watts Bar Unit 2) were approximately \$1.4 billion. Mr. Thomas reported that total debt and debt-like obligations are \$1.6 billion favorable to plan, due to the use of cash flow from operations and cash derived through good performance last year to pay down debt.

Summarizing, Mr. Thomas stated that the second quarter was marked by higher sales to local power companies driven by weather and some growth, productivity increases that are slightly ahead of plan, unfavorable fuel costs, net income better than budget, and less debt.

Copies of the slides used by Mr. Thomas in his report are filed with the records of the Board as Exhibit 5/8/14E.

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14-02-9. Supplement to Maintenance and Modifications Contract with Day and Zimmerman, NPS

The Board adopted the following resolution as recommended in a memorandum from the Executive Vice President and Chief Operating Officer, dated May 8, 2014, and filed with the records of the Board as Exhibit 5/8/14F:

WHEREAS the ongoing work under TVA's contract with Day & Zimmermann NPS, Inc. (DZNPS) (TVA Contract No. 2801) is expected to extend beyond the contract's current November 2014 expiration date; and

WHEREAS DZNPS's cost and safety performance under the contract since November 2009 has been beneficial to the TVA nuclear fleet; and

WHEREAS TVA's Nuclear Power Group and Supply Chain & Facilities need time to develop Requests for Proposals to support new contracts as part of a new nuclear fleet services strategy; and

WHEREAS approving an extension of the DZNPS contract's term, and authorizing additional funding through the end of that extended term, is least disruptive to ongoing work and minimizes cost impacts for TVA; and

WHEREAS in a memorandum dated May 8, 2014, a copy of which is filed with the records of the Board as Exhibit 5/8/14F (Memorandum), the Executive Vice President and Chief Operating Officer recommends that the Board approve a two-year extension of the contract term, from November 2014 until November 2016, and authorize funding of an additional \$350 million, from \$900 million to \$1.25 billion;

BE IT RESOLVED, That the Board of Directors hereby authorizes a two-year extension of the term of the DZNPS contract, from November 2014 until November 2016, and approves \$350 million in additional funding, to a contract ceiling of \$1.25 billion, for work under this contract as requested in the Memorandum.

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14-02-10. Combined Heat and Power Project

The Board approved a combined heat and power project with a direct-served customer as further described in the confidential resolution and memorandum filed with the records of the Board as Exhibit 5/8/14G. It was noted during the Board's discussion that the approved project has a capital budget of \$157 million and that the confidential resolution delegates to the CEO the authority to approve the contractual arrangements with the customer.

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14-02-11. Report of the Nuclear Oversight Committee

Director Ritch, Chairman of the Nuclear Oversight Committee, reported that the Committee met on April 22 and received an update from Joe Grimes, Executive Vice President and Chief Nuclear Officer, regarding performance of the nuclear fleet. Director Ritch stated the fleet continues to have outstanding safety performance, which remains a top priority. This spring, refueling outages have been successfully completed at both Browns Ferry (where one minor equipment issue delayed return to full power by one day) and Watts Bar, with another scheduled soon at Sequoyah. Director Ritch reported that in March, the Nuclear Regulatory Commission closed a yellow finding at Sequoyah, and the Committee continues to monitor all operations to ensure TVA's compliance with regulations.

Director Ritch stated the Committee also received a report from Mike Skaggs, Senior Vice President, Watts Bar Nuclear Operations and Construction, regarding ongoing work at Watts Bar Unit 2. Director Ritch stated that project continues to meet targets for safety, quality, cost, and schedule. Director Ritch reported the Committee received an additional evaluation report on construction activities at Watts Bar Unit 2 from an independent consultant, which confirmed that progress is being made and the project is meeting the aforementioned performance targets. Director Ritch also noted that construction activities at Watts Bar Unit 2 continue to have tremendous success with respect to safety, with almost 27 million man-hours worked without a lost time accident. Director Ritch stated that approximately 600,000 man-hours remain to be worked before the plant becomes operational.

Director Ritch closed his report by stating that, as of April 19, current Board Chairman Bill Sansom will become Chairman of the Committee.

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14-02-12. Report of the People and Performance Committee

Director Haskew, Chairman of the People and Performance Committee, reported that the Committee met once since the last Board meeting, at which time management updated the Committee on year-to-date performance and organizational health. The Committee also received updates on the whistleblower and TVA employee concerns programs. Director Haskew stated that these programs are important not only to TVA's financial reporting, but also play a key role in the cultural health of TVA. Director Haskew stated the Committee also reviewed TVA's safety program and labor relations strategy.

Director Haskew made a motion that at its next meeting, the Board consider replacing Section 1.7 of TVA's Bylaws in its entirety with the following language: "The meetings of the Board of Directors shall be presided over by the Chairman of the Board. In the absence of the Chairman at a meeting of the Board, the Chair of the Audit Committee shall preside." This motion was duly seconded and unanimously approved for consideration at the Board's next meeting.

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At this point Director Haskew commented regarding Chairman Sansom's tenure as Board Chairman, after which Directors Brown, Ritch, Evans, and Howorth praised the service of both

Chairman Sansom and Director Haskew. Chairman Sansom was then presented with a reproduction of a mural hanging in the main federal courthouse in Huntsville, Alabama, entitled, "The Tennessee Valley Authority."

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The meeting was adjourned at 12:25 p.m. CDT.