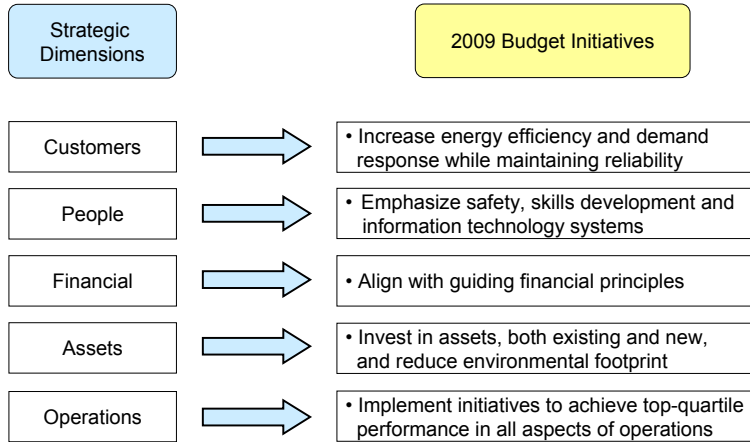




Fiscal Year 2009 Budget



Links to TVA's Strategic Plan



The Strategic Plan establishes the overall high-level direction that will guide TVA in the future and provide a framework for decision-making. Specific actions to carry out the provisions of the Plan will be built into the annual Business Plans, Performance Plans, and Budgets.



FY 2009—What We See

Continuing effects of the drought

Economic slowdown and energy efficiency contributing to flat energy demand

Major rise in fuel costs driving higher prices

Steady performance by fossil and nuclear plants

Continuing need for investment:

- Generation and transmission
- Clean air
- Energy efficiency and peak reduction initiatives
- IT Systems

Continuing to pay down debt on existing assets

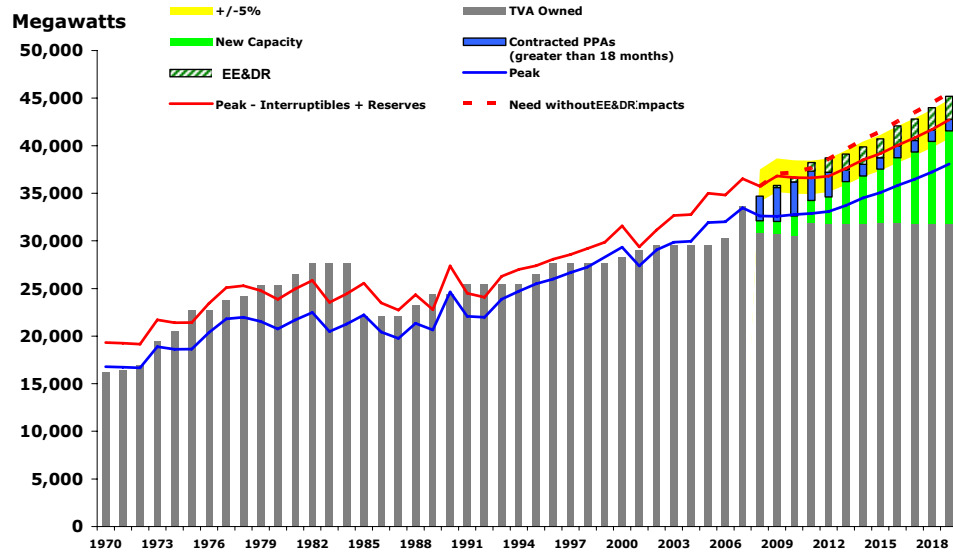
Higher productivity from TVA workforce

These are our major planning assumptions for FY 2009

Demand



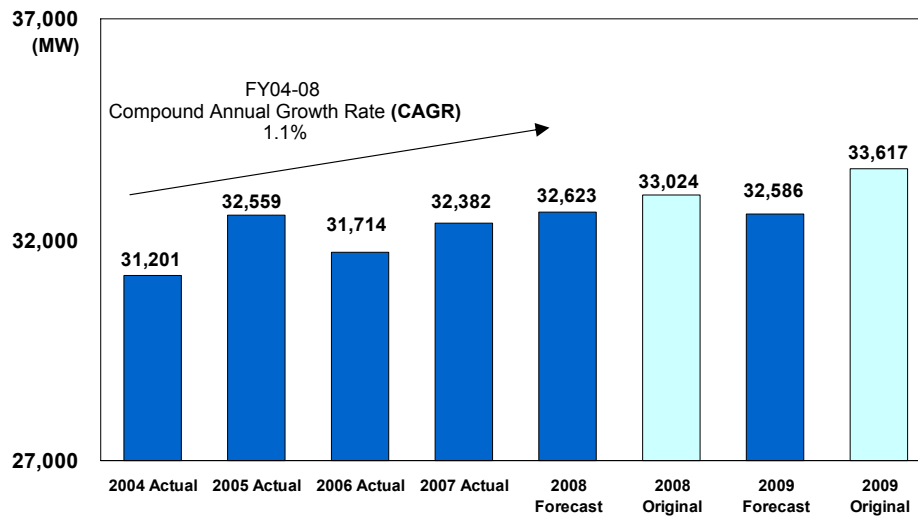
Projected Peak Demand Growth





Trend of Peak Demand

(weather normalized)



2009 Demand Growth

-Assumed to be essentially flat to FY08

FY08-13 CAGR is substantially less than historical growth rate due to impact of Energy Efficiency and Demand Reduction programs of approximately 1,400 MW by 2012

2004-05 Peak Difference Drivers:

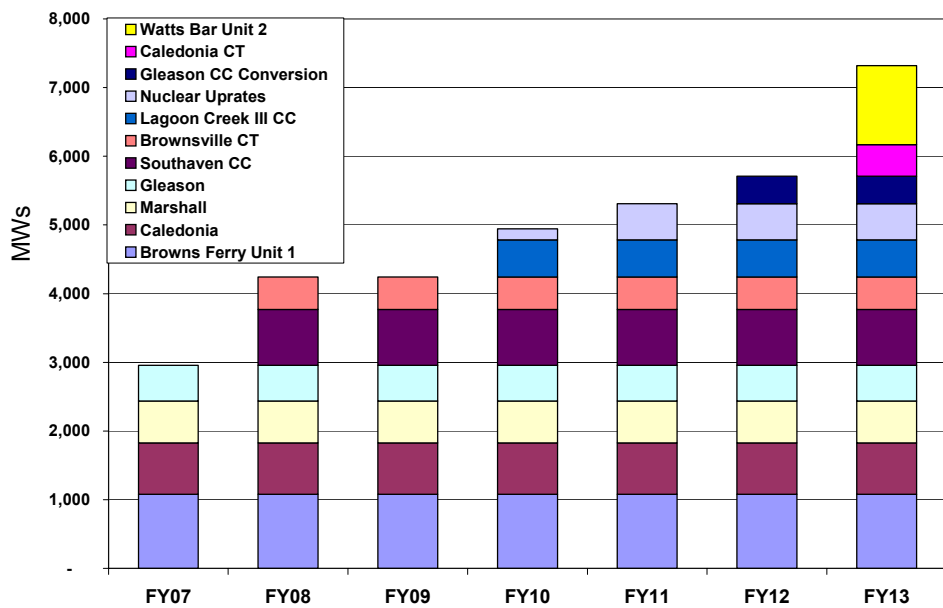
USEC – 400 MW

AEDC (Wind Tunnel) – 140 MW

These came back off from 2005-06 as they typically are not on during the peak at this amount.



Capacity Additions

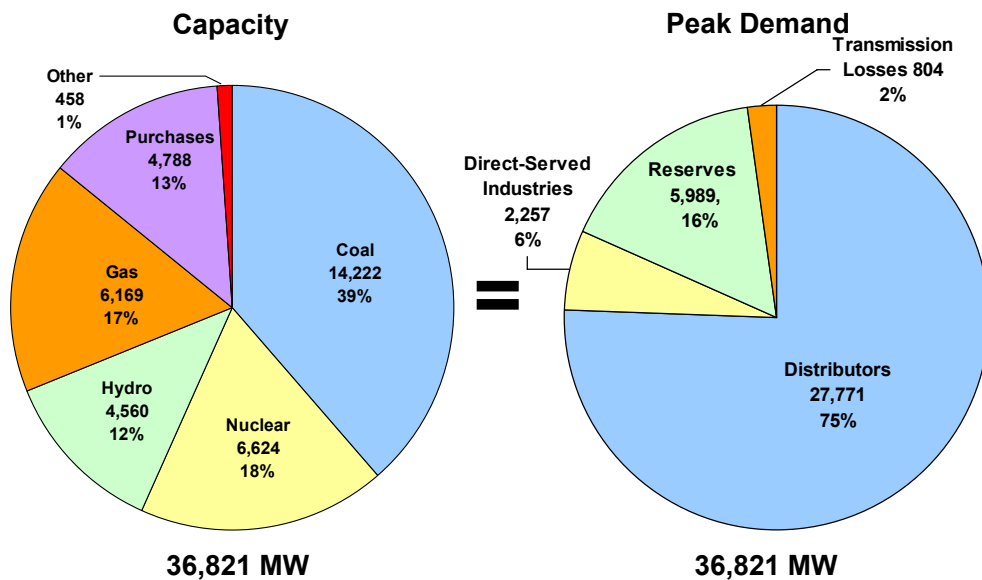


	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>
Browns Ferry Unit 1	1,078	1,078	1,078	1,078	1,078	1,078	1,078
Caledonia	750	750	750	750	750	750	750
Marshall	608	608	608	608	608	608	608
Gleason	520	520	520	520	520	520	520
Southaven CC		813	813	813	813	813	813
Brownsville CT		474	474	474	474	474	474
Lagoon Creek III CC				540	540	540	540
Nuclear Upgrades				160	527	527	527
Gleason CC Conversion						400	400
Caledonia CT							458
Watts Bar Unit 2							1,150



Capacity and Peak Demand Balance

FY 2009



Difference between values on this page and p.27

32,586 MW Net Peak Demand

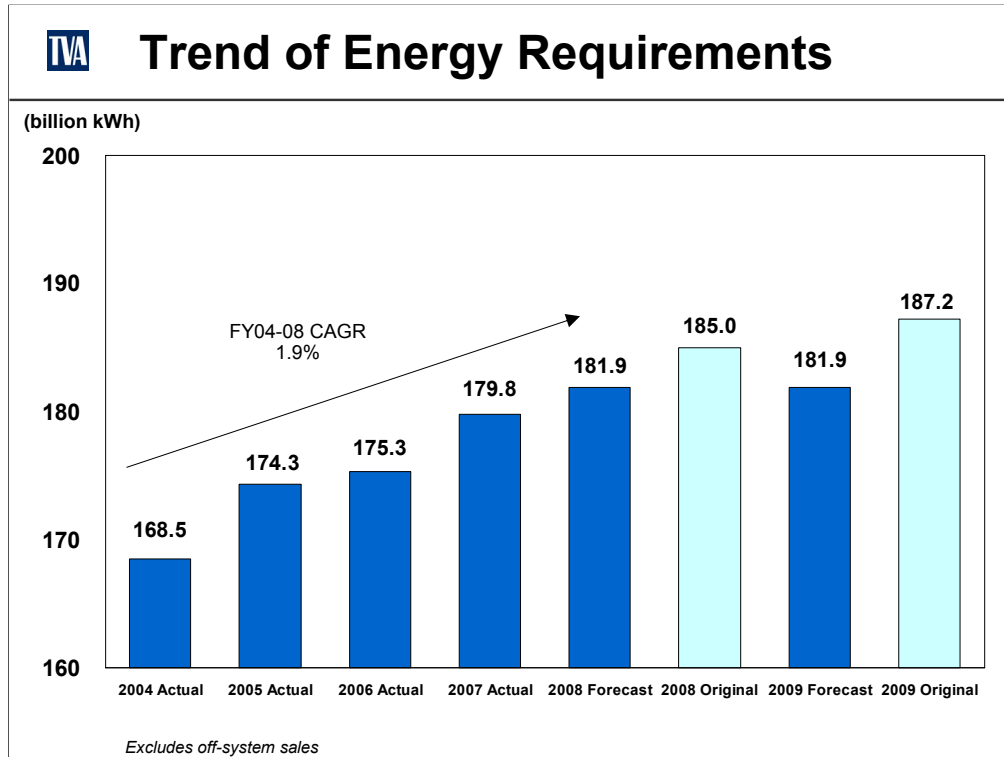
+ 5,989 MW Reserves

- 1,679 MW Interruptibles

- 75 MW In-house/Voluntary Reductions

36,821 MW

Energy



2008 to 2009 Change in Sales

FY08 weather is unfavorable approximately 400 GWHs

2009 forecast flat to reflect economic uncertainty and potential price elasticity from significant fuel and purchased power price increases

FY08-13 CAGR is significantly less than historical growth due to impacts of Energy Efficiency and Demand Reduction programs

2004-05 difference due to:

USEC – 2,000 GWHs

Residential – 1,300 GWHs

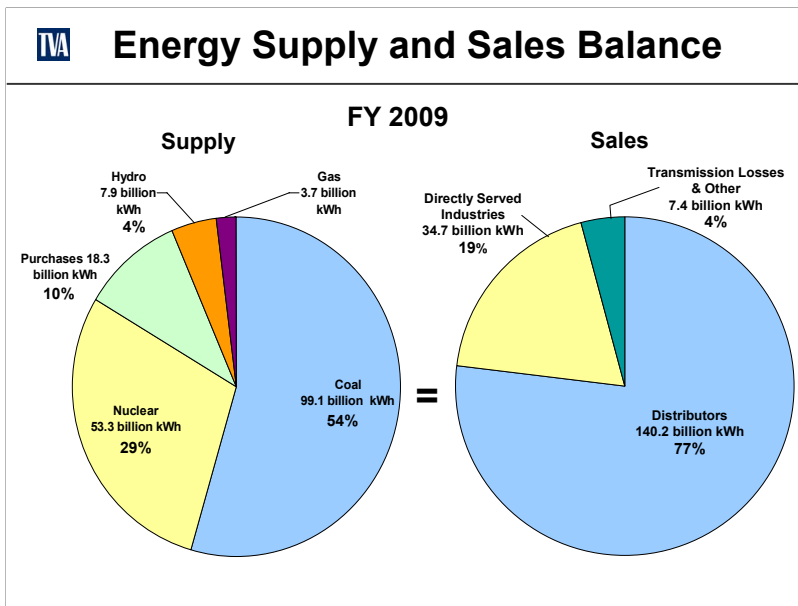
2007-08 difference due to:

USEC – 2,000 GWHs

Bristol – 500 GWHs

ServerCorr/Nucor – 1,000 GWHs

Leap Day – 500 GWHs



Supply

Change from 2008 Forecast

Nuclear	4.8% ↑ Due to fewer planned outages
Coal	0.6% ↓ Due to changes in economic dispatch
Gas	151% ↑ Due to addition of Southaven
*Hydro	5.4% ↓
Purchases	14.3% ↓ Due to additional nuclear and Gas generation

*2009 based on drought continuing in FY09.

Significant changes from the 2008 energy supply are as follows:

Nuclear – Increases from 2008 forecast reflect fewer planned outage days (192 in FY08 to 104 in FY09).

Gas – Increase from 2008 forecast reflects Southaven acquisition.

Hydro – Decrease from 2008 forecast reflects full year drought.

Purchases – Decrease from 2008 forecast reflects impact of additional nuclear and gas generation.

Nuclear EAF on this page is different than Unit Capability Factor on slide 9, because UCF exclude coast down losses, startup losses, ambient losses, and losses due to grid disturbances. UCF will always be slightly higher.

Financial



Financial Guiding Principles

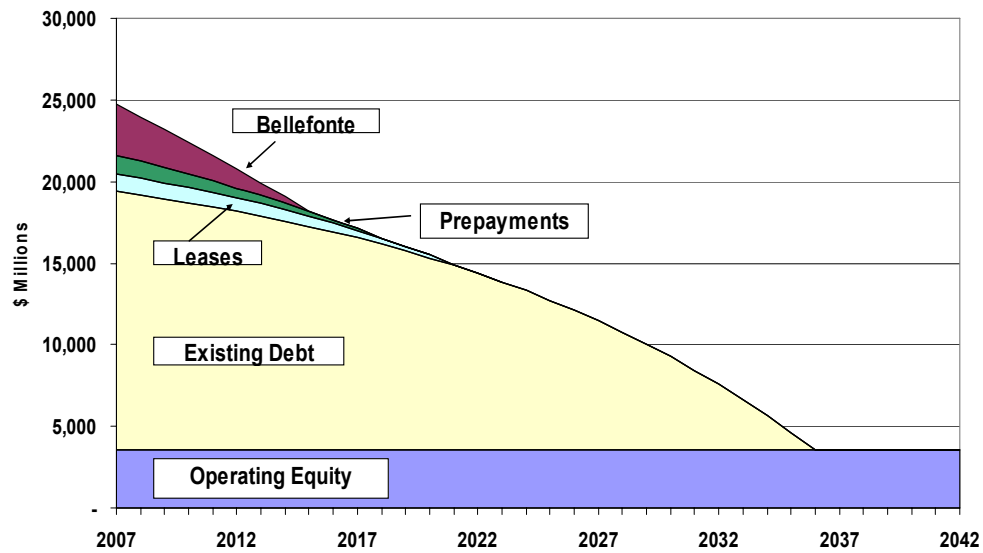
Pay debt-like obligations before assets are fully depreciated

New capacity will support new debt

Operating and Maintenance costs are targeted to be top quartile

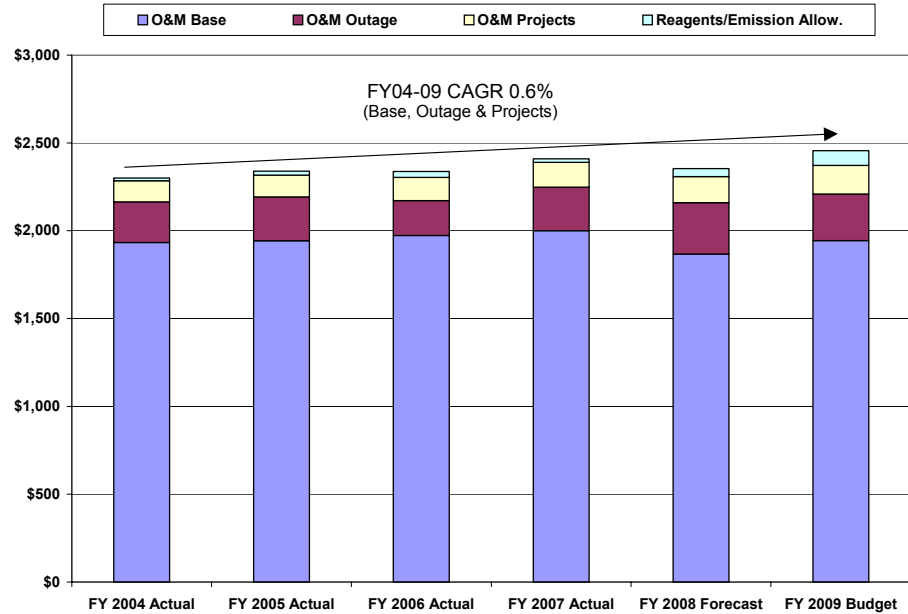


Paydown of Debt-Like Obligations





Operations & Maintenance Expense



	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Forecast	FY 2009 Budget	04-09 CAGR
O&M Base	1,919	1,934	1,970	1,999	1,868	1,897	-0.2%
O&M Outage	232	249	199	249	293	265	2.7%
O&M Projects	120	124	132	141	148	163	6.4%
Reagents/Emission Allow.	30	33	37	21	46	131	34.3%
EE&DR	-	-	-	-	23	99	N/A
Total O&M	2,300	2,340	2,338	2,410	2,378	2,555	2.1%
Total O&M excl EE&DR, Reag, Em	2,270	2,307	2,301	2,389	2,309	2,325	0.5%
Fed Excl	48	46	45	47	47	47	
Nucl Amor	13	(17)	17	(10)	(37)	4	
Benchmarked O&M	2,209	2,278	2,239	2,352	2,299	2,274	0.6%



2009 Capital Budget - \$2.088 billion

Generation Capacity

Expansion

Watts Bar Unit 2
Lagoon Creek CC
Gleason CC
Caledonia CT
Brownsville CT
Nuclear/Hydro Upgrades

\$1,056 million

Clean Air

Bull Run FGD
John Sevier FGD
Kingston FGD
Colbert Units 1-4 SCR
Gallatin Low Cost Nox Control
Shawnee SCR

\$232 million

Asset Preservation - \$402 million

Transmission - \$325 million

Other - \$73 million

Capital Projects > \$50M by Organization		FY 2009	Project Total
Administrative Services	Enterprise System Program	\$ 32,410	\$ 85,600
Fossil Power Group	Paradise Fossil Plant Unit 3 Cyclone Replacement	\$ 11,143	\$ 58,835
	SCR Catalyst Replacement	\$ 8,700	\$ 155,800
Capacity Expansion	Brownsville CT	\$ 25,000	\$ 81,000
	Lagoon Creek CC	\$ 224,800	\$ 396,000
	Gleason CC	\$ 70,000	\$ 467,000
	Caledonia CT - Construction	\$ 21,000	\$ 335,000
	Watts Bar Nuclear Plant Unit 2	\$ 648,700	\$ 2,494,000
	Bull Run Fossil Plant FGD	\$ 26,900	\$ 277,100
Clean Air	Colbert Fossil Plant Units 1-4 SCR	\$ 900	\$ 147,400
	Gallatin Fossil Plant Low Cost Nox Control	\$ 1,600	\$ 62,500
	John Sevier Fossil Plant FGD	\$ 13,700	\$ 434,600
	Kingston Fossil Plant FGD	\$ 112,100	\$ 474,400
	Paradise Fossil Plant Unit 3 FGD Addition	\$ 300	\$ 272,100
	Shawnee Fossil Plant SCR	\$ 1,000	\$ 388,500
Power System Operations	Rutherford-Williamson-Davidson - Improve Power Supply	\$ 82,818	\$ 126,369
	Clay, MS, 500-KV Substation - Construct	\$ 6,010	\$ 54,537
	Bradley 500-KV Substation - Construct	\$ 100	\$ 62,679
	Cumberland-Montgomery 500-KV TL	\$ 518	\$ 64,688
	Power System Optimization Project	\$ 447	\$ 124,761
	Mississippi Transmission Project	\$ 5,000	\$ 109,000
Nuclear Power Group	Sequoyah Nuclear Plant Unit 2 Steam Generator Replacement	\$ 24,354	\$ 296,375
	Extended Power Uprate	\$ 56,700	\$ 168,600
	Browns Ferry Nuclear Plant Turnaround	\$ 19,449	\$ 58,302
River Operations	Wheeler Units 1-8, Reliability Mods	\$ 2,500	\$ 50,917
	Watts Bar Units 1-5, Modernize Power Train	\$ 572	\$ 60,532

TVA Total > \$50M \$ 1,396,721 \$ 7,614,895
TVA Total < \$50M \$ 691,779
TVA Total \$ 2,088,500

Asset Preservation

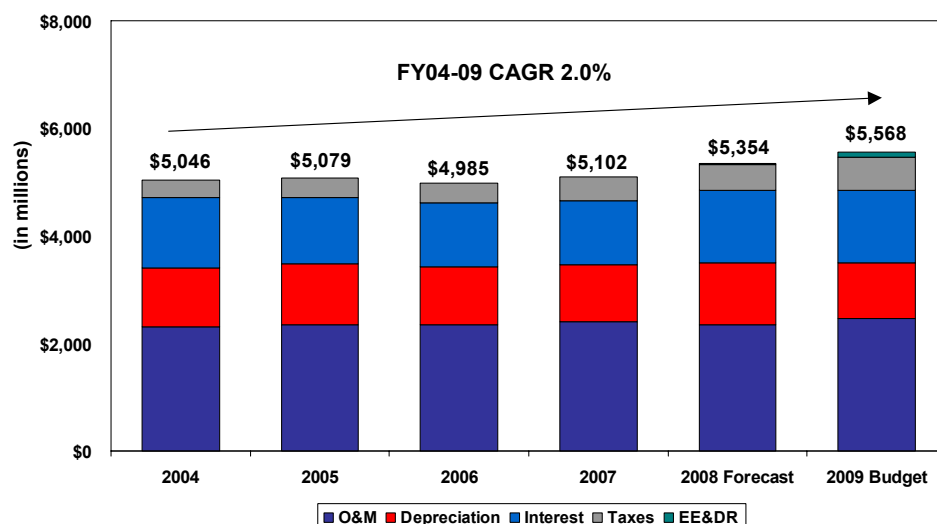
Paradise Cyclone Replacement
SCR Catalyst Replacement
Sequoyah Steam Generator Replacement
Browns Ferry Asset Preservation
Cumberland Cooling Towers
Widows Creek Turbine Replacement
Gallatin Rail Unloading and Blending Facility

Other

Enterprise Systems Projects - \$40M
Facilities Projects
Vehicle Purchases
Voice Infrastructure and Architecture
Network Infrastructure and Architecture



Fixed Cost Trends



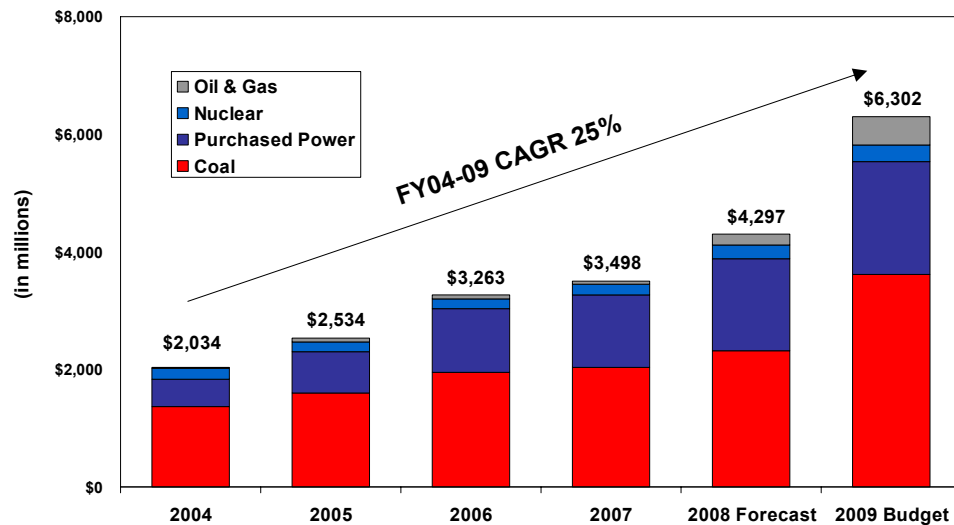
Biggest driver of increase in Fixed Cost Rate from 06-09 is the increases in Tax Equivalent Payments and Interest.

Interest increase from FY07-08 is due to AFUDC on Browns Ferry that had been capitalized and change in accounting methodology of AFUDC.

	2004	2005	2006	2007	2008 Forecast	2009 Budget	CAGR
O&M	\$2,300	\$2,340	\$2,338	\$2,410	\$2,355	\$2,456	1.3%
Depreciation	\$1,103	\$1,132	\$1,080	\$1,056	\$1,153	\$1,047	-1.0%
Interest	\$1,305	\$1,242	\$1,191	\$1,184	\$1,337	\$1,339	0.5%
Taxes	\$338	\$365	\$376	\$452	\$486	\$627	13.2%
EE&DR	\$0	\$0	\$0	\$0	\$23	\$99	
Total Fixed Costs	\$5,046	\$5,079	\$4,985	\$5,102	\$5,354	\$5,568	2.0%
Total Fixed Excl. EE&DR	\$5,046	\$5,079	\$4,985	\$5,102	\$5,331	\$5,469	1.6%

D&A Reconciliation to Income Statement 2008 Forecast 2009 Budget

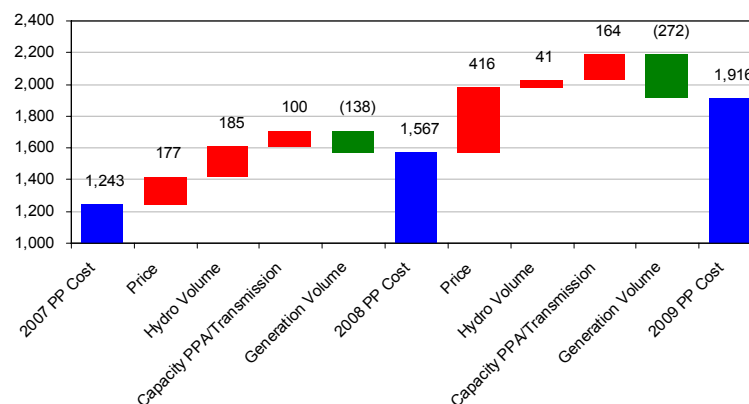
Total Depreciation Above	1,153	1,047
Bellefonte	391	391
ARO Accretion	29	31
Amortization of Capital Leases	6	5
Total D&A on Income Statement	1,579	1,474



- Coal – Driven by prices
- Gas – Predominantly driven by volume (Southaven)
- Purchased Power – Predominantly driven by price and PPA's (waterfall below)
- Nuclear – Predominantly driven by additional nuclear generation

	2004	2005	2006	2007	2008 Forecast	2009 Budget
Coal	\$1,372	\$1,592	\$1,955	\$2,026	\$2,312	\$3,620
Purchased Power	\$460	\$700	\$1,071	\$1,243	\$1,567	\$1,916
Nuclear	\$177	\$174	\$172	\$180	\$238	\$279
Oil & Gas	\$25	\$68	\$65	\$49	\$180	\$487
Total Fuel and Purchased Power	\$2,034	\$2,534	\$3,263	\$3,498	\$4,297	\$6,302

	2008	2009
Fuel & Purchased Power Above	\$ 4,297	\$ 6,302
Fuel Handling	77	68
Cumberland Hydro	9	9
FCA Deferral/Amortization	(103)	281
Model Reconciliation	(9)	(7)
Total Fuel & PP on Income Stmt	\$ 4,271	\$ 6,652





Financial Statements



Summary Statements of Cash Flows

(in millions)	2008 Forecast	2009 Budget
Cash from Operations	\$ 1,879	\$ 2,399
Base Capital Projects	(609)	(542)
Clean Air Capital	(314)	(232)
Capacity Expansion	(1,109)	(1,314)
Nuclear Fuel Capital	(256)	(410)
AFUDC	(19)	(56)
Other Investing Activities	28	(8)
Total Investing Activities	(2,279)	(2,563)
Existing Debt-Like Obligation Reduction	(648)	(685)
Capacity Expansion Financing	761	907
Other Cash (Uses)/Sources	(54)	(57)
Total Financing Activities	59	164
Net Change in Cash	(341)	0
Beginning Cash Balance	165	(175)
Ending Cash Balance	\$ (175)	\$ (175)
Gap to \$200M target cash balance	\$ (375)	\$ (375)



Drivers of Cash Flow Shortfall

(in millions)

FY08/09

Working Capital/Inventory (260)

Purchased Power Agreements (50)

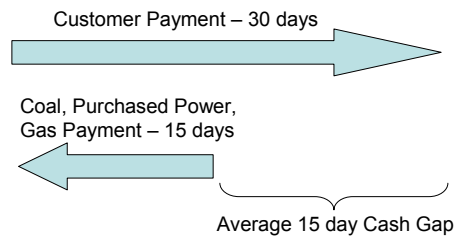
EE&DR (65)

Total Cash Shortfall \$ (375)



Working Capital / Inventory

Working Capital



Inventory

Average delivered coal price up 58% over FY08

Average 25 days of coal inventory



Cash Shortfall Recommendation

Short-term borrowing of \$375 million in 2008 to cover cash shortfall

Base rate increase in 2009 expected to recover \$275 million of cash shortfall

Remaining \$100 million of 2008-09 cash shortfall will be managed through short-term borrowing in 2009 and recovered in rates in 2010



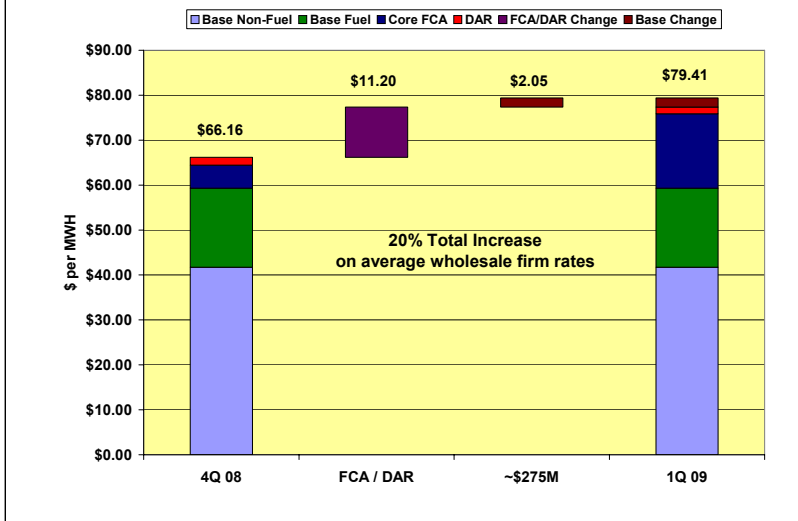
Summary Statements of Cash Flows

including rate adjustment

(in millions)	2008 Forecast	2009 Budget
Cash from Operations	\$ 1,879	\$ 2,674
Base Capital Projects	\$ (609)	\$ (542)
Clean Air Capital	\$ (314)	\$ (232)
Capacity Expansion	\$ (1,109)	\$ (1,314)
Nuclear Fuel Capital	\$ (256)	\$ (410)
AFUDC	\$ (19)	\$ (56)
Other Investing Activities	\$ 28	\$ (8)
Total Investing Activities	\$ (2,279)	\$ (2,563)
Existing Debt-Like Obligation Reduction	\$ (648)	\$ (685)
Additional short-term borrowing	\$ 375	\$ (275)
Capacity Expansion Financing	\$ 761	\$ 907
Other Cash (Uses)/Sources	\$ (54)	\$ (57)
Total Financing Activities	\$ 434	\$ (111)
Net Change in Cash	\$ 35	\$ 0
Beginning Cash Balance	\$ 165	\$ 200
Ending Cash Balance	\$ 200	\$ 200



Rate Adjustment



DAR – Deferred Account Rate: Reconciles prior quarter's FCA amounts to actuals.



National Rate Pressures

THE WALL STREET JOURNAL - May 7, 2008

Expect a jolt when opening the electric bill

THE WALL STREET JOURNAL - June 24, 2008

Coal producers struggle to meet demand



- June 16, 2008

Price jolt: Electricity bills going up, up, up

San Francisco Chronicle - May 27, 2008

Supply-demand imbalance boosts oil prices

The Virginian-Pilot - June 25, 2008

Dominion's 18 percent increase likely only the beginning



- July 28, 2008

Entergy Urges Electricity Conservation in Passing Along 28 Percent Rate Increase

U.S. electric utilities are seeing rate increases up to 30%

12

The top four:

23% + 12 percent (2 proposals) - Appalachian Power

29% Allegheny/Potomac – proposed

28% Entergy Mississippi - approved

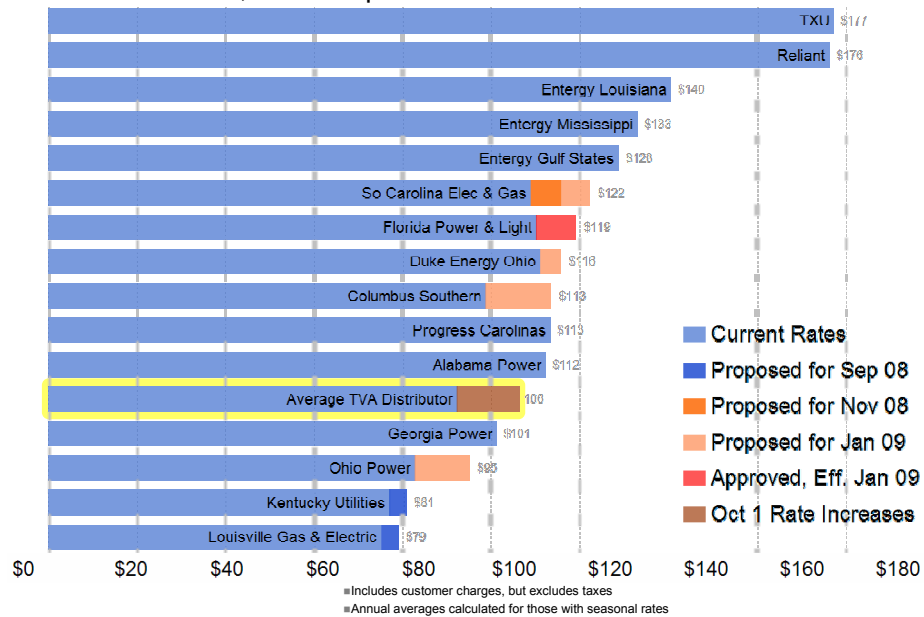
18% Dominion – approved

(See Backup Slides for more detail on utility rate increases)



Monthly Bill Comparisons

1,000 kWh per Month Residential Service



- Includes customer charges & excludes taxes
- Uses annual average
- Assumes \$275M cash recovery in FY09



2009 Budget Summary



Operating Budget Expenses

(millions of dollars)

Operating Expenses

Fuel & Purchased Power	(6,650)
Operation, Maintenance, & Other	(2,555)
Interest and Other	(1,306)
Tax Equivalents	<u>(627)</u>
Subtotal	<u>(11,138)</u>



2009 Operating Budget Summary

Total Operating Budget expenses of \$12.613 billion
(fuel, purchased power, O&M, interest and other expenses
of \$11,138 billion)

Fuel and purchased power increasing \$2.380 billion due to
price increases for coal, natural gas and power purchases

Productivity improvements of \$95 million to hold
non-fuel O&M costs essentially level from 2008 to 2009

Cash shortfall of \$375M in 2008-09 primarily due to working
capital, non-FCA purchased power expense and EE/DR
program



Recommendation

Request the TVA Board approve the 2009 budget including:

2009 Operating Budget of \$12.613 billion including the contracting plans for fossil fuel, purchased power and nuclear fuel

2009 Capital Budget of \$2.088 billion (Base, Capacity Expansion and Clean Air) including those projects requiring land acquisition

Projects greater than \$50 million will be reviewed by the FSRA Committee

A rate adjustment of \$2.05/MWh on the average wholesale firm base rate