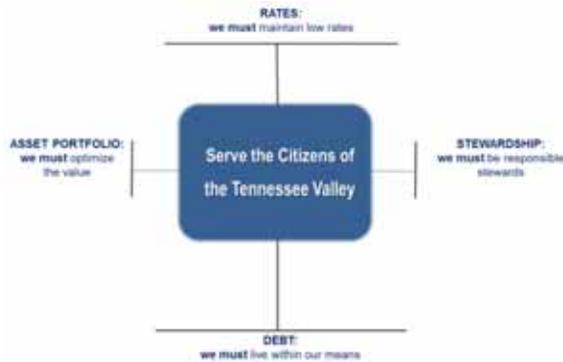




# TVA 2014 Strategic Imperatives: Today's Discussion

## TVA Strategic Imperatives



Balancing Rates & Debt is key to sustainable financial health while keeping competitive rates.

## Today's Discussion

- ◆ Sales & Revenue Trends
- ◆ Balancing Rates & Debt
- ◆ Financial Health

## RATES:

**we must** maintain low rates

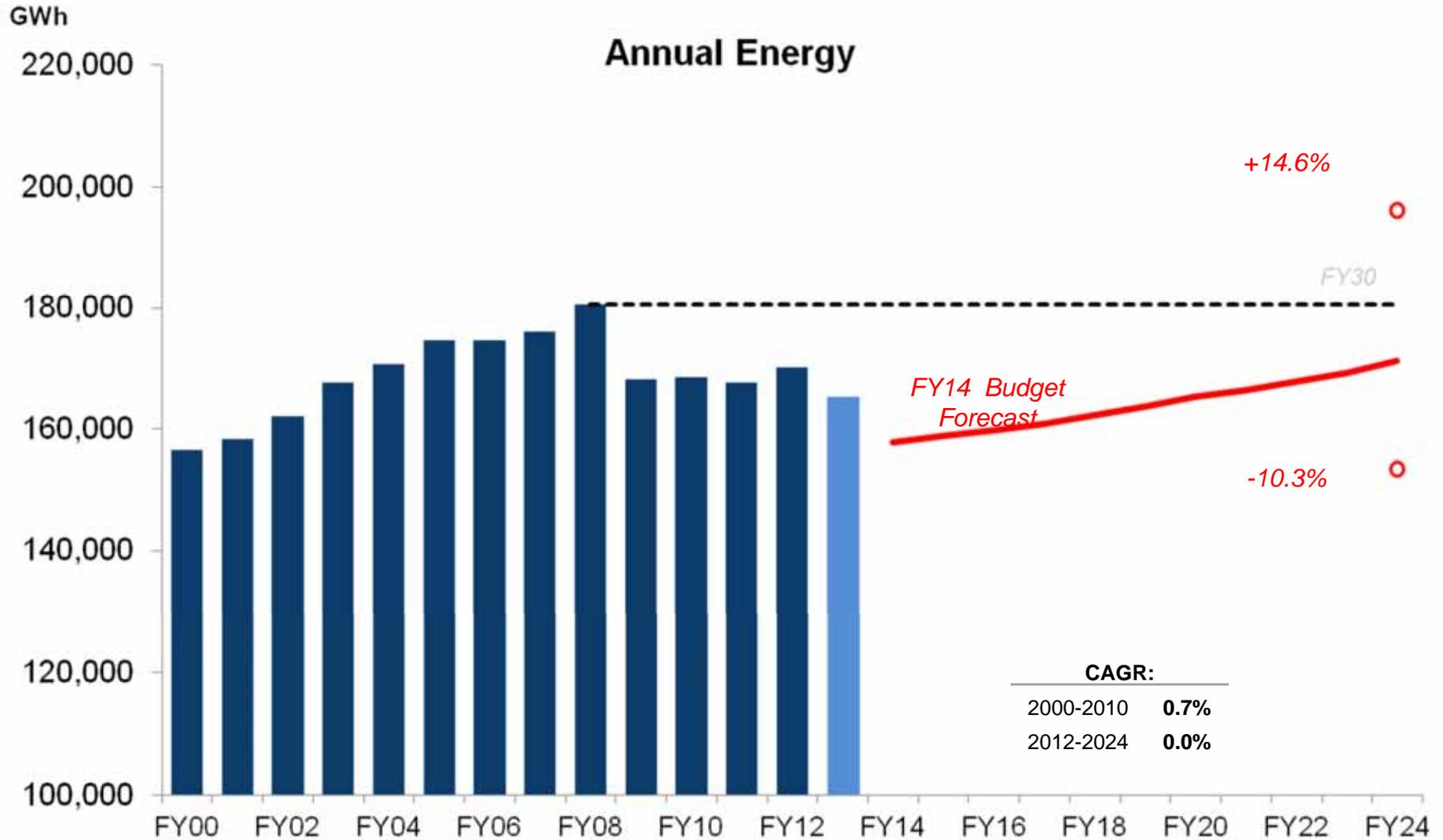
Serve the Citizens of  
the Tennessee Valley

## DEBT:

**we must** live within our means



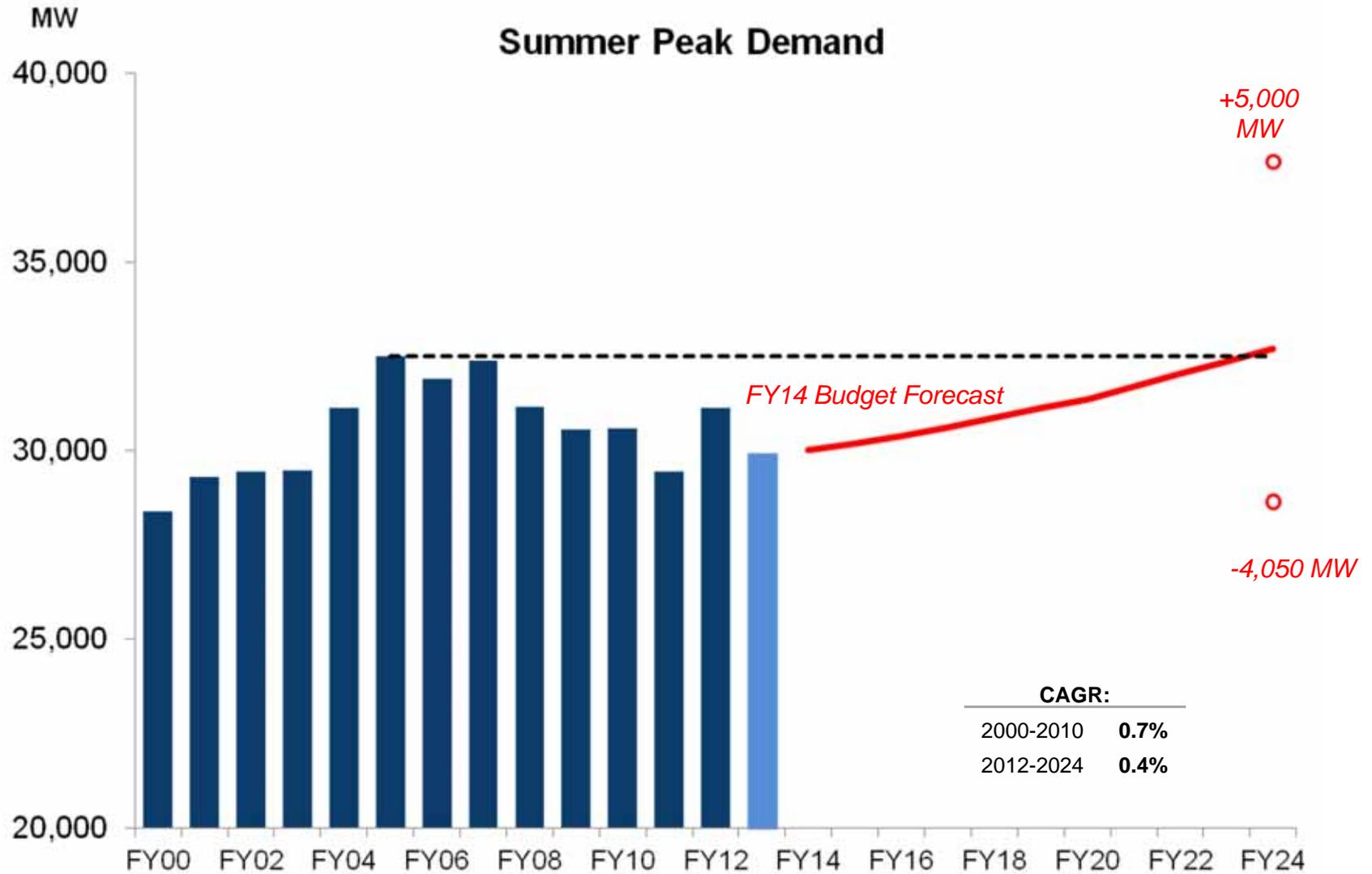
# Sales and Revenue Trends: FY14 Budget Energy Forecast



Note: History is weather-normalized. Highest actual energy is 180,129 in FY2008.  
Forecast does not include impacts of TVA EE/DR programs.



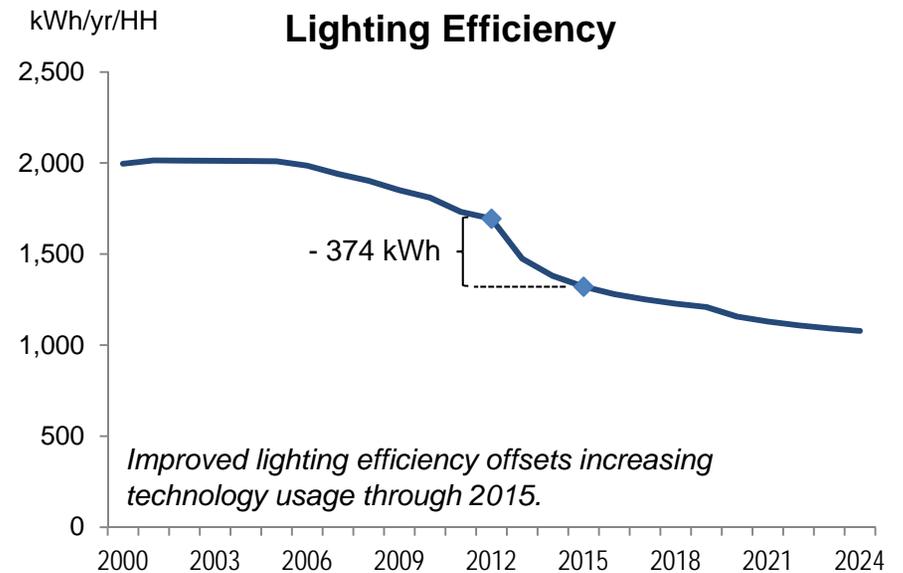
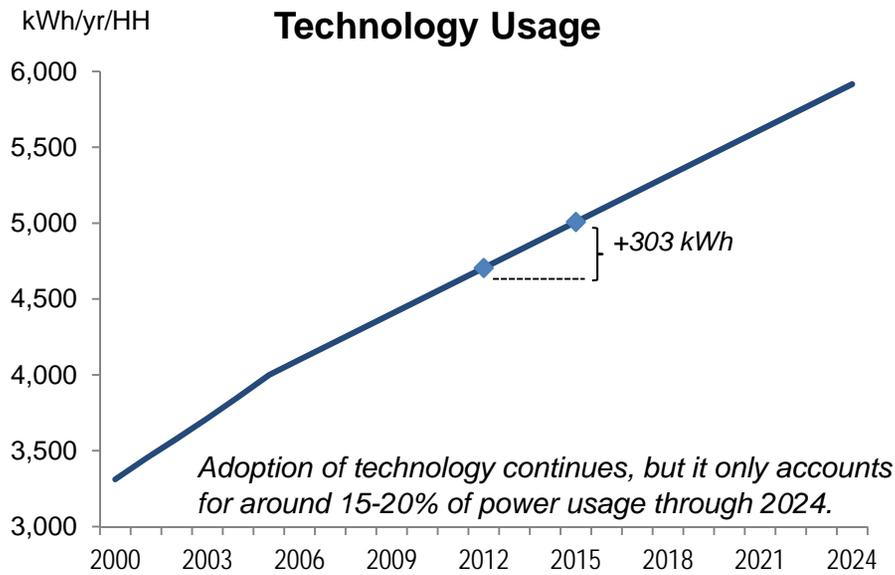
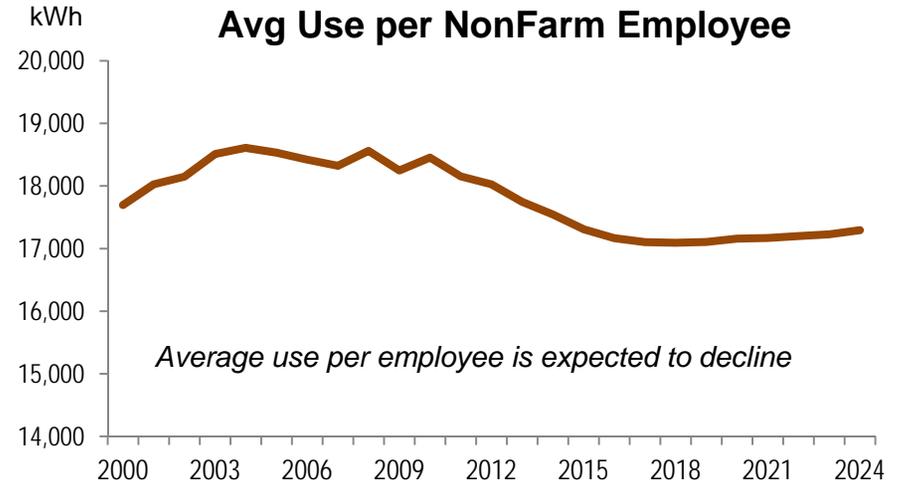
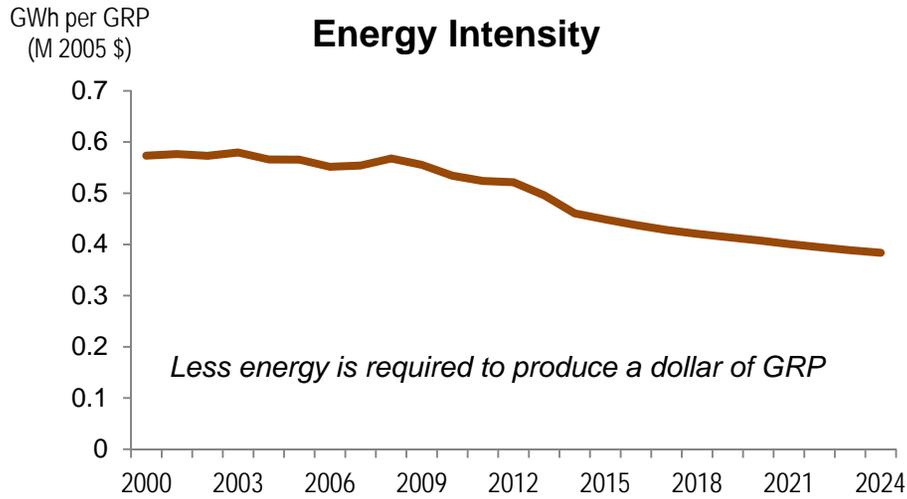
# FY14 Budget Summer Peak Forecast



Note: History is weather-normalized. All-time actual peak was 33,482 MW in August 2007 at 104.4°F.  
 From FY11 to FY12, USEC operated at 600 MW higher.  
 From FY12 to FY13, USEC operated 870 MW lower.  
 Forecast does not include the impacts of TVA EE/DR programs.



# Trends Toward Economic and Energy Efficiencies Continue





# Sales and Revenue Trends: Responding to New Rates

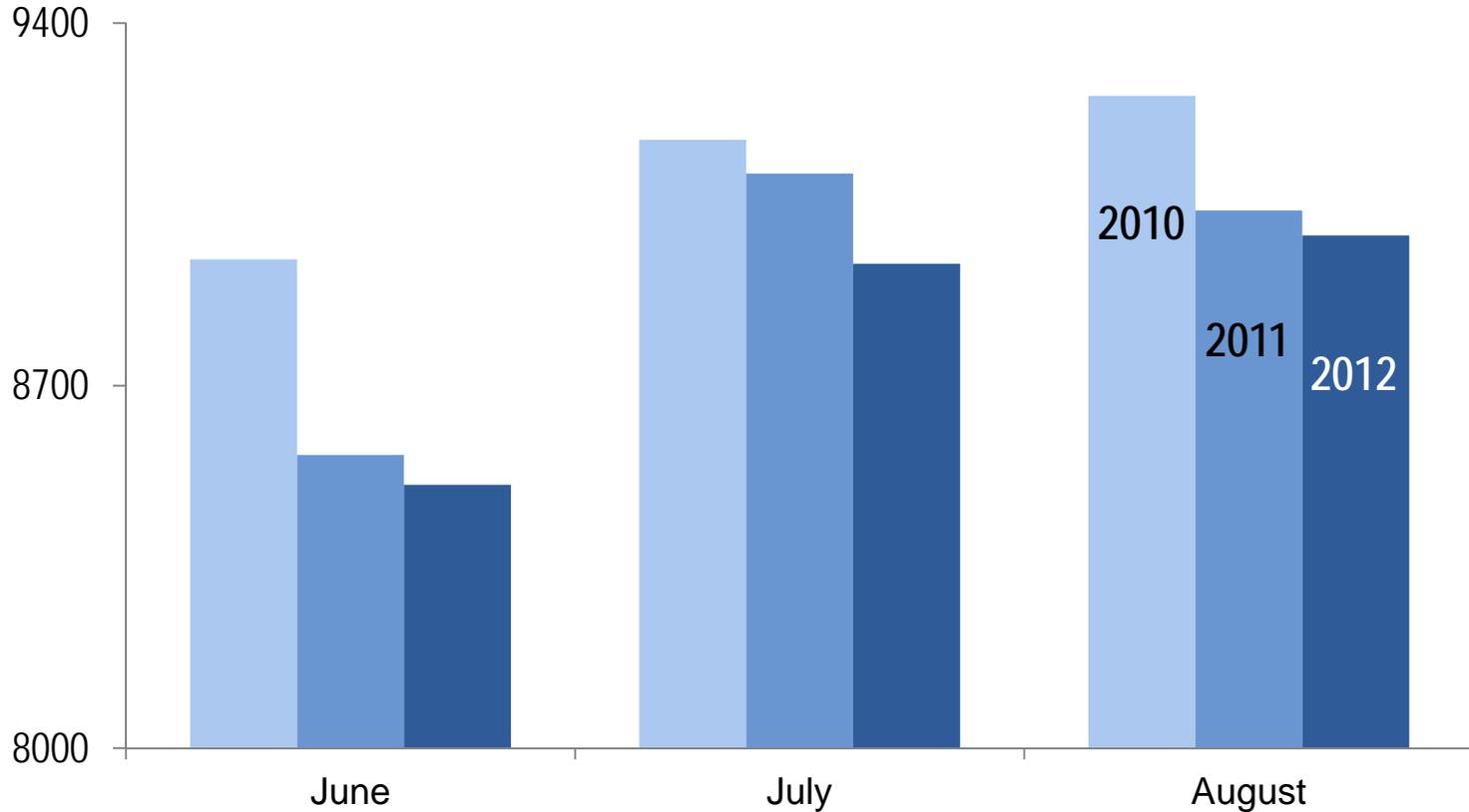
Local Power Companies Have Reduced Peak Demand Under New Rate Structure

**3.5%**

Average Monthly Reduction since 2010

## Normalized Peak Demand

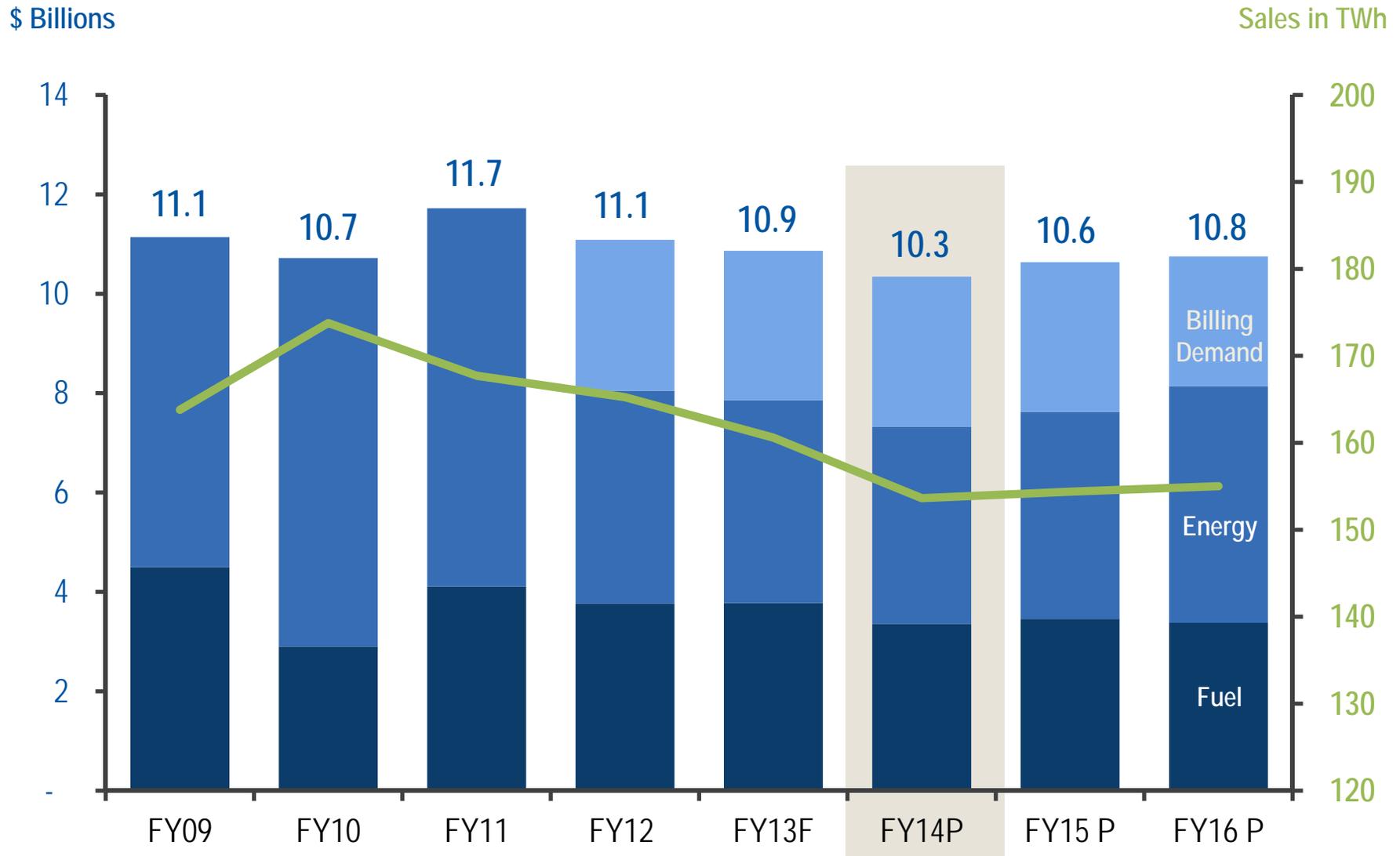
(MW)



Rate change effective April 1, 2011; peaks are normalized for weather



# Sales and Revenue Trends: Near-Term Revenue Trend



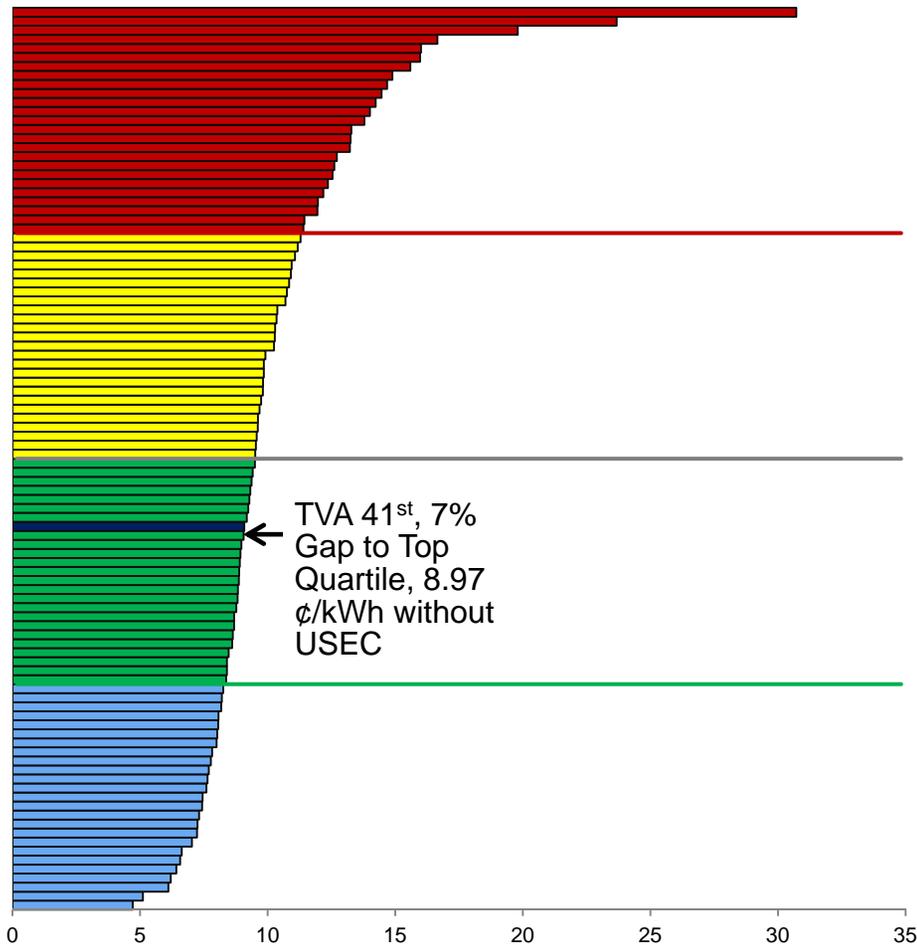
Excludes other revenues



# Rate Competitiveness: FY13 Peer Rate Trends

### 12-Month Average Retail Rate (¢ / kWh) of the Top 100 U.S. Utilities

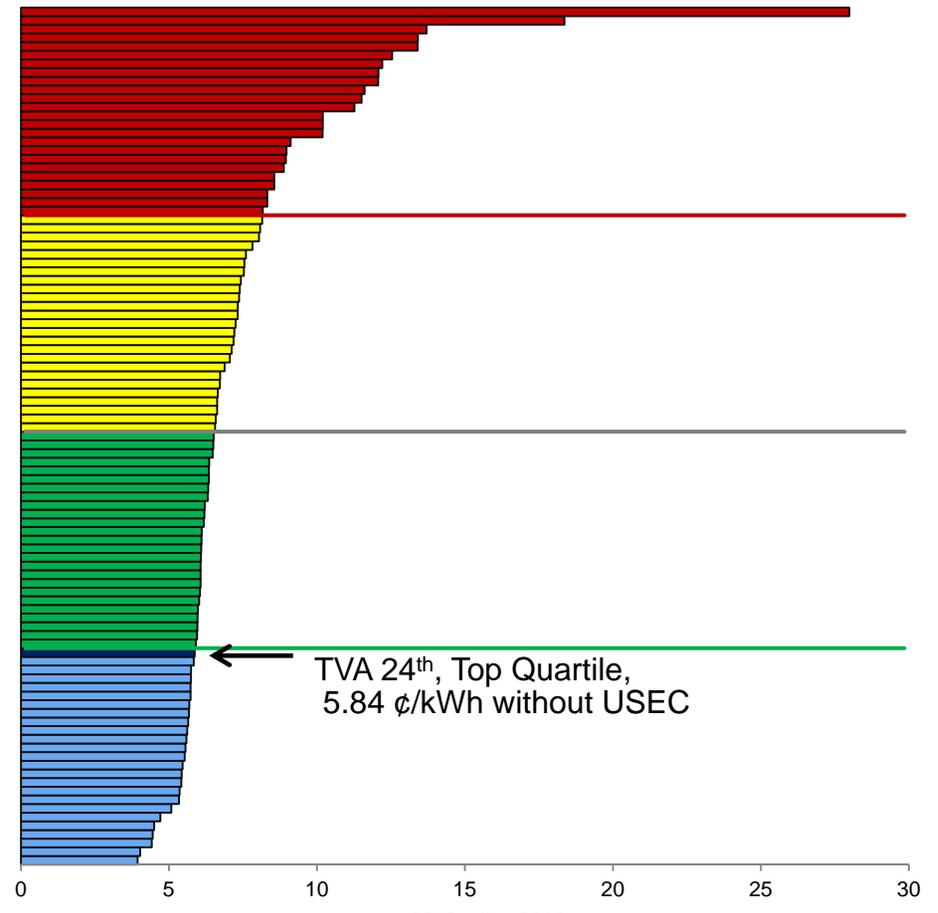
Top Quartile = 8.30    Median = 9.50    Bottom Quartile = 11.20



Nov 2012 - Oct 2013  
Source: EIA-826 & ESS

### 12-Month Average Industrial Rate (¢ / kWh) of the Top 100 U.S. Utilities

Top Quartile = 5.90    Median = 6.50    Bottom Quartile = 8.10



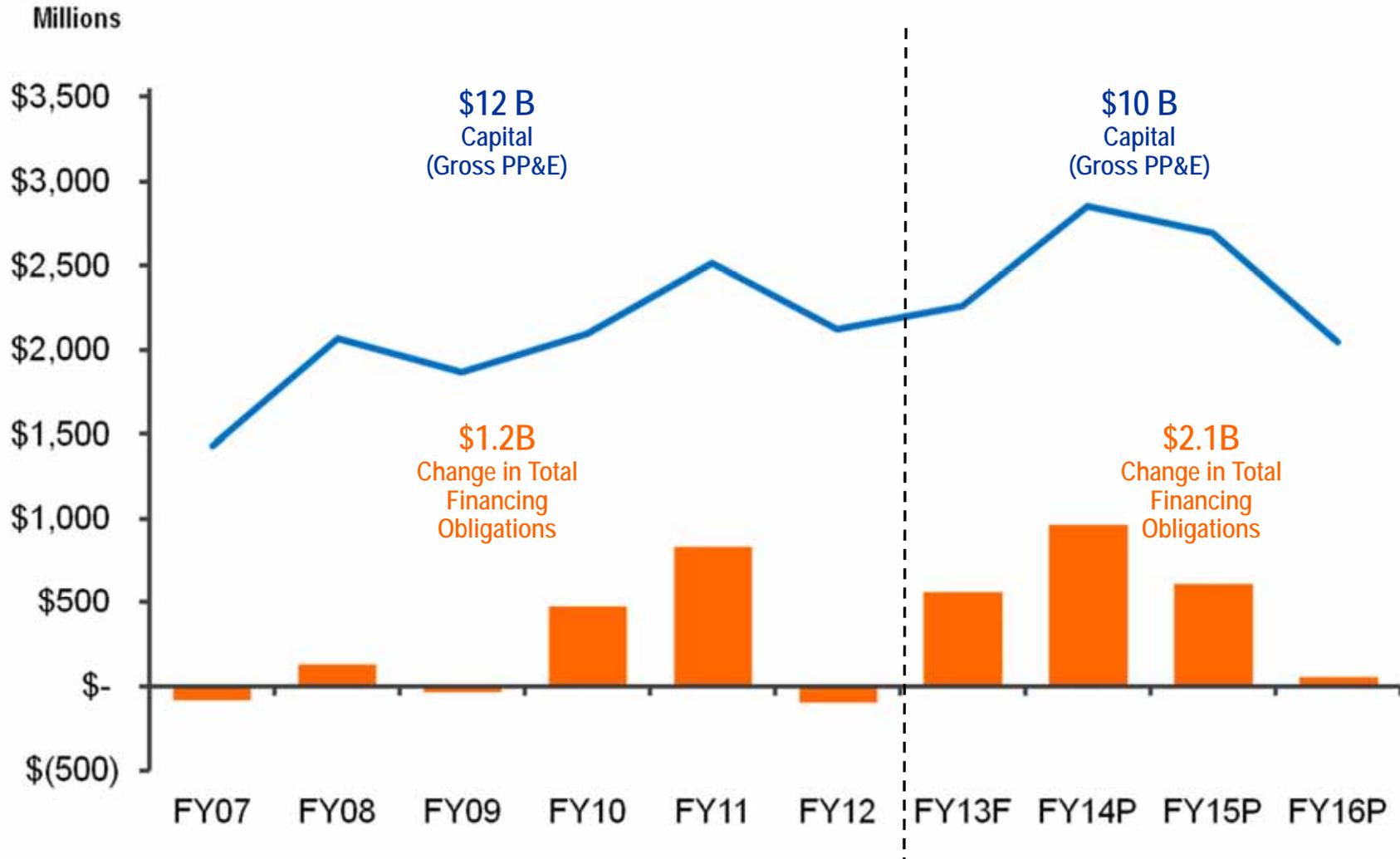
Nov 2012 - Oct 2013  
Source: EIA-826 & ESS

In general, the gap to top quartile among the nation's Top 100 Utilities will be lower than those of the regional peers because the Southeast region on average has lower rates than the nation as a whole.



# Balancing Rates and Debt: Managing Cash and Debt

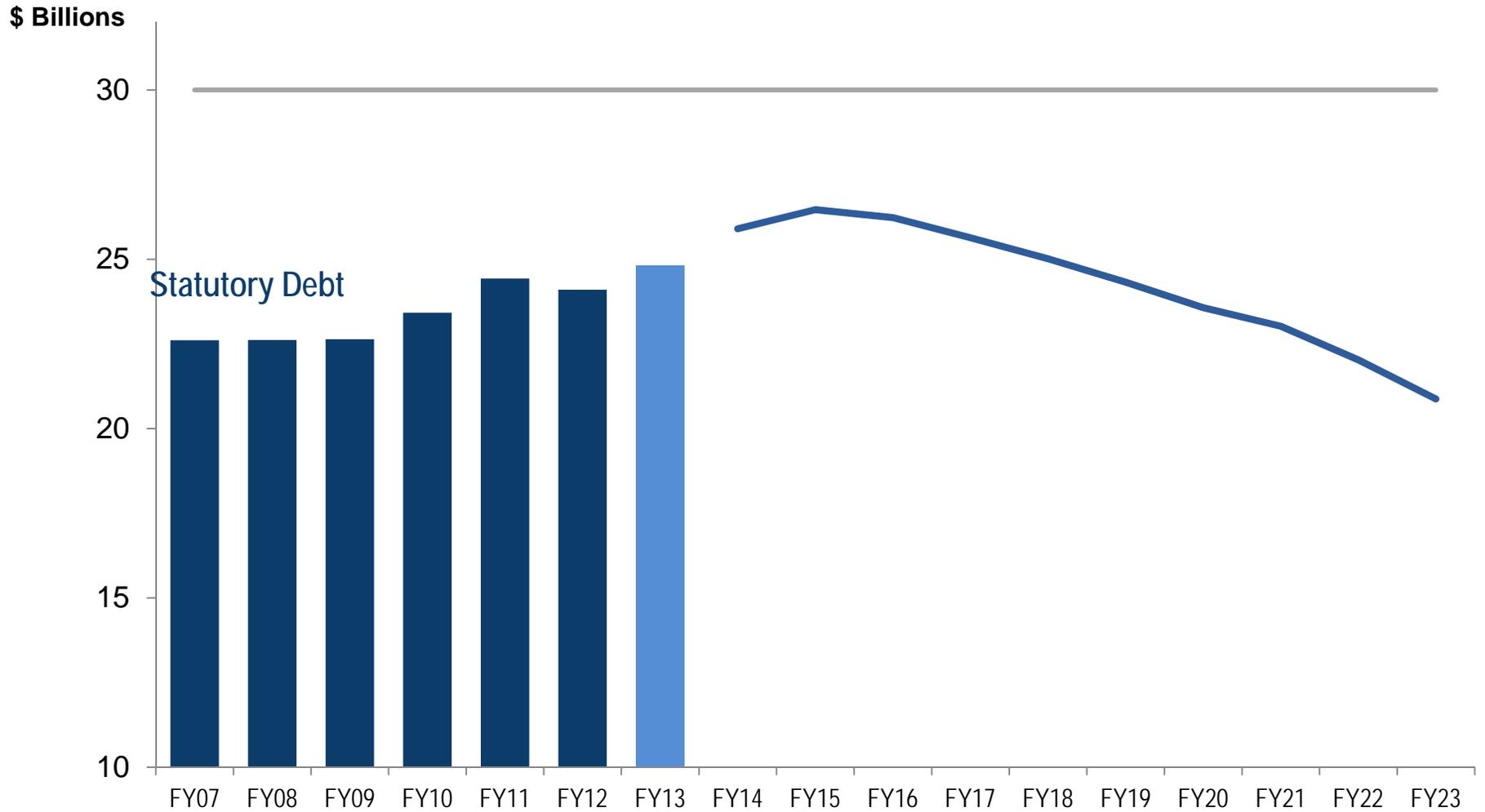
Increasing productive assets with cash generated from operations





# Balancing Rates and Debt: Long-Term Debt Reduction Plan

## Statutory Debt

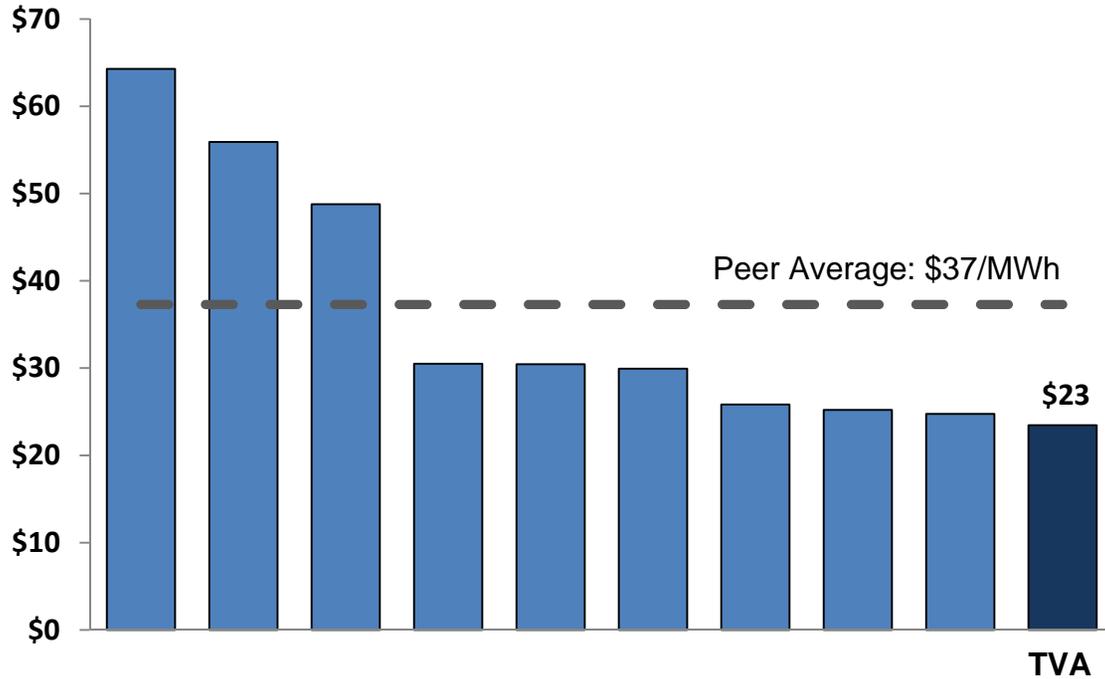


Based off current load projections (32,366 MW in FY23)



# Low Fuel & Purchased Power Costs

**Fuel & Purchased Power Costs (\$/MWh)**  
*versus Investor Owned Utility Peers*



**Trend**

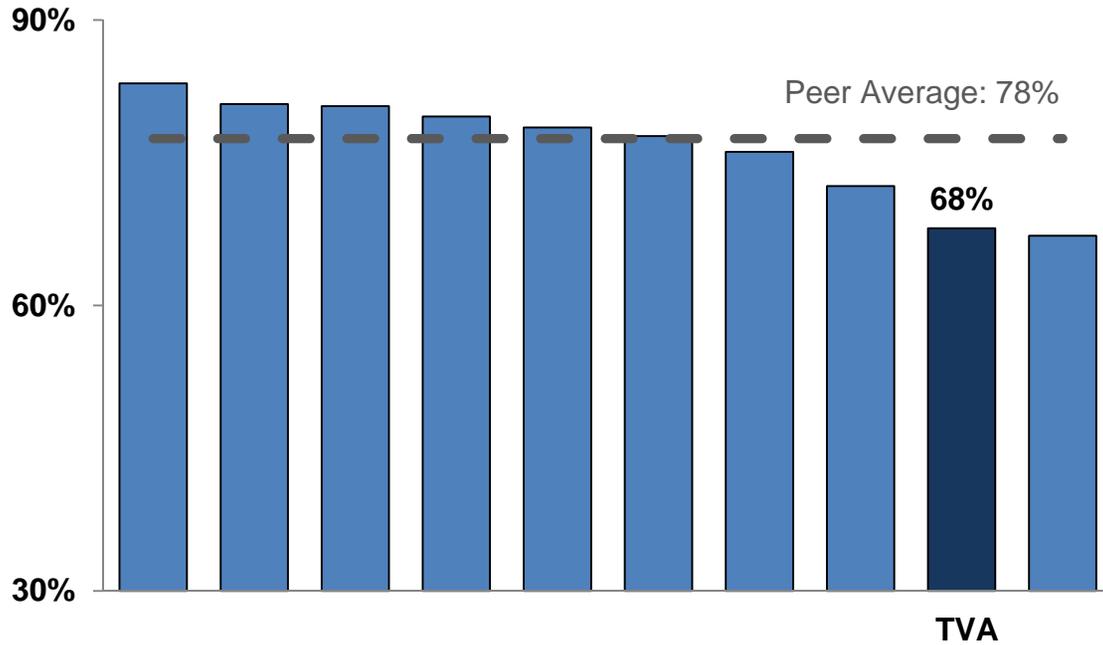


Data Source: Company 2012 10-K Filings

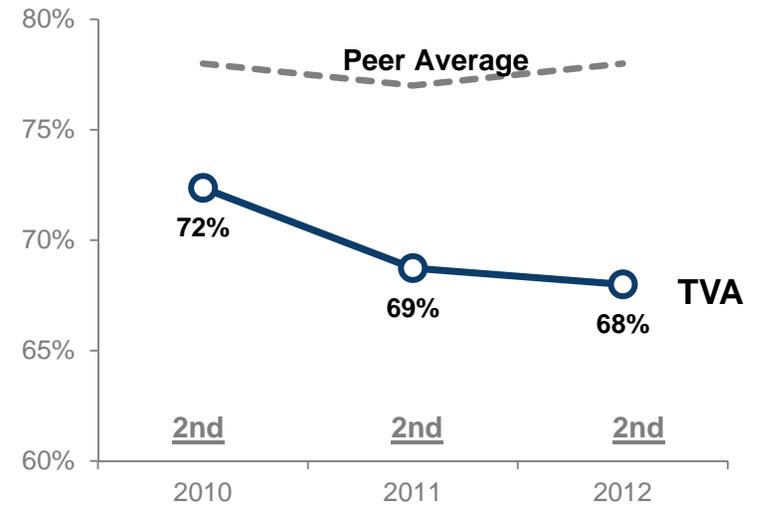


# Financial Health Indicators: Competitive Capital Structure

**Total Capitalization to Total Assets (%)**  
*versus Investor Owned Utility Peers*



**Trend**

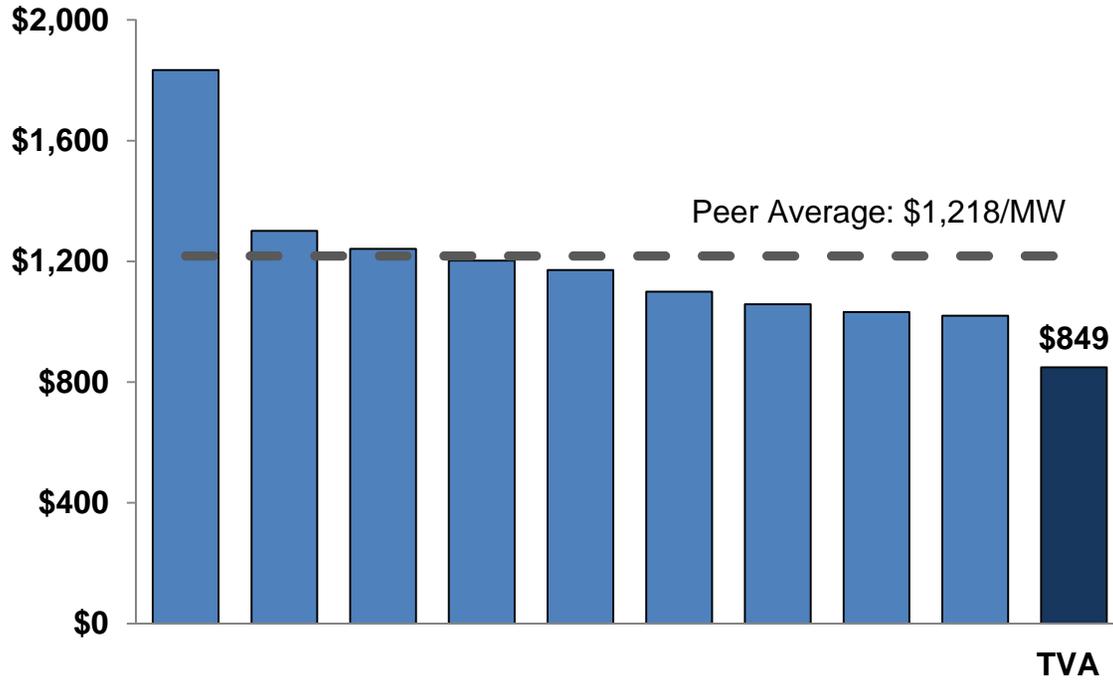


Data Source: Company 2012 10-K Filings



# Financial Health Indicators: Low Installed Costs

**Net Book Value per Installed Capacity (\$/MW)**  
*versus Investor Owned Utility Peers*



**Trend**



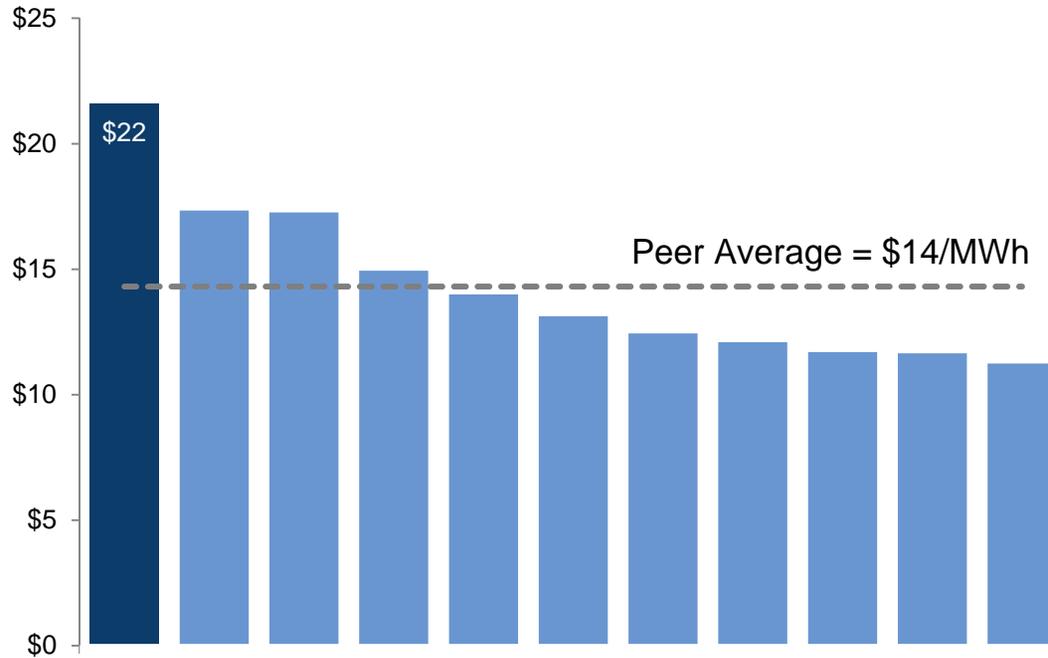
Data Source: Company 2012 10-K Filings



# Financial Health Indicators: Operating & Maintenance Costs

## O&M Expense (\$/MWh)

*versus Investor Owned Utility Peers*

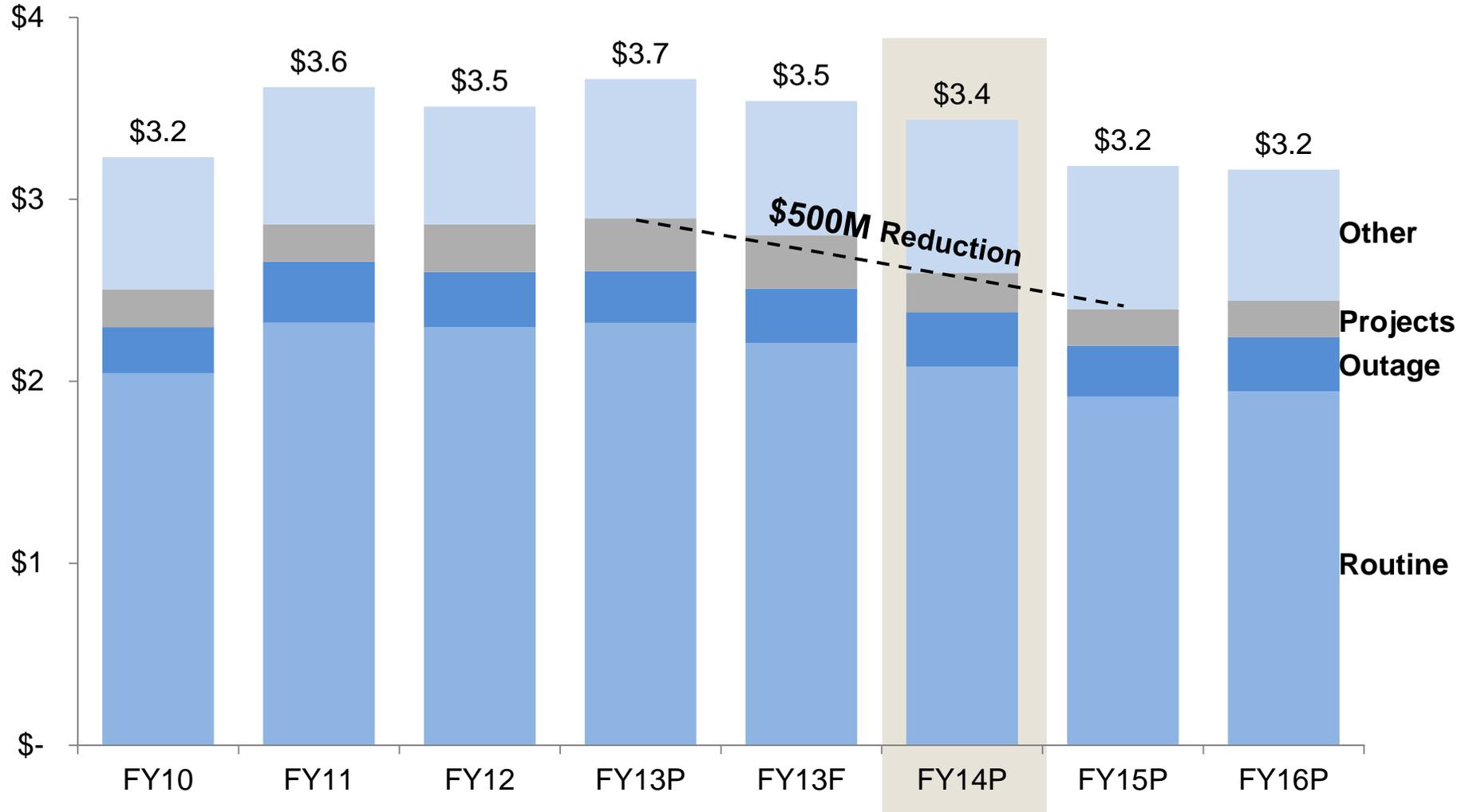


**Focusing on operating cost efficiency is TVA's best opportunity for continued improvement in power rates**



# Operating & Maintenance Costs: Efficiency Plan

\$ Billions





# Financial Health Indicators: Executive Summary

## Financial Track Record

- ◆ \$12 billion increase in productive assets
  - \$2.8 billion increase in financing obligations
- ◆ Reduced long-term debt average coupon rate from 5.8% to 4.9%
- ◆ Finished FY13 with \$1.6 billion in cash
  - Plans to accelerate debt reduction

## Risks and Challenges

- ◆ Weather
- ◆ Commodity Prices
- ◆ Sales: Economy/Customer Impacts
- ◆ New Regulations
- ◆ Asset Risk Management: Material Condition
- ◆ Sustainable Productivity Improvements