NOTICE REGARDING

U.S.$1,000,000,000
TENNESSEE VALLEY AUTHORITY
5½% GLOBAL POWER BONDS
2007 SERIES A DUE JULY 18, 2017

This notice (the "Notice") should be read in conjunction with the Offering Circular dated July 12, 2007 (the "Offering Circular") relating to the 5½% Global Power Bonds 2007 Series A Due July 18, 2017 (the "Bonds") of the Tennessee Valley Authority ("TVA"). Unless otherwise defined herein, all capitalized terms used in this Notice shall have the meaning assigned thereto in the Offering Circular.

TVA is issuing this Notice to inform investors that new ISINs, CUSIP numbers, and Common Codes (together, "Identifying Designations") shall apply to certain Interest Components of the Bonds as follows:

New Identifying Designations for Certain Interest Components Relating to the Bonds

If the Bonds are stripped into their separate Interest and Principal Components, the following ISIN, CUSIP numbers, and Common Codes will apply to the Interest Components set forth below:

Interest Payment Date	ISIN	CUSIP	Common Code
January 18, 2008	US88059EW346	88059E W34	37731650
July 18, 2008	US88059EW429	88059E W42	37731668
January 18, 2009	US88059EW593	88059E W59	37731676
July 18, 2009	US88059EW676	88059E W67	37731684
January 18, 2010	US88059EW759	88059E W75	37731692
July 18, 2010	US88059EW833	88059E W83	37731706
January 18, 2011	US88059EW916	88059E W91	37731714

For ease of reference, a complete list of all Identifying Designations for the Interest and Principal Components relating to the Bonds is provided below.

Complete List of Identifying Designations for Interest and Principal Components Relating to the Bonds

If the Bonds are stripped into their separate Interest and Principal Components, the following ISIN, CUSIP numbers, and Common Codes will apply:

Interest Payment Date	ISIN	CUSIP	Common Code
January 18, 2008	US88059EW346	88059E W34	37731650
July 18, 2008	US88059EW429	88059E W42	37731668
January 18, 2009	US88059EW593	88059E W59	37731676
July 18, 2009	US88059EW676	88059E W67	37731684
January 18, 2010	US88059EW759	88059E W75	37731692
July 18, 2010	US88059EW833	88059E W83	37731706
January 18, 2011	US88059EW916	88059E W91	37731714
July 18, 2011	US88059EJ475	88059E J47	31284368
January 18, 2012	US88059EJ541	88059E J54	31284376
July 18, 2012	US88059EJ624	88059E J62	31284384
January 18, 2013	US88059EJ707	88059E J70	31284392
July 18, 2013	US88059EJ889	88059E J88	31284406
January 18, 2014	US88059EJ962	88059E J96	31284414
July 18, 2014	US88059EK291	88059E K29	31284422
January 18, 2015	US88059EK374	88059E K37	31284449
July 18, 2015	US88059EK457	88059E K45	31284457
January 18, 2016	US88059EK523	88059E K52	31284465
July 18, 2016	US88059EK606	88059E K60	31284473
January 18, 2017	US88059EK788	88059E K78	31284481
July 18, 2017	US88059EK861	88059E K86	31284490
Principal Component	US88059FBQ37	88059F BQ3	31284503

This Notice and the related Offering Circular are available at TVA’s web site (www.tva.com) and the website of the Luxembourg Stock Exchange (www.bourse.lu); by calling TVA Investor Relations at 888-882-4975 from inside the United States or at 888-882-4967 from outside the United States, or by sending an email to investor@tva.com.

The date of this Notice is July 16, 2008.

U.S.$1,000,000,000

Tennessee Valley Authority

5½% Global Power Bonds 2007 Series A Due July 18, 2017

Interest Payable January 18 and July 18

The 5½% Global Power Bonds 2007 Series A Due July 18, 2017 (the "Bonds") of the Tennessee Valley Authority ("TVA") will not be subject to redemption prior to maturity. The Bonds will be issued in minimum denominations of U.S.$2,000 and integral multiples of $1,000 in excess thereof.

The Bonds will be issued, maintained and transferred only on the book-entry system of the U.S. Federal Reserve Banks as described herein. Transactions in the Bonds will be cleared and settled in book-entry form by Euromarket participants through the facilities of Clearstream, Luxembourg (as defined herein) and Euroclear (as defined herein). See "Clearance and Settlement." The Bonds will not be exchangeable for definitive securities.

The Bonds may be separated ("stripped") into their separate Interest and Principal Components (as defined herein) and maintained as such on the book-entry records of the U.S. Federal Reserve Banks. The components of each stripped Bond are: each future interest payment (each an "Interest Component") and the principal payment (the "Principal Component" and, together with the Interest Components, hereinafter collectively referred to as the "Strips" or "Interest and Principal Components"). See "Description of Bonds ─ Stripping" and "United States Tax Matters."

Application has been made to list the Bonds on the New York Stock Exchange and to admit the Bonds to listing on the Official List of the Luxembourg Stock Exchange (collectively the "Stock Exchanges") and to trading on the Euro MTF market. The Offering Circular constitutes a prospectus for the purpose of the Luxembourg law dated July 10, 2005 on Prospectuses for Securities. Upon the initial request of a Manager or Holder to strip the Bonds, TVA will, so long as the Bonds are listed on the Luxembourg Stock Exchange at that time, apply to admit the Strips to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. By making these applications, TVA does not undertake any obligation to maintain the listing of the Bonds on the Stock Exchanges or to maintain the listing of the Strips on the Official List of the Luxembourg Stock Exchange.

The Bonds and Strips are considered to be obligations in registered form for United States federal tax purposes. Beneficial owners of the Bonds or Strips that are not United States persons must certify that they are non-United States persons in order to receive payments on the Bonds or Strips free of United States withholding tax. See "United States Tax Matters." TVA will not pay additional interest or other amounts in respect of any withholding or other tax that may be imposed by any jurisdiction on payments on the Bonds or Strips as a result of a change in law or otherwise.

TVA is a wholly owned corporate agency and instrumentality of the United States of America and has no subsidiaries. Principal and interest will be payable solely from TVA's Net Power Proceeds (as defined herein).

The Bonds will not be obligations of, nor will payment of the principal thereof or the interest thereon be guaranteed by, the United States of America. TVA is not required to register securities under the Securities Act of 1933 with the U.S. Securities and Exchange Commission ("SEC"). TVA files annual reports, quarterly reports and current reports with the SEC under the Securities Exchange Act of 1934.

	Price to Public (1)	Discount to Managers	Net Proceeds to TVA (1)(2)
Per Bond	99.204%	0.30%	98.904%
Total..	U.S.$992,040,000	U.S.$3,000,000	U.S.$989,040,000

(1) Plus accrued interest, if any, from July 18, 2007, to date of delivery.
(2) Before deducting expenses payable by TVA estimated at U.S.$250,000.

The Bonds offered by this Offering Circular are offered by the Managers (as defined herein) subject to prior sale, withdrawal, cancellation or modification of the offer without notice, to delivery to and acceptance by the Managers and to certain further conditions. It is expected that delivery of the Bonds, in book-entry form, will be made through the book-entry system of the U.S. Federal Reserve Banks on or about July 18, 2007, against payment therefor in immediately available funds.

Joint Book-Running Managers

Lehman Brothers **Morgan Stanley**

Banc of America Securities LLC

Bear, Stearns & Co. Inc.

Credit Suisse

Goldman, Sachs & Co.

The date of this Offering Circular is July 12, 2007.

STABILIZATION

CERTAIN OF THE MANAGERS MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS. SPECIFICALLY, THE MANAGERS MAY OVERALLOT IN CONNECTION WITH THE OFFERING AND MAY BID FOR, AND PURCHASE, BONDS IN THE OPEN MARKET AND MAY IMPOSE PENALTY BIDS. SUCH TRANSACTIONS MAY BE EFFECTED IN AN OVER-THE-COUNTER MARKET OR OTHERWISE.

ABOUT THIS OFFERING CIRCULAR

This Offering Circular provides you with a description of the Bonds that TVA is offering. This Offering Circular should be read in connection with any term sheet approved by TVA describing the particular terms of the Bonds (each, a "Term Sheet") as well as the annual, quarterly and current reports that TVA has filed or will file with the SEC (collectively, the "SEC Filings"), each of which is incorporated herein by reference. This Offering Circular, any Term Sheets, and the SEC Filings are collectively referred to herein as the "Offering Documents." See "Where You Can Find More Information" for more information about the SEC Filings.

No dealer, salesperson, or any other person has been authorized by TVA to give any information or to make any representations on behalf of TVA other than those contained in the Offering Documents or any supplement to any of the Offering Documents prepared by TVA for use in connection with the offer made by this Offering Circular. If given or made, such information or representations must not be relied upon as having been authorized by TVA. Neither the delivery of any Offering Documents nor any sale of Bonds described herein shall under any circumstances create an implication that the information provided herein is correct at any time subsequent to its date, and TVA assumes no duty to update any Offering Document except as it deems appropriate. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy the Bonds described herein in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

This Offering Circular has been prepared by TVA solely for use in connection with the offering of the Bonds described herein and for purposes of listing the Bonds on the Stock Exchanges. TVA has taken reasonable care to ensure that the information contained in this Offering Circular is true and accurate in all material respects and that there are no material facts the omission of which would make misleading any statements herein in light of the circumstances under which such statements are made. TVA accepts responsibility accordingly.

In the Offering Documents, references to "U.S. dollars," "U.S.$," "dollars," and "$" are to United States dollars, and references to "£" are to British pounds sterling.

WHERE YOU CAN FIND MORE INFORMATION

TVA files annual, quarterly and current reports with the SEC. You may read and copy any of these documents at the SEC's public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. In addition, TVA's SEC filings are available to the public over the Internet at the SEC's web site at www.sec.gov and at TVA's website at www.tva.gov. Information contained on TVA's website shall not be deemed to be incorporated into, or to be a part of, this Offering Circular except to the extent otherwise expressly incorporated herein.

TVA incorporates by reference into this Offering Circular certain information that TVA files with the SEC. This means that TVA discloses important information to you by referring you to another document. The information that TVA incorporates by reference is considered to be part of this Offering Circular, and information that TVA subsequently files with the SEC will automatically update and, where different, supersede the information in this Offering Circular and in TVA's other SEC Filings.

TVA is incorporating by reference into this Offering Circular the following documents that TVA has filed with the SEC as well as any future filings that TVA makes with the SEC under Section 37 of the Securities Exchange Act of 1934:

- TVA's annual report on Form 10-K/A for the year ended September 30, 2006 (the "Annual Report");
- TVA's quarterly reports on Form 10-Q for the quarters ended December 31, 2006, and March 31, 2007 (collectively, the "Quarterly Reports"); and
- TVA's current reports on Form 8-K filed or furnished on: January 24, 2007; March 15, 2007; April 4, 2007; May 23, 2007; June 13, 2007; and July 12, 2007 (collectively, the "Current Reports")

You may request a copy of these filings at no cost by writing or calling TVA at the following address:

Tennessee Valley Authority
400 West Summit Hill Drive
Knoxville, TN 37902-1401
Attention: Treasury & Investor Relations
E-mail: Investor@tva.com
Telephone:
1-888-882-4975 (toll-free in the U.S.)
1-888-882-4967 (toll-free outside the U.S.)

You may also obtain copies of documents incorporated by reference, free of charge, at the office of the Special Agent in Luxembourg listed on the back cover of this Offering Circular.

OFFERING AND SELLING RESTRICTIONS

No action has been (or will be) taken in any jurisdiction by TVA or any of the Managers or their affiliates (other than the listing of the Bonds on the Stock Exchanges) that would permit a public offering of the Bonds, or possession or distribution of the Offering Circular, any Term Sheet or any other offering material in any country or jurisdiction where action for that purpose is required (other than states of the United States in connection with securities or Blue Sky laws of such states).

The distribution of this Offering Circular and the offering of the Bonds may, in certain jurisdictions, be restricted by law. Persons into whose possession this Offering Circular comes are required by TVA and the Managers to inform themselves of and observe all such restrictions.

For further information regarding restrictions on offering and selling Bonds, see "Subscription and Selling."

FORWARD-LOOKING STATEMENTS

The Offering Documents contain forward-looking statements relating to future events and future performance. All statements other than those that are purely historical may be forward-looking statements.

In certain cases, forward-looking statements can be identified by the use of words such as "may," "will," "should," "expect," "anticipate," "believe," "intend," "project," "plan," "predict," "assume," "forecast," "estimate," "objective," "possible," "probably," "likely," "potential," or other similar expressions.

Examples of forward-looking statements include, but are not limited to:

- Statements regarding strategic objectives;
- Projections regarding potential rate actions;
- Estimates of costs of certain asset retirement obligations;
- Estimates regarding power and energy forecasts;
- Expectations about the adequacy of TVA's funding of its pension plans and nuclear decommissioning trust;
- Estimates regarding the reduction of bonds, notes, and other evidences of indebtedness, lease/leaseback commitments, and power prepayment obligations;
- The impact of new accounting pronouncements and interpretations, including Statement of Financial Accounting Standards No. 158, *"Employers Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R);"*
- Estimates of amounts to be reclassified from Other Comprehensive Income to earnings over the next year; and
- TVA's plans to continue using short-term debt to meet current obligations.

Although TVA believes that the assumptions underlying the forward-looking statements are reasonable, TVA does not guarantee the accuracy of these statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things:

- New laws, regulations, and administrative orders, especially those related to:
  - TVA's protected service area,
  - The sole authority of the TVA Board to set power rates,

  - Various environmental and nuclear matters,
  - TVA's management of the Tennessee River system,
  - TVA's credit rating, and
  - TVA's debt ceiling;
- Performance of TVA's generation and transmission assets;
- Availability of fuel supplies;
- Purchased power price volatility and provider unreliability;
- Compliance with existing environmental laws and regulations;
- Significant delays or cost overruns in construction of generation and transmission assets;
- Significant changes in demand for electricity;
- Legal and administrative proceedings;
- Weather conditions;
- Failure of transmission facilities;
- An accident at any nuclear facility, even one unaffiliated with TVA;
- Catastrophic events such as fires, earthquakes, floods, pandemics, wars, terrorist activities, and other similar events, especially if these events occur in or near TVA's service area;
- Changes in the market price of commodities such as coal, uranium, natural gas, fuel oil, electricity, and emission allowances;
- Changes in the prices of equity securities, debt securities, and other investments;
- Changes in interest rates;
- Creditworthiness of TVA or its counterparties;
- Rising pension costs and health care expenses;
- Increases in TVA's financial liability for decommissioning its nuclear facilities;
- Limitations on TVA's ability to borrow money;
- Changes in economic environments;
- Ineffectiveness of TVA's disclosure controls and procedures;
- Changes in accounting standards;
- The loss of TVA's ability to use regulatory accounting;
- Loss of key personnel;
- Changes in technology; and
- Unforeseeable events.

Additionally, other risks that may cause actual results to differ from the predicted results are set forth in Item 1A, Risk Factors in the Annual Report as well as Part II, Item 1A, Risk Factors in the Quarterly Reports. New factors emerge from time to time, and it is not possible for management to predict all such factors or to assess the extent to which any factor or combination of factors may impact TVA's business or cause results to differ materially from those contained in any forward-looking statement.

TVA undertakes no obligation to update any forward-looking statement to reflect developments that occur after the statement is made.

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Offering Circular

SUMMARY OF OFFERING

The information below is qualified in its entirety by the detailed information appearing in TVA's SEC Filings (and any amendments thereto) and elsewhere in this Offering Circular. We have also prepared a Term Sheet which summarizes the particular terms of the Bonds. Such Term Sheet is also qualified in its entirety by the detailed information appearing in TVA's SEC Filings (and any amendments thereto) and elsewhere in this Offering Circular. Capitalized terms used and not defined herein have the meanings defined in TVA's SEC Filings and elsewhere in this Offering Circular.

Issuer	TVA is a wholly owned corporate agency and instrumentality of the United States of America established by the Tennessee Valley Authority Act of 1933, as amended.
Capitalization	Total capitalization of TVA at March 31, 2007, as adjusted for the Bonds offered hereby, would have been U.S.$26,604 million. In addition, since March 31, 2007, and through the date of this Offering Circular, TVA has issued U.S.$7,714,000 of Power Bonds for power program purposes and has redeemed U.S.$5,283,000 of Power Bonds. Except as set forth above, there has been no material change in TVA's capitalization since March 31, 2007.
Securities Offered	U.S.$1,000,000,000 aggregate principal amount of 5½% Global Power Bonds 2007 Series A Due July 18, 2017 (the "Bonds").
Interest	The Bonds will bear interest from July 18, 2007, at the annual rate set forth on the cover page hereof, payable semiannually in arrears on each January 18 and July 18, commencing January 18, 2008.
Redemption	The Bonds will not be subject to redemption prior to maturity.
Fiscal Agent	U.S. Federal Reserve Banks.
Ratings	The Bonds have been rated AAA by Standard & Poor's Ratings Services, Aaa by Moody's Investors Service, Inc. and AAA by Fitch Ratings.
Listing	Application has been made to list the Bonds on the New York Stock Exchange and to admit the Bonds to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. Upon the initial request of a Manager or Holder to strip the Bonds, TVA will, so long as the Bonds are listed on the Luxembourg Stock Exchange at that time, apply to admit the Strips to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. By making these applications, TVA does not undertake any obligation to maintain the listing of the Bonds on the Stock Exchanges or to maintain the listing of the Strips on the Official List of the Luxembourg Stock Exchange.
Use of Proceeds	The net proceeds received by TVA from the sale of the Bonds will be used to refinance existing debt.
Source of Payment	The interest and principal on the Bonds are payable solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. See "Certain Provisions of the Basic Resolution."
Form and Denomination of Bonds	The Bonds will be issued and maintained and may be transferred by Holders (as defined herein) only on the book-entry system of the U.S. Federal Reserve Banks. See "Description of Bonds — Book-Entry System." The Bonds will not be exchangeable for definitive securities. The Bonds will be issued and must be maintained and transferred in minimum denominations of U.S.$2,000 and integral multiples of $1,000 in excess thereof.

Stripping	The Bonds may be stripped into their separate Interest and Principal Components and maintained as such on the book-entry records of the U.S. Federal Reserve Banks. The components of each stripped Bond are: each future interest payment and the principal payment. Each Interest Component and the Principal Component will have a Common Code, an identifying designation, an ISIN code and CUSIP number. See "Description of Bonds — Stripping" and "United States Tax Matters."
Delivery of Strips...	The Managers immediately upon their acceptance of the Bonds may, but are not obligated to, strip some or all of the Bonds and deliver Strips rather than Bonds to investors purchasing Strips. Sales of any such Strips would be at negotiated prices. See "Subscription and Selling." In addition, a Holder may strip Bonds at any time prior to maturity. See "Description of Bonds — Stripping."
Clearance and Settlement.............................	The Bonds must be held in accounts with institutions having access in the United States to the book-entry system of the U.S. Federal Reserve Banks. Transactions in the Bonds will be cleared and settled by Euromarket participants through the facilities of Euroclear and Clearstream, Luxembourg. See "Clearance and Settlement."
Legality of Investment in the United States ..	Each person or entity is advised to consult with its own counsel with respect to the legality of investment in Bonds or in Strips, which could be subject to restrictions or requirements that do not apply to Power Bonds held in their fully constituted form. The following generally describes the legality of investment in the United States in TVA Power Bonds in their fully constituted form. Power Bonds are: • acceptable as security for all fiduciary, trust and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America; • eligible as collateral for U.S. Treasury tax and loan accounts; • among those obligations which U.S. national banks may deal in, underwrite and purchase for their own accounts in an amount up to 10 percent of unimpaired capital and surplus; • eligible as collateral for advances by U.S. Federal Reserve Banks to member banks; • legal investments for U.S. federal savings associations and U.S. federal savings banks to the extent specified in applicable regulations; • eligible as collateral for advances by U.S. Federal Home Loan Banks to members for which Power Bonds are legal investments; and • legal investments for U.S. federal credit unions, subject to applicable regulations. See "Legality of Investment in the United States."
No Acceleration	The Bonds will not contain any provisions permitting the Holders to accelerate the maturity thereof on the occurrence of any default or other event. See "Certain Provisions of the Basic Resolution."
Taxation	United States federal income tax generally will not be withheld from payments on Bonds or Strips that are beneficially owned by non-U.S. beneficial owners (as defined under "United States Tax Matters"), provided that an appropriate United States Internal Revenue Service Form W-8BEN (or other appropriate form) is

	completed and provided. See "United States Tax Matters." The Bonds are not subject to redemption by reason of the imposition of withholding or other tax by any jurisdiction, and TVA will have no obligation to pay additional interest or other amounts in respect of any such tax that may be imposed on payments on the Bonds or Strips as a result of a change in law or otherwise, including any withholding tax that may be imposed as a result of a failure to provide an applicable United States Internal Revenue Service form. For further discussion of United States tax consequences with respect to the purchase, ownership or disposition of the Bonds and Strips, see "United States Tax Matters."
ISIN	US880591 EA61
CUSIP Number	880591 EA6
Common Code	031203961
	TVA has applied for Common Codes for the Interest and Principal Components. Each Interest Component and the Principal Component will have a separate Common Code.

If the Bonds are stripped into their separate Interest and Principal Components, the following ISIN and CUSIP numbers will apply:

Interest Payment Date	**ISIN**	**CUSIP**
January 18, 2008	US88059E TE40	88059E TE4
July 18, 2008	US88059E TF15	88059E TF1
January 18, 2009	US88059E TG97	88059E TG9
July 18, 2009	US88059E TH70	88059E TH7
January 18, 2010	US88059E TJ37	88059E TJ3
July 18, 2010	US88059E TK00	88059E TK0
January 18, 2011	US88059E TL82	88059E TL8
July 18, 2011	US88059E J475	88059E J47
January 18, 2012	US88059E J541	88059E J54
July 18, 2012	US88059E J624	88059E J62
January 18, 2013	US88059E J707	88059E J70
July 18, 2013	US88059E J889	88059E J88
January 18, 2014	US88059E J962	88059E J96
July 18, 2014	US88059E K291	88059E K29
January 18, 2015	US88059E K374	88059E K37
July 18, 2015	US88059E K457	88059E K45
January 18, 2016	US88059E K523	88059E K52
July 18, 2016	US88059E K606	88059E K60
January 18, 2017	US88059E K788	88059E K78
July 18, 2017	US88059E K861	88059E K86
Principal Component	US88059F BQ37	88059F BQ3

TENNESSEE VALLEY AUTHORITY

TVA is a wholly-owned corporate agency and instrumentality of the United States. TVA was created by the U.S. Congress in 1933 by virtue of the Tennessee Valley Authority Act of 1933, as amended, 16 U.S.C. §§ 831-831ee (2000 & Supp. IV 2004) (as amended, the "Act"). TVA was created to improve navigation on the Tennessee River, reduce flood damage, provide agricultural and industrial development, and provide electric power to the Tennessee Valley region. TVA manages the Tennessee River and its tributaries for multiple river-system purposes, such as navigation; flood damage reduction; power generation; environmental stewardship; shoreline use; and water supply for power plant operations, consumer use, recreation, industry, and other stewardship purposes. TVA's power system operations, however, constitute the majority of its activities and provide virtually all of its revenues.

Although TVA is similar to power companies in many ways, there are many features that make it different. Some of these include:

- TVA was created by an act of the U.S. Congress and is a wholly-owned corporate agency of the United States.
- TVA's board of directors (the "TVA Board") is appointed by the President of the United States with the advice and consent of the U.S. Senate.
- TVA holds its real properties as an agent for the United States.
- TVA is required to make payments to the United States Treasury as a repayment of and a return on the appropriation investment that the United States provided TVA for its power program (the "Appropriation Investment").
- TVA is not authorized to issue equity securities such as common or preferred stock. Accordingly, TVA finances its operations primarily with cash flows from operations and proceeds from issuing debt.
- The TVA Board sets the rates TVA charges for power. In setting rates, the TVA Board must have due regard for the objective that power be sold at rates as low as are feasible.
- TVA is exempt from paying federal income taxes and state and local taxes but must pay certain states and counties an amount in lieu of taxes equal to five percent of TVA's gross revenues from the sale of power during the preceding year excluding sales or deliveries to other federal agencies and exchange sales with other utilities, with a provision for minimum payments under certain circumstances.

For a discussion of the more significant of these features, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — *Business Overview* in the Annual Report.

RISK FACTORS

Your investment in the Bonds will involve a number of risks. You should consider carefully the risks described under Item 1A, Risk Factors in the Annual Report and Part II, Item 1A, Risk Factors in the Quarterly Reports before you decide that an investment in the Bonds is suitable for you. In addition, you should consult your own financial and legal advisors regarding the risks and suitability of an investment in the Bonds.

USE OF PROCEEDS

TVA will use the net proceeds from the sale of the Bonds of U.S.$988,790,000 (after deducting expenses estimated to be U.S.$250,000) to refinance existing debt.

RECENT DEVELOPMENTS

United States Enrichment Corporation Contract

The United States Enrichment Corporation ("USEC") is TVA's largest directly-served industrial customer, with sales to USEC's Paducah, Kentucky, facility representing 3.9 percent of TVA's total operating revenues in 2006. TVA's contract with USEC originally was to expire at the beginning of June 2010, with the parties annually agreeing on pricing and quantities. On May 31, 2007, the TVA Board approved extending the contract with USEC through May 2012 with pricing and power quantities established for the entire term of the contract. USEC is constructing a new commercial centrifuge facility outside of TVA's service area in Piketon, Ohio. Once this facility begins operating, USEC will need substantially less electricity from TVA. The amount of power USEC will take under the extended contract begins to decrease in October 2010.

Return to Service of Unit 1 of Browns Ferry Nuclear Plant

In May 2007, TVA began the start-up phase of the recovery of Unit 1 of Browns Ferry Nuclear Plant. On May 22, 2007, Unit 1 achieved criticality (a controlled self-sustaining nuclear reaction). On June 2, 2007, Unit 1 was connected to the power supply grid, providing electricity for customers for the first time in over 22 years, and achieved 100 percent power on June 8. Since that time, power at Unit 1 has been reduced from time to time for testing and adjustments.

The return to service of Unit 1 completed the recovery program approved by the TVA Board in May 2002. The program was completed on schedule at a cost of approximately $1.8 billion, exclusive of allowance for funds used during construction and asset recovery costs, which are expenses that will be incurred to meet legal obligations when Unit 1 is taken out of service.

TVA Nuclear Generation Records

On June 3, 2007, TVA's nuclear generation reached 6000 MW for the first time in its history. On June 8, 2007, all six of TVA's operating nuclear units were generating at 100 percent power for the first time.

Note with U.S. Treasury

At May 31, 2007, TVA short-term debt owed to the U.S. Treasury was $150 million.

Nomination of Directors

On July 11, 2007, President George W. Bush announced the nomination of three individuals to serve on the TVA Board of Directors. Two of these individuals, Bishop William H. Graves of Memphis, Tennessee, and Susan Richardson Williams of Knoxville, Tennessee, are currently TVA Directors and have been nominated for new terms. The third individual is Thomas C. Gilliland of Blairsville, Georgia, who will fill the seat vacated by William W. Baxter, who resigned his position as a Director effective January 19, 2007. Mr. Gilliland, age 59, is Executive Vice President, Secretary, General Counsel, and Director for United Community Banks, Inc., a bank holding company with assets of approximately $8.0 billion. He has been with that company since 1992. If confirmed by the Senate, Mr. Gilliland's term would expire in 2011, and the terms of Bishop Graves and Ms. Williams would expire in 2012. The confirmation hearings have not yet been scheduled.

Management Changes

On June 8, 2007, Joseph R. Bynum, Executive Vice President of TVA's Fossil Power Group, announced that he was retiring from TVA effective January 7, 2008. Preston D. Swafford, currently TVA's Senior Vice President of Nuclear Support, has been appointed to succeed Mr. Bynum.

DESCRIPTION OF BONDS

General

The Bonds are to be issued pursuant to authority vested in TVA by the Act and pursuant to the Basic Tennessee Valley Authority Power Bond Resolution adopted on October 6, 1960, as amended on September 28, 1976, October 17, 1989 and March 25, 1992 (the "Basic Resolution"), and the Supplemental Resolution authorizing the Bonds adopted on November 30, 2006 (the "Supplemental Resolution" and together with the Basic Resolution, the "Resolutions"), and an authorization as of July 12, 2007 from Tom D. Kilgore and John M. Hoskins authorizing the issuance of the Bonds. TVA has entered into a Fiscal Agency Agreement, dated as of October 7, 1997 (the "Fiscal Agency Agreement") with the U.S. Federal Reserve Banks, as fiscal agents (together, the "Fiscal Agent"). The U.S. Secretary of the Treasury has approved the time of issuance of, and the maximum rate of interest to be borne by, the Bonds in compliance with Section 15d(c) of the Act. The Bonds represent obligations of TVA payable solely from TVA's Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America.

The Act authorizes TVA to issue and sell bonds, notes and other evidences of indebtedness (hereinafter collectively referred to as "Evidences of Indebtedness") to assist in financing its power program and to refund such Evidences of Indebtedness. Evidences of Indebtedness issued pursuant to Section 2.2 of the Basic Resolution designated as Tennessee Valley Authority Power Bonds are herein referred to as "Power Bonds." The aggregate amount of Evidences of Indebtedness at any one time outstanding is limited to U.S.$30 billion. As of March 31, 2007, TVA had approximately U.S.$21.8 billion and £600 million (£200 million issued in December 1998, £250 million issued in July 2001 and £150 million issued in June 2003) of Evidences of Indebtedness outstanding. At the time TVA issued the British pound sterling Evidences of Indebtedness, TVA entered into currency swap agreements to hedge against fluctuations in the U.S. dollar - British pound sterling currency exchange rate. For information with respect to TVA's Power Bonds and the Basic Resolution, see "Certain Provisions of the Basic Resolution."

The summaries herein of certain provisions of the Act, the Resolutions and the Fiscal Agency Agreement do not purport to be complete and are qualified in their entirety by reference to all the provisions of the Act, the Resolutions and the Fiscal Agency Agreement, copies of which may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401, Attention: Treasury & Investor Relations, by sending an e-mail to investor@tva.com, by calling 1-888-882-4975 in the United States, or by calling 1-888-882-4967 from outside the United States, as well as from the Special Agent. See "General Information."

The Bonds will be Power Bonds as defined above and will be payable as to both principal and interest solely from TVA's Net Power Proceeds, which are defined as the remainder of TVA's Gross Power Revenues (as defined in the Basic Resolution) after deducting the costs of operating, maintaining and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and payments to states and counties in lieu of taxes, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds of the sale or other disposition of any Power Facility (as defined in the Basic Resolution) or interest therein. The Act also requires TVA to make certain payments to the U.S. Treasury each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment (as defined in the Basic Resolution). See "Certain Provisions of the Basic Resolution."

The Bonds rank equally as to the application of Net Power Proceeds with all other Power Bonds and all other outstanding Evidences of Indebtedness. For a further discussion of the application of Net Power Proceeds, see "Certain Provisions of the Basic Resolution."

There is no limit on other indebtedness or securities that may be issued by TVA and no financial or similar restrictions on TVA exist, except as provided under the Act, the Basic Resolution and the Supplemental Resolution. TVA issues its Discount Notes pursuant to Section 15d of the Act and in accordance with Section 2.5 of the Basic Resolution. TVA may also issue Other Indebtedness in addition to Power Bonds and Discount Notes. Other Indebtedness is issued pursuant to Section 15d of the Act and under appropriate authorizing resolutions. See "Certain Provisions of the Basic Resolution."

In accordance with Public Law No. 105-62, enacted in 1997, TVA is required, in the absence of sufficient appropriations, to fund nonpower programs and the non-power portion of multiple-purpose facilities that constitute "essential stewardship activities" with revenues derived from one or more of various sources, including power program revenues, notwithstanding provisions of the Act and Resolutions to the contrary. Under the Supplemental Resolution, actions taken pursuant to Public Law No. 105-62 shall not be considered an event of default or breach under the Resolutions.

Possible Future Issuances

The Supplemental Resolution provides that, at the option of TVA, additional Bonds may be issued in one or more future installments pursuant to an amendment to the Supplemental Resolution not requiring the consent of Holders (as such term is defined under "Book-Entry System") of the Bonds. Additional Bonds so issued shall be identical in all respects to the Bonds offered hereby (except for any appropriate related changes, including changes in the issue date, issue price and interest commencement date).

Payment of Principal and Interest

The Bonds will consist of U.S.$1,000,000,000 aggregate principal amount of 5½% Tennessee Valley Authority Global Power Bonds 2007 Series A Due July 18, 2017 (the maturity date being hereinafter referred to as the "Maturity Date"). The Bonds will be issued in minimum denominations of U.S.$2,000 and integral multiples of $1,000 in excess thereof in book-entry form only through the U.S. Federal Reserve Banks as described below under "Book-Entry System." Interest will be payable semiannually in arrears on January 18 and July 18 (each an "Interest Payment Date"), commencing on January 18, 2008. Such interest payments will include any interest accrued from and including July 18, 2007, or the preceding Interest Payment Date, as the case may be, to but excluding the relevant Interest Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months. The Bonds will be repaid at 100 percent of the principal amount thereof, together with the interest accrued and unpaid thereon, on the Maturity Date. The Bonds are not entitled to the benefit of any sinking fund. Payments of principal and interest on the Bonds will be made on the applicable payment dates to Holders of the Bonds that are Holders as of the close of business on the Business Day preceding such payment dates, by credit of the payment amount to the Holders' accounts at the U.S. Federal Reserve Banks. The Holder and each other financial intermediary in the chain to the beneficial owner will have the responsibility of remitting payments for the accounts of their customers.

In any case in which an Interest Payment Date or the Maturity Date is not a Business Day, payment of principal or interest, as the case may be, by TVA to the Holders shall be made on the next succeeding Business Day with the same force and effect as if made on such Interest Payment Date or the Maturity Date. The term "Business Day" shall mean any day other than a Saturday or Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to be closed. There is no prescription period with respect to the Bonds.

Certain certification requirements are applicable to payments of interest on the Bonds and Strips. The Holder or other persons otherwise required to withhold tax may require the beneficial owner of a Bond or Strip, as a condition of payment of amounts due with respect to such Bond or Strip, to present on a timely basis an appropriate United States Internal Revenue Service Form W-8BEN (or other appropriate form) to enable such person to determine its duties and liabilities with respect to any taxes or other charges that may be required to be deducted or withheld under U.S. law or any reporting or other requirements thereunder. See "United States Tax Matters." In the event that any withholding or other tax or information reporting requirements should be imposed by any jurisdiction, TVA has no obligation to pay additional interest or other amounts as a consequence thereof or to redeem the Bonds prior to their stated maturity.

Redemption

The Bonds will not be subject to redemption prior to maturity.

Book-Entry System

The Bonds will be issued and maintained in registered form and may be transferred only on the book-entry system of the U.S. Federal Reserve Banks in minimum principal amounts of U.S.$2,000 and integral multiples of $1,000 in excess thereof. The U.S. Federal Reserve Banks will maintain book-entry accounts with respect to the Bonds and will make payments, on behalf of TVA, of interest on and principal of the Bonds on the applicable payment dates by crediting Holders' accounts at the U.S. Federal Reserve Banks. The Bonds will not be exchangeable for definitive securities.

Regulations governing the use of the book-entry system for the Bonds are contained in 18 C.F.R. Part 1314. These regulations and procedures relate primarily to the registration, transfer, exchange and pledge of such obligations. The accounts of Holders on the U.S. Federal Reserve Banks book-entry system are governed by applicable operating circulars of the U.S. Federal Reserve Banks. The U.S. Federal Reserve Banks' handling of, and rights, duties and obligations with respect to, the Bonds will be governed exclusively by the applicable operating circulars of the U.S. Federal Reserve Banks, TVA's book-entry regulations and such other federal book-entry regulations as may be applicable, notwithstanding any inconsistent procedures or requirements of any depository or organized exchange.

The Bonds may be held of record only by entities eligible to maintain book-entry accounts with the U.S. Federal

Reserve Banks. Such entities whose names appear on the book-entry records of a U.S. Federal Reserve Bank as the entities for whose accounts the Bonds have been deposited are herein referred to as "Holders." A Holder is not necessarily the beneficial owner of a Bond. Beneficial owners will ordinarily hold Bonds through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of a Bond, and each other financial intermediary in the chain to the beneficial owner, will have the responsibility of establishing and maintaining accounts for their respective customers. The rights of the beneficial owner of a Bond with respect to TVA and the U.S. Federal Reserve Banks may be exercised only through the Holder thereof. TVA and the U.S. Federal Reserve Banks will have no direct obligation to a beneficial owner of a Bond that is not also the Holder of such Bond. The U.S. Federal Reserve Banks will act only upon the instructions of Holders in recording transfers of the Bonds. See "Clearance and Settlement" with respect to entities holding Bonds through the international clearance and settlement systems.

Stripping

At the request of a Holder, a Bond may be separated ("stripped") into its Interest and Principal Components and maintained as such on the book-entry records of the U.S. Federal Reserve Banks. In addition, the Managers, immediately upon their acceptance of the Bonds may, but are not obligated to, strip some or all of the Bonds. See "Summary of Offering." The components of each stripped Bond are: each future interest payment (each an "Interest Component") and the principal payment (the "Principal Component" and, together with the Interest Components, hereinafter collectively referred to as the "Interest and Principal Components"). Each Interest Component and the Principal Component will have a separate Common Code, identifying designation, ISIN code and CUSIP number. See "Summary of Offering" above.

A Bond may be separated into its Interest and Principal Components at the request of the Holder at any time prior to the maturity date. In order for a U.S. Holder to have its Bonds stripped, such Holder must submit a request for separation to the Federal Reserve Bank of New York ("FRBNY") in accordance with the applicable requirements, if any, of the FRBNY. Requests from Euromarket participants or customers for separation must be directed through Euroclear or Clearstream, Luxembourg; accordingly, Euromarket participants and customers must comply with the relevant clearing system's rules and procedures for requesting the separation of Bonds. Once a Bond is stripped, transactions in the Interest and Principal Components will be cleared and settled by Euromarket participants through the facilities of Euroclear and Clearstream, Luxembourg. See "Clearance and Settlement — The Clearing Systems." Currently, the FRBNY does not charge a fee for stripping Bonds.

For a Bond to be stripped into its Interest and Principal Components as described above, the principal amount of the Bond must be U.S.$400,000 or an integral multiple thereof. This principal amount is the amount, based on the stated interest rate of the Bonds, that will produce a semiannual interest payment of U.S.$2,000 or integral multiples of $1,000 in excess thereof. Interest and Principal Components will be obligations of TVA payable solely from TVA's Net Power Proceeds.

Once a Bond has been stripped into its Interest and Principal Components, the Interest and Principal Components may be maintained and transferred on the book-entry system of the U.S. Federal Reserve Banks in minimum denominations of U.S.$2,000 and integral multiples of $1,000 in excess thereof. Payments on the Interest and Principal Components will be made on the applicable payment dates on the related Bonds by crediting Holders' accounts at the FRBNY. At the request of a Holder and upon the Holder's payment of a fee (currently the FRBNY's fee applicable to on-line book-entry securities transfers), the FRBNY will restore ("reconstitute") the unmatured Interest and Principal Components of a stripped Bond to their fully constituted form. Holders wishing to reconstitute the unmatured Interest and Principal Components of a stripped Bond to their fully constituted form must (i) produce all outstanding Interest and Principal Components for a Bond and (ii) comply with all applicable requirements of the FRBNY governing the stripping and reconstitution of securities. Only stripped Bonds with a minimum original principal amount of U.S.$400,000 or an integral multiple thereof may be reconstituted. Reconstitution requests from Euromarket participants must be directed through Euroclear or Clearstream, Luxembourg to the FRBNY; accordingly, Euromarket participants and customers must comply with the relevant clearing system's rules and procedures for requesting the reconstitution of Bonds. See "Clearance and Settlement — The Clearing Systems."

The selling prices of the Interest and Principal Components could be at substantial discounts from their face amounts and, as a result, these components may be subject to greater interest rate volatility than the fully constituted Bonds or other obligations bearing current interest. There also may be a less liquid secondary market for such Interest and Principal Components as compared to the secondary market for the fully constituted Bonds.

The Luxembourg Stock Exchange will be notified regularly of the amount of Bonds stripped and the amount of Bonds reconstituted, as applicable, so long as the Bonds are listed on such exchange.

Agents

TVA has agreed, in each case subject to applicable laws and regulations and the provisions of the Fiscal Agency Agreement, the Bonds and the Resolutions, so long as the Bonds are outstanding, to maintain a Fiscal Agent and, so long as the Bonds are listed on the Official List of the Luxembourg Stock Exchange, a Special Agent in Luxembourg (the "Special Agent"), which will act as an intermediary between TVA and investors in the Bonds. The Fiscal Agent will be the U.S. Federal Reserve Banks. The Special Agent initially will be Kredietbank S.A. Luxembourgeoise. TVA and the Fiscal Agent may amend, modify or supplement, in any respect, or may terminate, substitute or replace, the Fiscal Agency Agreement without the consent of any Holder. In acting under the Fiscal Agency Agreement, the Fiscal Agent acts solely as a fiscal agent of TVA and does not assume any obligation or relationship of agency or trust for or with any Holder of the Bonds except as set forth in applicable operating circulars and letters of the U.S. Federal Reserve Banks. The addresses of the Fiscal Agent and the Special Agent for the Bonds are set forth on the back cover page hereof.

Governing Law

The Fiscal Agency Agreement and the Bonds shall be governed by and construed in accordance with the laws of the State of New York, to the extent such laws are not inconsistent with U.S. federal law. Any litigation regarding the Fiscal Agency Agreement or the Bonds would have to be brought in a court with competent venue and jurisdiction.

Listing

Application has been made to list the Bonds on the New York Stock Exchange and to admit the Bonds to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. Upon the initial request of a Manager or Holder to strip the Bonds, TVA will, so long as the Bonds are listed on the Luxembourg Stock Exchange at that time, apply to admit the Strips to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. By making these applications, TVA does not undertake any obligation to maintain the listing of the Bonds on the Stock Exchanges or to maintain, if listed, the listing of the Strips on the Official List of the Luxembourg Stock Exchange.

Notices

Notices and other communications will be given by transmission to a Holder through the communication system linking the U.S. Federal Reserve Banks. Notices will be deemed to have been sufficiently given or made, for all purposes, upon such transmission.

Copies of notices by TVA regarding the Bonds will also be published (a) in a leading daily newspaper in the English language and of general circulation in New York, (b) in a leading daily newspaper in the English language and of general circulation in London, and (c) so long as the Bonds are listed on the Official List of the Luxembourg Stock Exchange and the rules of such Stock Exchange require, in a leading daily newspaper of general circulation in Luxembourg. It is expected that copies of such notices will normally be published in *The Wall Street Journal* in New York, *The Financial Times* in London, the *d'Wort* in Luxembourg and on the website of the Luxembourg Stock Exchange: www.bourse.lu.

Modification and Amendment

TVA may modify or amend any of the terms or provisions of the Bonds in accordance with the provisions for such modifications and amendments contained in the Basic Resolution. See "Certain Provisions of the Basic Resolution — Modifications of Resolutions and Outstanding Bonds."

CERTAIN PROVISIONS OF THE BASIC RESOLUTION

The following summary of certain provisions of the Basic Resolution is not complete and is qualified in its entirety by reference to the full text of the Basic Resolution.

Application of Net Power Proceeds

Section 2.3 of the Basic Resolution provides as follows:

Net Power Proceeds shall be applied, and the Corporation hereby specifically pledges them for application, first to payments due as interest on Bonds, on Bond Anticipation Obligations, and on any Evidences of Indebtedness issued pursuant to section 2.5 which rank on a parity with Bonds as to interest; to payments of the principal due on Bonds for the payment of which other provisions have not been made and on any Evidences of Indebtedness issued pursuant to section 2.5 which rank on a parity with Bonds as to principal and for the payment of which other provisions have not been made; and to meeting requirements of sinking funds or other analogous funds under any Supplemental Resolutions. The remaining Net Power Proceeds shall be used only for:

(a) Required interest payments on any Evidences of Indebtedness issued pursuant to section 2.5 which do not rank on a parity with Bonds as to interest.

(b) Required payments of or on account of principal of any Evidences of Indebtedness which do not rank on a parity with Bonds as to principal.

(c) Minimum payments into the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment.

(d) Investment in Power Assets, additional reductions of the Corporation's capital obligations, and other lawful purposes related to the Power Program; provided, however, that payments into the United States Treasury in any fiscal year in reduction of the Appropriation Investment in addition to the minimum amounts required for such purpose by the Act may be made only if there is a net reduction during such year in the dollar amount of outstanding Evidences of Indebtedness issued for capital purposes, and only to such extent that the percentage of aggregate reduction in the Appropriation Investment during such year does not exceed the percentage of net reduction during the year in the dollar amount of outstanding Evidences of Indebtedness issued for capital purposes.

Section 2.5 of the Basic Resolution provides as follows:

To assist in financing its Power Program the Corporation may issue Evidences of Indebtedness other than Bonds and Bond Anticipation Obligations, which may be payable out of Net Power Proceeds subject to the provisions of section 2.3 hereof. Such other Evidences of Indebtedness may rank on parity with but shall not rank ahead of the Bonds as to payments on account of the principal thereof or the interest thereon.

Rate Covenant

Section 3.2 of the Basic Resolution provides as follows:

The Corporation shall fix, maintain, and collect rates for power sufficient to meet in each fiscal year the requirements of that portion of the present subsection (f) of section 15d of the Act which reads as follows:

> The Corporation shall charge rates for power which will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to States and counties in lieu of taxes; debt service on outstanding bonds, including provision and maintenance of reserve funds and other funds established in connection therewith; payments to the Treasury as a return on the Appropriation Investment pursuant to subsection (e) hereof; payment to the Treasury of the repayment sums specified in subsection (e) hereof; and such additional margin as the Board may consider desirable for investment in power system assets, retirement of outstanding bonds in advance of maturity, additional reduction of appropriation investment, and other purposes connected with the Corporation's power business, having due regard for the primary objectives of the Act, including the objective that power shall be sold at rates as low as are feasible.

For purposes of this Resolution, "debt service on outstanding bonds," as used in the above provision of the Act, shall mean for any fiscal year the sum of all amounts required to be (a) paid during such fiscal year as interest on Evidences of Indebtedness, (b) accumulated in such fiscal year in any sinking or other analogous fund provided for in connection with any Evidences of Indebtedness, and (c) paid in such fiscal year on account of the principal of any Evidences of Indebtedness for the payment of which funds will not be available from sinking or other analogous funds, from the proceeds of refunding issues, or from other sources; provided, however, that for purposes of clause (c) of this definition Bond Anticipation Obligations and renewals thereof shall be deemed to mature in the proportions and at the times provided for paying or setting aside funds for the payment of the principal of the authorized Bonds in anticipation of the issuance of which such Bond Anticipation Obligations were issued.

> The rates for power fixed by the Corporation shall also be sufficient so that they would cover all requirements of the above-quoted provision of subsection (f) of section 15d of the Act as if, in such requirements, there were substituted for "debt service on outstanding bonds" for any fiscal year the amount which if applied annually for 35 years would retire, with interest at the rates applicable thereto, the originally issued amounts of all series of Bonds and other Evidences of Indebtedness, any part of which was outstanding on October 1 of such year.

Rates set by the Board are not subject to review or approval by any state or federal regulatory body. In a future restructured electric power industry, it is possible, however, that the ability of the TVA Board to set rates as specified in the Act and the Basic Resolution could be adversely affected by legislative changes or by competitive pressures. See Item 1A, Risk Factors in the Annual Report.

Covenant for Protection of Bondholders' Investment

Under the Act and section 3.3 of the Basic Resolution, TVA must, in successive five-year periods, use an amount of Net Power Proceeds at least equal to the sum of (1) depreciation accruals and other charges representing the amortization of capital expenditures and (2) the net proceeds from any disposition of power facilities for either (a) the reduction of its capital obligations (including Evidences of Indebtedness and the government's Appropriation Investment) or (b) investment in power assets. TVA must next meet this test for the five-year period ending September 30, 2010.

Modifications of Resolutions and Outstanding Bonds

The Basic Resolution provides for amendments to it, to any Supplemental Resolution, and to any outstanding Power Bonds. Generally, TVA may make amendments to the respective rights and obligations of TVA and the bondholders with the written consent of the holders of at least 66 2/3 percent in principal amount of the outstanding Power Bonds to which the amendment applies. However, TVA may not make changes in the maturity of the principal of any Power Bond or any interest installment thereon or reduction in the principal amount, redemption premium, or rate of interest with respect to any Power Bond, or in the above percentage for any such consent, without the consent of the holder of such Power Bond.

Additionally, TVA may amend the Basic Resolution or any Supplemental Resolution without the consent of the bondholders in order (1) to close the Basic Resolution against the issuance of additional Power Bonds or to restrict such issuance by imposing additional conditions or restrictions; (2) to add other covenants and agreements to be observed by TVA or to eliminate any right, power, or privilege conferred upon TVA by the Basic Resolution; (3) to modify any provisions to release TVA from any of its obligations, covenants, agreements, limitations, conditions, or restrictions, provided that such modification or release shall not become effective with respect to any Power Bonds issued prior to the adoption of such amendment; (4) to correct any defect, ambiguity, or inconsistency in, or to make provisions in regard to matters or questions arising under, the Basic Resolution or any Supplemental Resolution, so long as such amendments are not contrary to, or inconsistent with, the Basic Resolution or such Supplemental Resolution; or (5) to make any other modification or amendment which the Board by resolution determines will not materially and adversely affect the interests of holders of the Power Bonds; provided, however, that no such amendatory resolution shall be deemed to waive or modify any restriction or obligation imposed by the Basic Resolution or any Supplemental Resolution upon TVA in respect of, or for the benefit of, any of the then outstanding Power Bonds.

Events of Default

Any of the following shall be deemed an Event of Default under the Basic Resolution: (1) default in the payment of the principal or redemption price of any Power Bond when due and payable at maturity, by call for redemption or otherwise; (2) default in the payment of any installment of interest on any Power Bond when due and payable for more than 30 days; or (3) failure of TVA to duly perform any other covenant, condition, or agreement contained in the Power Bonds or in the Basic Resolution or any Supplemental Resolution for 90 days after written notice specifying such failure has been given to TVA by the holders of at least five percent in aggregate principal amount of the then-outstanding Power Bonds.

Upon any such Event of Default, the holders of the Power Bonds may proceed to protect and enforce their respective rights, subject to the restrictions described below. The holders of at least five percent in aggregate principal amount of Power Bonds then outstanding shall, subject to certain restrictions, have the right and power to institute a proceeding (1) to enforce TVA's covenants and agreements, (2) to enjoin any acts in violation of the rights of holders of Power Bonds, and (3) to protect and enforce the rights of holders of Power Bonds. Such holders have no right to bring any such action or proceeding against TVA unless they have given TVA written notice of an Event of Default and TVA has had a reasonable opportunity to take appropriate corrective action with respect thereto and has failed or refused to do so. Power Bonds do not provide for acceleration upon an Event of Default.

Holders of a majority in aggregate principal amount of the outstanding Power Bonds have the right to direct the time, method, and place of conducting any proceeding for any remedy available and may waive any default and its consequences, except a default in the payment of the principal of or premium, if any, or interest on any Power Bonds.

CLEARANCE AND SETTLEMENT

The Clearing Systems

Clearstream Banking, *société anonyme,* Luxembourg ("Clearstream, Luxembourg") and Euroclear Bank as the operator of the Euroclear System ("Euroclear") each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services, including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Initial Settlement

On initial issue, all Bonds will be issued and settled through the U.S. Federal Reserve Banks book-entry system and held by Holders designated by the Managers. After initial issue, all Bonds will continue to be held by such Holders in the U.S. Federal Reserve Banks book-entry system unless an investor arranges for the transfer of its Bonds to another Holder.

TVA understands that investors electing to hold their Bonds through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Bonds will be credited to the securities custody accounts of Euroclear and Clearstream, Luxembourg holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

With respect to secondary market trading in the Bonds, TVA understands the following procedures will apply. Transactions in the Bonds will be cleared and settled by Euromarket participants through the facilities of Euroclear and Clearstream, Luxembourg, the principal Euromarket securities clearance and settlement organizations. The Bonds may be held of record only by entities eligible to maintain book-entry accounts with the U.S. Federal Reserve Banks. Select entities will hold the Bonds in their book-entry accounts with the FRBNY, as the depositaries for Euroclear and Clearstream, Luxembourg. The identity of and certain information about the Euroclear or Clearstream, Luxembourg depositaries may be obtained by contacting Euroclear or Clearstream, Luxembourg. Transfers of the Bonds between Clearstream, Luxembourg customers or Euroclear participants and investors holding directly or indirectly through the U.S. Federal Reserve Banks book-entry system ("Fed Users") will be effected through the book-entry accounts of such depositaries as Holders with the FRBNY, thereby increasing or decreasing their respective holdings of the Bonds on behalf of Euroclear or Clearstream, Luxembourg.

Transfers between Fed Users will occur in accordance with applicable Book-Entry Regulations promulgated by the U.S. Department of the Treasury. Transfers between Clearstream, Luxembourg customers and Euroclear participants will be settled using the procedures applicable to conventional Eurobonds in same-day funds in accordance with their applicable rules and operating procedures.

Cross-market transfers between Fed Users, on the one hand, and persons holding Bonds directly or indirectly through Euroclear or Clearstream, Luxembourg, on the other, will be effected on behalf of the relevant international clearing system by its U.S. depositary; however, such cross-market transactions will require delivery of instructions to the relevant international clearing system by the system customer or participant in accordance with the system's rules and procedures and within its established deadlines (European time). The relevant international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depositary to take action to effect final settlement on its behalf by delivering or receiving Bonds through its U.S. Federal Reserve account, and making or receiving payment in accordance with normal procedures for immediately available funds settlement. Instructions of Clearstream, Luxembourg customers and Euroclear participants with respect to such transfers must be delivered to Euroclear or Clearstream, Luxembourg, as the case may be, and not to their U.S. depositaries.

Because of time-zone differences, credits of Bonds received in Euroclear or Clearstream, Luxembourg as a result of a transaction with a Fed User will be made during the securities settlement processing for the business day following the U.S. Federal Reserve Banks book-entry system settlement date. Such securities credits will be reported to the relevant Clearstream, Luxembourg customer or Euroclear participant on such following business day with the cash debt back-valued to, and the interest accruing from, the U.S. Federal Reserve Banks book-entry system settlement date. If, however, settlement is not completed on the intended value date (that is, if the trade fails), the trade would be valued as of the actual settlement date. Cash received in Euroclear or Clearstream, Luxembourg as a result of sales of Bonds by or through a Clearstream, Luxembourg customer or a Euroclear participant to a Fed User will be received with value on the U.S. Federal Reserve Banks book-entry system settlement date but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day following settlement on the U.S. Federal Reserve Banks book-entry system.

From a Fed User's standpoint, a cross-market transaction will settle no differently from a trade between two Fed Users.

Distributions of interest and principal with respect to the Bonds held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of Clearstream, Luxembourg customers or Euroclear participants on the same day (European time) as payment is made to Fed Users, subject to the relevant system's rules and procedures, to the extent received and applied by its U.S. depositary. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. See “United States Tax Matters.”

Although Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of the Bonds among Fed Users, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of TVA, the Managers or the Fiscal Agent will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants or customers or indirect participants or customers of their obligations under the rules and procedures governing their operations.

LEGALITY OF INVESTMENT IN THE UNITED STATES

Each person or entity is advised to consult with its own counsel with respect to the legality of investment in the Bonds or in any stripped Interest and Principal Components thereof (see “Description of Bonds ─ Stripping”), which could be subject to restrictions or requirements with respect to the legality of investment that do not apply to Power Bonds held in their fully constituted form. Generally the following describes the legality of investment in the United States in Power Bonds in their fully constituted form.

Power Bonds are lawful investments and may be accepted as security for all fiduciary, trust and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America. 16 U.S.C. § 831n-4(d).

Power Bonds are acceptable as collateral for U.S. Treasury tax and loan accounts pursuant to 31 C.F.R. § 203.24(e) and 31 C.F.R. § 380.3.

U.S. national banks may deal in, underwrite and purchase Power Bonds for their own accounts in an amount not to exceed 10 percent of unimpaired capital and surplus. 12 U.S.C. § 24, seventh paragraph.

U.S. Federal Reserve Banks may accept Power Bonds as eligible collateral for advances to member banks. 12 U.S.C. § 347 and 12 C.F.R. § 201.108(b)(13).

U.S. federal savings associations and U.S. federal savings banks may, to the extent specified in applicable regulations, invest in Power Bonds without regard to limitations generally applicable to investments. 12 U.S.C. § 1464(c)(1)(F).

Power Bonds are eligible as collateral for advances by U.S. Federal Home Loan Banks to members for which Power Bonds are legal investments. 12 U.S.C. § 1430(a) and 12 C.F.R. § 950.7(a)(2).

U.S. federal credit unions may purchase Power Bonds, subject to applicable regulations. 12 U.S.C. § 1757(7)(E) and 12 C.F.R. Part 703.

Power Bonds are "obligations of a corporation which is an instrumentality of the United States" within the meaning of Section 7701(a)(19)(C)(ii) of the Internal Revenue Code for purposes of the 60 percent of assets limitation applicable to U.S. building and loan associations.

UNITED STATES TAX MATTERS

Tax Considerations Applicable to Bonds

The following discussion of United States tax matters was written to support the promotion and marketing of the Bonds and was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding United States federal income tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

The following summary of certain United States federal income and estate tax and certain limited state and local tax consequences (where specifically noted) of the purchase, ownership and disposition of the Bonds has been prepared by Orrick, Herrington & Sutcliffe LLP, as special U.S. tax counsel to TVA, and is based upon laws, regulations, rulings and decisions, which are subject to change at any time, possibly with retroactive effect. The discussion in this subsection does not address the tax consequences associated with stripping a Bond into its Interest and Principal Components or of the purchase, ownership or disposition of an Interest or Principal Component. For a discussion of such tax matters, see "Tax Considerations Applicable to Strips." The discussion does not address all aspects of United States federal income and estate taxation that may be relevant to a particular investor in light of its personal investment circumstances or to certain types of investors subject to special treatment under the United States federal income tax laws (for example, brokers, security dealers, traders in securities that elect to mark to market, banks, expatriates, life insurance companies, tax-exempt organizations and, with limited exceptions, foreign investors), and generally does not address state and local taxation. Further, the discussion is limited to persons who will hold the Bonds as capital assets and does not deal with United States federal income tax consequences applicable to persons who will hold the Bonds in the ordinary course or as an integral part of their trade or business, or as part of a hedging, straddle, integrated or conversion transaction or persons whose functional currency is not the U.S. dollar. Furthermore, it does not address alternative minimum tax consequences or the indirect effects on the holders of equity interests in a Bond holder. Each prospective owner of a Bond is urged to consult with its own tax advisor with respect to the United States federal, state and local tax consequences associated with the purchase, ownership and disposition of a Bond, as well as the tax consequences arising under the laws of any other taxing jurisdiction, and may not construe the following discussion as legal advice. In this regard, it should be noted that the Bonds are not subject to redemption by reason of the imposition of withholding or other tax by any jurisdiction, and TVA has no obligation to pay additional interest or other amounts if any withholding or other tax is imposed on payments on the Bonds (including any withholding tax that may be imposed as a result of a failure to provide an applicable United States Internal Revenue Service form).

For purposes of this subsection ("Tax Considerations Applicable to Bonds"), "U.S. Person" means a citizen or resident of the United States, a corporation or (except as may be provided in Treasury Regulations) partnership organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is includible in gross income for United States tax purposes regardless of its source or a trust if a United States court is able to exercise primary supervision over administration of the trust and one or more U.S. Persons have authority to control all substantial decisions of the trust. The term "U.S. beneficial owner" means a U.S. Person that is a beneficial owner of a Bond and any other person which is a beneficial owner of a Bond that is otherwise subject to United States federal income taxation on a net basis in respect of income attributable to a Bond.

U.S. Beneficial Owners

A U.S. beneficial owner is subject to federal income taxation on income on a Bond. The Act, however, provides that bonds issued by TVA are "exempt both as to principal and interest from all taxation now or hereafter imposed by any State or local taxing authority except estate, inheritance and gift taxes." This exemption might not extend to franchise or other nonproperty taxes in lieu thereof imposed on corporations or to gain or loss realized upon the sale or exchange of a Bond, notwithstanding that such gain might in some cases be treated as interest income for United States federal income tax purposes.

Interest on a Bond will be taxable to a U.S. beneficial owner at the time that it is received or accrued, depending upon the U.S. beneficial owner's method of accounting for United States federal income tax purposes. The Bonds are not exempt from United States federal income, estate or gift tax.

Upon a sale or exchange of a Bond, a U.S. beneficial owner generally will recognize capital gain or loss equal to the difference between the amount realized on the sale or exchange (not including any amounts attributable to accrued and unpaid interest) and the U.S. beneficial owner's adjusted basis for the Bond for federal income tax purposes.

If a U.S. beneficial owner purchases a Bond for less than its stated redemption price at maturity, in general, that difference will be market discount (unless the discount is less than ¼ of 1 percent of the stated redemption price at maturity of the Bond multiplied by the number of complete years remaining to maturity). In general, under the market discount rules, unless the U.S. beneficial owner elects to include market discount in income currently, any gain on a disposition of a market discount Bond will be ordinary income to the extent of accrued market discount, and deductions for some or all of the interest on any indebtedness incurred or continued to purchase or carry the Bond may be deferred until the disposition of the Bond. Generally, any election to include market discount in income currently applies to all debt instruments acquired by the electing U.S. beneficial owner during or after the first taxable year to which the election applies and is irrevocable without the consent of the United States Internal Revenue Service. A U.S. beneficial owner should consult a tax advisor before making the election.

A U.S. beneficial owner who purchases a Bond for an amount greater than the amount payable at maturity of the Bond may elect to treat the excess as amortizable bond premium. In the case of a U.S. beneficial owner that makes an election to amortize bond premium or has previously made an election that remains in effect, amortizable bond premium on the Bond generally will be treated as a reduction of the interest income on a Bond on a constant-yield basis (except to the extent regulations may provide otherwise) over the term of the Bond. The basis of a debt obligation purchased at a premium is reduced by the amount of amortized bond premium. An election to amortize bond premium generally applies to all debt instruments (other than tax-exempt obligations) held by the electing U.S. beneficial owner on the first day of the first taxable year to which the election applies or thereafter acquired by such owner, and is irrevocable without consent of the United States Internal Revenue Service. A U.S. beneficial owner should consult a tax advisor before making the election.

A U.S. beneficial owner may elect to include in gross income all interest that accrues on a debt instrument using the constant-yield method described below under the heading “Tax Considerations Applicable to Strips.” For purposes of this election, interest includes stated interest, original issue discount (“OID”), market discount, de minimis market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. If this election is made with respect to a debt instrument with amortizable bond premium, the electing U.S. beneficial owner will be deemed to have elected to apply amortizable bond premium against interest with respect to all debt instruments with amortizable bond premium (other than debt instruments the interest on which is excludible from gross income) held by the electing U.S. beneficial owner as of the beginning of the taxable year in which the debt instrument with respect to which the election is made is acquired or thereafter acquired. The deemed election with respect to amortizable bond premium may not be revoked without the consent of the United States Internal Revenue Service. If this election is made with respect to a debt instrument with market discount, the electing U.S. beneficial owner will be deemed to have elected to include market discount in income currently (as discussed above) with respect to all debt instruments acquired by the electing U.S. beneficial owner during or after the first taxable year to which the election applies, which election may not be revoked without the consent of the United States Internal Revenue Service.

Non-U.S. Beneficial Owners

Generally, a Bond holder that is not a U.S. Person and that has no connection with the United States other than holding the Bond (a “non-U.S. beneficial owner”) will not be subject to United States federal withholding tax on interest paid by TVA on a Bond provided that the last U.S. Person in the chain of payment prior to payment to the non-U.S. beneficial owner has received in the year in which the payment occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner under penalties of perjury, (ii) certifies that such owner is not a U.S. beneficial owner and (iii) provides the name and address of the beneficial owner. The statement may be made on a United States Internal Revenue Service Form W-8BEN or, in the case of certain non-U.S. beneficial owners, Form W-8EXP (collectively, “Form W-8”) or substantially similar substitute form, and the beneficial owner must inform the withholding agent of any change in the information on the statement within 30 days of such change. In certain circumstances, the above-described certification can be provided by a securities clearing organization or by certain other financial institutions and qualified intermediaries provided that the non-U.S. beneficial owner of the Bond has provided such entity with the appropriate certification or documentation establishing its foreign status. Additionally, in the case of Bonds held by a foreign partnership (a) the certification described above must be provided by the partners rather than by the foreign partnership and (b) the partnership must provide certain information.

Generally, any amount which constitutes capital gain to a non-U.S. beneficial owner upon retirement or disposition of a Bond will not be subject to U.S. federal income taxation. Certain exceptions may be applicable and individual non-U.S. beneficial owners are particularly urged to consult a tax advisor. Generally, the Bonds will not be includible in the U.S. federal estate of a non-U.S. beneficial owner.

Backup Withholding

Backup withholding of United States federal income tax, currently at a rate of 28 percent, may apply to payments made in respect of the Bonds to beneficial owners who are not exempt recipients and who fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the manner required. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the Bonds to a U.S. beneficial owner must be reported to the United States Internal Revenue Service, unless such U.S. beneficial owner is an exempt recipient or establishes an exemption. Compliance with the identification procedures (described in the preceding section) would generally establish an exemption from backup withholding for those non-U.S. beneficial owners who are not exempt recipients.

In addition, upon the sale of a Bond to (or through) a broker, the broker must withhold a percentage of the gross sales proceeds (currently 28 percent), unless either (i) the broker determines that the seller is a corporation or other exempt recipient or (ii) the seller provides, in the required manner, certain identifying information and, in the case of a non-U.S. beneficial owner, certifies that such seller is a non-U.S. beneficial owner (and certain other conditions are met). Such a sale must also be reported by the broker to the United States Internal Revenue Service, unless either (i) the broker determines that the seller is an exempt recipient or (ii) the seller certifies its non-U.S. status (and certain other conditions are met). Certification of the beneficial owner's non-U.S. status usually would be made on Form W-8 under penalties of perjury, although in certain cases it may be possible to submit other documentary evidence. The term “broker” generally includes all persons who, in the ordinary course of a trade or business, stand ready to effect sales made by others, as well as brokers and dealers registered as such under the laws of the United States or a state. These requirements generally will apply to a United States office of a broker, and the information reporting requirements generally will apply to a foreign office of a United States broker, as well as to a foreign office of a foreign broker if the broker is (i) a controlled foreign corporation within the meaning of Section 957(a) of the Internal Revenue Code, (ii) a foreign person 50 percent or more of whose gross income from all sources for the 3-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the foreign broker has been in existence) was effectively connected with the conduct of a trade or business within the United States or (iii) a foreign partnership if it is engaged in a trade or business in the United States or if 50 percent or more of its income or capital interests are held by U.S. Persons.

Generally, any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or credit against such beneficial owner's United States federal income tax.

Tax Considerations Applicable to Strips

The following discussion of United States tax matters was written to support the promotion and marketing of the Bonds and was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding United States federal income tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

The following discussion of the United States federal income and estate tax and certain limited state and local tax consequences (where specifically noted) of the purchase, ownership and disposition of Strips has been prepared by Orrick, Herrington & Sutcliffe LLP, as special U.S. tax counsel to TVA, and is based upon laws, regulations, rulings and decisions, which are subject to change at any time, possibly with retroactive effect. The discussion does not address all aspects of United States federal income and estate taxation that may be relevant to a particular investor in light of its personal investment circumstances or to certain types of investors subject to special treatment under the United States federal income tax laws (for example, brokers, security dealers, traders in securities that elect to mark to market, banks, expatriates, life insurance companies, tax-exempt organizations and, with limited exceptions, foreign investors), and generally does not address state and local taxation. Further, the discussion is limited to persons who will hold the Strips as capital assets, and does not deal with United States federal income tax consequences applicable to persons who will hold the Strips in the ordinary course or as an integral part of their trade or business, or as part of a hedging, straddle, integrated or conversion transaction or persons whose functional currency is not the U.S. dollar. Furthermore, it does not address alternative minimum tax consequences or the indirect effects on the holders of equity interests in a holder of a Strip. Each prospective owner of a Strip is urged to consult with its own tax advisor with respect to the United States federal, state and local tax consequences associated with the purchase, ownership and disposition of a Strip, as well as tax consequences arising under the laws of any other taxing jurisdiction, and may not construe the following discussion as legal advice. In this regard, it should be noted that the Strips are not subject to redemption by reason of the imposition of withholding or other tax by any jurisdiction, and TVA has no obligation to pay additional interest or other amounts if any withholding or other tax is imposed on payments on the Strips (including any withholding tax that may be imposed as a result of a failure to provide an applicable United States Internal Revenue Service form).

For purposes of this subsection (“Tax Considerations Applicable to Strips”), “U.S. Person” means a citizen or resident of the United States, a corporation or (except as may be provided in the Treasury Regulations) a partnership organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is includible in gross income for United States tax purposes regardless of its source or a trust if a United States court is able to exercise primary supervision over administration of the trust and one or more U.S. Persons have authority to control all substantial decisions of the trust. The term “U.S. beneficial owner” means a U.S. Person that is a beneficial owner of a Strip and any other person which is a beneficial owner of a Strip that is otherwise subject to United States federal income taxation on a net basis in respect of income attributable to a Strip.

U.S. Beneficial Owners

A U.S. beneficial owner is subject to United States federal income taxation on the income of a Strip, and there is no special exemption from United States federal income, estate or gift tax with respect to Strips. The Act provides that bonds issued by TVA are “exempt both as to principal and interest from all taxation now or hereafter imposed by any State or local taxing authority except estate, inheritance and gift taxes.” This exemption might not extend to franchise or other non-property taxes in lieu thereof imposed on corporations or to gain or loss realized upon the sale or exchange of a Bond, notwithstanding that such gain might in some cases be treated as interest income for United States federal income tax purposes. It is unclear whether this exemption applies at all to the income on a Strip. If all of the income on a Strip were to be exempt from state and local taxation, the amount of income exempted from such taxation could be in excess of the amount that would have been exempted had the Bonds not been separated into their Interest and Principal Components. It is unclear whether or not this was intended. Therefore, while it is anticipated that the income includible by a U.S. beneficial owner with respect to a Strip should qualify for the exemption provided in the Act at least to the extent of the rate of interest payable on the Bonds, there is no controlling precedential authority and, therefore, each owner of a Strip is urged to consult its own tax advisor as to whether or not the income of a Strip qualifies in whole or in part for the exemption provided in the Act.

A U.S. beneficial owner that elects to strip a Bond into its Interest and Principal Components and to dispose of one or more of such Components will be required to include in income all interest and market discount accrued on the Bond to the date of disposition (to the extent that such income has not previously been included in income), and the U.S. beneficial owner's basis in the Bond will be increased, immediately prior to the disposition of one of the Strips, by the amount so included in income. Upon the disposition of a Strip, the U.S. beneficial owner will be required to recognize gain or loss equal to the difference between the amount realized on the disposition of the Strip and the U.S. beneficial owner's basis in the Strip immediately prior to the disposition of one of the Strips. For purposes of determining that basis, the U.S. beneficial owner will be required to allocate its tax basis in the Bond immediately prior to the sale (as adjusted in the manner detailed above) between the Interest and Principal Components based on their respective fair market values on the date of the sale.

A U.S. beneficial owner of a Strip will accrue income on the Strip in accordance with the OID rules set forth in the United States Internal Revenue Code of 1986, as amended. In this regard, the application of the OID rules to the Strips is subject to significant uncertainty, and therefore purchasers of the Strips are urged to consult with their own tax advisors. Generally, however, it is anticipated that each U.S. beneficial owner of a Strip will be required to include in income, as OID, the difference between (1) the stated redemption price at maturity of the Interest or Principal Component owned by such person (which generally would include all payments to be made on the Component subsequent to the date that the strip was effected or, if later, the date of the U.S. beneficial owner's purchase of the Component) and (2) the U.S. beneficial owner's purchase price for the Component (or, in the case of a person who effects a strip and disposes of one or more of the Components, the portion of the person's basis in the Bond which is allocable to the retained Components, as determined pursuant to the rules set forth in the preceding paragraph).

The amount of OID on a Strip (determined as set forth above) will be includible on a constant-yield basis in the income of a U.S. beneficial owner of a Strip over the life of the Strip (excluding, with respect to certain U.S. beneficial owners, Strips having a maturity of one year or less from the date of purchase - which Strips would be subject to special OID rules which are discussed below), even in years in which the owner of the Strip does not receive any actual payment. The amount of OID that must be included in income each year by the U.S. beneficial owner of a Strip will be equal to the sum of the daily portions of the OID that accrued during each day of the year during which the U.S. beneficial owner owned the Strip. The daily portions will be determined by allocating to each day of the accrual period, as defined below, a pro rata portion of an amount equal to the adjusted issue price of the Strip at the beginning of the accrual period, also as defined below, multiplied by the yield to maturity of the Strip, determined by compounding at the close of each accrual period and properly adjusted for the length of the accrual period. For purposes of these calculations, (i) the accrual periods will, generally, be of any length and may vary in length over the term of the Strip, provided that each accrual period is no longer than a year and that each scheduled payment of principal and interest occurs either on the final day of an accrual period or on the first day of an accrual period, and (ii) the adjusted issue price of a Strip will be the U.S. beneficial owner's purchase price for the Strip (or, in the case of a person who effects a strip and disposes of one or more of the Components, the portion of the person's basis in the Bond which is allocable to the retained Components, as determined pursuant to the rules set forth above), increased by the OID accrued by the U.S.

beneficial owner in previous accrual periods and decreased by any payments received by the U.S. beneficial owner in prior accrual periods. The amount of OID allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of OID allocable to the final accrual period is the difference between (x) the amount payable at the maturity of the Strip and (y) the Strip's adjusted price as of the beginning of the final accrual period. The foregoing rules will generally be applied to each Strip acquired separately. In certain circumstances, Strips acquired (or retained by the person stripping a Bond) may be treated as a single instrument for tax purposes.

In general, a cash basis U.S. beneficial owner who purchases a Strip the payment with respect to which is due not later than one year from the date of issuance ("short-term Strips") is not required to accrue OID (as determined under the special rule described below for the purposes of this paragraph) for United States federal income tax purposes unless it elects to do so. Accrual basis U.S. beneficial owners and certain other U.S. beneficial owners (including certain pass-through entities and electing cash basis U.S. beneficial owners) who purchase a short-term Strip and any U.S. beneficial owners who strip a Bond into its Interest and Principal Components and who retain one or more such Components are required to accrue OID on short-term Strips on either a straight-line basis or under the constant-yield method (based on daily compounding), at the election of the U.S. beneficial owner. In the case of a U.S. beneficial owner not required and not electing to include OID on a short-term Strip in income currently, any gain realized on the sale or retirement of the short-term Strip will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. beneficial owners who are not required and who do not elect to accrue OID on short-term Strips will be required to defer deductions for interest on borrowings allocable to short-term Strips in an amount not exceeding the deferred income until the deferred income is realized.

Upon the sale or exchange of a Strip, a U.S. beneficial owner generally will recognize capital gain or loss equal to the difference between the amount realized on the sale or exchange and the U.S. beneficial owner's adjusted tax basis in the Strip. A U.S. beneficial owner's adjusted tax basis in a Strip will generally be its cost, increased by the amount of the OID included in the U.S. beneficial owner's income with respect to the Strip.

TVA is selling the Bonds (and not Strips) to the Managers; it is possible, however, that the Managers may elect to strip the Bonds and sell Interest and Principal Components (as well as Bonds) immediately upon their acceptance of the Bonds. Such Strips might be viewed, for United States federal income tax purposes, as OID bonds issued by TVA to the purchasers of the Strips. If the United States Internal Revenue Service were to characterize the transaction in this fashion, the rules set forth above would generally apply to the Bonds stripped by the Managers, except that (1) the amount of OID on each Strip so sold would be measured, and the adjusted issue price would be determined, by reference to the first price at which a substantial amount of each Strip was sold, rather than by reference to the price paid by the purchaser for the Strip (not only in the case of an initial purchaser of the Strip, but also in the case of any transferee thereof) and (2) the stated redemption price at maturity would be determined by reference to all payments to be made on the Strip subsequent to the date of the closing relating to the Bonds offered hereby rather than by reference to the payments to be made subsequent to the U.S. beneficial owner's acquisition of the Strip. Each U.S. beneficial owner is urged to consult with its own tax advisor as to the likelihood of such a characterization, as well as to the application of the "acquisition premium" and "market discount" rules which would apply to those Bonds stripped by the Managers if the transaction were to be so characterized.

Recombinations. The OID rules are also unclear as to the treatment of a U.S. beneficial owner who acquires a Principal Component and all the associated Interest Components; it is believed, however, that such a person would not treat the Components as a Bond, but would instead recognize income on each of the Components in the manner detailed above. However, if such a person requests the FRBNY to reconstitute the Components into a Bond and that Bond is then sold to another person, it is anticipated that the new purchaser would be treated as having acquired a Bond (rather than Interest and Principal Components) with the result that the rules set forth above, under "Tax Considerations Applicable to Bonds," would apply. Each purchaser of a Strip is urged to consult its own tax advisor as to this issue.

Non-U.S. Beneficial Owners

A non-U.S. beneficial owner of a Strip will not be subject to United States federal withholding tax on TVA's payment of income on a Strip provided that the last U.S. person in the chain of payment prior to payment to the non-U.S. beneficial owner has received in the year in which the payment occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner under penalties of perjury, (ii) certifies that such owner is a non-U.S. beneficial owner and (iii) provides the name and address of the beneficial owner. The statement may be made on an United States Internal Revenue Service Form W-8BEN or in the case of certain non-U.S. beneficial owners, Form W-8EXP (collectively, "Form W-8") or substantially similar substitute form, and the beneficial owner must inform the withholding agent of any change in the information on the statement within 30 days of such change. In certain circumstances, the above-described certification can be provided by a securities clearing organization or by certain other financial institutions and qualified intermediaries provided that the non-U.S. beneficial owner of the Strip has provided such entity with the appropriate certification or documentation establishing its foreign status. Additionally, in the case of Strips held by a foreign partnership, (a) the certification described above must be provided by the partners rather than by the foreign partnership and (b) the partnership must provide certain information.

Generally, any amount which constitutes capital gain to a non-U.S. beneficial owner upon retirement or disposition of a Strip will not be subject to United States federal income taxation. Certain exceptions may be applicable and individual non-U.S. beneficial owners are particularly urged to consult their own tax advisors.

Generally, the Strips will not be includible in the U.S. federal estate of a non-U.S. beneficial owner.

Backup Withholding

Backup withholding of United States federal income tax, currently at a rate of 28 percent, may apply to payments made in respect of the Strips to beneficial owners who are not exempt recipients and who fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the manner required. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Compliance with the identification procedures described in the preceding section would generally establish an exemption from backup withholding for those non-U.S. beneficial owners who are not exempt recipients.

In addition, upon the sale of a Strip to (or through) a broker, the broker must withhold a percentage of the gross sales proceeds (currently 28 percent), unless either (i) the broker determines that the seller is a corporation or other exempt recipient or (ii) the seller provides, in the required manner, certain identifying information and, in the case of a non-U.S. beneficial owner, certifies that such seller is a non-U.S. beneficial owner (and certain other conditions are met). Such a sale must also be reported by the broker to the Internal Revenue Service, unless either (i) the broker determines that the seller is an exempt recipient or (ii) the seller certifies its non-U.S. status (and certain other conditions are met). Certification of the beneficial owner's non-U.S. status usually would be made on Form W-8 under penalties of perjury, although in certain cases it may be possible to submit other documentary evidence. The term “broker” generally includes all persons who, in the ordinary course of a trade or business, stand ready to effect sales made by others, as well as brokers and dealers registered as such under the laws of the United States or a state. These requirements generally will apply to a United States office of a broker, and the information reporting requirements generally will apply to a foreign office of a United States broker, as well as to a foreign office of a foreign broker if the broker is (i) a controlled foreign corporation within the meaning of Section 957(a) of the Internal Revenue Code, (ii) a foreign person 50 percent or more of whose gross income from all sources for the 3-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the foreign broker has been in existence) was effectively connected with the conduct of a trade or business within the United States or (iii) a foreign partnership if it is engaged in a trade or business in the United States or if 50 percent or more of its income or capital interests are held by U.S. Persons.

Generally, any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's United States federal income tax.

SUBSCRIPTION AND SELLING

Subject to the terms and conditions set forth in the Subscription Agreement dated July 12, 2007 (the "Subscription Agreement") relating to the Bonds, TVA has agreed to sell to each of the Managers named below (the "Managers"), and each of the Managers has severally agreed to purchase, the principal amount of Bonds set forth opposite its name below:

Manager	Principal Amount
Lehman Brothers Inc.	$ 425,000,000
Morgan Stanley & Co. Incorporated	$ 425,000,000
Banc of America Securities LLC	$ 37,500,000
Bear, Stearns & Co. Inc.	$ 37,500,000
Credit Suisse Securities LLC	$ 37,500,000
Goldman, Sachs & Co.	$ 37,500,000
	U.S.$1,000,000,000

The Subscription Agreement provides that the obligations of the Managers are subject to certain conditions precedent and that the Managers will be obligated to purchase all of the Bonds if any are purchased.

The Managers have advised TVA that they propose to offer all or part of the Bonds directly to the public initially at the offering prices set forth on the cover page of this Offering Circular and to dealers at such prices less a concession not in excess of 0.15% of the principal amount thereof. The Managers may allow and such dealers may reallow discounts not in excess of 0.10% of the principal amount of the Bonds to certain other dealers. After the initial offering, the public offering price and concession may be changed.

The Managers, immediately upon their acceptance of the Bonds, may, but are not obligated to, strip some or all of the Bonds and deliver Interest and/or Principal Components rather than Bonds to investors purchasing Strips. Sales of any such Strips would be at negotiated prices.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (as defined herein) (each, a "Relevant Member State"), each Manager represents, warrants and agrees to and with TVA that, with effect from and including the date on which the Prospectus Directive is implemented in that Member State (the "Relevant Implementation Date"), such Manager and its Affiliates (as defined herein) have not made and will not make an offer of Bonds to the public in that Relevant Member State, except that they may, with effect from and including the Relevant Implementation Date, make an offer of Bonds to the public in that Relevant Member State:

(a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Managers; or

(d) at any time in any other circumstances which do not require the publication by TVA of a prospectus pursuant to Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds shall require TVA or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

The expression an "offer of Bonds to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measures in each Relevant Member State.

In relation to the United Kingdom, each Manager represents, warrants and agrees to and with TVA that such Manager and its Affiliates (as defined herein) (i) have complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "FSMA") and the rules and regulations thereunder with respect to anything done by them in relation to the Bonds in, from or otherwise involving the United Kingdom; and (ii) have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by them in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to TVA.

The term “Affiliate” means any person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with a Manager. For purposes of this definition of Affiliate, the term “control” (including the terms “controlled by” and “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies, including without limitation the investment or trading decisions of a person, whether through ownership of voting securities, by contract or otherwise.

This Offering Circular has not been registered with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds may not be circulated or distributed, nor may the Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Purchasers of Bonds or Strips may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price set forth above.

All secondary trading in Bonds and Strips will settle in immediately available funds. See “Clearance and Settlement — Secondary Market Trading.”

TVA has agreed to indemnify the Managers against certain civil liabilities.

The Managers and/or their Affiliates may perform services for TVA in the normal course of business.

It is expected that delivery of the Bonds will be made against payment therefor on or about the date specified in the last paragraph of the cover page of this Offering Circular, which will be the fourth Business Day following the date of pricing of the Bonds (such settlement cycle being herein referred to as “T + 4”). Trades in the secondary market generally are required to settle in three Business Days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Bonds on the date of pricing or the next Business Day will be required, by virtue of the fact that the Bonds initially will settle in T + 4, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Bonds who wish to trade Bonds on the date of pricing or the next Business Day should consult their own advisors.

GENERAL INFORMATION

1. The issuance of the Bonds was authorized pursuant to the Resolutions. At the date of issue, all necessary legal authorizations for issuance of the Bonds will have been obtained by TVA.

2. The Bonds and Strips have been accepted for clearance by Euroclear and Clearstream, Luxembourg. The identifying numbers are as set forth on page 8.

3. As of the date of this Offering Circular, there has been no material adverse change in the financial position of TVA since September 30, 2006.

4. There is no litigation, actual or threatened, which relates to TVA and to which TVA is a party or of which TVA has been notified that it will be made a party which is material in the context of the issuance of the Bonds which is not described in the Offering Documents.

5. In connection with the Luxembourg Stock Exchange listing application, copies of the Act and the Resolutions related to the issuance of the Bonds will be deposited prior to listing with the Registre de Commerce et des Sociétés á Luxembourg, where copies thereof may be obtained upon request. Copies of the Act, the Resolutions, the Fiscal Agency Agreement, annual and quarterly financial reports and amendments thereto of TVA will be available for inspection and may be obtained at the office of the Special Agent, free of charge, as long as the Bonds are listed on the Official List of the Luxembourg Stock Exchange.

6. As provided under "Where You Can Find More Information" above TVA has incorporated herein by reference its Annual Report which contains its audited financial statements for the fiscal year ended September 30, 2006. These financial statements include financial information as of September 30, 2006 and September 30, 2005.

VALIDITY OF BONDS

The validity of the Bonds will be passed upon for TVA by Maureen H. Dunn, Esq., Executive Vice President and General Counsel of TVA, and for the Managers by Sullivan & Cromwell LLP, 1701 Pennsylvania Avenue, N.W., Washington, D.C. 20006, U.S.A.

* * * * * *

Any statements in this Offering Circular involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Offering Circular is not to be construed as a contract or agreement with the purchaser of any of the Bonds.

TENNESSEE VALLEY AUTHORITY

By: /s/ Tammy W. Wilson

Tammy W. Wilson
Interim Vice President and Treasurer

Dated July 12, 2007

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