Board Meeting

November 20, 2015

Bowling Green, Kentucky

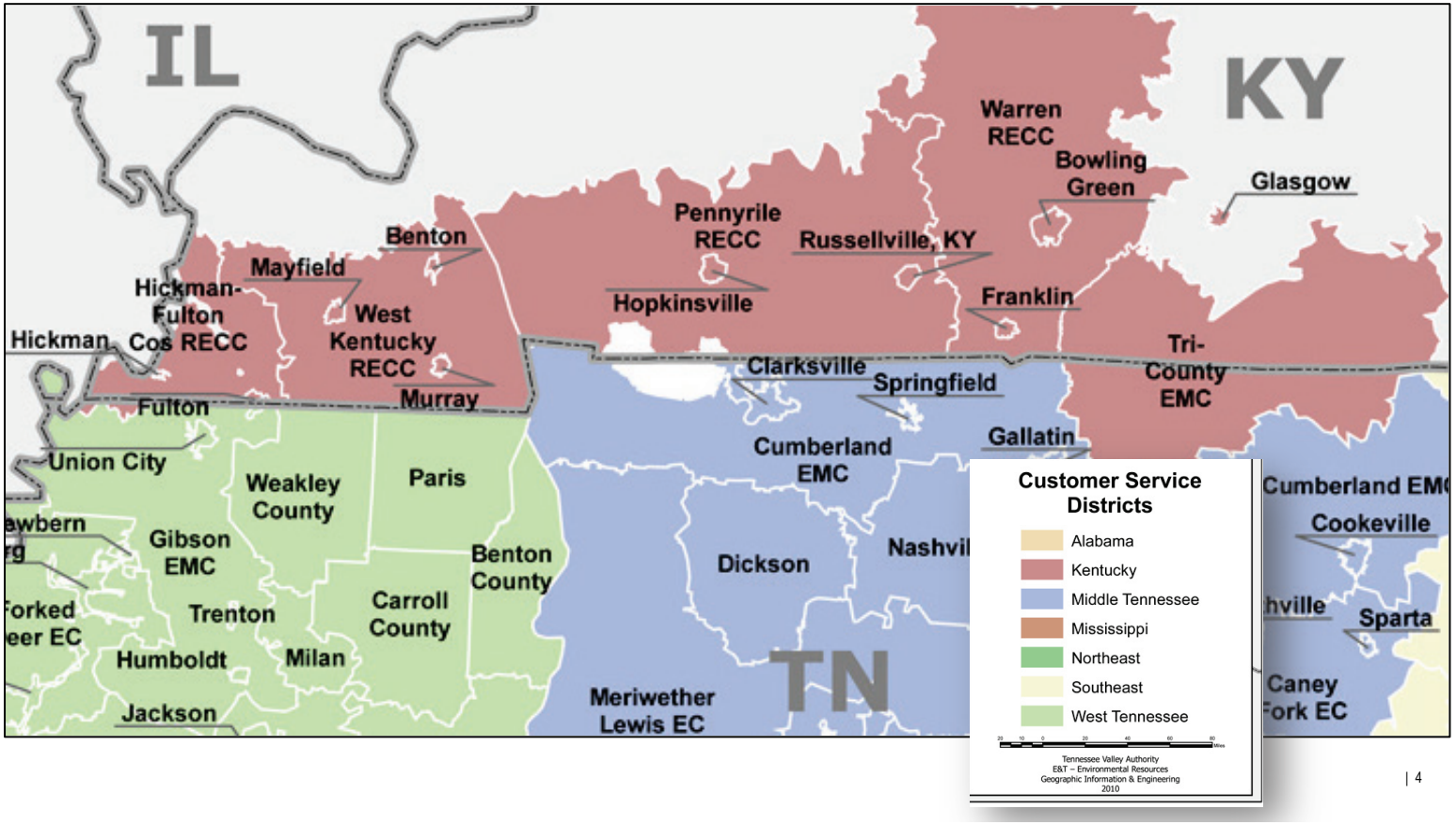
President's Report

November 20, 2015

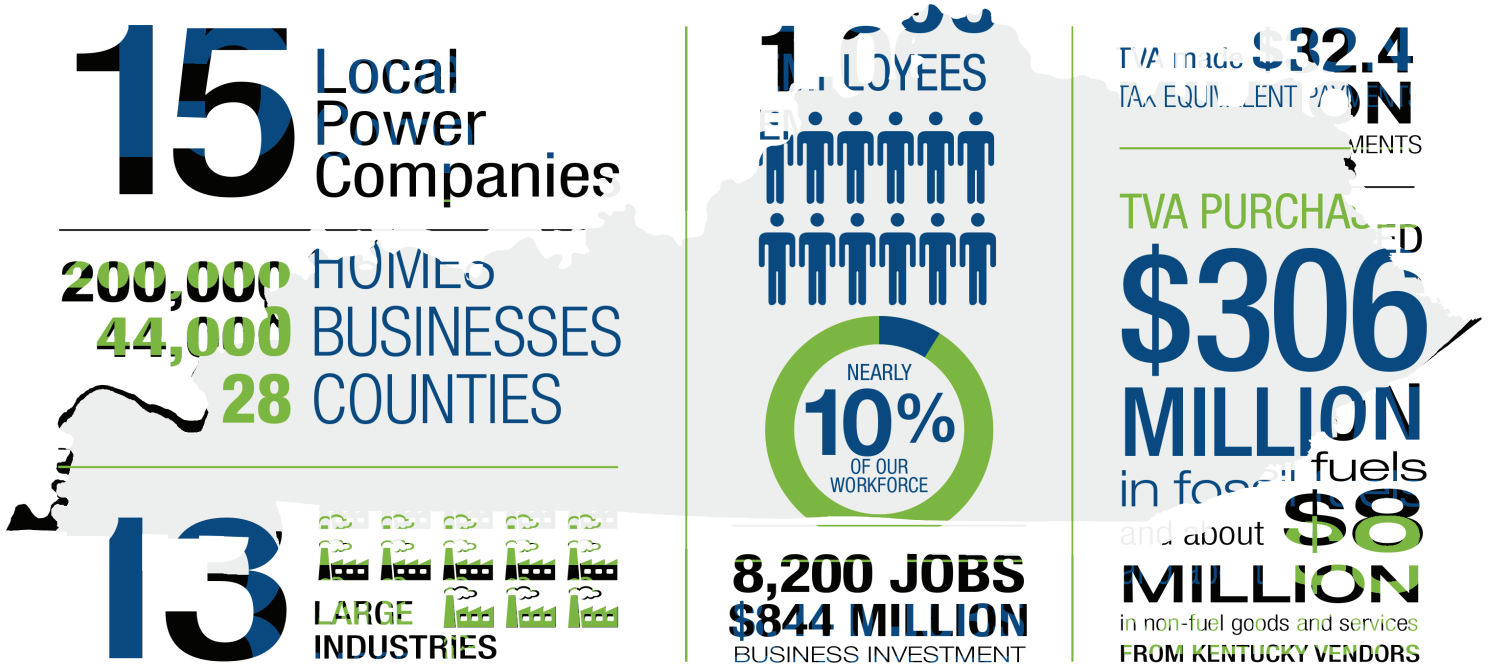
BILL JOHNSON
President and CEO

Bowling Green

Local Power Company Partners



Kentucky and TVA



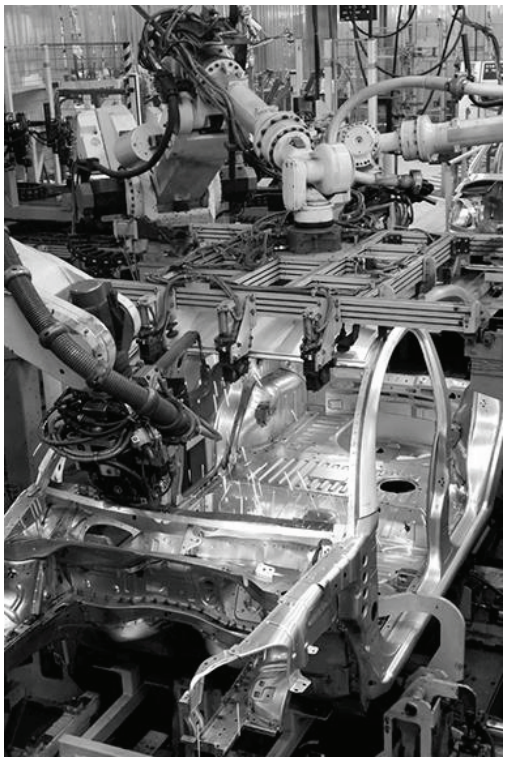
Veterans Day

Veterans Day

Blandon Prowse and son

Energy | Environment | Economic Development

Strong Performance In Energy



Strong Performance In Energy

Coal – Paradise

Strong Performance In Energy

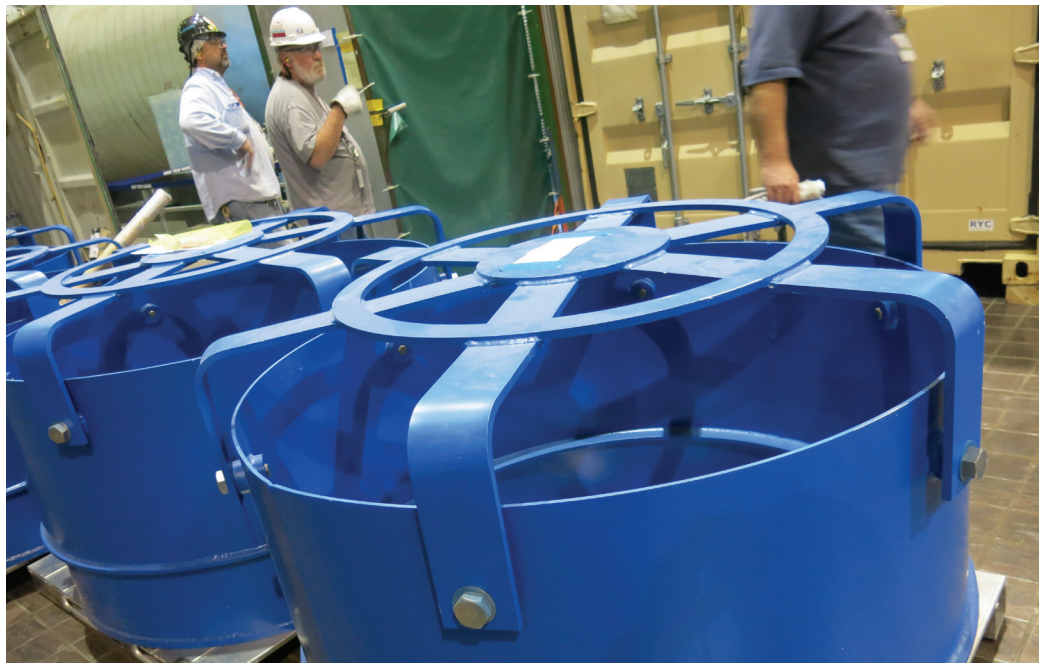
Coal – Shawnee

Strong Performance In Energy

Nuclear – Watts Bar

Strong Performance In Energy

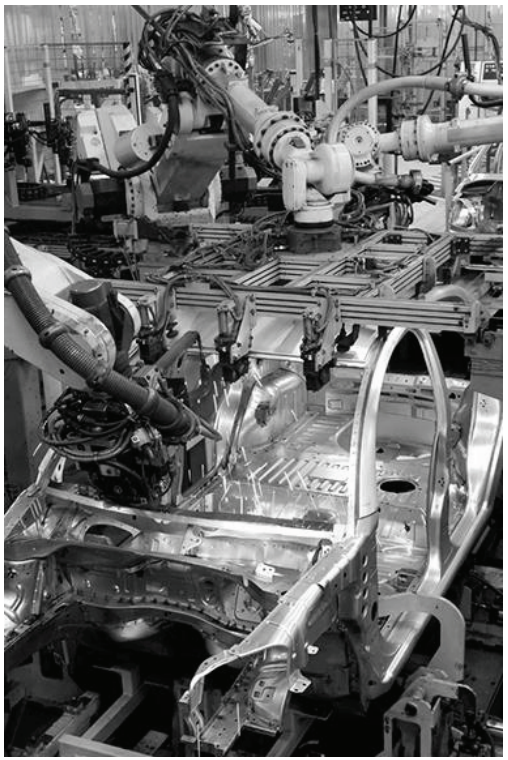
Nuclear – Sequoyah



Strong Performance In Energy

Transmission

Stewards of the Environment



Stewards of the Environment

Lands and Waters

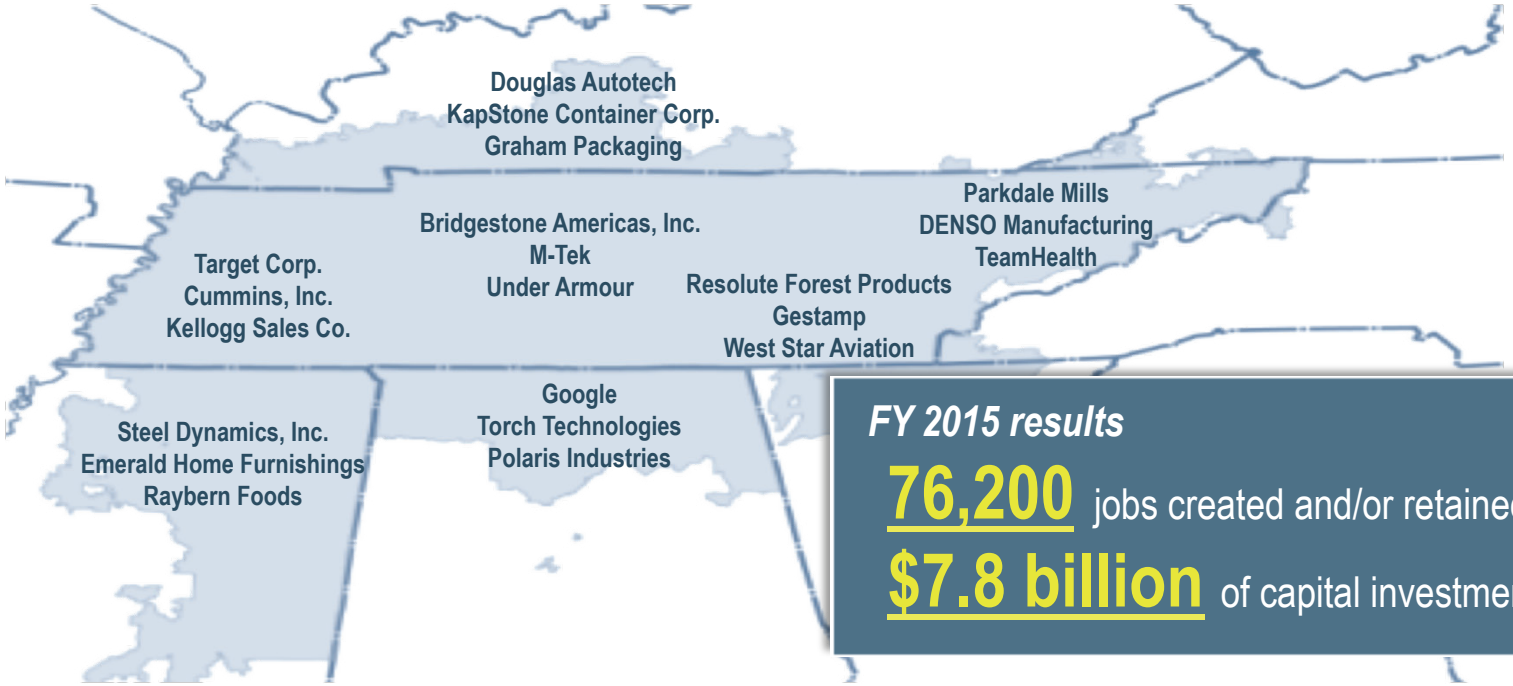
Stewards of the Environment

Recreation

Economic Development

Economic Development

Stimulating economic development and investment in the Valley



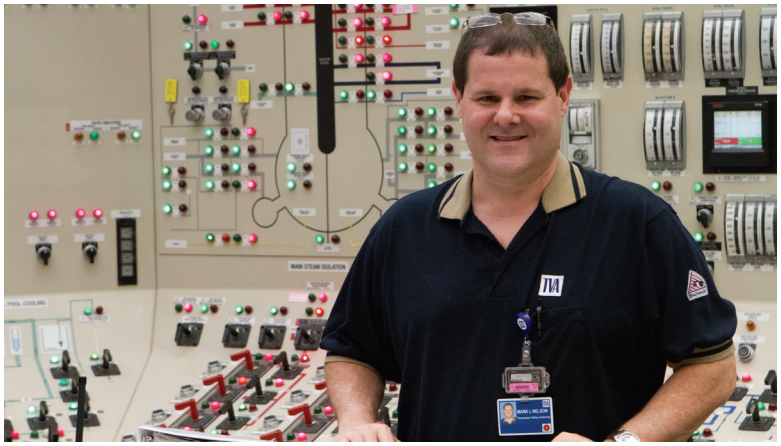
FY 2015 results

76,200 jobs created and/or retained

$7.8 billion of capital investment

Energy | Environment | Economic Development

Safety



Safety

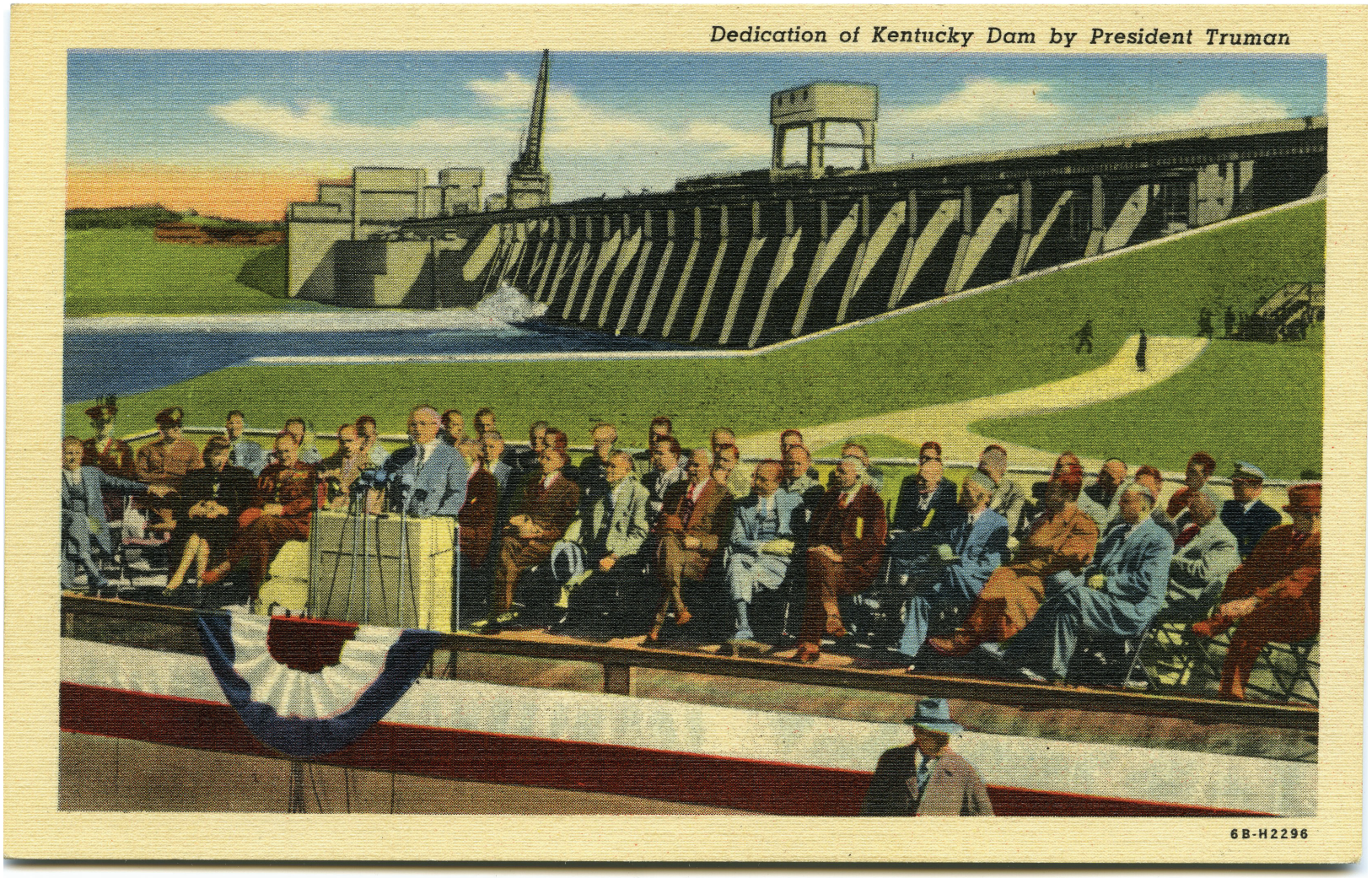
Energy | Environment | Economic Development

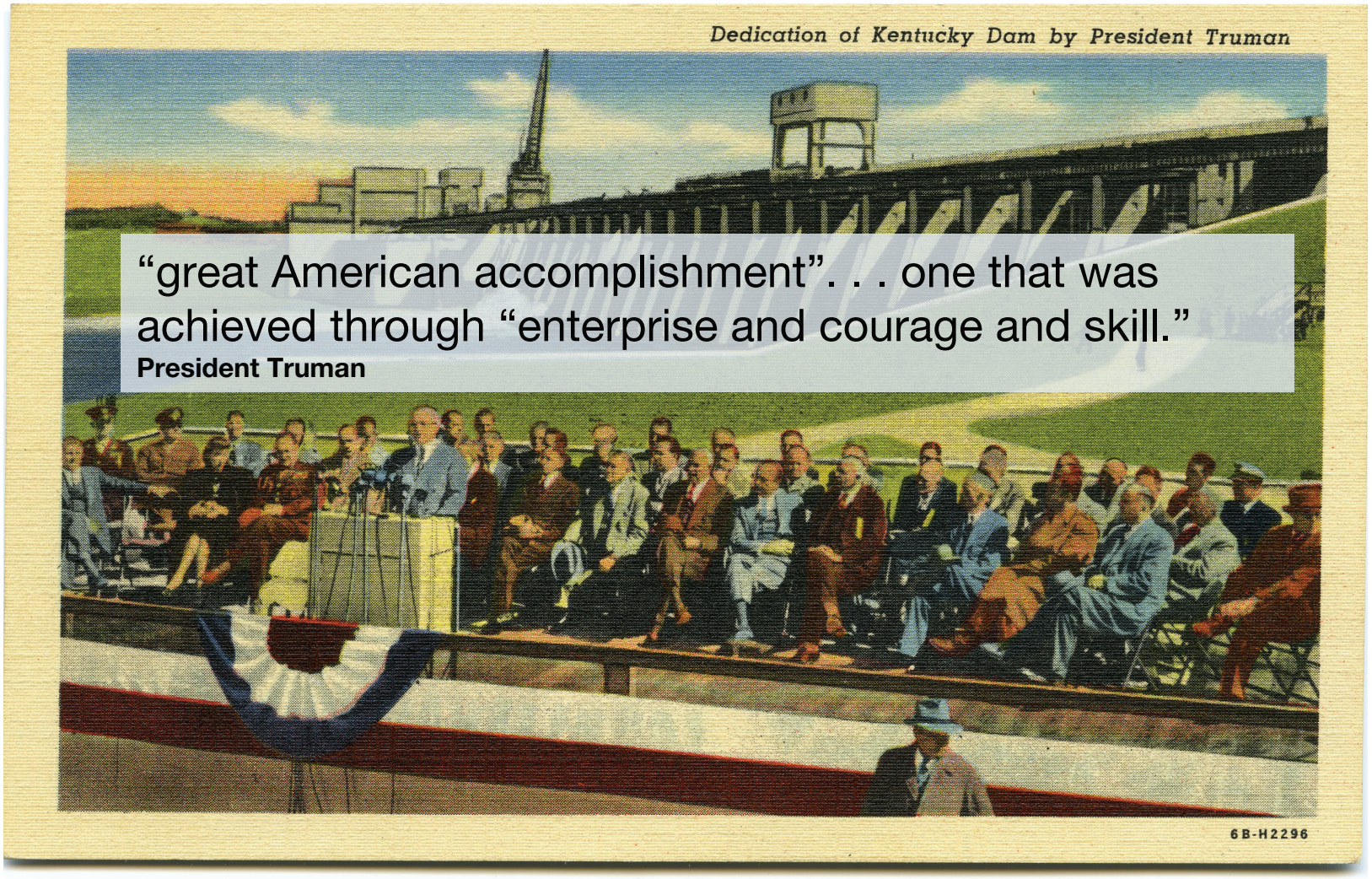
Strategic Imperatives

Serve the people of the Tennessee Valley

Strategic Priorities

Rates	Maintain low rates and align O&M spending with revenue
Debt	Effectively manage debt to ensure long-term financial health
People Performance Excellence	Work safely and effectively Embrace continuous improvement Develop employees and leadership for sustained optimal performance High performance workforce Focus on values, competencies and behaviors
Asset Portfolio	Pursue Operational Excellence Integrate Watts Bar U1 & U2 for successful commercial operation Successfully implement strategic asset projects Balance the portfolio to provide cleaner, efficient and affordable energy
Stewardship	Stimulate economic development and investment in the Valley Strengthen customer loyalty and stakeholder relationships Maximize potential of the Tennessee River System Protect and improve the natural resources and the use and enjoyment of public lands


Dedication of Kentucky Dam by President Truman
6B-H2296


Dedication of Kentucky Dam by President Truman
"great American accomplishment". . . one that was achieved through "enterprise and courage and skill."
President Truman
6B-H2296

TVA

Finance, Rates, and Portfolio Committee

Financial Performance

JOHN THOMAS
Executive Vice President
and Chief Financial Officer

Fiscal Year 2015

Net Income: $1.1 billion

- $517M more than budget and $642M above last year

Base Revenues ($343M above budget)

- Weather-related
- Fuel expense $158M favorable due to generation performance and lower gas prices

Operating & Maintenance Expenses ($151M favorable to budget)

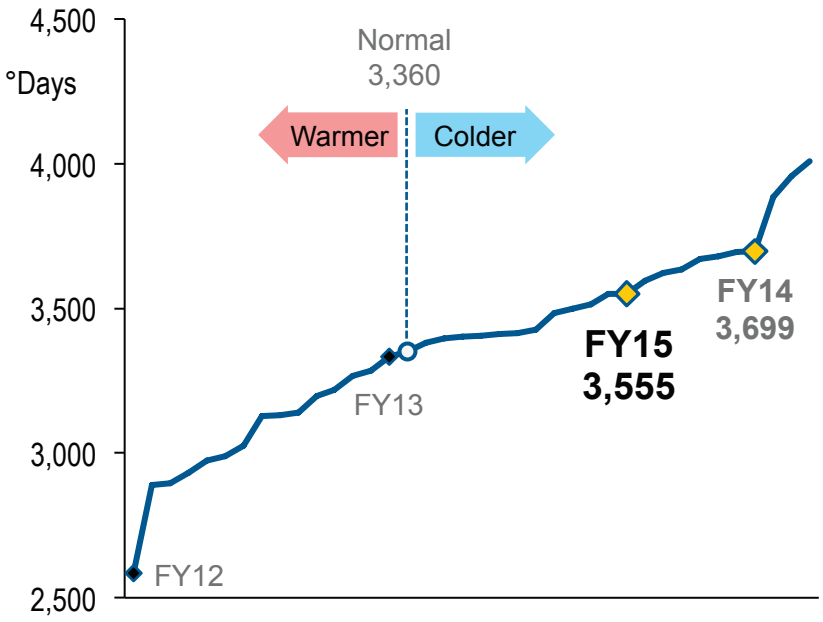
- Exceeded $500M reduction

Interest Expense ($69M favorable to budget)

- Reduced debt – Total Financing Obligations: $1.2B less than budget

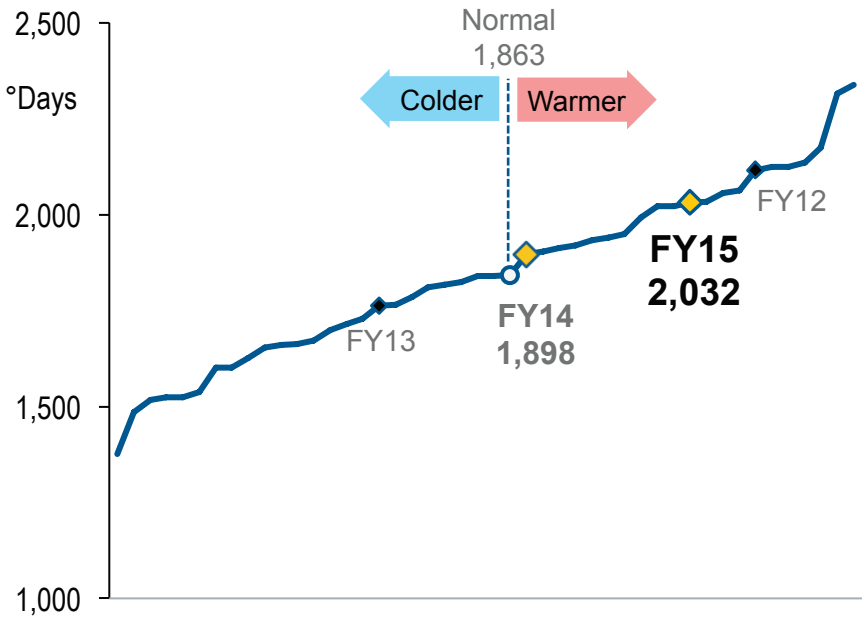
Weather Patterns

Heating Degree Days



Fiscal year 1970 through 2015 (low to high)

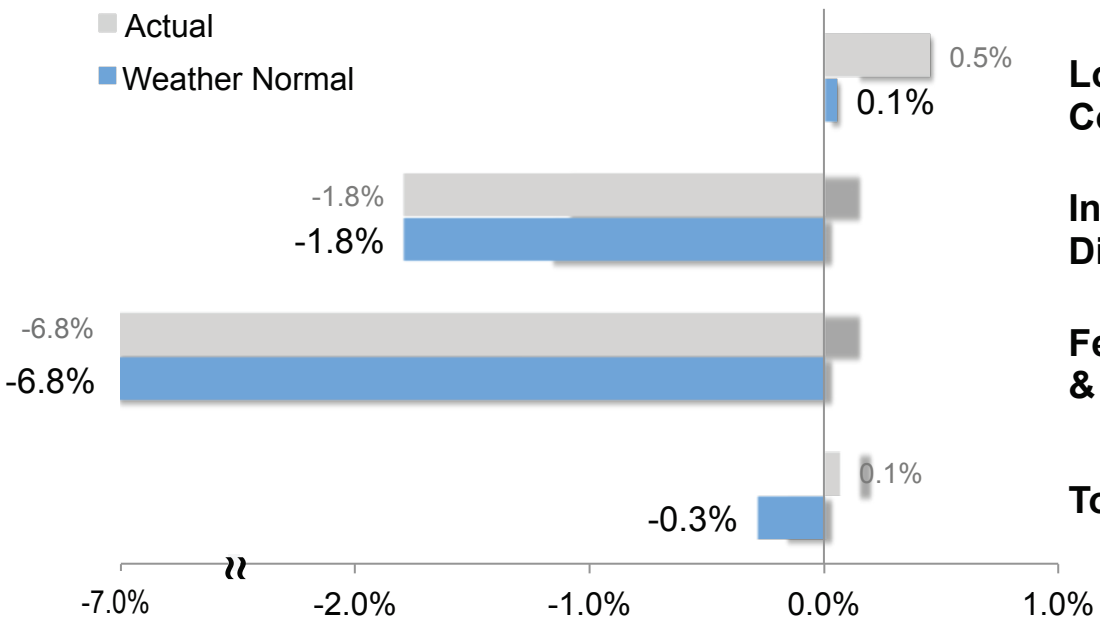
Cooling Degree Days



Fiscal year 1970 through 2015 (low to high)

Weather Impact

Energy delivered FY 2015 vs. 2014



	% of Total Sales
Local Power Companies	87%
Industries Directly Served(1)	11%
Federal Agencies & Other	2%
Total	

(1) Excludes energy for USEC

FY15 Summary Income Statement

Net Income favorability due to higher revenues and lower operating spend

$ million	FYTD 2015 Actual	FYTD 2015 Budget	Variance Fav/(Unfav)	FYTD 2014 Actual	'15 v '14 Fav/(Unfav)
Operating Revenue	$ 11,003	$ 10,697	$ 306	$ 11,137	$ (134)
Fuel & Purchased Power	3,394	3,552	158	3,824	430
Business Unit O&M	2,417	2,535	118	2,630	213
Other O&M, Reagents	421	454	33	711	290
Total Operation & Maintenance	2,838	2,989	151	3,341	503
Taxes, Depreciation, Other	2,527	2,360	(167)	2,334	(193)
Interest	1,133	1,202	69	1,169	36
Net Income (Loss)	$ 1,111	$ 594	$ 517	$ 469	$ 642

FY15 Summary Cash Flow Statement

$ million	FYTD 2015 Actual	FYTD 2015 Budget	FYTD 2015 Variance	FYTD 2014 Actual	'15 v '14
Cash Flow from Operating Activities	$ 3,315	$ 2,482	$ 833	$ 2,980	$ 335
Cash Flow used in Investing Activities	(3,585)	(3,768)	183	(2,756)	(829)
Cash Flow from Financing Activities	70	1,086	(1,016)	(1,326)	1,396
Net Change in Cash & Cash Equivalents	**(200)**	**(200)**	**-**	**(1,102)**	**902**
Ending Cash & Short-Term Investments	**300**	**300**	$ -	**500**	**(200)**
Ending Debt and Financing Obligations	$ **26,120**	**$ 27,361**	$ **(1,241)**	$ **26,071**	$ **48**
Statutory Debt	23,878	25,119	(1,241)	23,620	258

FY15 Financial Summary (v. Plan)

Electricity Sales Flat – warmer winter & summer

Higher Base Revenue and Lower Fuel Cost

Effective rate flat for our customers

Over $600 million in cumulative O&M reductions

Resulting in: Higher Net Income and Lower Debt

Section 13
Tax Equivalent Payments

JOHN THOMAS
Executive Vice President
and Chief Financial Officer

Tax Equivalent Payments

The TVA Act requires TVA to make tax equivalent payments to states and counties in which TVA holds power property or sells power.

For Board Consideration:

Approval of the final tax equivalent payments to the states and counties for FY 2015

Approval of the estimated tax equivalent payments to the states and counties for FY 2016

Background

Section 13 of the TVA Act requires five percent of TVA's gross proceeds from power sales* to be redistributed as tax equivalent payments.

The payments to states are determined by the following criteria:

- 50 percent from the state's book value of TVA power properties compared to TVA's total book value of power property
- 50 percent from the state's power sales compared to total TVA power sales

*excluding federal sales, off-system sales, and power used by TVA

Total Tax Equivalent Payments

Tax Equivalent Revenues and Payments

($ million)

	FY11	FY12	FY13	FY14	FY15	Estimated FY16
Gross Proceeds from Power Sales	$10,593	$11,580	$10,948	$10,661	$10,840	$10,699
Required % to be Distributed	5%	5%	5%	5%	5%	5%
Total Tax Equivalent Payments*	**$ 530**	**$ 579**	**$ 547**	**$ 533**	**$ 542**	**$ 535***

*Tax equivalent payments to states will be reduced by 2% for the October 2015 – August 2016 payments. Pending final audited financial information, the remaining amounts determined to be payable will be included in the September 2016 payment.

Tax Equivalent Payments by State

($ million)

State	FY11	FY12	FY13	FY14	FY15	Estimated FY16
Alabama	$ 116	$ 123	$ 111	$ 106	$ 103	$ 94
Georgia	9	9	8	9	9	9
Illinois	<1	1	1	<1	1	1
Kentucky	47	47	47	41	32	35
Mississippi	33	41	39	38	39	40
North Carolina	3	3	3	3	3	3
Tennessee	321	354	337	335	354	352
Virginia	1	1	1	1	1	1
Total	**$ 530**	**$ 579**	**$ 547**	**$ 533**	**$ 542**	**$ 535***

*Tax equivalent payments to states will be reduced by 2% for the October 2015 – August 2016 payments. Pending final audited financial information, the remaining amounts determined to be payable will be included in the September 2016 payment.

Recommendation

1. Approval of the final tax equivalent payment allocations to the states and counties for FY 2015

2. Approval of the estimated tax equivalent payment allocations to the states and counties for FY 2016

Modifications to TVA's Imbalance Transmission Rate

JACINDA WOODWARD
Senior Vice President, Transmission

Purpose

Request approval to adjust the energy imbalance service rate calculation

Background

Generators are required to submit a schedule of their expected output

Imbalance occurs when actual output does not equal schedule

Output > schedule, TVA pays Generator for excess

Output < schedule, Generator pays TVA for shortage

Imbalance rate calculation sets compensation amount

Imbalance Rate Calculation – Goals

Provide reliable power to the people of the Valley at the lowest feasible rate

Align payment for over-generation closer to actual costs associated with correcting over-generation

Improve schedule adherence by Generators to reduce operational impacts to TVA

Recommendations

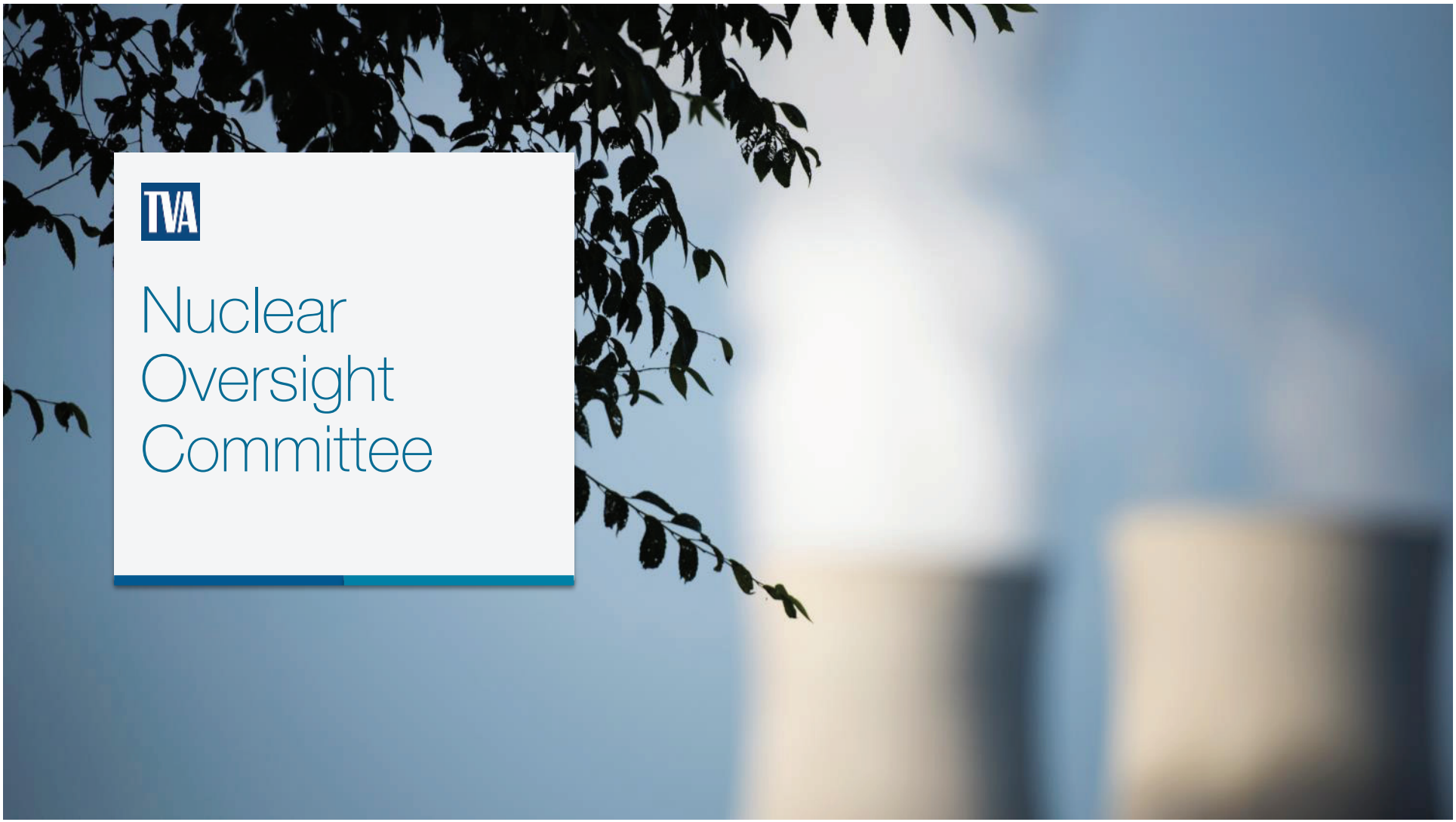
1. Eliminate the “purchased and interchange power costs” components from the definition of decremental costs, and

2. Reduce the Deviation Band III multiplier from 75% to 50% of TVA’s decremental costs, and

3. Delegate authority to the CEO to make certain other changes to cost basis and determine the timing of the effective date of change

People and Performance Committee

Audit, Risk, and Regulation Committee



Nuclear Oversight Committee

TVA
FIRST
NEW NUCLEAR
TVA

External Relations Committee

Regional Resource Stewardship Council Charter

VAN M. WARDLAW
Executive Vice President And
Chief External Relations Officer

Background

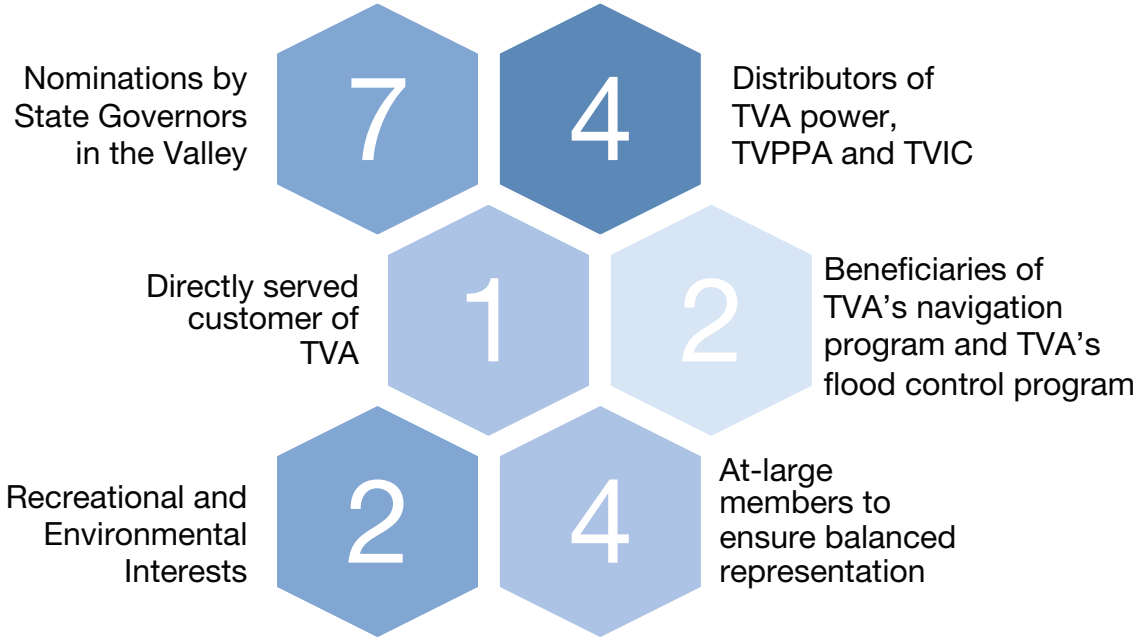
Created in 2000 to provide TVA advice from public and private sectors on its stewardship activities and on setting priorities among competing objectives and values

Advice and recommendations are reported to the TVA Board External Relations Committee

Current Charter expires April 30, 2016

Membership (Based on the Charter)

Council consists of up to 20 members with membership balanced to include a broad range of diverse views and interests.

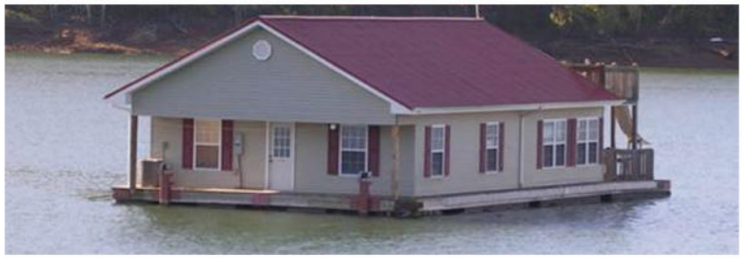


Recommendation

1. Approve and authorize renewal of the proposed Charter
2. Authorize the Vice President, Stakeholder Relations, to serve as Designated Federal Officer
3. Delegate to the Chief Executive Officer the authority to approve membership and to fill vacancies that may arise during the course of the ninth term

External Relations Committee

Floating Houses



TVA