

# Tennessee+Valley+Authority 10-K 9/30/2013

## Section 1: 10-K (10-K)

[Table of Contents](#)

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(MARK ONE)

☒ ANNUAL REPORT PURSUANT TO SECTION 13, 15(d), OR 37 OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2013

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-52313



TENNESSEE VALLEY AUTHORITY  
(Exact name of registrant as specified in its charter)

A corporate agency of the United States created by an act of Congress  
(State or other jurisdiction of incorporation or organization)

62-0474417  
(IRS Employer Identification No.)

400 W. Summit Hill Drive  
Knoxville, Tennessee  
(Address of principal executive offices)

37902  
(Zip Code)

(865) 632-2101  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None  
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13, Section 15(d), or Section 37 of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13, 15(d), or 37 of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

*(Do not check if a smaller reporting company)*

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

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## [Table of Contents](#)

<b>Table of Contents</b>	
GLOSSARY OF COMMON ACRONYMS.....	4
FORWARD-LOOKING INFORMATION.....	6
GENERAL INFORMATION.....	7
<b>PART I</b>	
ITEM 1. BUSINESS.....	8
The Corporation.....	8
Service Area.....	8
Customers.....	9
Rates.....	11
Power Supply.....	12
Cleaner Energy Initiatives.....	19
Fuel Supply.....	21
Transmission.....	23
Weather and Seasonality.....	24
Competition.....	24
Research and Development.....	24
Flood Control Activities.....	25
Environmental Stewardship Activities.....	25
Economic Development Activities.....	26
Regulation.....	26
Taxation and Tax Equivalents.....	27
Environmental Matters.....	28
Employees.....	32
ITEM 1A. RISK FACTORS.....	32
ITEM 1B. UNRESOLVED STAFF COMMENTS.....	42
ITEM 2. PROPERTIES.....	42
Generating Properties.....	42
Transmission Properties.....	43
Natural Resource Stewardship Properties.....	43
Buildings.....	43
Disposal of Property.....	43
ITEM 3. LEGAL PROCEEDINGS.....	43
ITEM 4. MINE SAFETY DISCLOSURES.....	44
<b>PART II</b>	
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.....	45
ITEM 6. SELECTED FINANCIAL DATA.....	46
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	47
Overview.....	47
Business and Vision.....	47
Executive Overview.....	49
Results of Operations.....	49
Liquidity and Capital Resources.....	54
Off-Balance Sheet Arrangements.....	62
Key Initiatives and Challenges.....	62
Critical Accounting Policies and Estimates.....	67
Fair Value Measurements.....	76
New Accounting Standards and Interpretations.....	77
Legislative and Regulatory Matters.....	77
Environmental Matters.....	78
Legal Proceedings.....	78
Risk Management Activities.....	78
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.....	82

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.....	83
Consolidated Statements of Operations.....	83
Consolidated Statements of Comprehensive Income (Loss).....	83

## Table of Contents

Consolidated Balance Sheets.....	84
Consolidated Statements of Cash Flows.....	86
Consolidated Statements of Changes in Proprietary Capital.....	87
Notes to Consolidated Financial Statements.....	88
Report of Independent Registered Public Accounting Firm.....	145
 ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.....	146
 ITEM 9A. CONTROLS AND PROCEDURES.....	146
Disclosure Controls and Procedures.....	146
Internal Control over Financial Reporting.....	146
Report of Independent Registered Public Accounting Firm.....	147
 ITEM 9B. OTHER INFORMATION.....	148
 <b>PART III</b>	
 ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.....	149
Directors.....	149
Executive Officers.....	151
Disclosure and Financial Code of Ethics.....	152
Committees of the TVA Board.....	152
 ITEM 11. EXECUTIVE COMPENSATION.....	153
Compensation Discussion and Analysis.....	153
Executive Compensation Tables and Narrative Disclosures.....	168
Retirement and Pension Plans.....	172
Potential Payments on Account of Retirement/Resignation, Termination without Cause, Termination with Cause, or Death/Disability.....	175
Other Agreements.....	178
Director Compensation.....	178
Compensation Committee Interlocks and Insider Participation.....	180
Compensation Committee Report.....	180
 ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.....	181
 ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.....	181
Director Independence.....	181
Related Party Transactions.....	181
 ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.....	183
 <b>PART IV</b>	
 ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.....	184
 SIGNATURES.....	190
EXHIBIT INDEX.....	192

## GLOSSARY OF COMMON ACRONYMS

Following are definitions of terms or acronyms frequently used in this Annual Report on Form 10-K for the fiscal year ended September 30, 2013 (the “Annual Report”):

Term or Acronym	Definition
AFUDC	Allowance for funds used during construction
ARO	Asset retirement obligation
ART	Asset Retirement Trust
ASLB	Atomic Safety and Licensing Board
BEST	Bellefonte Efficiency and Sustainability Team
BREDL	Blue Ridge Environmental Defense League
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CCOLA	Combined construction and operating license application
CCP	Coal combustion products
CCR	Coal combustion residual
CCW	Coal combustion waste
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CME	Chicago Mercantile Exchange
CO <sub>2</sub>	Carbon dioxide
CO <sub>2</sub> e	Carbon dioxide equivalent
COLA	Cost of living adjustment
CSAPR	Cross State Air Pollution Rule
CTs	Combustion turbine unit(s)
CVA	Credit valuation adjustment
CY	Calendar year
EPA	Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FPA	Federal Power Act
FTP	Financial Trading Program
GAAP	Accounting principles generally accepted in the United States of America
GAO	U.S. Government Accountability Office
GHG	Greenhouse gas
GWh	Gigawatt hour(s)
IRP	Integrated Resource Plan
IRUs	Indefeasible rights of use
JSCCG	John Sevier Combined Cycle Generation LLC
kWh	Kilowatt hour(s)
LIBOR	London Interbank Offered Rate
LPC	Local Power Company Customer of TVA
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
mmBtu	Million British thermal unit(s)
MtM	Mark-to-market
MW	Megawatt
NAAQS	National Ambient Air Quality Standards
NAV	Net asset values
NDT	Nuclear Decommissioning Trust
NEIL	Nuclear Electric Insurance Limited
NEPA	National Environmental Policy Act

## [Table of Contents](#)

NERC	North American Electric Reliability Corporation
NO <sub>x</sub>	Nitrogen oxides
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NRP	Natural Resource Plan
NSPS	New Source Performance Standards
NSR	New Source Review
OCI	Other comprehensive income (loss)
PARRS	Putable Automatic Rate Reset Securities
PM	Particulate matter
PSD	Prevention of Significant Deterioration
QTE	Qualified technological equipment and software
SACE	Southern Alliance for Clean Energy
SCCG	Southaven Combined Cycle Generation, LLC
SCRs	Selective catalytic reduction systems
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
Seven States	Seven States Power Corporation
SMR	Small modular reactor(s)
SO <sub>2</sub>	Sulfur dioxide
SSSL	Seven States Southaven, LLC
TCWN	Tennessee Clean Water Network
TDEC	Tennessee Department of Environment & Conservation
TOU	Time-of-use
TVARS	Tennessee Valley Authority Retirement System
TWQCB	Tennessee Water Quality Control Board
USEC	United States Enrichment Corporation
VIE	Variable interest entity
XBRL	eXtensible Business Reporting Language
WCD	Waste Confidence Decision

## FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K ("Annual Report") contains 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," "speculate," or other similar expressions.

Although the Tennessee Valley Authority ("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 or amended laws, regulations, or administrative determinations, including those related to environmental matters, and the costs of complying with these laws, regulations, and administrative determinations;
- The requirement or decision to make additional contributions to TVA's pension or other post-retirement benefit plans or to TVA's Nuclear Decommissioning Trust ("NDT") or Asset Retirement Trust ("ART");
- Events at a TVA facility, which, among other things, could result in loss of life, damage to the environment, damage to or loss of the facility, and damage to the property of others;
- Events at a nuclear facility, whether or not operated by or licensed to TVA, which, among other things, could lead to increased regulation or restriction on the construction, operation, and decommissioning of nuclear facilities or on the storage of spent fuel, obligate TVA to pay retrospective insurance premiums, reduce the availability and affordability of insurance, increase the costs of operating TVA's existing nuclear units, negatively affect the cost and schedule for completing Watts Bar Nuclear Plant ("Watts Bar") Unit 2 and preserving Bellefonte Nuclear Plant ("Bellefonte") Unit 1 for possible completion, or cause TVA to forego future construction at these or other facilities;
- Significant delays, cost increases, or cost overruns associated with the construction of generation or transmission assets;
- Costs and liabilities that are not anticipated in TVA's financial statements for third-party claims, natural resource damages, or fines or penalties associated with the Kingston Fossil Plant ("Kingston") ash spill;
- Inability to eliminate identified deficiencies in TVA's systems, standards, controls, and corporate culture;
- The outcome of legal and administrative proceedings;
- Significant changes in demand for electricity;
- Addition or loss of customers;
- The failure of TVA's generation, transmission, flood control, and related assets, including coal combustion residual ("CCR") facilities, to operate as anticipated, resulting in lost revenues, damages, and other costs that are not reflected in TVA's financial statements or projections;
- The cost of complying with known, anticipated, and new emissions reduction requirements, some of which could render continued operation of many of TVA's aging coal-fired generation units not cost-effective and result in their removal from service, perhaps permanently;
- Disruption of fuel supplies, which may result from, among other things, weather conditions, production or transportation difficulties, labor challenges, or environmental laws or regulations affecting TVA's fuel suppliers or transporters;
- Purchased power price volatility and disruption of purchased power supplies;
- Events or changes involving transmission lines, dams, and other facilities not operated by TVA, including those that affect the reliability of the interstate transmission grid of which TVA's transmission system is a part and those that increase flows across TVA's transmission grid, as well as inadequacies in the supply of water to TVA's generation facilities;
- Inability to obtain regulatory approval for the construction or operation of assets;
- Weather conditions;
- Catastrophic events such as fires, earthquakes, solar events, floods, hurricanes, tornadoes, pandemics, wars, national emergencies, terrorist activities, and other similar events, especially if these events occur in or near TVA's service area;
- Restrictions on TVA's ability to use or manage real property currently under its control;
- Reliability and creditworthiness of counterparties;
- Changes in the market price of commodities such as coal, uranium, natural gas, fuel oil, crude oil, construction materials, reagents, electricity, and emission allowances;
- Changes in the market price of equity securities, debt securities, and other investments;
- Changes in interest rates, currency exchange rates, and inflation rates;
- Changes in the timing or amount of pension and health care costs;
- Increases in TVA's financial liability for decommissioning its nuclear facilities and retiring other assets;
- Limitations on TVA's ability to borrow money which may result from, among other things, TVA's approaching or substantially reaching the limit on bonds, notes, and other evidences of indebtedness specified in the TVA Act of 1933;
- An increase in TVA's cost of capital which may result from, among other things, changes in the market for TVA's debt securities, changes in the credit rating of TVA or the U.S. government, and an increased reliance by TVA on alternative financing arrangements as TVA approaches its debt ceiling;



- Actions taken, or inaction, by the U.S. government to address the situation of approaching its debt limit;
- Changes in the economy and volatility in financial markets;
- Ineffectiveness of TVA's disclosure controls and procedures and its internal control over financial reporting;
- Problems attracting and retaining a qualified workforce;
- Changes in technology;
- Failure of TVA's assets to operate as planned;
- Failure of TVA's cyber security program to protect TVA's assets from cyber attacks;
- Differences between estimates of revenues and expenses and actual revenues earned and expenses incurred; and
- Unforeseeable events.

See also Item 1A, Risk Factors, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. 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.

## GENERAL INFORMATION

### *Fiscal Year*

References to years (2013, 2012, etc.) in this Annual Report are to TVA's fiscal years ending September 30 except for references to years in the biographical information about directors and executive officers in Item 10, Directors, Executive Officers and Corporate Governance, as well as to years that are preceded by "CY," which references are to calendar years.

### *Notes*

References to "Notes" are to the Notes to Consolidated Financial Statements contained in Item 8, Financial Statements and Supplementary Data in this Annual Report.

### *Property*

TVA does not own real property. TVA acquires real property in the name of the United States, and such legal title in real property is entrusted to TVA as the agent of the United States to accomplish the purpose of the Tennessee Valley Authority Act of 1933, as amended, 16 U.S.C. §§ 831-831ee (as amended, the "TVA Act"). TVA acquires personal property in the name of TVA. Accordingly, unless the context indicates the reference is to TVA's personal property, any statement in this Annual Report referring to TVA property shall be read as referring to the real property of the United States which has been entrusted to TVA as its agent.

### *Available Information*

TVA's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports are available on TVA's web site, free of charge, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). TVA's web site is [www.tva.gov](http://www.tva.gov). Information contained on TVA's web site shall not be deemed to be incorporated into, or to be a part of, this Annual Report. TVA's SEC reports are also available to the public without charge from the web site maintained by the SEC at [www.sec.gov](http://www.sec.gov).

## **PART I**

### **ITEM 1. BUSINESS**

#### **The Corporation**

The Tennessee Valley Authority ("TVA") is a corporate agency and instrumentality of the United States ("U.S.") that was created in 1933 by legislation enacted by the U.S. Congress in response to a request by President Franklin D. Roosevelt. TVA was created to, among other things, improve navigation on the Tennessee River, reduce the damage from destructive flood waters within the Tennessee River system and downstream on the lower Ohio and Mississippi Rivers, further the economic development of TVA's service area in the southeastern United States, and sell the electricity generated at the facilities TVA operates.

Today, TVA operates the nation's largest public power system and supplies power in most of Tennessee, northern Alabama, northeastern Mississippi, and southwestern Kentucky and in portions of northern Georgia, western North Carolina, and southwestern Virginia to a population of over nine million people. In 2013, the revenues generated from TVA's electricity sales were \$10.8 billion and accounted for virtually all of TVA's revenues.

TVA manages the Tennessee River, its tributaries, and certain shorelines to provide, among other things, year-round navigation, flood damage reduction, and affordable and reliable electricity. Consistent with these primary purposes, TVA also manages the river system to provide recreational opportunities, adequate water supply, improved water quality, natural resource protection, and economic development. TVA performs these management duties in cooperation with other federal and state agencies which have jurisdiction and authority over certain aspects of the river system. In addition, the TVA Board of Directors (the "TVA Board") established two councils--the Regional Resource Stewardship Council ("RRSC") and the Regional Energy Resource Council--under the Federal Advisory Council Act to advise TVA on its energy resource activities and its stewardship activities in the Tennessee Valley.

Initially, all TVA operations were funded by federal appropriations. Direct appropriations for the TVA power program ended in 1959, and appropriations for TVA's stewardship, economic development, and multipurpose activities ended in 1999. Since 1999, TVA has funded all of its operations almost entirely from the sale of electricity and power system financings. TVA's power system financings consist primarily of the sale of debt securities and secondarily of alternative forms of financing such as lease arrangements. As a wholly-owned government corporation, TVA is not authorized to issue equity securities.

#### **Service Area**

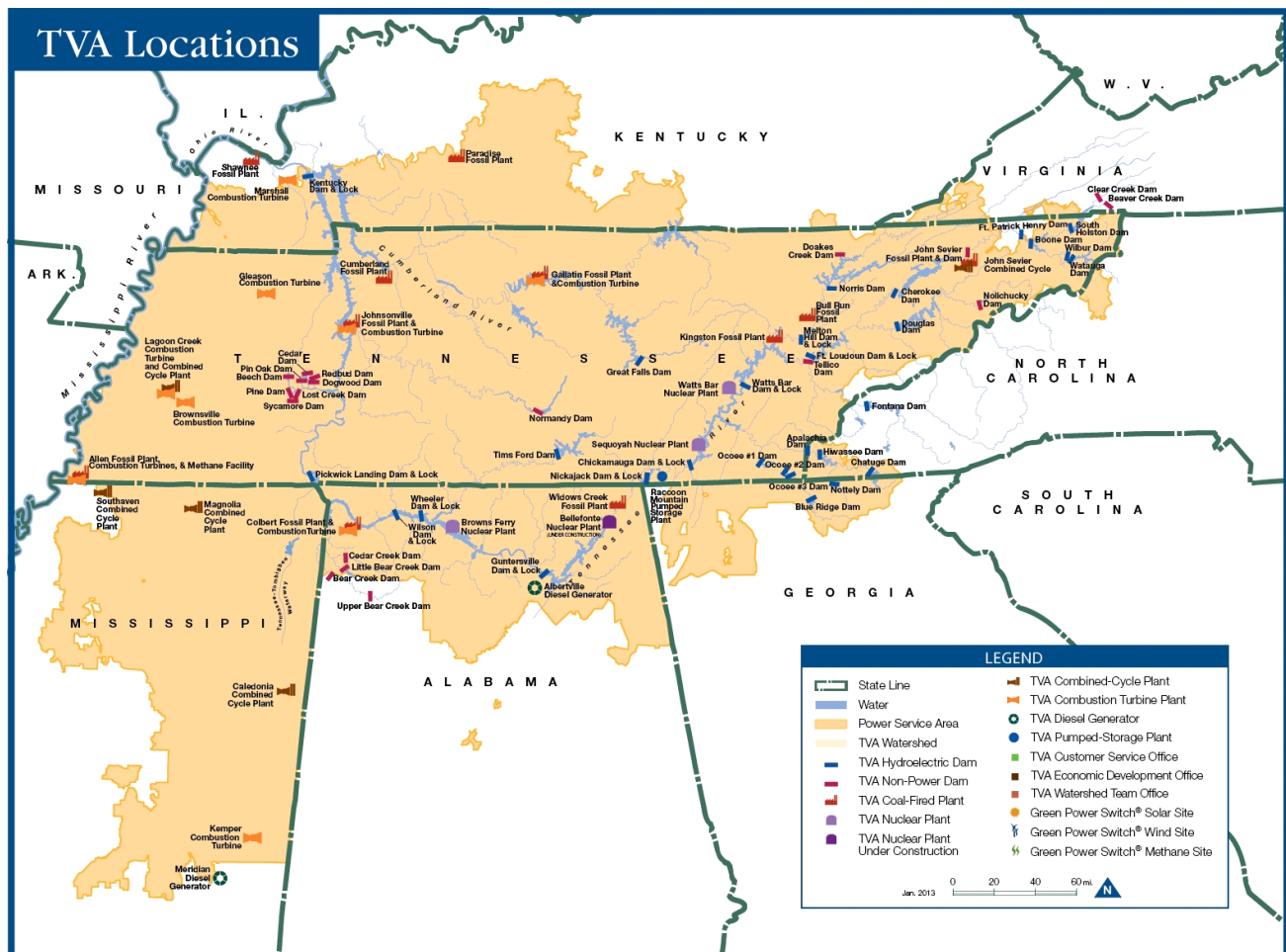
The area in which TVA sells power, its service area, is defined by the TVA Act. Under the TVA Act, subject to certain minor exceptions, TVA may not, without specific authorization from the U.S. Congress, enter into contracts that would have the effect of making it, or the local power company customer of TVA ("LPC") which distribute its power, a source of power supply outside the area for which TVA or its LPCs were the primary source of power supply on July 1, 1957. This provision is referred to as the "fence" because it bounds TVA's sales activities, essentially limiting TVA to power sales within a defined service area.

In addition, an amendment to the Federal Power Act ("FPA") includes a provision that helps protect TVA's ability to sell power within its service area. This provision, called the "anti-cherry-picking" provision, prevents the Federal Energy Regulatory Commission ("FERC") from ordering TVA to provide access to its transmission lines to others for the purpose of using TVA's transmission lines to deliver power to customers within TVA's defined service area. As a result, the anti-cherry-picking provision reduces TVA's exposure to loss of customers.

TVA's revenues by state for each of the last three years are detailed in the table below.

**Operating Revenues By State**  
For the years ended September 30  
(in millions)

	2013	2012	2011
Alabama	\$ 1,551	\$ 1,556	\$ 1,699
Georgia	260	234	272
Kentucky	1,019	1,230	1,159
Mississippi	1,029	1,038	1,095
North Carolina	52	69	58
Tennessee	6,818	6,889	7,370
Virginia	53	49	60
Subtotal	10,782	11,065	11,713
Sale for resale and other	47	21	10
Subtotal	10,829	11,086	11,723
Other revenues	127	134	118
Operating revenues	\$ 10,956	\$ 11,220	\$ 11,841



**Note**

See *Power Supply — Coal-Fired* for a discussion of idled coal-fired units.

**Customers**

TVA is primarily a wholesaler of power. It sells power to LPCs which then resell power to their customers at retail rates. TVA's LPCs consist of (1) municipalities and other local government entities ("municipalities") and (2) customer-owned

entities ("cooperatives"). These municipalities and cooperatives operate public power electric systems that are not doing business for profit but are operated primarily for the purpose of supplying electricity to the general public or members. TVA also sells power to directly served customers, consisting primarily of federal agencies and customers with large or unusual loads. In addition, power that exceeds the needs of the TVA system may, where consistent with the provisions of the TVA Act, be sold under exchange power arrangements with other electric systems.

### Operating Revenues by Customer Type

For the years ended September 30

(in millions)

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Sales of electricity			
Local power companies	\$ 9,463	\$ 9,506	\$ 10,144
Industries directly served	1,199	1,442	1,440
Federal agencies and other	167	138	139
Total sales of electricity	10,829	11,086	11,723
Other revenues	127	134	118
Operating revenues	\$ 10,956	\$ 11,220	\$ 11,841

### Local Power Company Customers

Revenues from LPCs accounted for 86 percent of TVA's total operating revenues in 2013. At September 30, 2013, TVA had wholesale power contracts with 155 LPCs. Each of these contracts requires the LPCs to purchase from TVA all of its electric power and energy consumed within the TVA service area.

All LPCs purchase power under one of three basic termination notice arrangements:

- Contracts that require five years' notice to terminate;
- Contracts that require 10 years' notice to terminate; and
- Contracts that require 15 years' notice to terminate.

The number of LPCs with the contract arrangements described above, the revenues derived from such arrangements in 2013, and the percentage of TVA's 2013 total operating revenues represented by these revenues are summarized in the table below.

### TVA Local Power Company Customer Contracts

At September 30, 2013

Contract Arrangements <sup>(1)</sup>	Number of LPCs	Sales to LPCs in 2013 (in millions)	Percentage of Total Operating Revenues in 2013
15-year termination notice	6	\$ 155	1.4%
10-year termination notice	47	3,103	28.3%
5-year termination notice	102	6,205	56.6%
Total	155	\$ 9,463	86.3%

**Note**

(1) Ordinarily the LPC and TVA have the same termination notice period; however, in contracts with eight of the LPCs with five-year termination notices, TVA has a 10-year termination notice (which becomes a five-year termination notice if TVA loses its discretionary wholesale rate-setting authority). Also, under TVA's contract with Bristol Virginia Utilities, a five-year termination notice may not be given by the LPC until January 2018.

TVA's two largest LPCs — Memphis Light, Gas and Water Division ("MLGW") and Nashville Electric Service ("NES") — have contracts with five-year and 10-year termination notice periods, respectively. Although no single customer accounted for 10 percent or more of TVA's total operating revenues in 2013, sales to MLGW and NES accounted for nine percent and eight percent, respectively.

The power contracts between TVA and the LPC provide for purchase of power by the LPC at the wholesale rates established by the TVA Board. Under section 10 of the TVA Act, the TVA Board is authorized to regulate the LPC to carry out the purposes of the TVA Act through contract terms and conditions as well as through rules and regulations. TVA regulates LPCs primarily through the provisions of TVA's wholesale power contracts. All of the power contracts between TVA and the LPCs require that power purchased from TVA be sold and distributed to the ultimate consumer without discrimination among consumers of the same class, and prohibit direct or indirect discriminatory rates, rebates, or other special concessions. In addition, there are a number of wholesale power contract provisions through which TVA seeks to ensure that the electric system revenues of the LPCs are used only for electric system purposes. Furthermore, almost all of these contracts specify the specific resale rates and charges at which the LPC must resell TVA power to their customers. These rates are revised from time to time,

subject to TVA approval, to reflect changes in costs, including changes in the wholesale cost of power. The regulatory provisions in TVA's wholesale power contracts are designed to carry out the objectives of the TVA Act, including the objective of providing for an adequate supply of power at the lowest feasible rates. See *Rates — Rate Methodology* below.

#### *Other Customers*

Revenues from directly served industrial customers accounted for 11 percent of TVA's total operating revenues in 2013. Contracts with these customers are subject to termination by the customer or TVA upon a minimum notice period that varies according to the customer's contract demand and the period of time service has been provided.

The United States Enrichment Corporation ("USEC"), a subsidiary of USEC, Inc., was TVA's largest directly served industrial customer. On May 24, 2013, USEC announced the cessation of enrichment activities at its Paducah, Kentucky site. TVA and USEC have subsequently completed agreements to extend power sales to facilitate the cessation of enrichment activities and to support non-enrichment activities at the site at a greatly reduced level. These sales arrangements may continue to be extended. Power sales to USEC represented three percent and five percent of TVA's total operating revenues for the years ended September 30, 2013, and 2012, respectively.

### **Rates**

#### *Rate Authority*

The TVA Act gives the TVA Board sole responsibility for establishing the rates TVA charges for power. These rates are not subject to judicial review or to review or approval by any state or federal regulatory body.

Under the TVA Act, TVA is required to 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 ("tax equivalents");
- Debt service on outstanding indebtedness;
- Payments to the U.S. Treasury in repayment of and as a return on the government's appropriation investment in TVA's power facilities (the "Power Program Appropriation Investment"); and
- Such additional margin as the TVA Board may consider desirable for investment in power system assets, retirement of outstanding bonds, notes, or other evidences of indebtedness ("Bonds") in advance of maturity, additional reduction of the Power Program Appropriation Investment, and other purposes connected with TVA's power business.

In setting TVA's rates, the TVA Board is charged by the TVA Act to have due regard for the primary objectives of the TVA Act, including the objective that power shall be sold at rates as low as are feasible.

#### *Rate Methodology*

In view of demand for electricity, the level of competition, and other relevant factors, it is reasonable to assume that rates, set at levels that will recover TVA's costs, can be charged and collected from customers. Further, the TVA Board has the discretion to determine when costs will be recovered in rates. As a result of these factors, TVA records certain assets and liabilities that result from the self-regulated ratemaking process that could not otherwise be so recorded under accounting principles generally accepted in the United States. See Note 1 — *Cost-Based Regulation* and Note 7.

In setting rates to cover the costs set out in the TVA Act, TVA uses a wholesale rate structure that is comprised of a base rate and a fuel rate that is automatically determined by the operation of the fuel cost adjustment formula each month. In setting the base rates, TVA uses a debt-service coverage ("DSC") methodology to derive annual revenue requirements in a manner similar to that used by other public power entities that also use the DSC rate methodology. Under the DSC methodology, rates are calculated so that an entity will be able to cover its operating costs and to satisfy its obligations to pay principal and interest on debt. This ratemaking approach is particularly suitable for use by entities financed primarily, if not entirely, by debt capital, such as TVA.

TVA's revenue requirements for costs or projected costs (other than the fuel, purchased power, and related costs covered by the fuel rate) are calculated under the DSC methodology as the sum of the following components:

- Operating and maintenance costs;
- Tax equivalents (other than the amount attributable to fuel cost-related revenues);
- Other costs in accordance with the TVA Act; and
- Debt service coverage.

This methodology reflects the cause-and-effect relationship between TVA's costs and the corresponding rates it charges for its regulated products and services. Once the revenue requirements (or projected costs) are determined, they are compared to the projected revenues for the year in question, at existing rates, to arrive at the shortfall or surplus of revenues as compared to the projected costs. Power rates are adjusted by the TVA Board to a level deemed to be sufficient to produce revenues approximately equal to projected costs (exclusive of the costs collected through the fuel rate).

TVA's wholesale and retail rate structures include time-of-use ("TOU") and seasonal demand and energy ("SDE") rate structures. These rate structures provide price signals intended to incentivize LPCs and end-use customers to shift energy usage from high-cost generation periods to less expensive generation periods. The rates are intended to more closely align TVA's revenues with its costs.

For LPCs, the default wholesale rate structure is seasonal TOU. The wholesale rate provisions originally specified that the SDE option expired in September 2012. In April 2012, the TVA Board approved optional enhanced TOU and SDE structures which became effective in October 2012. TVA allowed LPCs to elect one of these wholesale rate structures and make retail adjustments consistent with their wholesale elections. LPC elections as of October 1, 2013, are as follows: 144 are served under the enhanced TOU structure, five remain served under the default seasonal TOU structure, and six are served under the enhanced SDE structure.

TVA's rates also include a fuel cost recovery mechanism that automatically adjusts its rates each month to recover its fuel costs, which include the costs of natural gas, fuel oil, purchased power, coal, emission allowances, nuclear fuel and other fuel-related commodities; realized gains and losses on derivatives purchased to hedge the costs of such commodities; and tax equivalents associated with the fuel cost adjustments.

On August 22, 2013, the TVA Board approved a five-year extension of the environmental adjustment (which commenced in 2004), which reflects the need to collect revenue for environmental expenditures to further TVA's environmental performance, as well as comply with new, more stringent air, water, and waste regulations. The environmental adjustment currently recovers approximately \$415 million per year. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — *Key Initiatives and Challenges — Ratemaking*. In addition, the TVA Board approved a non-fuel base rate increase of 2.63 percent on wholesale rates. It is anticipated this will increase base revenues by approximately \$190 million for 2014.

## Power Supply

### General

Power generating facilities operated by TVA at September 30, 2013, included 29 conventional hydroelectric sites, one pumped-storage hydroelectric site, 10 coal-fired sites, three nuclear sites, 14 natural gas and/or oil-fired sites, one diesel generator site, 16 solar energy sites, digester gas cofiring capacity at one coal-fired site, biomass cofiring potential (located at coal-fired sites), and one wind energy site, although certain of these facilities were out of service as of September 30, 2013. See *Net Capability* for a discussion of these out-of-service facilities. TVA also acquires power under power purchase agreements of varying durations as well as short-term contracts of less than 24-hours in duration.

The following table summarizes TVA's net generation in millions of kilowatt hours ("kWh") by generating source and the percentage of all electric power generated by TVA for the years indicated:

**Power Supply from TVA-Operated Generation Facilities**  
For the years ended September 30  
(millions of kWh)

	2013		2012		2011	
Coal-fired	62,519	43%	58,584	41%	74,583	52%
Nuclear	52,100	36%	55,244	38%	49,562	34%
Hydroelectric	18,178	12%	12,817	9%	12,706	9%
Natural gas and/or oil-fired	13,102	9%	16,650	12%	6,809	5%
Renewable resources (non-hydro)	9 <sup>(1)</sup>	<1%	25 <sup>(1)</sup>	<1%	17 <sup>(1)</sup>	<1%
Total	145,908	100%	143,320	100%	143,677	100%

**Note**

(1) Operation and maintenance issues reduced the available renewable generation during 2013, 2012, and 2011 from several facilities, including those utilizing methane, solar, and wind.

*Net Capability*

The following table summarizes TVA's summer net capability in megawatts ("MW") at September 30, 2013:

SUMMER NET CAPABILITY <sup>(1)</sup>					
At September 30, 2013					
Source of Capability	Location	Number of Units	Summer Net Capability (MW)	Date First Unit Placed in Service	Date Last Unit Placed in Service
<b>TVA-Operated Generating Facilities</b>					
<b>Coal-Fired<sup>(2)</sup></b>					
Allen <sup>(3)</sup>	Tennessee	3	741	1959	1959
Bull Run	Tennessee	1	863	1967	1967
Colbert <sup>(3),(4)</sup>	Alabama	5	1,184	1955	1965
Cumberland	Tennessee	2	2,470	1973	1973
Gallatin	Tennessee	4	976	1956	1959
Johnsonville <sup>(5)</sup>	Tennessee	8	924	1951	1959
Kingston	Tennessee	9	1,398	1954	1955
Paradise	Kentucky	3	2,201	1963	1970
Shawnee <sup>(5)</sup>	Kentucky	9	1,206	1953	1955
Widows Creek <sup>(5),(6)</sup>	Alabama	2	938	1954	1965
Total Coal-Fired		46	12,901		
<b>Nuclear</b>					
Browns Ferry	Alabama	3	3,309	1974	1977
Sequoyah	Tennessee	2	2,292	1981	1982
Watts Bar	Tennessee	1	1,123	1996	1996
Total Nuclear		6	6,724		
<b>Hydroelectric</b>					
Conventional Plants	Alabama	36	1,176	1925	1962
	Georgia	2	35	1931	1956
	Kentucky	5	223	1944	1948
	North Carolina	6	492	1940	1956
	Tennessee	60	1,891	1912	1972
Pumped-Storage <sup>(7)</sup>	Tennessee	4	1,616	1978	1979
Total Hydroelectric		113	5,433		
<b>Natural Gas and/or Oil-Fired<sup>(8),(9)</sup></b>					
<b>Simple-Cycle Combustion Turbine</b>					
Allen <sup>(10)</sup>	Tennessee	20	456	1971	1972
Brownsville	Tennessee	4	468	1999	1999
Colbert	Alabama	8	392	1972	1972
Gallatin	Tennessee	8	600	1975	2000
Gleason <sup>(11)</sup>	Tennessee	3	465	2000	2000
Johnsonville	Tennessee	20	1,133	1975	2000
Kemper	Mississippi	4	312	2002	2002
Lagoon Creek	Tennessee	12	941	2001	2002
Marshall County	Kentucky	8	621	2002	2002
Subtotal Simple-Cycle Combustion Turbine		87	5,388		
<b>Combined-Cycle Combustion Turbine</b>					
Caledonia <sup>(12)</sup>	Mississippi	3	765	2003	2003
John Sevier <sup>(13)</sup>	Tennessee	1	870	2012	2012
Lagoon Creek <sup>(14)</sup>	Tennessee	1	525	2010	2010
Magnolia	Mississippi	3	920	2003	2003
Southaven	Mississippi	3	774	2003	2003
Subtotal Combined-Cycle Combustion Turbine		11	3,854		



Total Natural Gas and/or Oil-Fired	98	9,242



## Table of Contents

Diesel Generator <sup>(15)</sup>					
Meridian	Mississippi	5	9	1998	1998
Total Diesel Generators		5	9		
TVA Renewable Resources (non-hydro) <sup>(16)</sup>			< 1		
Total TVA-Operated Generating Facilities			34,309		
Contract Renewable Resources <sup>(17)</sup>			43		
Power Purchase and Other Agreements			2,242		
<b>Total Summer Net Capability</b>			<b>36,594</b>		

### Notes

- (1) Net capability is defined as the ability of an electric system, generating unit, or other system component to carry or generate power for a specified time period and does not include operational limitations such as derates.
- (2) John Sevier Units 1 and 2 were retired on December 31, 2012, and Units 3 and 4 were mothballed on December 31, 2012.
- (3) Eight MW of cofired methane at Allen and seven MW of cofired biomass at Colbert are accounted for as coal generation as opposed to TVA Renewable Resources.
- (4) Colbert Unit 5 was idled on October 1, 2013.
- (5) Includes only active units. See *Power Supply — Coal-Fired* for a discussion of TVA's idling plans for units.
- (6) Widows Creek Units 3 and 5 were retired on July 31, 2013.
- (7) All four units at Raccoon Mountain Pumped-Storage Plant were temporarily out of service at September 30, 2013. All units are expected to return to service in 2014.
- (8) See Item 2, Properties for a discussion of TVA-operated natural gas and/or oil-fired facilities subject to leaseback and long-term lease arrangements.
- (9) Peak firing of simple-cycle combustion turbine units accounts for an additional 257 MW of short-term capability.
- (10) The Allen Simple-Cycle Facility had four units (64 MW) out of service pending maintenance at September 30, 2013.
- (11) The units at the Gleason Simple-Cycle Facility were derated to 360 MW as of September 30, 2013, pending maintenance.
- (12) Caledonia is currently a leased facility operated by TVA.
- (13) John Sevier Combined Cycle Facility is a single steam cycle unit driven by three gas turbines (3x1 configuration).
- (14) Lagoon Creek Combined Cycle Facility is a single steam cycle unit driven by two gas turbines (2x1 configuration).
- (15) In February 2013, TVA sold its diesel generators located in Albertville, Alabama.
- (16) TVA's three wind turbines (2 MW nameplate capacity) at its Buffalo Mountain Site in Tennessee were not operational as of September 30, 2013, and do not appear to be economical for returning to operation. TVA owns 0.4 MW of solar installations at 16 sites.
- (17) Contract Renewable Resources include Generation Partners, Renewable Standard Offer, and 15 wind turbine generators located on Buffalo Mountain. See *Power Supply — Purchased Power and Other Agreements* for information on renewable energy power purchase contracts.

### Coal-Fired

TVA began its coal-fired plant construction program in the 1940s, and its coal-fired units were placed in service between 1951 and 1973. Coal-fired units are either active or inactive. TVA considers units to be in an active state when the unit is generating, available for service, or is temporarily unavailable due to equipment failures, inspections, or repairs. As of September 30, 2013, TVA had 10 coal-fired plants consisting of 46 active units, accounting for 12,901 MW of summer net capability. As of September 30, 2013, TVA had 14 inactive units. Inactive units may be in three categories: retired, mothballed, or inactive reserve. Retired units are unavailable for service and are not expected to return to service in the future. TVA currently has four retired units: John Sevier Fossil Plant ("John Sevier") Units 1 and 2 and Widows Creek Fossil Plant ("Widows Creek") Units 3 and 5. Mothballed units are unavailable for service but can be brought back into service after some maintenance with an appropriate amount of notification, typically weeks or months. As of September 30, 2013, TVA had nine mothballed units: Shawnee Fossil Plant ("Shawnee") Unit 10, Johnsonville Fossil Plant ("Johnsonville") Units 7 and 8, Widows Creek Units 1, 2, 4, and 6, and John Sevier Units 3 and 4. Inactive reserve units are unavailable for service but can be brought back into service after some repairs in a relatively short duration of time, typically measured in days. As of September 30, 2013, TVA had one unit in inactive reserve: Colbert Fossil Plant ("Colbert") Unit 5. On October 1, 2013, four additional units were mothballed — Johnsonville Units 5, 6, 9, and 10 — and the status of Colbert Unit 5 was changed from inactive reserve to mothballed. TVA refers to units which are in inactive reserve or mothballed status as idled.

Coal-fired plants have been subject to increasingly stringent regulatory requirements over the last few decades, including those of the Clean Air Act ("CAA") and subsequent laws and regulations. Increasing regulatory costs require consideration of whether to make the required capital investments to continue operating, or to decommission these facilities. In April 2011, TVA entered into two agreements (collectively, the "Environmental Agreements"). The first agreement is a Federal Facilities Compliance Agreement with the Environmental Protection Agency ("EPA"). The second agreement is with Alabama, Kentucky, North Carolina, Tennessee, and three environmental advocacy groups: the Sierra Club, National Parks Conservation Association, and Our Children's Earth Foundation. Under the Environmental Agreements, TVA agreed to retire 18 of its 59 coal-fired units by the end of 2017 and was generally absolved from any liability, subject to certain limitations and exceptions, under the New Source Review ("NSR") requirements of the CAA for maintenance, repair, and component replacement projects that were commenced at TVA's coal-fired units prior to the execution of the agreements. Failure to comply with the terms of the Environmental Agreements would subject TVA to penalties stipulated in the agreements. TVA is taking the actions necessary to comply with the Environmental Agreements. TVA is confident that it has adequate capacity to meet the needs of its customers after these units are retired.

[Table of Contents](#)

The following table summarizes the retirement actions TVA is required to take under the Environmental Agreements, and the status of those actions.

<b>Fossil Plant</b>	<b>Total Units</b>	<b>Existing Scrubbers and SCRs<sup>(1)</sup></b>	<b>Requirements Under Environmental Agreements</b>	<b>Retirements Implemented or Planned to be Implemented by TVA as a Result of Environmental Agreements</b>
John Sevier	2	None	· Retire two units no later than December 31, 2012	· Retired Units 1 and 2 on December 31, 2012
Johnsonville	10	None	· Retire six units no later than December 31, 2015 · Retire four units no later than December 31, 2017	· Retire six units by December 31, 2015 · Retire four units by December 31, 2017 · Idled Units 7 and 8 effective March 1, 2012 · Idled Units 5 and 6 and Units 9 and 10 on October 1, 2013
Widows Creek	6	Scrubbers and SCRs on Units 7 and 8	· Retire two of Units 1-6 no later than July 31, 2013 · Retire two of Units 1-6 no later than July 31, 2014 · Retire two of Units 1-6 no later than July 31, 2015	· Idled Units 1-6 in October 2011 · Retired Units 3 and 5 on July 31, 2013

Note

(1) Selective catalytic reduction systems ("SCR").

The following table summarizes the additional actions TVA is required to take under the Environmental Agreements, and other coal-fired generation actions taken or to be taken by TVA.

<b>Fossil Plant</b>	<b>Units Impacted</b>	<b>Existing Scrubbers and SCRs</b>	<b>Requirements Under Environmental Agreements</b>	<b>Other Actions Taken or Planned to be Taken by TVA</b>
Allen	3	SCRs on all three units	Install scrubbers or retire no later than December 31, 2018	Still evaluating what actions to take
Bull Run	1	Scrubber and SCRs on unit	Continuously operate current and any new emission control equipment	Continuously operate existing emission control equipment
Colbert	5	SCR on Unit 5	· Remove from service, control <sup>(1)</sup> , convert <sup>(2)</sup> , or retire Units 1-4 no later than June 30, 2016 · Remove from service, control <sup>(1)</sup> , or retire Unit 5 no later than December 31, 2015 · Control or retire removed from service units within three years	· Idled Unit 5 in October 2013 · Retire Units 1-5 no later than June 30, 2016
Cumberland	2	Scrubbers and SCRs on both units	Continuously operate existing emission control equipment	Continuously operate existing emission control equipment
Gallatin	4	None	Control <sup>(1)</sup> , convert <sup>(2)</sup> , or retire all four units no later than December 31, 2017	Add scrubbers and SCRs on all four units by December 31, 2017
John Sevier	2	None	· Remove from service two units no later than December 31, 2012 and control <sup>(1)</sup> , convert <sup>(2)</sup> , or retire those units no later than December 31, 2015	· Idled Units 3 and 4 in December 2012 · Units 3 and 4 will be retired by December 31, 2015
Kingston	9	Scrubbers and SCRs on all nine units	Continuously operate existing emission control equipment	Continuously operate existing emission control equipment
Paradise	3	Scrubbers and SCRs on all three units	· Upgrade scrubbers on Units 1 and 2 no later than December 31, 2013 · Continuously operate emission control equipment on Units 1-3	· Upgraded scrubbers on Units 1 and 2 in 2012 · Continuously operate emission control equipment on Units 1-3 · The Board approved the construction of a gas-fired plant at the current location of the Paradise coal-fired plant · Retire Units 1 and 2 after completion of the gas-fired plant
Shawnee	2	None	Control <sup>(1)</sup> , retire, or convert <sup>(2)</sup> Units 1 and 4 no later than December 31, 2017	· Still evaluating what actions to take with respect to Units 1 and 4 · Idled Shawnee Unit 10 in October 2010
Widows Creek	2	Scrubbers and SCRs on Units 7 and 8	· Continuously operate existing emissions control equipment on Units 7 and 8	· Continuously operate existing emissions control equipment on Units 7 and 8 · Retire Unit 8 in the future

Notes

(1) If TVA decides to add emission controls to these units, TVA must continuously operate the emission controls once they are installed.

(2) Convert to renewable biomass.

As of September 30, 2010, TVA had 14,573 MW (Summer Net Capability) of coal-fired generation. After these planned actions TVA will have 9,098 MW (Summer Net Capability) of coal-fired generation.

TVA is planning to balance its coal-fired generation with lower-cost and cleaner energy generation technologies. TVA's long-range plans will continue to attempt to balance the costs and benefits of significant environmental investments at its remaining coal-fired plants that do not have scrubbers and/or SCRs. TVA expects to decide whether to control, convert, or retire its remaining coal-fired capacity on a unit-by-unit schedule.

Transmission upgrades may be required to maintain reliability when some coal-fired units become inactive. TVA invested \$130 million in such upgrades between 2011 and 2013, and estimates future expenditures for transmission upgrades to accommodate inactive coal-fired units to be approximately \$350 million for 2014 to 2020. Upgrades may include enhancements to existing lines and substations or new installations as necessary to provide adequate power transmission capacity, maintain voltage support, and ensure generating plant and transmission system stability.

### *Nuclear*

TVA has three nuclear sites consisting of six units in operation. The units at Browns Ferry Nuclear Plant ("Browns Ferry") are boiling water reactor units, and the units at Sequoyah Nuclear Plant ("Sequoyah") and Watts Bar Nuclear Plant ("Watts Bar") are pressurized water reactor units. Statistics for each of these units are included in the table below.

TVA Nuclear Power At September 30, 2013					
Nuclear Unit	Status	Nameplate Capacity (MW)	Net Capacity Factor for 2013	Date of Expiration of Operating License	Date of Expiration of Construction Permits
Sequoyah Unit 1	Operating	1,221	97.0	2020*	—
Sequoyah Unit 2	Operating	1,221	73.7	2021*	—
Browns Ferry Unit 1	Operating	1,264	82.9	2033	—
Browns Ferry Unit 2	Operating	1,190	80.6	2034	—
Browns Ferry Unit 3	Operating	1,190	93.1	2036	—
Watts Bar Unit 1	Operating	1,270	88.7	2035	—
Watts Bar Unit 2	Under construction	1,220	—	—	2013*

\* An extension request has been submitted to the Nuclear Regulatory Commission. See *Sequoyah License Renewal* and *Nuclear Reactor Licensing* below.

**Nuclear Regulatory Commission Safety Improvements Orders and Other Guidance.** In March 2012, the Nuclear Regulatory Commission ("NRC") issued three new safety orders stemming from lessons learned from the events that occurred in 2011 at the Fukushima Daiichi Nuclear Power Plant ("Fukushima events"). The orders require (1) the development of strategies for responding to an interruption of off-site power, (2) the addition of more reliable instruments to measure water levels in cooling pools where spent nuclear fuel is stored, and (3) the installation of more robust containment venting systems to prevent containment failure due to overpressurization. The first two orders apply to every nuclear reactor in the U.S., including Watts Bar Unit 2, which will be required to comply prior to issuance of its operating license. The third order applies only to certain U.S. boiling water reactors, including Browns Ferry. These reactors are required to improve their containment venting systems to prevent over-pressurization due to the buildup of non-condensable gases such as hydrogen. TVA plans to fully implement the requirements of these three orders which were submitted to the NRC on February 28, 2013. TVA expects to complete the implementation of these orders by 2019, and the cost to comply with these orders is not expected to exceed \$220 million.

In addition to these orders, the NRC issued requests for information from U.S. nuclear operators regarding earthquake and flood risks and emergency planning. Based on the information provided in response to these requests, the NRC will determine if additional regulatory requirements are needed for these subjects. At this time, TVA is not able to predict the final outcome of these potential requirements or the associated costs; however, these amounts could be significant.

Since the Fukushima events, the NRC has also issued and adopted additional detailed guidance on the expected response capability to be developed by each nuclear plant site. TVA has developed plans and schedules for the development and implementation of strategies and physical plant modifications to address the actions outlined in this guidance for all of its plants, including Watts Bar Unit 2. The initial studies, including the required plant walkdowns, are expected to be complete in the first quarter of 2014. Flooding and seismic re-evaluations to determine any further plant modifications are scheduled for completion in mid 2015. In addition to the actions described above, TVA may be required to take further actions to comply with any additional regulatory action that the NRC takes in response to the Fukushima events.

**Sequoyah License Renewal.** TVA submitted the license renewal applications for both Sequoyah units to the NRC on January 7, 2013. If approved, the licenses for both units would be extended by an additional 20 years to 2040 for Unit 1 and

2041 for Unit 2. The NRC's review of the applications is expected to take up to three years after their submission. It is possible that the timing of approval of the final license renewal applications could be impacted by the NRC suspension of final decisions on nuclear reactor licensing discussed below.

*Nuclear Reactor Licensing.* On August 7, 2012, the NRC suspended final decisions on nuclear reactor licensing in response to a ruling by the the U.S. Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") that vacated the NRC's Waste Confidence Decision ("WCD") relating to the environmental impact of the long-term storage of nuclear waste. On September 6, 2012, in response to the ruling, the NRC directed the NRC staff to develop a generic Environmental Impact Statement ("EIS") to support an updated WCD rule, maintaining the option for the staff to conduct some analyses of waste confidence issues on a site-specific basis, if necessary. Licensing reviews and proceedings may currently continue, but final licenses will not be issued until the NRC completes its reassessment of the environmental impacts of the storage of nuclear waste. The delay of licensing decisions by the NRC could affect the unit currently under construction at Watts Bar Unit 2, the proposed construction of Bellefonte Unit 1, and the renewal of the licenses for the two units at Sequoyah. All of the procedures and inspections that happen prior to licensing will continue as usual.

*Operational Challenges.* See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — *Liquidity and Capital Resources* — *Liquidity Challenges Related to Generation Resources*, which discussion is incorporated herein by reference.

*Other Nuclear Matters.* See *Fuel Supply — Nuclear Fuel* below for a discussion of spent nuclear fuel and low-level radioactive waste, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — *Liquidity and Capital Resources* — *Liquidity Challenges Related to Generation Resources* for a discussion of challenges associated with the nuclear program, Note 20 — *Contingencies* for a discussion of TVA's nuclear decommissioning liabilities and the related trust and nuclear insurance, and Note 20 — *Legal Proceedings* for a discussion of legal and administrative proceedings related to TVA's nuclear program, which discussions are incorporated herein by reference.

#### *Hydroelectric and Other Renewable Energy Resources*

*Conventional Hydroelectric Dams.* TVA maintains 29 conventional hydroelectric dams with 109 generating units throughout the Tennessee River system and one pumped-storage facility for the production of electricity. At September 30, 2013, these units accounted for 5,433 MW of summer net capability. The amount of electricity that TVA is able to generate from its hydroelectric plants depends on a number of factors, including the amount of precipitation and runoff, initial water levels, and the need for water for competing water management objectives. The amount of electricity generated also depends on the availability of TVA's hydroelectric generation plants. When these factors are unfavorable, TVA must increase its reliance on higher cost generation plants and purchased power. In addition, four hydroelectric dams owned by a third party on the Little Tennessee River and eight U.S. Army Corps of Engineers dams on the Cumberland River contribute to the TVA power system. See *Weather and Seasonality*.

In 1992, TVA began a Hydro Modernization Program to address reliability issues on its conventional hydroelectric units and on Raccoon Mountain Pumped-Storage Plant ("Raccoon Mountain"). At September 30, 2013, modernization had been completed on 55 conventional hydroelectric units and four pumped-storage units. These modernization projects resulted in 422 MW of increased capacity on the conventional units, with an average efficiency gain of approximately five percent. Hydroelectric generation will continue to be an important part of TVA's energy mix. TVA, through its Hydro Modernization Program, continues to assess its remaining conventional hydroelectric units for opportunities to improve reliability and increase capacity.

*Raccoon Mountain Pumped-Storage Plant.* The four units at Raccoon Mountain were placed in service during 1978 and 1979. The units, with a total net summer capability of 1,616 MW, are utilized to balance the transmission system as well as generate power.

Inspections of the turbines in the four units of Raccoon Mountain during 2012 found cracking in the rotor poles and the rotor rims. Because the same type of cracking led to the catastrophic failure of a similar unit in Europe, the Raccoon Mountain units were taken out of service. Raccoon Mountain Unit 2 returned to limited service with a partially restacked rotor in October 2012, but was taken out of service again on January 3, 2013, due to a failed rotor pole clamp. All units are undergoing a maintenance overhaul and are expected to be returned to service in 2014. TVA is dispatching generation from other TVA units and purchasing power if needed to compensate for the loss in generating capacity.

*Other Renewable Energy Resources.* TVA's renewable energy portfolio includes both TVA owned assets and renewable energy purchases. TVA has 16 solar sites, capability for digester gas and biomass cofiring, and three wind turbines. At September 30, 2013, the wind turbines did not provide any summer net capability because they were not operational, and they do not appear to be economical for returning to operation. The digester gas cofiring capability is accounted for as coal-fired generation summer net capability. The solar sites provide less than one MW of summer net capability. See *Power Supply — Purchased Power and Other Agreements* for information on renewable energy power purchase contracts.

*Natural Gas and/or Oil-Fired*

At September 30, 2013, TVA operated 98 combustion turbine power blocks, 87 simple-cycle units and 11 combined-cycle power blocks. The 87 simple-cycle units provide a maximum of 5,388 MW of summer net capability. The 11 combined-cycle power blocks provide a maximum of 3,854 MW of summer net capability. Eighty of the simple-cycle units and one combined-cycle power block are fueled by either natural gas or fuel oil. The remaining seven simple-cycle units as well as the 10 combined-cycle power blocks are fueled by natural gas only. Seventy-six of the simple-cycle units are capable of quick-start response allowing full generation capability in approximately 10 minutes. TVA uses simple-cycle units as peaking or backup units. See Item 2, Properties — *Generating Properties* for a discussion of lease arrangements into which TVA has entered in connection with certain of the combustion turbine units. Because of TVA's strategy of portfolio diversification and reducing air emissions, TVA may decide to make further strategic investments in natural gas-fired facilities in the future by purchase, construction, and/or lease.

*Diesel Generators*

In February 2013, TVA sold its diesel generators located in Albertville, Alabama to the city of Albertville. At September 30, 2013, TVA had one diesel generator plant consisting of five units, and these facilities accounted for 9 MW of summer net capability.

*Purchased Power and Other Agreements*

TVA acquires power from a variety of power producers through long-term and short-term power purchase agreements as well as through power spot market purchases. During 2013, TVA acquired approximately 10 percent of the power that it purchased on the power spot market, approximately one percent through short-term power purchase agreements (agreements with a duration of one year or less but longer than the term of spot-market purchase), and approximately 89 percent through long-term power purchase agreements (agreements with a duration of more than one year).

A portion of TVA's capability provided by power purchase agreements is provided under contracts that expire between 2014 and 2032, and the most significant of these contracts are described below.

**Power Purchase Contracts (Excluding Wind Contracts)**

At September 30, 2013

Type of Facility	Location	Summer Net Capability (MW)	Contract Termination Date
Lignite	Mississippi	440	2032
Natural gas	Alabama	720	2023

Under federal law, TVA is required to purchase energy from qualifying cogenerators and small power producers at TVA's avoided cost of self-generating or purchasing this energy from another source. As of September 30, 2013, there were six suppliers, with a combined capacity of 913 MW, whose power TVA purchases under this law.

As of September 30, 2013, TVA was a party to contracts with eight wind farms for the purchase of energy. Energy is currently provided to TVA under all contracts. The first began providing 300 MW (nameplate capacity) under a twenty-year contract from a wind farm in Illinois in May 2010. TVA currently does not purchase the renewable attributes for this energy but has the opportunity to obtain them in the future. The other seven contracts provide TVA with an additional 1,215 MW (nameplate capacity) that include renewable attributes. These wind farms are located in Illinois, Kansas, and Iowa. TVA may work with counterparties to renegotiate or even terminate existing arrangements based on its evaluation of the economics of the contracts given that bringing power from distant locations raises transmission issues and costs.

**Renewable Wind Contracts  
As of September 30, 2013**

Location of Wind Farm	Wind Farm Nameplate Capacity (in MW)	Date Delivery Began
Illinois	300*	2010
Iowa	198	2010
Iowa	101	2012
Kansas	201	2012
Kansas	165	2013
Illinois	150	2012
Illinois	200	2012
Illinois	200	2013

**Note**

\*TVA is currently purchasing the energy output of this 300 MW of generation. The owner of the facility retains the renewable attributes, but TVA has the option to purchase the renewable attributes of this generation in the future.

In addition, TVA has contracted for 27 MW of nameplate renewable energy capacity from 15 wind turbine generators located on Buffalo Mountain near Oak Ridge, Tennessee, 4.8 MW of nameplate capacity from a landfill gas facility near Knoxville, Tennessee, and 4.5 MW of nameplate capacity from a solar farm in Haywood County, Tennessee.

Technology advancements, such as storage and smart grid, will be needed to address some of the operational issues associated with intermittent renewable energy sources in the future. Regional differences and geographic limitations play a primary role in the types and amount of renewable and clean energy developed across the country. Within the area served by TVA, the most viable renewable resources are hydroelectric, biomass (solid and methane recovery), solar, and wind. Known wind resource potential has increased recently due to studies showing reasonable wind speeds available at higher elevations in this area. If TVA is required to increase its use of renewable resources and the cost of doing so is greater than the costs of other sources of generation, TVA's costs may increase.

During the past three years, TVA supplemented its power generation through power purchases as follows:

**Purchased Power\***

For the years ended September 30

	2013	2012	2011
Millions of kWh	18,848	25,294	27,168
Percent of TVA's Total Power Supply	11.4%	15.0%	15.9%

**Note**

\* Purchased power amounts include generation from Caledonia Combined-Cycle Gas Plant, which is currently a leased facility operated by TVA. Additionally, purchased power amounts include generation from Magnolia Combined-Cycle Gas Plant for a portion of 2011. On August 31, 2011, TVA acquired Magnolia.

## Cleaner Energy Initiatives

TVA intends to balance production capabilities with power supply requirements by promoting the conservation and efficient use of electricity and, when necessary, buying, building and/or leasing assets or entering into power purchase agreements. TVA also intends to employ a diverse mix of energy generating sources and is working toward obtaining greater amounts of its power supply from clean (low or zero carbon emitting) resources.

### *Nuclear Generation*

**Watts Bar Unit 2.** On August 1, 2007, the TVA Board approved the completion of Watts Bar Unit 2, which is expected to be completed in CY 2015 and to provide approximately 1,180 MW of summer net capability. The work on Watts Bar Unit 2 is continuing within the schedule and budget expectations approved by the TVA Board in April 2012. The current construction permit expired in March 2013. An extension to the permit has been requested and, by regulation, work is allowed to proceed. An extended construction permit is expected to be received from the NRC in the first quarter of 2014. The unit was approximately 80 percent complete at September 30, 2013.

The primary risks for the project are activities associated with physical project completion and regulatory and licensing issues. The risks include compliance with the NRC requirements resulting from the Fukushima events and resolution of the NRC's Waste Confidence Decision relating to the potential environmental impacts of storage of spent fuel at each reactor site. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — *Liquidity and Capital Resources* — *Liquidity Challenges Related to Generation Resources*.



For a discussion of legal proceedings related to Watts Bar Unit 2, see Note 20 — *Legal Proceedings — Case Involving the NRC Waste Confidence Decision on Spent Nuclear Fuel Storage and Administrative Proceedings Regarding Watts Bar Unit 2*.

**Bellefonte Unit 1.** The incorporation of Watts Bar Unit 2 lessons learned into the Bellefonte Nuclear Plant ("Bellefonte") Unit 1 completion estimate has revealed some similar problems and inaccuracies. TVA finalized a new estimate to complete Bellefonte Unit 1 during the first quarter of 2014 putting the total estimated cost of completion in the range of \$7.5 billion and \$8.7 billion. Work at the site has been slowed to better allocate resources on nearer-term priorities as both budget and staffing levels for the project have been reduced in the 2014 budget. TVA believes that the resulting budgeting and staffing levels should be sufficient to preserve Bellefonte for potential future development. TVA plans to utilize its integrated resource planning process to help determine how Bellefonte best supports TVA's overall efforts to continue to meet customer demand with low-cost, reliable power.

**Other Nuclear Initiatives.** In November 2012, the Department of Energy ("DOE") announced a grant award to Babcock & Wilcox ("B&W"), in conjunction with TVA and Bechtel, for small modular reactor ("SMR") development. See *Research and Development*.

**Extended Power Uprate.** TVA is undertaking an Extended Power Uprate ("EPU") project at Browns Ferry that is expected to increase the amount of electrical generation by increasing the amount of steam produced by the reactors. Additional fuel would be added to the reactors during each refueling outage to support the increased steam production. The NRC license for each reactor must be modified to allow reactor operation at the higher power level. TVA has submitted license amendment requests and is currently in discussions with the NRC on selected technical issues affecting EPU licensing. The result of these discussions may impact the amount of power level increase realized by the EPU. Completion of the licensing process will determine the final implementation schedule.

#### *Energy Efficiency, Demand Response, and Renewable Energy Programs*

TVA, in cooperation with its customers, continues to implement a broad portfolio of energy efficiency and demand response ("EEDR") programs designed to help reduce long-term energy supply costs in the TVA service area. TVA realized 521 gigawatt hours ("GWh") and 560 GWh of energy efficiency savings in 2013 and 2012, respectively. EEDR is expected to remain a focus of TVA and to play an important role in the next Integrated Resource Plan.

TVA's Green Power Switch® ("GPS") program is a voluntary program that supports the production of renewable energy by allowing consumers to purchase renewable energy. In 2000, TVA became the first utility in the Southeast to offer consumers the choice to purchase renewable energy. In 2012, GPS supported roughly 101,000 MWh of renewable energy. TVA is continuing to refine the program by testing two additional customer options. In the original Green Power Switch, consumers buy 150 KWh renewable energy blocks for \$4 a month. Supply includes Green-e certified renewable energy generated from TVA-owned and purchased solar, wind, digester gas, and landfill gas generation. The two pilot options are testing customer demand for a 100 percent solar option sourced from TVA's growing Green Power Providers supply as well as a lower priced bulk option for larger commercial and industrial customers. Supply for the bulk option is sourced from TVA-contracted renewable energy credits ("RECs") in the greater Southeastern region. Specifically, the pilot supply will be from the Tapoco Hydroelectric project owned by Brookfield Renewable Energy Partners.

In 2003, TVA developed a Generation Partners ("GP") pilot program to test the interest and feasibility of renewable consumer-owned generation as a source of power for TVA. Since 2009, TVA has seen the program grow from fewer than 80 installations to more than 1,500 installations in operation providing more than 77 MW of solar, wind, low-impact hydro, and biomass generation. Solar installations made up 66 MW. The GP pilot program ended on September 30, 2012, and was replaced with the Green Power Providers ("GPP") program, a permanent program that began October 1, 2012. As of September 30, 2013, the GPP program comprised more than 5 MW of operating generation with over 4 MW of additional approved capacity that has yet to begin generating.

The Renewable Standard Offer ("RSO") program is a voluntary program that began in October 2010 to increase the amount of renewable energy generated in TVA's service territory. Under this program, TVA will purchase certain types of renewable energy at market rates from projects that meet the requirement of the RSO program as long as there is sufficient available capacity in the program. Solar, wind, and specific biomass projects are included in the program. Projects must be greater than 50 kilowatts ("kW"), but no greater than 20 MW in nameplate capacity. TVA accepted 97 MW of renewable capacity through calendar year 2012. This included a diverse portfolio of 13 total projects, including over 41 MW of solar, 18 MW of wind, 20 MW of biomass, and 18 MW of landfill gas or methane projects. TVA demonstrated its continued commitment to renewable energy by issuing an additional 100 MW under the RSO program in 2013. As of September 30, 2013, TVA had received applications for 22 MWs and expects to receive more before December 31, 2013.

The Solar Solution Initiative ("SSI") is a pilot program that began in February 2012 and provides incentive payments for mid-sized (greater than 50 kW up to 1 MW) solar projects in TVA's RSO program if the projects use local certified installers in the Tennessee Valley region. SSI is a targeted incentive that aims to support the existing local solar industry, while also serving as a recruitment tool for new industry in the Tennessee Valley region, adding investment and jobs. Under this successful program,



TVA has accepted applications totaling 20 MW over the past two years and is currently not accepting additional applications. TVA is reviewing the pilot program and may extend the initiative after a thorough evaluation is completed.

## Fuel Supply

### General

TVA's consumption of various types of fuel depends largely on the demand for electricity by TVA's customers, the availability of various generating units, and the availability and cost of fuel. The following table summarizes TVA's expenses for various fuels for the years indicated:

#### Fuel Expense for TVA-Owned Facilities\*

For the years ended September 30

(in millions)

	2013	2012	2011
Coal	\$ 1,890	\$ 1,824	\$ 2,315
Natural gas	504	527	265
Fuel oil	36	46	54
Nuclear fuel	317	319	261
Total fuel	\$ 2,747	\$ 2,716	\$ 2,895

#### Note

\* Excludes effects of the fuel cost adjustment deferrals and amortization on fuel expense in the amounts of \$73 million, \$(36) million, and \$31 million for the years ended September 30, 2013, 2012, and 2011, respectively.

The following table indicates TVA's average fuel expense by generation type for the years indicated:

#### Fuel Expense Per kWh<sup>(1)(2)</sup>

For the years ended September 30

(cents/kWh)

	2013	2012	2011
Coal	3.07	3.18	3.17
Natural gas and fuel oil	3.89	3.19	3.96
Nuclear	0.61	0.58	0.53
Average fuel cost per kWh net thermal generation from all sources	2.15	2.08	2.21

#### Note

(1) Excludes effects of the fuel cost adjustment deferrals and amortization on fuel expense.

(2) In 2012, TVA began allocating 50 percent of its Financial Trading Program gains and losses to fuel expense whereas in 2011 all of the FTP gains and losses were allocated to purchased power expense. In 2013, the allocation changed to 70 percent of FTP gains and losses being allocated to fuel expense and 30 percent of FTP gains and losses being allocated to purchased power expense.

In addition to TVA-owned generating facilities, TVA operates a plant under an operating lease agreement and also has tolling agreements under which it obtains electricity from outside suppliers. Under these agreements, TVA supplies the fuel to produce electricity. The following table indicates the cost of fuel supplied by TVA and also the average fuel expense per kWh for the years indicated:

#### Natural Gas Purchases for Non-TVA Owned Facilities<sup>(1)</sup>

For the years ended September 30

	2013	2012	2011
Cost of fuel (in millions)	\$ 138	\$ 255	\$ 343
Average fuel expense (cents/kWh)	2.95	2.36	2.42

#### Note

(1) In 2012, TVA began allocating 50 percent of its FTP gains and losses to fuel expense whereas in 2011 all of the FTP gains and losses were allocated to purchased power expense. In 2013, the allocation changed to 70 percent of FTP gains and losses being allocated to fuel expense and 30 percent of FTP gains and losses being allocated to purchased power expense.

### Coal

Coal consumption at TVA's coal-fired generating facilities during 2013 and 2012 was approximately 32 million tons and 29 million tons, respectively. At September 30, 2013, and 2012, TVA had 29 days and 28 days of system-wide coal supply at full burn rate, respectively, with net book values of \$374 million and \$402 million, respectively.

TVA utilizes both short-term and long-term (longer than one year) coal contracts. During 2013, long-term contracts made up 88 percent of coal purchases and short-term contracts accounted for the remaining 12 percent. TVA plans to continue using contracts of various lengths, terms, and coal quality to meet its expected consumption and inventory requirements. During 2013, TVA purchased coal by basin as follows:

- 46 percent from the Illinois Basin;
- 39 percent from the Powder River Basin in Wyoming;
- 14 percent from the Uinta Basin of Utah and Colorado; and
- one percent from the Appalachian Basin of Kentucky, Pennsylvania, Tennessee, Virginia, and West Virginia.

Total system coal inventories were at or above target levels for most of 2013 due to lower than planned coal-fired generation. The following table indicates the delivery methods TVA utilizes for its coal supply:

**Percentage of Coal Supply Delivery Methods**  
For the years ended September 30

	<b>2013</b>	<b>2012</b>
Rail	6%	7%
Barge	21%	20%
Barge and rail combination	60%	59%
Truck	13%	14%

#### *Natural Gas and Fuel Oil*

During 2013, TVA purchased a significant amount of its natural gas requirements from a variety of suppliers under contracts with terms of up to two years and purchased substantially all of its fuel oil requirements on the spot market. Exposure to spot market volatility was managed through TVA's Financial Trading Program ("FTP").

The net book value of TVA's natural gas inventory was \$7 million at September 30, 2013, and 2012. The net book value of TVA's fuel oil inventory was \$113 million and \$99 million at September 30, 2013, and 2012, respectively. At September 30, 2013, all but 17 of TVA's combustion turbine units were dual-fuel capable, and TVA has fuel oil stored on each of these sites for its dual-fuel combustion turbines as a backup to natural gas.

#### *Nuclear Fuel*

*Current Fuel Supply.* Converting uranium to nuclear fuel generally involves four stages: the mining and milling of uranium ore to produce uranium concentrates; the conversion of uranium concentrates to uranium hexafluoride gas; the enrichment of uranium hexafluoride; and the fabrication of the enriched uranium hexafluoride into fuel assemblies. For its forward five-year (2014-2018) requirements, TVA currently has 100 percent of its uranium mining and milling, conversion services, enrichment services, and fabrication services requirements either in inventory or under contract. TVA anticipates being able to fill its needs beyond this period by normal contracting processes as market forecasts indicate that the fuel cycle components will be readily available.

USEC was TVA's supplier of enrichment services for uranium for fueling TVA's nuclear units. On May 24, 2013, USEC announced the cessation of enrichment activities at its Paducah, Kentucky facility. TVA has sufficient nuclear fuel inventory available to mitigate near-term supply risks, and also expects to be able to procure material at reasonable rates in the market for nuclear fuel.

TVA, the DOE, and certain nuclear fuel contractors have entered into agreements providing for surplus DOE highly enriched uranium (uranium that is too highly enriched for use in a nuclear power plant) to be blended with other uranium. The enriched uranium that results from this blending process, which is called blended low-enriched uranium ("BLEU"), is fabricated into fuel that can be used in a nuclear power plant. This blended nuclear fuel was first loaded in a Browns Ferry reactor in 2005 and is expected to continue to be used to reload the Browns Ferry reactors through at least 2016. BLEU fuel was loaded into Sequoyah Unit 2 three times but is not expected to be used in the Sequoyah reactors in the future.

Under the terms of an interagency agreement between the DOE and TVA, in exchange for supplying highly enriched uranium materials for processing into usable BLEU fuel for TVA, the DOE participates in the savings generated by TVA's use of this blended nuclear fuel. See Note 1 — *Blended Low-Enriched Uranium Program* for a more detailed discussion of the BLEU project.

TVA owns all nuclear fuel held for its nuclear plants. At September 30, 2013, and 2012, the net book value of this nuclear fuel was \$1.3 billion and \$1.2 billion, respectively.

*Mixed Oxide Nuclear Fuel.* Under the DOE Surplus Plutonium Disposition ("SPD") Program, mixed oxide ("MOX") fuel would be fabricated with surplus plutonium and depleted uranium as a replacement for commercial uranium fuel. In February 2010, DOE and TVA entered into an interagency agreement to evaluate the potential use of MOX in reactors at Browns Ferry and Sequoyah. As part of the evaluation of MOX, TVA is participating as a cooperating agency in DOE's development of a supplemental EIS that addresses the potential use of MOX fuel in the TVA reactors. TVA could make a decision in 2014 on whether to continue to pursue the use of MOX fuel. At the earliest, based on the expected production rate of MOX, TVA could start using a small number of MOX fuel assemblies in TVA reactors after 2020. TVA's three criteria for implementing MOX are that it must be environmentally and operationally safe; it must be economical compared to other nuclear fuel used by TVA; and it must be licensed by the NRC for use. If TVA decides to use MOX fuel and the NRC approves its use, some changes in the operation of the reactors are expected and additional equipment may be required.

*Low-Level Radioactive Waste.* Low-level radioactive waste ("radwaste") results from the normal operation of nuclear electrical generation units and includes such materials as disposable protective clothing, mops, and filters. TVA sends shipments of radwaste to burial facilities in Clive, Utah and Andrews, Texas. TVA is capable of storing some radwaste at its own facilities for an extended period of time, if necessary.

*Spent Nuclear Fuel.* Under the Nuclear Waste Policy Act of 1982, TVA (and other domestic nuclear utility licensees) entered into a contract with the DOE for the disposal of spent nuclear fuel. Payments to the DOE are based upon TVA's nuclear generation and charged to nuclear fuel expense. Although the contracts called for the DOE to begin accepting spent nuclear fuel from the utilities by January 31, 1998, the DOE has yet to establish a permanent disposal site for spent nuclear fuel. TVA, like other nuclear utilities, stores spent nuclear fuel at its nuclear sites. TVA would have had sufficient space to continue to store spent nuclear fuel as originally scheduled in storage pools indefinitely had the DOE begun accepting spent nuclear fuel at the agreed upon time. The DOE's failure to do so in a timely manner required TVA to construct dry cask storage facilities at Sequoyah and Browns Ferry and to purchase special storage containers for the spent nuclear fuel. The Sequoyah and Browns Ferry dry cask storage facilities have been in use since 2004 and 2005, respectively, and are expected to provide storage capacity through 2026 at Sequoyah and 2018 at Browns Ferry. Watts Bar has sufficient storage capacity in its spent fuel pool to last until approximately 2015. In September 2010, the NRC announced its approval of final revisions to its WCD expressing the NRC's confidence that spent nuclear fuel can be safely stored for at least 60 years beyond the licensed life of any reactor and that sufficient repository capacity will be available when necessary. On June 8, 2012, the D.C. Circuit vacated the NRC's WCD relating to the long-term storage of nuclear waste. On September 6, 2012, in response to that ruling, the NRC directed the NRC staff to develop a generic EIS to support an updated WCD rule within 24 months, maintaining the option for the staff to conduct some analyses of waste confidence issues on a site-specific basis. A draft rule and EIS addressing the decision of the D.C. Circuit were issued for public comment in September 2013. Licensing reviews and proceedings may continue, but final licenses will not be issued until the NRC completes its reassessment of the storage of nuclear waste. See *Power Supply — Nuclear Reactor Licensing*.

To recover the cost of providing long-term, on-site storage for spent nuclear fuel, TVA filed a breach of contract suit against the United States in the Court of Federal Claims in 2001, and as a result, TVA received approximately \$35 million for costs incurred through 2004. By agreement with the United States, TVA subsequently recovered an aggregate of approximately \$72 million to offset dry cask storage costs incurred from 2005 through 2010. TVA entered into a settlement agreement with the United States in July 2011 that delineates recoverable and non-recoverable costs and that sets forth a claim submittal and review process. This settlement agreement expires on December 31, 2013, but it may be extended by mutual agreement. On February 15, 2013, TVA received \$12 million for its 2011 claim, and on July 30, 2013, TVA submitted a claim of nearly \$18 million for 2012 costs.

*Tritium-Related Services.* TVA and the DOE are engaged in a long-term interagency agreement under which TVA will, at the DOE's request, irradiate tritium producing burnable absorber rods to assist the DOE in producing tritium for the Department of Defense ("DOD"). This agreement, which ends in 2035, requires the DOE to reimburse TVA for the costs that TVA incurs in connection with providing irradiation services and to pay TVA an irradiation services fee at a specified rate per tritium-producing rod over the period when irradiation has occurred.

In general, tritium-producing rods are irradiated for one operating cycle, which lasts about 18 months. At the end of the cycle, TVA removes the irradiated rods and loads them into a shipping cask. The DOE then ships them to its tritium-extraction facility. TVA loads a fresh set of tritium-producing rods into the reactor during each refueling outage. Irradiating the tritium-producing rods does not affect TVA's ability to safely operate the reactors to produce electricity.

The interagency agreement provides for irradiation services to be performed in Watts Bar Unit 1 and Sequoyah Units 1 and 2. TVA has provided irradiation services using only Watts Bar Unit 1 since 2003. TVA believes it can meet the DOE and the DOD tritium requirements using Watts Bar Unit 1 while maintaining Sequoyah reactors as backups.

## Transmission

The TVA transmission system is one of the largest in North America. TVA's transmission system has 68 interconnections with 12 neighboring electric systems, and delivered nearly 165 billion kWh of electricity to TVA customers in

2013. In carrying out its responsibility for grid reliability in the TVA service area, TVA has operated with 99.999 percent reliability over the last 14 years in delivering electricity to customers. See Item 2, Properties — *Transmission Properties*.

To the extent that federal law requires access to the TVA transmission system, TVA offers transmission services to others to transmit power at wholesale in a manner that is comparable to TVA's own use of the transmission system. TVA has also adopted and operates in accordance with a published Standards of Conduct for Transmission Providers and separates its transmission functions from its marketing functions.

TVA is subject to federal reliability standards that are set forth by the North American Electric Reliability Corporation ("NERC") and approved by the FERC. These standards are designed to maintain the reliability of the bulk electric system, including TVA's generation and transmission system, and include areas such as maintenance, training, operations, planning, modeling, critical infrastructure, physical and cyber security, vegetation management, and facility ratings. TVA recognizes that reliability standards and expectations continue to become more complex and stringent for transmission systems. At present there are over 100 mandatory standards subject to enforcement containing over 1,200 requirements and sub-requirements that must be met including the NERC revisions to the Transmission Planning ("TPL") Reliability Standards that were approved by FERC on October 17, 2013. Revisions to these standards as well as other standards under consideration, if approved, will require significant resource commitments in future years.

### Weather and Seasonality

Weather affects both the demand for and the market prices of electricity. TVA uses degree days to measure the impact of weather on its power operations. Degree days measure the extent to which average temperatures in the five largest cities in TVA's service area vary from 65 degrees Fahrenheit. During 2013, TVA had 735, or 28 percent, more heating degree days and 354, or 17 percent, fewer cooling degree days than in 2012.

	2013	Percent Change	2012	Percent Change	2011
Combined degree days (normal 5,223)	5,095	8.1%	4,714	(14.9)%	5,541

TVA's power system is generally a dual-peaking system where the demand for electricity peaks during the summer and winter months to meet cooling and heating needs. TVA met an all-time summer peak demand of 33,482 MW on August 16, 2007, at 102 degrees Fahrenheit and an all-time winter peak demand of 32,572 MW on January 16, 2009, at 12 degrees Fahrenheit. As a result of a cold wave during the first week of January 2010, TVA set a number of energy demand records. A new total daily energy demand record of 701 GWh was set on January 8, 2010, and a total weekly energy demand record of 4,632 GWh was set for the seven-day period ended January 10, 2010, when TVA experienced an average demand of 27,574 MW per hour for the entire week.

After several years of dry weather and drought conditions in the TVA service area, rainfall totals improved in the Tennessee Valley during 2013 and 2012. Rainfall in the Upper Basin of the Tennessee Valley was 124 percent of normal for 2013 and 102 percent of normal in 2012. Also, runoff was 143 percent of normal in 2013 and 98 percent of normal in 2012. Runoff is the amount of rainfall that is not absorbed by vegetation or the ground and actually reaches the rivers and reservoirs that TVA manages. TVA's conventional hydroelectric generation increased 39 percent in 2013 as compared to 2012, and decreased two percent in 2012 as compared to 2011. Conventional hydroelectric generation was approximately 126 percent of normal in 2013 and 90 percent of normal in 2012.

### Competition

TVA provides electricity in a service area that is largely free of competition from other electric power providers. This service area is defined primarily by two provisions of law: the fence and the anti-cherry-picking provision. The fence limits the region in which TVA or LPCs which distribute TVA power may provide power. The anti-cherry-picking provision limits the ability of others to use the TVA transmission system for the purpose of serving customers within TVA's service area.

From time to time there have been efforts to erode the protection of the anti-cherry-picking provision, and the protection of the anti-cherry-picking provision could be limited and perhaps eliminated by Congressional legislation at some time in the future.

### Research and Development

TVA makes investments in science and technological innovation to assist in meeting future challenges in key areas. These are identified as "Signature Technologies" wherein TVA is seeking to establish national leadership in research, development, and demonstration. TVA is currently focused on three Signature Technologies: SMRs, grid modernization ("smart grid") for transmission and distribution systems, and energy utilization technologies, with a particular emphasis on energy efficiency, load management, and electric transportation.

TVA has chosen SMRs as one of three signature technologies that support TVA's technology innovation mission, and they could provide an important option for clean, base-load energy for TVA's customers. TVA is a member of the B&W Power America team, which the DOE selected in November 2012 for a grant award for the design and licensing of B&W mPower SMRs. Specifically, under a contract that TVA executed with B&W in February 2013, TVA, B&W, and Generation mPower, LLC (a B&W affiliate, minority owned by Bechtel), are preparing a license application to the NRC to license up to four B&W mPower<sup>TM</sup> SMRs at TVA's Clinch River Site in Roane County, TN. In April 2013, B&W and the DOE executed a cooperative agreement implementing the DOE award, under which TVA (through B&W) is reimbursed by the DOE for roughly half of its qualified site study and license development costs, retroactive to October 2012. Currently, TVA is performing site characterization work, including gathering meteorological data, surveying species and cultural and archeological resources, and studying site hydrology. To date, TVA has completed approximately 50 percent of the subsurface studies at the Clinch River site that are necessary to support the environmental review and NRC license application. TVA will not decide to submit the license application to the NRC until mid-2015, and would not make subsequent construction decisions regarding SMRs at the Clinch River site for several years thereafter.

TVA's grid modernization research goals are to advance the implementation of technology options identified from evolving grid modernization roadmaps which support TVA's transmission system and the LPCs' distribution systems. The focus is on developing and demonstrating technology options that help sustain reliability, lower costs, and mitigate risks for TVA and LPCs. Among the more significant efforts in this area are demonstrations of new power system sensing and control technologies that are designed to increase operator situational awareness, provide better control of power flows, and optimize asset management.

In the area of energy utilization, TVA's near-term concentration is on the development and maintenance of a pipeline of emerging energy efficiency and load management technologies for market and program readiness. TVA's efforts are directed towards demonstrating and validating the performance and reliability of new efficiency technology as well as the value of energy efficiency and load management technologies for both the consumer and the utility. Additionally, TVA is conducting demonstrations to support the development of an electric transportation and infrastructure business plan.

TVA also seeks to leverage research and development activities through partnerships with LPCs, the Electric Power Research Institute ("EPRI"), the DOE, Oak Ridge National Laboratory, other utilities, universities, industry vendors, and participation in professional societies.

#### **Flood Control Activities**

The Tennessee River watershed has one of the highest annual rainfall totals of any watershed in the United States, averaging 51 inches per year. From October 1, 2012, through September 30, 2013, 62 inches of rain fell in the Tennessee Valley. TVA manages the Tennessee River system in an integrated manner, balancing hydroelectric generation with navigation, flood damage reduction, water quality and supply, and recreation. TVA spills or releases excess water through the tributary and main stem dams in order to reduce flood damage to the Tennessee Valley. TVA typically spills only when all available hydroelectric generating turbines are operating at full capacity and additional water still needs to be moved downstream.

During 2013, TVA estimated its reservoir operations averted approximately \$750 million in flood damages.

#### **Environmental Stewardship Activities**

TVA's mission includes managing the Tennessee River, its tributaries, and public lands along the shoreline to provide, among other things, year-round navigation, flood damage reduction, affordable and reliable electricity, and, consistent with these primary purposes, recreational opportunities, adequate water supply, improved water quality, and natural resource protection. There are 49 dams that comprise TVA's integrated reservoir system. The reservoir system provides approximately 800 miles of commercially navigable waterways and also provides significant flood reduction benefits both within the Tennessee River system and downstream on the lower Ohio and Mississippi Rivers. The reservoir system also provides a water supply for residential and industrial customers, as well as cooling water for some of TVA's coal-fired and nuclear power plants. TVA's Environmental Policy, which was adopted by the TVA Board in 2008, provides objectives for an integrated approach related to providing cleaner, reliable, and affordable energy, supporting sustainable economic growth, and engaging in proactive environmental stewardship. The Environmental Policy provides additional direction in several environmental stewardship areas, including water resource protection and improvements, sustainable land use, and natural resource management. TVA also manages approximately 11,000 miles of shoreline, 650,000 surface acres of reservoir water, and 293,000 acres of reservoir lands for cultural and natural resource protection, recreation, and other purposes.

Strategic guidance for carrying out many of TVA's essential stewardship responsibilities is provided in TVA's Natural Resource Plan ("NRP"). The NRP, accepted in August 2011, serves as a 20-year guide for TVA's essential stewardship efforts in managing biological resources (plants, animals, and aquatic species); cultural resources (archaeological sites, historical sites, and artifacts); recreation; water resources; reservoir lands planning; and public engagement. The plan will also guide TVA in achieving the objectives of its Environmental Policy for a more systematic and integrated approach to fulfilling its essential stewardship responsibilities. The NRP was developed with public input including participation from federal and state resource management agencies and the RRSC. Members of the RRSC, established in March 2000, represent public and private



stakeholders who benefit from TVA's management of the river system. They provide recommendations on stewardship activities, including reservoir operations, public-land planning and management, water supply, recreation, infrastructure operation and maintenance, and emergency preparedness. TVA intends to review and update the NRP approximately every five years.

## **Economic Development Activities**

Since its creation in 1933, TVA has promoted the development of the Tennessee Valley. Economic development, along with energy production and environmental stewardship, is one of the integrated purposes of TVA. TVA works with its LPCs, regional, state, and local agencies, and communities to showcase the advantages available to businesses locating or expanding in TVA's service area. TVA's primary economic development goals are to recruit major industrial operations to locate in the Tennessee Valley, encourage the location and expansion of companies that provide quality jobs, prepare communities in the Tennessee Valley for economic growth, and offer support to help grow and sustain small businesses. TVA seeks to meet these goals through a combination of initiatives and partnerships designed to provide financial assistance, technical services, industry expertise, and site-selection assistance to new and existing businesses. TVA's economic development efforts helped recruit or expand over 170 companies into the TVA service area during 2013. These companies announced capital investments of approximately \$5.0 billion and the expected creation and/or retention of over 52,000 jobs.

## **Regulation**

### *Congress*

TVA exists pursuant to legislation enacted by Congress and carries on its operations in accordance with this legislation. Congress can enact legislation expanding or reducing TVA's activities, change TVA's structure, and even eliminate TVA. Congress can also enact legislation requiring the sale of some or all of the assets TVA operates or reduce the United States's ownership in TVA. To allow TVA to operate more flexibly than a traditional government agency, Congress exempted TVA from all or parts of certain general federal laws that govern other agencies, such as federal labor relations laws and the laws related to the hiring of federal employees, the procurement of supplies and services, and the acquisition of land. Other federal laws enacted since the creation of TVA that are applicable to other agencies have been made applicable to TVA, including those related to paying employees overtime and protecting the environment, cultural resources, and civil rights.

### *Securities and Exchange Commission*

Section 37 of the Securities Exchange Act of 1934 (the "Exchange Act") requires TVA to file with the SEC such periodic, current, and supplementary information, documents, and reports as would be required pursuant to section 13 of the Exchange Act if TVA were an issuer of a security registered pursuant to section 12 of the Exchange Act. Section 37 of the Exchange Act exempts TVA from complying with section 10A(m) (3) of the Exchange Act, which requires each member of a listed issuer's audit committee to be an independent member of the board of directors of the issuer. Since TVA is an agency and instrumentality of the United States, securities issued or guaranteed by TVA are "exempted securities" under the Securities Act of 1933, as amended (the "Securities Act"), and may be offered and sold without registration under the Securities Act. In addition, securities issued or guaranteed by TVA are "exempted securities" and "government securities" under the Exchange Act. TVA is also exempt from sections 14(a)-(d) and 14(f)-(h) of the Exchange Act (which address proxy solicitations) insofar as those sections relate to securities issued by TVA, and transactions in TVA securities are exempt from rules governing tender offers under Regulation 14E of the Exchange Act. Also, since TVA securities are exempted securities under the Securities Act, TVA is exempt from the Trust Indenture Act of 1939 insofar as it relates to securities issued by TVA, and no independent trustee is required for these securities.

### *Federal Energy Regulatory Commission*

Under the FPA, TVA is not a "public utility," a term which generally includes investor-owned utilities. Therefore, TVA is not subject to the full jurisdiction that FERC exercises over public utilities under the FPA. TVA is, however, an "electric utility" and a "transmitting utility" as defined in the FPA and, thus, is directly subject to certain aspects of FERC's jurisdiction.

Under section 210 of the FPA, TVA can be ordered to interconnect its transmission facilities with the electrical facilities of qualified generators and other electric utilities that meet certain requirements. It must be found that the requested interconnection is in the public interest and would encourage conservation of energy or capital, optimize efficiency of facilities or resources, or improve reliability. The requirements of section 212 of the FPA concerning the terms and conditions of interconnection, including reimbursement of costs, must also be met.

Under section 211 of the FPA, TVA can be ordered to transmit power at wholesale rates provided that the order (1) does not impair the reliability of the TVA or surrounding systems and (2) meets the applicable requirements of section 212 concerning terms, conditions, and rates for service. Under section 211A of the FPA, TVA is subject to FERC review of the transmission rates and the terms and conditions of service that TVA provides others to ensure comparability of treatment of such service with TVA's own use of its transmission system and that the terms and conditions of service are not unduly discriminatory or preferential. The anti-cherry-picking provision of section 212 of the FPA precludes TVA from being ordered to wheel another supplier's power to a customer if the power would be consumed within TVA's defined service territory.

Sections 221 and 222 of the FPA, applicable to all market participants, including TVA, prohibit (1) using manipulative or deceptive devices or contrivances in connection with the purchase or sale of power or transmission services subject to FERC's jurisdiction and (2) reporting false information on the price of electricity sold at wholesale or the availability of transmission capacity to a federal agency with intent to fraudulently affect the data being compiled by the agency.

Under section 215 of the FPA, TVA must comply with certain standards designed to maintain transmission system reliability. These standards are approved by FERC and enforced by the NERC.

Section 206(e) of the FPA provides FERC with authority to order refunds of excessive prices on short-term sales (transactions lasting 31 days or less) by all market participants, including TVA, in market manipulation and price gouging situations if such sales are under a FERC-approved tariff.

Section 220 of the FPA provides FERC with authority to issue regulations requiring the reporting, on a timely basis, of information about the availability and prices of wholesale power and transmission service by all market participants, including TVA.

Under sections 306 and 307 of the FPA, FERC may investigate electric industry practices, including TVA's operations previously mentioned that are subject to FERC's jurisdiction.

Under sections 316 and 316A of the FPA, FERC has authority to impose civil penalties of up to \$1 million a day for each violation on entities subject to the provisions of Part II of the FPA, which includes the above provisions applicable to TVA. Criminal penalties may also result from such violations.

Finally, while not required to do so, TVA has elected to implement various FERC orders and regulations pertaining to public utilities on a voluntary basis to the extent that they are consistent with TVA's obligations under the TVA Act.

#### *Nuclear Regulatory Commission*

TVA operates its nuclear facilities in a highly regulated environment and is subject to the oversight of the NRC, an independent federal agency which sets the rules that users of radioactive materials must follow. The NRC has broad authority to impose requirements relating to the licensing, operation, and decommissioning of nuclear generating facilities. In addition, if TVA fails to comply with requirements promulgated by the NRC, the NRC has the authority to impose fines, shut down units, or modify, suspend, or revoke TVA's operating licenses.

#### *Environmental Protection Agency*

TVA is subject to regulation by the EPA in a variety of areas, including air quality control, water quality control, and management and disposal of solid and wastes. See *Environmental Matters*.

#### *States*

The Supremacy Clause of the U.S. Constitution prohibits states, without congressional consent, from regulating the manner in which the federal government conducts its activities. As a federal agency, TVA is exempt from regulation, control, and taxation by states except in certain areas where Congress has clearly made TVA subject to state regulation. See *Environmental Matters*.

#### *Other Federal Entities*

TVA's activities and records are also subject to review to varying degrees by other federal entities, including the Government Accountability Office and the Office of Management and Budget ("OMB"). There is also an Office of the Inspector General which reviews TVA's activities and records.

### **Taxation and Tax Equivalents**

TVA is not subject to federal income taxation. In addition, neither TVA nor its property, franchises, or income is subject to taxation by states or their subdivisions. Section 13 of the TVA Act does, however, require TVA to make tax equivalent payments to states and counties in which TVA conducts power operations or in which TVA has acquired power-producing properties previously subject to state and local taxation. The total amount of these payments is five percent of gross revenues from the sale of power during the preceding year excluding sales or deliveries to other federal agencies and off-system sales with other utilities, with a provision for minimum payments under certain circumstances. Except for certain direct payments TVA is required to make to counties, distribution of tax equivalent payments within a state is determined by individual state legislation.

## Environmental Matters

TVA's activities, particularly its power generation activities, are subject to comprehensive regulation under environmental laws and regulations relating to air pollution, water pollution, and management and disposal of solid and hazardous wastes, among other issues.

### *Clean Air Act*

The CAA establishes a comprehensive program to protect and improve the nation's air quality and control sources of air pollution. The major CAA programs that affect TVA's power generation activities are described below.

*National Ambient Air Quality Standards.* The CAA requires the EPA to set National Ambient Air Quality Standards ("NAAQS") for certain air pollutants. The EPA has done this for ozone, particulate matter ("PM"), sulfur dioxide ("SO<sub>2</sub>"), nitrogen dioxide ("NO<sub>2</sub>"), carbon monoxide, and lead. Over the years, the EPA has made the NAAQS more stringent. Each state must develop a plan to be approved by the EPA for achieving and maintaining a NAAQS within its borders. These plans impose limits on emissions from pollution sources, including TVA fossil fuel-fired plants. Areas meeting a NAAQS are designated attainment areas. Areas not meeting a NAAQS are designated nonattainment areas, and more stringent requirements apply in those areas. This includes stricter controls on industrial facilities and more complicated permitting processes. TVA coal-fired plants can be impacted by these requirements. As NAAQS become more stringent, utilities are expected to come under increasing pressure to further reduce emissions from their existing coal-fired plants in the future.

*New Source Review.* The NSR provisions of the CAA require that a permit be obtained prior to constructing new major air emission sources or making major modifications to existing air pollution sources. Major modifications are non-routine physical or operational changes that increase the emissions from an air emission source above specified thresholds. The EPA and environmental groups have been actively pursuing NSR enforcement actions against electric utilities since 1999, alleging that typical plant maintenance activities require NSR permits. If violations are found to have occurred, the EPA or state enforcement authorities could require the installation of new pollution control equipment and could impose fines and penalties. The Environmental Agreements resolved most past NSR claims that TVA faced. The Environmental Agreements did not resolve possible claims based on increases in greenhouse gas ("GHG") and sulfuric acid mist, and these claims could still be pursued in the future.

*Cross State Air Pollution Rule.* In July 2011, the EPA announced the final Cross State Air Pollution Rule ("CSAPR"). This rule was to replace the existing Clean Air Interstate Rule ("CAIR"), effective January 1, 2012. CSAPR was to regulate SO<sub>2</sub> and NO<sub>x</sub> emissions from upwind states that are negatively impacting ozone and fine particulate air quality in downwind states. The rule would have required greater SO<sub>2</sub> and NO<sub>x</sub> reductions than those achieved under CAIR. However, CSAPR was vacated by the D.C. Circuit and now is before the U.S. Supreme Court. CAIR remains in place pending the outcome of this litigation. The EPA has announced that it plans to proceed with a new rulemaking to address attainment of the 8-hour ozone standard. This future CSAPR rule should not have a significant impact on TVA because of the changes that TVA has made to its generation mix and the controls that TVA is installing on coal-fired units to comply with the new Mercury and Air Toxic Standards.

*Hazardous Air Pollutants from Industrial, Commercial, and Institutional Boilers.* In March 2011, the EPA published a final rule to establish standards for hazardous air pollutants emitted from industrial, commercial, and institutional boilers and process heaters. The final rule will have minor impacts beginning in the second quarter of 2014 for some of TVA's startup and auxiliary boilers at its plants. While all plant startup and auxiliary boilers are expected to be exempt from the emission standards due to their limited use, most boilers will be subject to scheduled tuneups to ensure optimized combustion, and TVA will be required to follow work practice standards in order for the boilers to be exempt from emission standards.

*Mercury and Air Toxic Standards for Electric Utility Units.* Effective April 16, 2012, the EPA promulgated a final rule establishing standards for hazardous air pollutants emitted from steam electric utilities. The rule requires additional controls for hazardous air pollutants, including mercury, non-mercury metals, and acid gases, for some of TVA's coal-fired units by 2015-2016. TVA may choose to idle or retire some units in lieu of investing in additional controls and may in some cases construct replacement generation. The Mercury and Air Toxic Standards are the primary drivers of additional emission controls for TVA's coal-fired plants over the next few years. The rule has been challenged in court, and the resolution of this litigation could affect the compliance dates and/or other requirements.

*The Environmental Agreements.* See Note 20 — *Legal Proceedings* — *Environmental Agreements*.

*Acid Rain Program.* Congress established the Acid Rain Program to achieve reductions in emissions of SO<sub>2</sub> and NO<sub>x</sub>, the primary causes of acid rain. The program includes a cap-and-trade emission reduction program for SO<sub>2</sub> emissions from power plants. TVA continues to reduce SO<sub>2</sub> and NO<sub>x</sub> emissions from its coal-fired plants and the SO<sub>2</sub> allowances allocated to TVA under the Acid Rain program are sufficient to cover the operation of its coal-fired plants. In the TVA service area, the limitations imposed on NO<sub>x</sub> emissions by either the CAIR or CSAPR program are expected to be more stringent than the Acid Rain Program. Therefore, TVA forecasts that the Acid Rain Program will have no impact on TVA other than administrative reporting.



*Regional Haze Program.* In June 2005, the EPA issued the Clean Air Visibility Rule, amending its CY 1999 regional haze rule, which had established timelines for states to improve visibility in national parks and wilderness areas throughout the United States. Under the amended rule, certain types of older existing sources are required to install best available retrofit technology. To comply with this requirement, certain utilities, including TVA, may have to install additional controls for particulate matter, SO<sub>2</sub>, and NO<sub>x</sub> emissions or agree to lower emission limits at plants equipped with such controls. TVA does not anticipate that this program has the potential to impact any unit other than Colbert Unit 5, which was idled in October 2013.

*Opacity.* Opacity, or visible emissions, measures the denseness (or color) of power plant plumes and has traditionally been used by states as a means of monitoring good maintenance and operation of particulate control equipment. Under some conditions, retrofitting a unit with additional equipment to better control SO<sub>2</sub> and NO<sub>x</sub> emissions can adversely affect opacity performance, and TVA and other utilities are addressing this issue. The evaluation of a utility's compliance with opacity requirements is coming under increased scrutiny, especially compliance during periods of startup, shutdown, and malfunction. State implementation plans ("SIPs") developed under the CAA typically exclude periods of startup, shutdowns, and malfunctions, but the EPA has proposed a rule to eliminate such exclusions. The proposed rule should be final in 2014, after which the states must modify their implementation plans by 2016. These new requirements could reduce flexibility and increase operational costs for TVA's coal-fired plants.

#### *Climate Change*

*Legislation.* Although climate change legislation has failed to progress in the U.S. Congress in past years, there is continuing interest in legislation that could regulate GHG emissions or impose other energy-related restrictions and requirements. If legislation intended to limit GHG emission or impose other energy policies were to become law, such limitations would likely affect TVA's coal-fired plants and could affect other fossil fuel-fired plants. The costs and impacts of such regulation could be significant for TVA. There is no way to predict the likelihood or form of such legislation at this time.

*Regulation.* The Obama administration has promulgated a number of regulations that impose limitations upon emissions of GHGs, including CO<sub>2</sub> from power plants. The most important of these apply to major new sources of GHGs, including coal-fired and gas-fired power plants, and major modifications of existing plants. On October 15, 2013, the U.S. Supreme Court agreed to hear challenges to some of these rules after the D.C. Circuit upheld them.

The EPA proposed a GHG New Source Performance Standards ("NSPS") rule for new power plants on September 20, 2013. The Administration also announced on June 25, 2013, its plan to issue proposed carbon pollution standards for existing power plants by June 1, 2014, with a deadline of June 1, 2015, for finalizing the existing source standards. The form of these standards is uncertain, but is expected to build upon current efforts, include efficiency improvements, provide flexibility, and take advantage of a wide variety of energy sources and technologies. The states would then have to decide how to implement these existing source standards. The existing source standards are expected to be submitted by states to the EPA for its approval by June 30, 2016. The existing source standards could become effective by December 2016 with compliance required by affected plants possibly by 2019-2021.

*Biomass CO<sub>2</sub> Emissions.* On July 12, 2013, the D.C. Circuit vacated the EPA's biomass deferral rule, holding that the EPA did not have the authority to temporarily delay regulating biogenic CO<sub>2</sub> for three years pending the completion of its study to determine whether biogenic CO<sub>2</sub> emissions contribute to increases in CO<sub>2</sub> levels in the atmosphere. The EPA is expected to finalize this study by July 2014. In the interim, the regulation of biogenic CO<sub>2</sub> under the PSD and Title V programs of the CAA continues to remain uncertain.

*Executive Orders.* On June 25, 2013, the President released his Climate Action Plan, which includes a broad range of executive actions to mitigate U.S. carbon emissions, manage climate change adaptation efforts, and lead international efforts.

Federal agencies currently have renewable energy consumption goals which originated in the Energy Policy Act of 2005 of three percent renewable energy consumption by 2007, five percent by 2010, and seven and one-half percent by 2013 and beyond. TVA's 2012 performance was nearly eight percent, exceeding the 2013 goal. The President's Climate Action Plan establishes a new goal of 20 percent of internally used electricity from renewable sources by 2020. At this time, the President's plan does not contain sufficient detail to determine how TVA may be impacted.

*International Accords.* International agreements and protocols have not been adopted by the United States; accordingly, they would not become binding upon TVA unless and until they are enacted into law.

*Litigation.* In addition to legislative activity, climate change issues have been the subject of a number of lawsuits, including lawsuits against TVA. See Note 20 — *Legal Proceedings* — *Case Arising out of Hurricane Katrina*.

*Indirect Consequences of Regulation or Business Trends.* Legal, technological, political, and scientific developments regarding climate change may create new opportunities and risks. The potential indirect consequences could include an increase or decrease in electricity demand, increased demand for generation from alternative energy sources, and subsequent impacts to business reputation and public opinion. See *Power Supply*.

*Physical Impacts of Climate Change.* TVA manages the potential effects of climate change on its mission, programs, and operations within its environmental management processes. In 2011, TVA issued a Statement on Climate Change Adaptation. In 2012, in accordance with Executive Order 13514, TVA prepared a Climate Change Adaptation Action Plan. TVA publicly released the 2012 Climate Change Adaptation Action Plan on February 8, 2013, and public comments were accepted through April 8, 2013. Future adaptation guidance is expected from OMB and the Council on Environmental Quality in the first quarter of 2014 that could impact TVA's adaptation planning processes. TVA cannot predict the content of the guidance at this time.

*Actions Taken by TVA to Reduce GHG Emissions.* TVA has reduced GHG emissions from both its generation stations and its operations. As discussed earlier in this Item I, Business, TVA has increased its nuclear capacity, modernized its hydroelectric generation system, increased its purchases of renewable energy, and invested in energy efficiency initiatives to reduce energy use in the Tennessee Valley. Additionally, TVA has invested to reduce energy use in its operations. The combination of more stringent environmental rules, lower natural gas prices, and lower demand for energy across the Tennessee Valley has reduced the utilization of coal-fired generation. These factors have resulted in lower CO<sub>2</sub> emissions.

#### *Renewable/Clean Energy Standards*

Twenty-nine states and the District of Columbia have established enforceable or mandatory requirements for electric utilities to generate a certain amount of electricity from renewable sources. One state within the TVA service area, North Carolina, has a mandatory renewable standard that, while it does not apply directly to TVA, does apply to TVA's LPCs located in that state. Likewise, the Mississippi Public Service Commission adopted an energy efficiency rule applying to electric and natural gas providers in the state. TVA's policy is to provide compliance assistance to any distributor of TVA power, and TVA is providing assistance to the four LPCs that sell TVA power in North Carolina.

Legislation has been proposed in Congress in the past to establish a national renewable energy standard ("RES") that could require energy providers, including TVA, to rely more on renewable energy resources. Such legislation has not passed but could be reintroduced in the future.

#### *Water Quality Control Developments*

*Cooling Water Intake Structures.* The EPA has proposed a rule implementing Clean Water Act §316(b) to reduce the impingement of fish and the entrainment of fish eggs and larvae by cooling water intake structures at existing plants that withdraw more than two million gallons-per-day. As proposed, impingement impacts would have to be reduced by no later than 2020, and entrainment impacts would have to be reduced as soon as possible based on site-specific analyses. Issuance of the final rule was extended to allow more time for the EPA to assess cost-benefits and complete consultation under the Endangered Species Act. The consultation under the Endangered Species Act could result in more stringent requirements for plants located on waters with protected species or their designated habitats.

Based upon a notice of data availability ("NODA"), the EPA is now considering identifying "model technologies" that would be designated as compliant with the impingement numeric limits. For TVA intakes, it is probable that installation of fish-friendly traveling screens and a fish return system will be required at most, if not all, coal-fired and nuclear plants. The EPA's NODA presented no additional discussion of entrainment requirements beyond those initially proposed; thus, the need for entrainment controls is expected to remain a site-specific determination made by the state-designated NPDES permit writer.

*Hydrothermal Discharges.* The EPA and many states are beginning to focus regulatory attention on potential effects of hydrothermal discharges. Many TVA plants have variances from thermal standards under § 316(a) of the Clean Water Act that may have to be re-justified through new studies. Specific data requirements in the future will be determined based on negotiations between TVA and regulators. If plant thermal limits are made more stringent, TVA may have to install cooling towers at some of its plants and operate installed cooling towers more often. This could result in a substantial cost to TVA.

*Steam-Electric Effluent Guidelines.* On June 7, 2013, the EPA proposed revisions to the effluent guidelines for the steam electric power generating industry. The rule proposal focuses on stricter limitations on wastewater discharges from ash handling, air pollution control systems, and enhanced mercury air controls. Wastewater streams from air pollution control systems contain pollutants such as metals, total suspended solids, chlorides, and nutrients, which have typically been treated in settling ponds. The EPA identified four preferred alternatives which include numerical limits for each option. Depending on the stringency of the final rule, TVA likely would have to install additional wastewater treatment systems at its coal-fired plants, substantially increasing TVA's water pollution control costs. The EPA is required to finalize the rulemaking by May 2014.

*Groundwater Contamination.* Environmental groups and state regulatory agencies are increasing their attention on groundwater contamination associated with coal combustion residuals ("CCRs") management activities such as ash ponds. Seven of TVA's eleven coal-fired plants are in some level of state regulatory groundwater assessment. Three of those plants (Colbert, Gallatin Fossil Plant ("Gallatin"), and Shawnee) have investigations beyond monitoring and reporting. Four of the seven TVA coal-fired plants (Gallatin, Shawnee, Johnsonville, and Widows Creek) have either underground storage tank groundwater monitoring, or groundwater remediation monitoring with state regulatory involvement. As a result of these assessments and increased attention, TVA may have to change how it manages CCRs at some of its plants with associated

increases in cost. In addition, TVA's Environmental Research Center facility at Muscle Shoals, Alabama has an active groundwater monitoring program as part of a Resource Conservation and Recovery Act ("RCRA") Corrective Action Permit.

*General Clean Water Act Requirements.* As is the case in other industrial sectors, TVA and other utilities are also facing more stringent requirements related to the protection of wetlands, reductions in storm water impacts from construction activities, new water quality criteria for nutrients and other pollutants, new wastewater analytical methods, and regulation of herbicide discharges. In addition, other new environmental regulations related to mountain top mining of coal in the Appalachian region under the Clean Water Act may increase the cost of coal that TVA purchases for its plants.

#### *Cleanup of Solid and Hazardous Wastes*

Liability for releases and cleanup of hazardous substances is imposed under the federal Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), and other federal and parallel state statutes. In a manner similar to many other industries and power systems, TVA has generated or used hazardous substances over the years.

*TVA Sites.* TVA operations at some of its facilities have resulted in oil spills and other contamination that TVA is addressing. At September 30, 2013, TVA's estimated liability for cleanup and similar environmental work for those sites for which sufficient information is available to develop a cost estimate is approximately \$15 million and is included in Accounts payable and accrued liabilities and Other long-term liabilities on the Balance Sheet.

*Non-TVA Sites.* TVA is aware of alleged hazardous-substance releases at certain non-TVA areas for which it may have some liability. See Note 20 — *Contingencies — Environmental Matters*.

*Coal Combustion Residuals.* In May 2010, the EPA released the text of a proposed rule describing two possible regulatory options it is considering under RCRA for the disposal of CCRs generated from the combustion of coal by electric utilities and independent power producers. Under one option, CCRs would be regulated as a solid or special waste. Under the other option, CCRs would be regulated as a hazardous waste. Under either option, the EPA would regulate the construction of impoundments and landfills, and seek to ensure both the physical and environmental integrity of disposal facilities. CCRs include fly ash, bottom ash, boiler slag, and flue gas desulfurization materials. If the EPA decides to regulate CCRs as hazardous, the beneficial use of CCRs now sold by TVA and other utilities likely would be impacted, and this could result in requirements to remediate existing CCR management facilities at a substantial cost. The EPA has not announced which regulatory option it will take with respect to the management and disposal of CCRs. TVA is therefore unable to determine the effects of this proposed rule at this time. In April 2012, several environmental organizations filed suit against the EPA to compel the EPA to take action on the proposed rule. TVA cannot predict the outcome of this litigation.

*Kingston Ash Spill.* See Note 9 for a discussion of the environmental issues associated with the Kingston ash spill.

#### *Environmental Investments*

From 1977 to 2013, TVA spent approximately \$5.6 billion on controls to reduce emissions from its coal-fired power plants. In addition, TVA has reduced emissions by idling or retiring coal-fired units and relying more on cleaner energy resources including natural gas and nuclear generation.

*SO<sub>2</sub> Emissions.* To reduce SO<sub>2</sub> emissions, TVA has installed scrubbers on 17 of its coal-fired units, and switched to lower-sulfur coals at 41 coal-fired units. In August 2011, the TVA Board approved adding scrubbers to four units at Gallatin subject to completing appropriate environmental reviews. After these reviews were completed, TVA's Chief Executive Officer authorized proceeding with the proposed projects.

*NO<sub>x</sub> Emissions.* To reduce NO<sub>x</sub> emissions, TVA installed SCRs on 21 coal-fired units, installed selective non-catalytic reduction systems on two coal-fired units (although TVA is no longer operating one of these systems because of technical challenges), installed High Energy Reagent Technology systems on seven coal-fired units, installed low-NO<sub>x</sub> burners or low-NO<sub>x</sub> combustion systems on 46 coal-fired units, optimized combustion on 12 coal-fired units, and began operating NO<sub>x</sub> control equipment year round when units are operating (except during startup, shutdown, and maintenance periods) starting in October 2008. In addition, in August 2011, the TVA Board approved adding SCRs to four units at Gallatin subject to completing appropriate environmental reviews. After these reviews were completed, TVA's Chief Executive Officer authorized proceeding with the proposed projects.

*Particulate Emissions.* To reduce particulate emissions of air pollutants, TVA has equipped all of its coal-fired units with scrubbers, mechanical collectors, electrostatic precipitators, and/or bag houses.

Primarily due to the actions described above, emissions of NO<sub>x</sub> and SO<sub>2</sub> on the TVA system have been reduced by 90 percent below peak 1995 levels and by 94 percent below 1977 levels, respectively. These controls also have provided a co-benefit of reducing hazardous air pollutants, including mercury, at some units. For CY 2012, TVA's emission of CO<sub>2</sub> from its sources was 81 million tons, a 23 percent reduction from 2005 levels. This includes 426 tons from units rated at less than 25

MWs that are not required to report to the EPA. To remain consistent and provide clear information and to align with the EPA's reporting requirements, TVA will continue to report CO<sub>2</sub> emissions on a CY basis.

There could be additional material costs if reductions of GHGs, including CO<sub>2</sub>, are mandated by legislative, regulatory, or judicial actions and if more stringent emission reduction requirements for conventional pollutants are established. These costs cannot reasonably be predicted at this time because of the uncertainty of these actions. A number of emerging EPA regulations establishing more stringent air, water, and waste requirements could result in significant changes in the structure of the U.S. power industry, especially in the eastern half of the country.

TVA now anticipates spending approximately \$1.3 billion through 2022 to add controls to its coal-fired units, which is less than the previous projection of \$2.3 billion. This results from increasing reliance on cleaner energy resources and the idling/ retirement of more coal-fired units which TVA otherwise would have had to control.

#### *Estimated Required Environmental Expenditures*

The following table contains information about TVA's current estimates on projects related to environmental laws and regulations.

#### **Air, Water, and Waste Quality Estimated Potential Environmental Expenditures<sup>(1)</sup>**

At September 30, 2013

(in millions)

	Estimated Timetable	Total Estimated Expenditures
Site environmental remediation costs <sup>(2)</sup>	2014+	\$ 15
Coal combustion residual conversion and remediation <sup>(3)</sup>	2014-2023	1,400
Proposed clean air control projects <sup>(4)</sup>	2014-2022	1,300
Clean Water Act requirements <sup>(5)</sup>	2014-2022	700

#### Notes

(1) These estimates are subject to change as additional information becomes available and as regulations change.

(2) Estimated liability for cleanup and similar environmental work for those sites for which sufficient information is available to develop a cost estimate.

(3) Includes closure of impoundments, construction of lined landfills, and construction of dewatering systems.

(4) Includes air quality projects that TVA is currently planning to undertake to comply with existing and proposed air quality regulations, but does not include any projects that may be required to comply with potential GHG regulations or transmission upgrades.

(5) Includes projects that TVA is currently planning to comply with revised rules under the Clean Water Act (i.e. Section 316(b) and effluent limitation guidelines for steam electric power plants).

#### **Employees**

On September 30, 2013, TVA had 12,612 employees, of whom 4,613 were trades and labor employees. Under the TVA Act, TVA is required to pay trades and labor workers hired by TVA and certain of its contractors the rate of wages for work of a similar nature prevailing in the vicinity where the work is being performed. Neither the federal labor relations laws covering most private sector employers nor those covering most federal agencies apply to TVA. However, the TVA Board has a long-standing policy of acknowledging and dealing with recognized representatives of its employees, and that policy is reflected in long-term agreements to recognize the unions (or their successors) that represent TVA employees. Federal law prohibits TVA employees from engaging in strikes against TVA.

#### **ITEM 1A. RISK FACTORS**

The risk factors described below, as well as the other information included in this Annual Report, should be carefully considered. Risks and uncertainties described in these risk factors could cause future results to differ materially from historical results as well as from the results anticipated in forward-looking statements. Although the risk factors described below are the ones that TVA considers significant, additional risk factors that are not presently known to TVA or that TVA presently does not consider significant may also impact TVA's business operations. Although the TVA Board has the authority to set TVA's own rates and may thus mitigate some risks by increasing rates, there may be instances in which TVA would be unable to partially or completely eliminate one or more of these risks through rate increases over a reasonable period of time or at all. Accordingly, the occurrence of any of the following could have a material adverse effect on TVA's cash flows, results of operations, and financial condition.

***New laws, regulations, or administrative orders, or Congressional action or inaction, may negatively affect TVA's cash flows, results of operations, and financial condition, as well as the way TVA conducts its business.***

Because TVA is a corporate agency and instrumentality established by federal law, it may be affected by a variety of laws, regulations, and administrative orders that do not affect other electric utilities. For example, Congress may enact legislation that expands or reduces TVA's activities, changes its governance structure, requires TVA to sell some or all of the assets that it operates, reduces or eliminates the United States's ownership of TVA, or even liquidates TVA. Additionally, Congress could act, or fail to take action, on various issues which may result in impacts to TVA, including

but not limited to action or inaction related to the sovereign debt ceiling or automatic spending cuts in government programs. Although it is difficult to predict exactly how new laws, regulations, or administrative orders or Congressional action or inaction may impact TVA, some of the possible effects are described below.

***TVA may lose its protected service territory.***

TVA's service area is defined by the fence and protected by the anti-cherry-picking provision. From time to time there have been efforts to erode the protection of the anti-cherry-picking provision, and the protection of the anti-cherry-picking provision could be limited and perhaps eliminated by Congressional legislation at some time in the future. If Congress were to eliminate or reduce the coverage of the anti-cherry-picking provision but retain the fence, TVA could more easily lose customers that it could not replace within its specified service area. The loss of these customers could adversely affect TVA's cash flows, results of operations, and financial condition.

***The TVA Board may lose its sole authority to set rates for electricity.***

Under the TVA Act, the TVA Board has the sole authority to set the rates that TVA charges for electricity, and these rates are not subject to further review. If the TVA Board loses this authority or if the rates become subject to outside review, there could be material adverse effects on TVA including, but not limited to, the following:

The TVA Board might be unable to set rates at a level sufficient to generate adequate revenues to service TVA's financial obligations, properly operate and maintain its power assets, and provide for reinvestment in its power program; and

TVA might become subject to additional regulatory oversight that could impede its ability to manage its business.

***TVA may lose responsibility for managing the Tennessee River system.***

TVA's management of the Tennessee River system is important to effectively operate the power system. TVA's ability to integrate management of the Tennessee River system with power system operations increases power system reliability and reduces costs. Restrictions on how TVA manages the Tennessee River system could negatively affect its operations.

***TVA may lose responsibility for managing real property currently under its control.***

TVA's management of real property containing power generation and transmission structures as well as certain reservoir shorelines is important for navigation, flood control, and the effective operation of the power system. Restrictions on or the loss of the authority to manage these properties could negatively affect TVA's operations, change the way it conducts such operations, or increase costs.

***TVA may become subject to additional environmental regulation.***

New environmental laws, regulations, and orders may become applicable to TVA or the facilities it operates, and existing environmental regulations may be revised or reinterpreted in a way that adversely affects TVA. Possible areas of future regulation include, but are not limited to, the following:

*Greenhouse gases.* Costs to comply with future regulation of CO<sub>2</sub> and other GHGs may negatively impact TVA's cash flows, financial position, and results of operations. The cost impact of legislation or regulation cannot be determined at this time.

*Coal combustion residuals.* The federal government has proposed stronger regulations concerning coal combustion residuals, and state governments may impose additional regulations. These regulations may require TVA to make additional capital expenditures, increase operating and maintenance costs, or even lead it to shut down certain facilities.

*Renewable energy portfolio standards.* TVA is not currently obligated to provide a percentage of the power it sells from renewable sources but may be required to do so in the future. Such developments could require TVA to make significant capital expenditures, increase its purchased power costs, or make changes in how it operates its facilities.



***TVA's ability to control or allocate funds could be restricted.***

In certain circumstances, other federal entities may attempt to restrict TVA's ability to access or control its funds. For example, should the United States approach the national debt ceiling, the United States Treasury might, as part of an effort to control federal spending, attempt to require TVA to receive approval before TVA disburses funds. Additionally, the Office of Management and Budget might, in the event that automatic spending cuts go into effect, attempt to require TVA to reduce its budget by a specified percentage. Such attempts to restrict TVA's ability to control or allocate funds could adversely affect its cash flows, results of operations, and financial condition, its relationships with vendors and counterparties, the way it conducts its business, and its reputation.

***Existing laws, regulations, and orders may negatively affect TVA's cash flows, results of operations, and financial condition, as well as the way TVA conducts its business.***

TVA is required to comply with comprehensive and complex laws, regulations, and orders. The costs of complying with these laws, regulations, and orders are expected to be substantial, and costs could be significantly more than TVA anticipates, especially in the environmental area. To settle the EPA and other claims involving alleged NSR violations, TVA agreed to retire 18 coal-fired units and pay a civil penalty. The cost to install the necessary equipment to comply with existing environmental laws, regulations, settlement agreements, and orders at some other facilities may render some facilities uneconomical, which may cause TVA to retire or idle additional facilities. In addition, TVA is required to obtain numerous permits and approvals from governmental agencies that regulate its business, and TVA may be unable to obtain or maintain all required regulatory approvals. If there is a delay in obtaining required regulatory approvals or if TVA fails to obtain or maintain any approvals or to comply with any law, regulation, or order, TVA may have to change how it operates certain facilities, may be unable to operate certain facilities, or may have to pay fines or penalties.

***TVA may be responsible for environmental clean-up activities.***

TVA may be responsible for on-site liabilities associated with the environmental condition of facilities or property that TVA has acquired or that TVA operates regardless of when the liabilities arose, whether they are known or unknown, and whether they were caused by TVA, prior owners or operators, or a third party. TVA may also be responsible for off-site liabilities associated with the off-site disposal of waste materials containing hazardous substances or hazardous wastes.

***The costs associated with remediating the Kingston ash spill as well as other CCR facilities may be significantly higher than TVA anticipates.***

TVA estimates that the cost of remediating the Kingston ash spill will be between \$1.1 billion and \$1.2 billion. Actual costs could substantially exceed expected costs. Also, certain costs that are currently either not probable or reasonably estimable are not included in this estimate, such as future lawsuits, future claims, and costs associated with new laws and regulations. In addition, TVA expects to spend between \$1.5 billion and \$2.0 billion to convert its wet CCR facilities to dry collection facilities. Actual costs may substantially exceed expected costs.

***TVA may have to make significant contributions in the future to fund its pension plans.***

At September 30, 2013, TVA's qualified pension plan had assets of \$7.2 billion compared to liabilities of \$11.5 billion. The qualified plan is mature with approximately 23,000 retirees or beneficiaries receiving benefits of more than \$600 million per year. The costs of providing pension benefits depend upon a number of factors, including, but not limited to: provisions of the pension plans; changing employee demographics; rates of increase in compensation levels; rates of return on plan assets; discount rates used in determining future benefit obligations and required funding levels; future government regulation; and levels of contributions made to the plans.

Any of these factors or any number of these factors could keep at high levels or even increase the costs of providing pension benefits and require TVA to make significant contributions to the pension plans. Unfavorable financial market conditions may result in lower expected rates of return on plan assets, loss in value of the investments, and lower discount rates used in determining future benefit obligations. These changes would negatively impact the funded status of the plans. Additional contributions to the plans and absorption of additional costs would negatively affect TVA's cash flows, results of operations, and financial condition.

***Approaching or reaching TVA's debt ceiling could limit TVA's ability to carry out its business. Additionally, TVA's debt ceiling could be made more restrictive.***

The TVA Act provides that TVA can issue Bonds in an amount not to exceed \$30.0 billion outstanding at any time. At September 30, 2013, TVA had \$24.8 billion of Bonds outstanding (not including noncash items of foreign currency exchange loss of \$43 million and net discount on sale of Bonds of \$85 million).

Approaching or reaching the debt ceiling may adversely affect TVA's business by limiting TVA's ability to access capital markets and increasing the amount of debt TVA must service. Also, Congress may lower TVA's debt ceiling or broaden the types of financial instruments that are covered by the ceiling. Either of these scenarios may also restrict TVA's ability to raise capital to maintain power program assets, to construct additional generation facilities, to purchase power under long-term power purchase agreements, or to meet regulatory requirements. In addition, approaching or reaching the debt ceiling may lead to increased legislative or regulatory oversight of TVA's activities and could lead to negative credit rating actions.

***Demand for electricity may be significantly reduced, negatively affecting TVA's cash flows, results of operations, and financial condition.***

Some of the factors that could reduce the demand for electricity include, but are not limited to, the following:

*Economic downturns.* Renewed economic downturns in TVA's service area or other parts of the United States could reduce overall demand for power and thus reduce TVA's power sales and cash flows, especially if TVA's industrial customers reduce their operations and thus their consumption of power.

*Loss of customers.* The loss of customers could have a material adverse effect on TVA's cash flows, results of operations, or financial condition, and could result in higher rates.

*Change in technology.* Research and development activities are ongoing to improve existing and alternative technologies to produce electricity, including gas turbines, wind turbines, fuel cells, microturbines, solar cells, and distributed generation devices. It is possible that advances in these or other alternative technologies could reduce the costs of electricity production from alternative technologies to a level that will enable these technologies to compete effectively with traditional power plants like TVA's. To the extent these technologies become a more cost-effective option for certain customers, TVA's sales to these customers could be reduced, negatively affecting TVA's cash flows, results of operations, and financial condition.

*Increased Energy Efficiency and Conservation.* Increasingly efficient use of energy as well as conservation efforts may reduce the demand for power. Such a reduction could have a significant impact on TVA, especially if it occurs during an economic downturn or a period of slow economic growth, and could negatively affect TVA's cash flows, results of operations, and financial condition, and could result in higher rates and changes to how TVA operates.

***Catastrophic events may negatively affect TVA's cash flows, results of operations, and financial condition.***

TVA's cash flows, results of operations, and financial condition may be adversely affected, either directly or indirectly, by catastrophic events such as fires, earthquakes, explosions, solar events, droughts, floods, tornadoes, wars, national emergencies, terrorist activities, pandemics, and other similar destructive events. These events, the frequency and severity of which are unpredictable, may, among other things, lead to legislative or regulatory changes that affect the construction, operation, and decommissioning of nuclear units and the storage of spent fuel; limit or disrupt TVA's ability to generate and transmit power; reduce the demand for power; disrupt fuel or other supplies; require TVA to produce additional tritium; lead to an economic downturn; require TVA to make substantial capital investments for repairs, improvements, or modifications; and create instability in the financial markets. If costs to construct nuclear units significantly increase or the public determines that nuclear power is less desirable as a result of any of these events, TVA may be forced to forego any future construction at its nuclear facilities or shut them down. This would make it substantially more difficult for TVA to obtain greater amounts of its power supply from low or zero carbon emitting resources and to replace its generation capacity when faced with retiring or idling certain coal-fired units. Additionally, some studies have predicted that climate change may cause certain catastrophic events, such as droughts and floods, to occur more frequently in the Tennessee Valley region, which could adversely impact TVA.

***Weather conditions may influence TVA's ability to supply power and its customers' demands for power.***

Extreme temperatures may increase the demand for power and require TVA to purchase power at high prices to meet the demand from customers, while unusually mild weather may result in decreased demand for power and lead to reduced electricity sales. Also, in periods of below normal rainfall or drought, TVA's low-cost hydroelectric generation may be reduced, requiring TVA to purchase power or use more costly means of producing power. Additionally, periods of either high or low levels of rainfall may reduce river levels and impede river traffic, impacting barge deliveries of critical items such as coal and equipment for power facilities. Furthermore, high river water temperatures in the summer may limit TVA's ability to use water from the Tennessee or Cumberland River systems for cooling at certain of TVA's generating facilities, thereby limiting its ability to operate these generating facilities.

***TVA may incur delays and additional costs in power plant construction and may be unable to obtain necessary regulatory approval.***

TVA is completing the construction of Watts Bar Unit 2, evaluating the completion of Bellefonte Unit 1, scheduling major upgrades to and modernization of current generating plants, and evaluating construction of more generating facilities in the future. These activities involve risks of overruns in the cost of labor and materials as well as risks of schedule delays, which may result from, among other things, changes in regulations, lack of productivity, human error, and the failure to schedule activities properly. In addition, if TVA does not obtain the necessary regulatory approvals or licenses, is otherwise unable to complete the development or construction of a facility, decides to cancel construction of a facility, or incurs delays or cost overruns in connection with constructing a facility, TVA's cash flows, financial condition, and results of operations could be negatively affected. Further, if construction projects are not completed according to specifications, TVA may suffer, among other things, delays in receiving licenses, reduced plant efficiency, reduced transmission system integrity and reliability, and higher operating costs.

***TVA is largely restricted to a defined service area.***

If demand for power in TVA's service area decreases, TVA's ability to expand its customer base would be constrained by its inability to pursue new customers outside its service area. Accordingly, the reduction in demand would have to be offset by such actions as reducing TVA's internal costs or increasing rates. Any failure of such measures to fully offset the reduced demand for power may negatively affect TVA's cash flows, results of operations, and financial condition.

***TVA's assumptions about the future may be inaccurate.***

TVA uses certain assumptions in order to develop its plans for the future. Such assumptions include economic forecasts, anticipated commodity prices, cost estimates, construction schedules, power demand forecasts, the appropriate generation mix to meet demand, and potential regulatory environments. Should these assumptions be inaccurate, or be superseded by subsequent events, TVA's plans may not be effective in achieving the intended results, which could negatively affect cash flows, results of operations, and financial condition, as well as TVA's ability to meet electricity demand and the way TVA conduct its business.

***Operating nuclear units subjects TVA to nuclear risks and may result in significant costs that adversely affect its cash flows, results of operations, and financial condition.***

TVA has six operating nuclear units, and has resumed construction of Watts Bar Unit 2, which TVA anticipates will be placed in service in CY 2015. Risks associated with these units include the following:

*Nuclear Risks.* A nuclear incident at one of TVA's facilities could have significant consequences including loss of life, damage to the environment, damage to or loss of the facility, and damage to non-TVA property. Although TVA carries certain types of nuclear insurance, the amount that TVA is required to pay in connection with a nuclear incident could significantly exceed the amount of coverage provided by insurance. Any nuclear incident in the United States, even at a facility that is not operated by or licensed to TVA, has the potential to impact TVA adversely by obligating TVA to pay up to \$114 million per year and a total of \$764 million per nuclear incident under the Price-Anderson Act and otherwise negatively affect TVA by, among other things, obligating TVA to pay retrospective insurance premiums, reducing the availability and affordability of insurance, increasing the costs of operating nuclear units, or leading to increased regulation or restriction on the construction, operation, and decommissioning of nuclear facilities. Moreover, Congress could impose revenue-raising measures on the nuclear industry to pay claims exceeding the limit for a single incident under the Price-Anderson Act. Further, the availability of insurance may be impacted by TVA's acts or omissions, such as a failure to properly maintain a facility, or events outside of TVA's control, such as an equipment manufacturer's inability to meet a guideline, specification, or requirement.



*Decommissioning Costs.* TVA maintains a Nuclear Decommissioning Trust ("NDT") for the purpose of providing funds to decommission its nuclear facilities. The NDT is invested in securities generally designed to achieve a return in line with overall equity market performance. TVA might have to make unplanned contributions to the NDT if, among other things:

The value of the investments in the NDT declines significantly, as it did during the 2008-2009 recession, or the investments fail to achieve the assumed real rate of return;

The decommissioning funding requirements are changed by law or regulation;

The assumed real rate of return on plan assets, which is currently five percent, is lowered by the TVA Board or is overly optimistic;

The actual costs of decommissioning are more than planned;

Changes in technology and experience related to decommissioning cause decommissioning cost estimates to increase significantly;

TVA is required to decommission a nuclear plant sooner than it anticipates; or

The NRC guidelines for calculating the minimum amount of funds necessary for decommissioning activities are significantly changed.

If TVA makes additional contributions to the NDT, the contributions may negatively affect TVA's cash flows, results of operations, and financial condition.

*Increased Regulation.* The NRC has broad authority to adopt requirements related to the licensing, operation, and decommissioning of nuclear generation facilities that can result in significant restrictions or requirements on TVA. If the NRC modifies existing requirements or adopts new requirements, TVA may be required to make substantial capital expenditures at its nuclear plants or make substantial contributions to the NDT. In addition, if TVA fails to comply with requirements promulgated by the NRC, the NRC has the authority to impose fines, shut down units, or modify, suspend, or revoke TVA's operating licenses.

***TVA may not be able to operate one or more of its nuclear power units.***

TVA has been experiencing issues with certain of its nuclear power units, including some issues that the NRC has considered to be of high significance. If these issues continue or if TVA is unable to correct the problems, TVA might voluntarily shut down one or more units or be ordered to do so by the NRC. In either case, placing the unit(s) back into operation could be a lengthy and expensive process, and TVA's cash flows, results of operations, financial condition, and reputation may be negatively affected.

***Additional NRC requirements may negatively affect TVA's cash flows, results of operations, and financial condition or impact TVA's ability to operate its nuclear facilities.***

In response to concerns raised by the Fukushima events, the NRC has required TVA, along with other utilities that operate nuclear facilities, to make substantial modifications at its nuclear facilities. Additionally, the NRC is requiring TVA to modify certain of its hydro and nuclear facilities to prevent damage to the nuclear facilities in the event of a catastrophic flood event. Complying with these requirements will require significant capital expenditures and may negatively affect TVA's cash flows, results of operations, financial condition, and reputation. Should TVA be unable to comply with the requirements, TVA may not be able to operate its nuclear facilities as currently contemplated by TVA's generation plans.

***TVA's generation and transmission assets or their supporting infrastructure may not operate as planned.***

Many of TVA's generation and transmission assets and their supporting infrastructure have been operated more often, or for more prolonged periods, than originally intended. Many of TVA's coal-fired units, for example, have been operating since the 1950s and have been in nearly constant service since they were completed. Additionally, certain of TVA's newer assets have experienced manufacturing defects in essential equipment. If TVA's generation and transmission assets or their supporting infrastructure fail to operate as planned or if necessary repairs or upgrades are delayed or cannot be completed as quickly as anticipated, or if necessary spare parts are unavailable, TVA, among other things:

May have to invest a significant amount of resources to repair or replace the assets or the supporting infrastructure;

May be unable to operate the assets for a significant period of time;

May have to operate less economical sources of power;

May have to purchase replacement power on the open market at prices greater than its generation costs;

May not be able to meet its contractual obligations to deliver power;

May not be able to maintain the integrity or reliability of the transmission system at normal levels;

May have to remediate collateral damage caused by a failure of the assets or the supporting infrastructure;

May have to increase its efforts to reduce encroachments by vegetation onto transmission lines to comply with applicable regulations;

May be required to invest substantially to meet more stringent reliability standards; and

May be unable to maintain insurance on affected facilities, or be required to pay higher premiums for coverage, unless necessary repairs or upgrades are made.

In addition, the failure of TVA's generation and transmission assets or their supporting infrastructure to perform as planned may cause health, safety, or environmental problems and may even result in events such as the failure of a dam, the failure of a containment pond, or an incident at a coal-fired, gas-fired, or nuclear facility. Any of these potential outcomes may negatively affect TVA's cash flows, results of operations, and financial condition.

***TVA's information technology assets may not operate as planned.***

All technology systems, no matter how robust, are potentially vulnerable to failures or breaches on account of, among other things, defects in the systems, human error, or physical or cyber attacks. Because of TVA's status as a governmental corporation and TVA's role as predominately the sole power provider for its service territory, TVA may be targeted by individuals, groups, or nation states for cyber attacks. Cyber attacks may target, among other things, TVA's generation facilities, transmission infrastructure, information technology systems, and network infrastructure. TVA's operations are extensively computerized, so a failure or breach of its information technology assets, whether caused by a cyber attack or otherwise, may significantly disrupt operations, including the generation and transmission of electricity, negatively affect TVA's cash flows, results of operations, and financial condition, pose health and safety risks, and result in the compromise of sensitive data. The theft, damage, or improper disclosure of sensitive data may also subject TVA to penalties and claims from third parties.

***TVA's organizational transformation efforts may fail.***

TVA has been working to improve its control systems, operating standards, and corporate culture. The failure to achieve or maintain improvements in these areas may contribute to the likelihood of incidents such as significant environmental events, delays in construction projects, or other operational or financial challenges that could adversely affect TVA's cash flows, results of operations, and financial condition.

***TVA's reputation may be negatively impacted.***

As with any company, TVA's reputation is a vital element of its ability to effectively conduct its business. TVA's reputation could be harmed by a variety of factors, including the failure of a generating asset or supporting infrastructure, significant delays in construction projects, acts or omissions of TVA management, or the perception of such acts or omissions, or a significant dispute with one of TVA's customers. Any deterioration in TVA's reputation may harm TVA's relationships with its customers and stakeholders, may increase TVA's cost of doing business, and may potentially lead to the imposition of additional laws and regulations that negatively affect the way TVA conducts its business.

***TVA's service reliability could be affected by problems at other utilities or at TVA facilities, or by the increase in intermittent sources of power.***

TVA's transmission facilities are directly interconnected with the transmission facilities of neighboring utilities and are thus part of the larger interstate power transmission grid. Certain of TVA's generation and transmission assets are critical to maintaining reliability of the transmission system. Additionally, TVA uses certain assets that belong to third parties to transmit power and maintain reliability. Accordingly, problems at other utilities as well as at TVA's facilities may cause interruptions in TVA's service to TVA's customers, increase congestion on the transmission grid, or reduce service reliability. In addition, the increasing contribution of intermittent sources of power such as wind and solar may place additional strain on TVA's system as well as on surrounding systems. If TVA suffers a service interruption, increased congestion, or reduced service reliability, TVA's cash flows, results of operations, financial condition, and reputation may be negatively affected.

***TVA's determination of the appropriate mix of generation assets may change.***

TVA has determined that its power generation assets should consist of a mixture of nuclear, coal-fired, natural gas-fired, and renewable power sources, including hydroelectric. In making this determination, TVA took various factors into consideration, including the anticipated availability of its nuclear units, the availability of non-nuclear facilities, the forecasted cost of natural gas, the forecasted demand for electricity, and the expense of adding additional air pollution controls to its coal-fired units. If any of these assumptions materially change or are overtaken by subsequent events, then TVA's generation mix may not adequately address its operational needs. Resolving such a situation may require capital expenditures or additional power purchases, and TVA's cash flows, results of operations, financial condition, and reputation may be negatively affected. Additionally, TVA is taking measures to maintain flexibility by keeping certain facilities and sites available as generation options. There are costs associated with maintaining these options that could impact TVA's flows, results of operation, financial condition, and reputation.

***Events which affect the supply of water in the Tennessee River system and Cumberland River system may interfere with TVA's ability to generate power.***

An inadequate supply of water in the Tennessee River system and Cumberland River system could negatively impact TVA's cash flows, results of operations, and financial condition by reducing generation not only at TVA's hydroelectric plants but also at its coal-fired and nuclear plants, which depend on water from the river systems near which they are located for cooling and for use in boilers where water is converted into steam to drive turbines. An inadequate supply of water could result, among other things, from periods of low rainfall or drought, the withdrawal of water from the river systems by governmental entities or others, and incidents affecting bodies of water not managed by TVA. While TVA manages the Tennessee River and a large portion of its tributary system in order to provide much of the water necessary for the operation of its power plants, the U.S. Army Corps of Engineers operates and manages other bodies of water upon which some of TVA's facilities rely. Events at these bodies of water or their associated hydroelectric facilities may interfere with the flow of water and may result in TVA's having insufficient water to meet the needs of its plants. If TVA has insufficient water to meet the needs of its plants, TVA may be required to reduce generation at its affected facilities to levels compatible with the available supply of water.

***TVA's supplies of fuel, purchased power, or other critical items may be disrupted.***

TVA purchases coal, uranium, natural gas, fuel oil, and electricity from a number of suppliers. Additionally, TVA purchases other items, such as anhydrous ammonia, liquid oxygen, or replacement parts that are critical to the operation of certain generation assets. Disruption in the acquisition or delivery of fuel, purchased power, or other critical supplies may result from a variety of physical and commercial events, political developments, legal actions, or environmental regulations affecting TVA's suppliers as well as from transportation or transmission constraints. If one of TVA's suppliers fails to perform under the terms of its contract with TVA, TVA might have to purchase replacement fuel, power, or other critical supplies, perhaps at a significantly higher price than TVA is entitled to pay under the contract. In some circumstances, TVA may not be able to recover this difference from the supplier. In addition, any disruption of TVA's supplies could require TVA to operate higher cost generation assets, thereby adversely affecting TVA's cash flows, results of operations, and financial condition. Moreover, if TVA is unable to acquire enough replacement fuel, power, or supplies, or does not have sufficient reserves to offset the loss, TVA may not be able to operate certain assets or provide enough power to meet demand, resulting in power curtailments, brownouts, or even blackouts.

***Failure to attract and retain an appropriately qualified workforce may negatively affect TVA's results of operations.***

TVA's business depends on its ability to recruit and retain key executive officers as well as skilled professional and technical employees. The inability to attract and retain an appropriately qualified workforce could adversely affect TVA's ability to, among other things, operate and maintain generation and transmission facilities, complete large construction projects such as Watts Bar Unit 2, and successfully implement its organizational transformation efforts. An extension of the salary freeze for federal employees may aggravate this issue.

***TVA is involved in various legal and administrative proceedings whose outcomes may affect TVA's finances and operations.***

TVA is involved in various legal and administrative proceedings and is likely to become involved in other legal proceedings in the future in the ordinary course of business, as a result of catastrophic events or otherwise. Although TVA cannot predict the outcome of the individual matters in which TVA is involved or will become involved, the resolution of these matters could require TVA to make expenditures in excess of established reserves and in amounts that could have a material adverse effect on TVA's cash flows, results of operations, and financial condition. Similarly, resolution of any such proceedings may require TVA to change its business practices or procedures and may require TVA to reduce emissions from its coal-fired units, including emissions of GHGs, to a greater extent than TVA had planned.

***TVA is subject to a variety of market risks that may negatively affect TVA's cash flows, results of operations, and financial condition.***

TVA is subject to a variety of market risks, including, but not limited to, commodity price risk, investment price risk, interest rate risk, counterparty credit and performance risk, and currency exchange rate risk.

*Commodity Price Risk.* Prices of commodities critical to TVA's operations, including coal, uranium, natural gas, fuel oil, crude oil, construction materials, emission allowances, and electricity, have been extremely volatile in recent years. If prices of these commodities increase, TVA's rates may increase.

*Investment Price Risk.* TVA is exposed to investment price risk in the NDT, its Asset Retirement Trust ("ART"), and its pension plan. If the value of the investments held in the NDT or the pension fund either decreases or fails to increase in accordance with assumed rates of return, TVA may be required to make substantial contributions to these funds.

*Interest Rate Risk.* Changes in interest rates may increase the amount of interest that TVA pays on new Bonds that it issues, decrease the return that TVA receives on short-term investments, decrease the value of the investments in the NDT, the ART, and TVA's pension fund, increase the amount of collateral that TVA is required to post in connection with certain of its derivative transactions, and increase the losses on the mark-to-market valuation of certain derivative transactions into which TVA has entered.

*Counterparty Credit and Performance Risk.* TVA is exposed to the risk that its counterparties will not be able to perform their contractual obligations. If TVA's counterparties fail to perform their obligations, TVA's cash flows, results of operations, and financial condition may be adversely affected. In addition, the failure of a counterparty to perform may make it difficult for TVA to perform its obligations, particularly if the counterparty is a supplier of electricity or fuel.

*Currency Exchange Rate Risk.* Over the next several years, TVA plans to spend a significant amount of capital on clean air projects, capacity expansion, and other projects. A portion of this amount may be spent on contracts that are denominated in one or more foreign currencies. The value of the U.S. dollar compared with other currencies has fluctuated widely in recent years, and, if not effectively managed, foreign currency exposure could negatively impact TVA's cash flows, results of operations, and financial condition.

***TVA's ability to use derivatives to hedge certain risks may be limited.***

On account of the Dodd-Frank Wall Street Reform and Consumer Protection Act and its implementing regulations, TVA has become subject to recordkeeping, reporting, and reconciliation requirements related to its derivative transactions. In addition, depending on how regulatory agencies interpret and implement the provisions of this act, TVA's hedging costs may increase, and TVA may have to post additional collateral and margin in connection with its derivative transactions. These occurrences may, among other things, negatively affect TVA's cash flows and cause TVA to reduce or modify its hedging activities, which could increase the risks to which TVA is exposed.

***TVA may be unable to meet its current cash requirements if TVA's access to the debt markets is limited.***

TVA uses cash provided by operations together with proceeds from power program financings and alternative financing arrangements to fund its current cash requirements. It is critical that TVA continues to have access to the debt markets in order to meet its cash requirements. The importance of having access to the debt markets is underscored by the fact that TVA, unlike many utilities, relies almost entirely on debt capital since TVA is not authorized to issue equity securities.

***TVA's credit ratings may be impacted by Congressional actions or by a downgrade of the United States's sovereign credit ratings.***

TVA's current credit ratings are not based solely on its underlying business or financial condition but are based to a large extent on the legislation that defines TVA's business structure. Key characteristics of TVA's business defined by legislation include (1) the TVA Board's ratemaking authority, (2) the current competitive environment, which is defined by the fence and the anti-cherry-picking provision, and (3) TVA's status as a corporate agency and instrumentality of the United States. Accordingly, if Congress takes any action that effectively alters any of these characteristics, TVA's credit ratings could be downgraded.

Although TVA Bonds are not obligations of the United States, TVA, as a corporate agency and instrumentality of the United States government, may be impacted if the sovereign credit ratings of the United States are downgraded. This occurred in August 2011, when one rating agency lowered its long-term rating on the United States and then lowered TVA's rating based on the application of the rating agency's government-related entities criteria. Among other things, an additional or further downgrade of the United States's sovereign credit ratings could have the following effects:

TVA's own credit ratings could be downgraded as a result of a downgrade of the United States's credit ratings.

The economy could be negatively impacted, resulting in reduced demand for electricity, increased expenses for borrowings, and increased cost of fuels, supplies, and other material required for TVA's operations.

***TVA, together with owners of TVA securities, may be impacted by additional or further downgrades of TVA's credit ratings.***

Additional or further downgrades of TVA's credit ratings may have material adverse effects on TVA's cash flows, results of operations, and financial condition as well as on investors in TVA securities. Among other things, a downgrade may have the following effects:

A downgrade could increase TVA's interest expense by increasing the interest rates that TVA pays on new Bonds that it issues. An increase in TVA's interest expense may reduce the amount of cash available for other purposes, which may result in the need to increase borrowings, to reduce other expenses or capital investments, or to increase power rates.

A downgrade may result in TVA's having to post collateral under certain physical and financial contracts that contain rating triggers.

A downgrade below a contractual threshold may prevent TVA from borrowing under three credit facilities totaling \$2.5 billion or posting letters of credit as collateral under these facilities. At September 30, 2013, there were \$0.8 billion of letters of credit outstanding under these facilities. If TVA were no longer able to post letters of credit as collateral, TVA's liquidity would be negatively affected, for TVA would likely have to post cash as collateral in lieu of letters of credit.

A downgrade may lower the price of TVA securities in the secondary market, thereby hurting investors who sell TVA securities after the downgrade and diminishing the attractiveness and marketability of TVA securities.

***TVA's financial control system cannot guarantee that all control issues and instances of fraud or errors will be detected.***

No financial control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control system are met, and no evaluation of financial controls can provide absolute assurance that all control issues and instances of fraud or errors can be detected. The design of any system of financial controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

***Loss of a quorum of the TVA Board could limit TVA's ability to adapt to meet changing business conditions.***

Under the TVA Act, a quorum of the TVA Board is five members. Appointment of a member of the TVA Board requires confirmation by the U.S. Senate following appointment by the President. Further, TVA Board members may not continue in office indefinitely until a successor is appointed. The TVA Board is responsible for, among other things, establishing the rates TVA charges for power as well as TVA's long-term objectives, policies, and plans. Accordingly, loss of a quorum for an extended period of time would impair TVA's ability to change rates and to modify these objectives, policies, and plans. Such an impairment would likely have a negative impact on TVA's ability to respond to significant changes in technology, the regulatory environment, or the industry overall and, in turn, negatively affect TVA's cash flows, results of operations, and financial condition.

***Payment of principal and interest on TVA securities is not guaranteed by the United States.***

Although TVA is a corporate agency and instrumentality of the United States government, TVA securities are not backed by the full faith and credit of the United States. If TVA were to experience extreme financial difficulty and were unable to make payments of principal or interest on its Bonds, the federal government would not be legally obligated to prevent TVA from defaulting on its obligations. Principal and interest on TVA securities are payable solely from TVA's net power proceeds. Net power proceeds are the remainder of TVA's gross power revenues after deducting the costs of operating, maintaining, and administering its power properties 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 from the sale or other disposition of any power facility or interest therein.

***The market for TVA securities might be limited.***

Although many TVA Bonds are listed on stock exchanges, there can be no assurances that any market will develop or continue to exist for any Bonds. Additionally, no assurances can be made as to the ability of the holders to sell their Bonds or as to the price at which holders will be able to sell their Bonds. Future trading prices of Bonds will depend on many factors, including prevailing interest rates, the then-current ratings assigned to the Bonds, the amount of Bonds outstanding, the time remaining until the maturity of the Bonds, the redemption features of the Bonds, the market for similar securities, and the level, direction, and volatility of interest rates generally, as well as the liquidity of the markets for those securities.

If a particular series of Bonds is offered through underwriters, those underwriters may attempt to make a market in the Bonds. Dealers other than underwriters may also make a market in TVA securities. However, the underwriters and dealers are not obligated to make a market in any TVA securities and may terminate any market-making activities at any time without notice.

In addition, legal limitations may affect the ability of banks and others to invest in Bonds. For example, national banks may purchase TVA Bonds for their own accounts in an amount not to exceed 10 percent of unimpaired capital and surplus. Also, TVA 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.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

TVA holds personal property in its own name but holds real property as agent for the United States of America. TVA may acquire real property as an agent of the United States by negotiated purchase or by eminent domain.

**Generating Properties**

At September 30, 2013, TVA-operated generating assets consisted of 46 active coal-fired units and 14 inactive coal-fired units, 6 nuclear units, 109 conventional hydroelectric units, four pumped-storage units (all out of service at September 30, 2013, although they are expected to be returned to service later in 2014), 11 combined-cycle power blocks, 87 simple-cycle units (with four units out of service), 5 diesel generator units, one wind energy site (out of service), and 16 solar sites. In addition, TVA has biomass cofiring potential at its coal-fired sites. See Item 1, Business — *Power Supply* — *Net Capability* for a chart that indicates the location, capability, and in-service dates for certain of these properties, which chart is incorporated by reference into this Item 2, Properties. As of September 30, 2013, 24 of the simple-cycle combustion turbine units were leased to private entities and leased back to TVA under long-term leases. In addition, TVA is leasing the three Caledonia combined-cycle power blocks under a long-term lease. TVA is in the process of constructing additional generating assets. For a discussion of these assets, see Item 1, Business — *Cleaner Energy Initiatives*.



## **Transmission Properties**

TVA's transmission system interconnects with systems of surrounding utilities and consists primarily of the following assets:

- Approximately 2,500 circuit miles of 500 kilovolt, 11,400 circuit miles of 161 kilovolt, and 2,200 circuit miles of other voltage transmission lines;
- 513 transmission substations, power switchyards, and switching stations; and
- 1,278 customer connection points (customer, generation, and interconnection).

At September 30, 2013, certain qualified technological equipment and other software related to TVA's transmission system were leased to private entities and leased back to TVA under long-term leases.

## **Natural Resource Stewardship Properties**

TVA operates and maintains 49 dams and manages the following natural resource stewardship properties:

- Approximately 11,000 miles of reservoir shoreline;
- Approximately 293,000 acres of reservoir land;
- Approximately 650,000 surface acres of reservoir water; and
- Approximately 80 public recreation areas throughout the Tennessee Valley, including campgrounds, day-use areas, and boat launching ramps.

Additionally, TVA manages over 170 agreements for commercial recreation (such as campgrounds and marinas).

As part of its stewardship responsibilities, TVA approval is required to be obtained before any obstruction affecting navigation, flood control, or public lands can be constructed in or along the Tennessee River and its tributaries.

## **Buildings**

TVA has a variety of buildings throughout its service area in addition to the buildings located at its generation and transmission facilities, including office buildings, customer service centers, power service centers, warehouses, visitor centers, and crew quarters. The most significant of these buildings are the Knoxville Office Complex and the Chattanooga Office Complex. TVA also has a significant number of buildings in Muscle Shoals, Alabama, and is implementing strategies to further reduce its Muscle Shoals real property holdings.

## **Disposal of Property**

Under the TVA Act, TVA has broad authority to dispose of personal property but only limited authority to dispose of real property. The primary, but not exclusive, sources of TVA's authority to dispose of real property are briefly described below:

- Under section 31 of the TVA Act, TVA has authority to dispose of surplus real property at a public auction.
- Under section 4(k) of the TVA Act, TVA can dispose of real property for certain specified purposes, including providing replacement lands for certain entities whose lands were flooded or destroyed by dam or reservoir construction and to grant easements and rights-of-way upon which are located transmission or distribution lines.
- Under section 15d(g) of the TVA Act, TVA can dispose of real property in connection with the construction of generating plants or other facilities under certain circumstances.
- Under 40 U.S.C. § 1314, TVA has authority to grant easements for rights-of-way and other purposes.

In addition, the Basic Tennessee Valley Authority Power Bond Resolution adopted by the TVA Board on October 6, 1960, as amended on September 28, 1976, October 17, 1989, and March 25, 1992 (the "Basic Resolution"), prohibits TVA from mortgaging any part of its power properties and from disposing of all or any substantial portion of these properties unless TVA provides for a continuance of the interest, principal, and sinking fund payments due and to become due on all outstanding Bonds, or for the retirement of such Bonds.

## **ITEM 3. LEGAL PROCEEDINGS**

From time to time, TVA is party to or otherwise involved in lawsuits, claims, proceedings, investigations, and other legal matters ("Legal Proceedings") that have arisen in the ordinary course of conducting TVA's activities, as a result of catastrophic events or otherwise. While the outcome of the Legal Proceedings to which TVA is a party cannot be predicted with certainty, any adverse outcome to a Legal Proceeding involving TVA may have a material adverse effect on TVA's cash flows, results of operations, and financial condition.



For a discussion of Legal Proceedings involving TVA, see Note 20 — *Legal Proceedings*, which discussion is incorporated by reference into this Item 3.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Not applicable.

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected financial data for the years 2009 through 2013 should be read in conjunction with the audited financial statements and notes thereto (collectively, the "Consolidated Financial Statements") presented in Item 8, Financial Statements and Supplementary Data. Certain reclassifications have been made to the 2009, 2010, and 2011 financial statement presentations to conform to the 2012 and 2013 presentations.

**Selected Financial Data<sup>(1)(2)</sup>**  
For the years ended, or at, September 30  
(dollars in millions)

	2013	2012	2011	2010	2009
<b>Sales (millions of kWh)</b>	161,925	165,255	167,730	173,662	163,804
<b>Peak load (MW)</b>	28,726	31,098	31,434	31,778	32,572
<b>Operating revenues</b>	\$ 10,956	\$ 11,220	\$ 11,841	\$ 10,874	\$ 11,255
<b>Fuel expense</b>	\$ 2,820	\$ 2,680	\$ 2,926	\$ 2,092	\$ 3,114
<b>Purchased power expense</b>	\$ 1,027	\$ 1,189	\$ 1,427	\$ 1,127	\$ 1,631
<b>Operating and maintenance expense</b>	\$ 3,428	\$ 3,510	\$ 3,617	\$ 3,232	\$ 2,395
<b>Net interest expense</b>	\$ 1,226	\$ 1,273	\$ 1,305	\$ 1,294	\$ 1,272
<b>Net income</b>	\$ 271	\$ 60	\$ 162	\$ 972	\$ 726
<b>Construction expenditures</b>	\$ 2,051	\$ 2,119	\$ 2,417	\$ 2,015	\$ 1,793
<b>Total assets</b>	\$ 46,106	\$ 47,334	\$ 46,393	\$ 42,753	\$ 40,017
<b>Financial obligations</b>					
<b>Long-term debt, net<sup>(3)</sup></b>					
Long-term power bonds, net	\$ 22,315	\$ 20,269	\$ 22,412	\$ 22,389	\$ 21,788
Long-term debt of variable interest entities	\$ 1,311	\$ 981	\$ —	\$ —	\$ —
Total long-term debt, net	\$ 23,626	\$ 21,250	\$ 22,412	\$ 22,389	\$ 21,788
<b>Current debt, net<sup>(3)</sup></b>					
Short-term debt, net	\$ 2,432	\$ 1,507	\$ 482	\$ 27	\$ 844
Current maturities of power bonds	\$ 32	\$ 2,308	\$ 1,537	\$ 1,008	\$ 8
Current maturities of long-term debt of variable interest entities	\$ 30	\$ 13	\$ —	\$ —	\$ —
Total short-term debt, net	\$ 2,494	\$ 3,828	\$ 2,019	\$ 1,035	\$ 852
<b>Total debt<sup>(3)</sup></b>	\$ 26,120	\$ 25,078	\$ 24,431	\$ 23,424	\$ 22,640
<b>Capital leases<sup>(4)</sup></b>	\$ 43	\$ 35	\$ 5	\$ 47	\$ 77
<b>Membership interests of variable interest entity subject to mandatory redemption<sup>(4)</sup></b>	\$ 40	\$ —	\$ —	\$ —	\$ —
<b>Leaseback obligations</b>	\$ 761	\$ 1,203	\$ 1,282	\$ 1,353	\$ 1,403
<b>Energy prepayment obligations</b>	\$ 510	\$ 612	\$ 717	\$ 822	\$ 927

**Notes**

(1) See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations for a description of special items in 2013, 2012, and 2011 affecting results in those years.

(2) See Item 1A, Risk Factors and Note 20 for a discussion of risks and contingencies that could affect TVA's future financial results.

(3) See Note 8, Note 10 — *Membership Interests of VIE Subject to Mandatory Redemption* and Note 12 — *Debt Outstanding*.

(4) Included in Accounts payable and accrued liabilities and Other long-term liabilities on the balance sheets.



## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*(Dollars in millions except where noted)*

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the Tennessee Valley Authority ("TVA"), its operations, and its present business environment. The MD&A is provided as a supplement to — and should be read in conjunction with — TVA's consolidated financial statements and the accompanying notes thereto contained in Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K for the fiscal year ended September 30, 2013 (the "Annual Report"). The MD&A includes the following sections:

- Business and Vision - a general description of its business, its objectives, its strategic priorities, and its core capabilities;
- Executive Overview - a general overview of TVA's activities and results of operations for 2013;
- Results of Operations - an analysis of TVA's consolidated results of operations for the three years presented in its consolidated financial statements;
- Liquidity and Capital Resources - an analysis of cash flows; a description of aggregate contractual obligations; and overview of financial position;
- Key Initiatives and Challenges - an overview of current and future challenges facing TVA;
- Critical Accounting Policies and Estimates - a summary of accounting policies that require critical judgments and estimates;
- Fair Value Measurements - a description of TVA's investments and derivative instruments and valuation considerations;
- Legislative and Regulatory Matters - a summary of laws and regulations that may impact TVA; and
- Risk Management Activities - a description of TVA's risk governance and exposure to various market risks.

### Business and Vision

#### *Business*

TVA operates the nation's largest public power system. At September 30, 2013, TVA provided electricity to approximately 50 large industrial customers, six federal agency customers, and 155 local power company customers of TVA ("LPCs") that serve over nine million people in parts of seven southeastern states. TVA generates virtually all of its revenues from the sale of electricity, and in 2013 revenues from the sale of electricity totaled \$10.8 billion. As a wholly-owned agency and instrumentality of the United States, however, TVA differs from other electric utilities in a number of ways:

1. TVA is a government corporation.
2. The area in which TVA sells power is limited by the Tennessee Valley Authority Act of 1933, as amended (as amended, the "TVA Act"), under a provision known as the "fence"; however, another provision of federal law known as the "anti-cherrypicking" provision generally protects TVA from being forced to provide access to its transmission lines to others for the purpose of delivering power to customers within substantially all of TVA's defined service area.
3. The rates TVA charges for power are set solely by the TVA Board of Directors (the "TVA Board") and are not set or reviewed by another entity, such as a public utility commission. In setting rates, however, the TVA Board is charged by the TVA Act to have due regard for the primary objectives of the TVA Act, including the objective that power be sold at rates as low as feasible.
4. TVA is not authorized to raise capital by issuing equity securities. TVA relies primarily on cash from operations and proceeds from power program borrowings to fund its operations and is authorized by the TVA Act to issue bonds, notes, or other evidences of indebtedness ("Bonds") in an amount not to exceed \$30.0 billion outstanding at any given time. Although TVA's operations were originally funded primarily with appropriations from Congress, TVA has not received any appropriations from Congress for any activities since 1999 and, as directed by Congress, has funded essential stewardship activities primarily with power revenues.

### *TVA's Renewed Vision*

While TVA's mission has not changed since it was established in 1933, the environment in which TVA operates continues to evolve. The business and economic environment has become more challenging due to economic conditions, tougher new environmental standards, the need to modernize its generating fleet, and changing customer needs. In 2010, the TVA Board adopted a renewed vision to help TVA lead the Tennessee Valley region and the nation toward a cleaner and more secure energy future, relying more on nuclear power and energy efficiency and less on coal. With this renewed vision, TVA intends to be:

- The nation's leader in improving air quality;
- The nation's leader in increased nuclear production; and
- The Southeast's leader in increased energy efficiency.

In 2011, TVA completed an Integrated Resource Plan ("IRP") which recommended a planning direction consistent with TVA's Environmental Policy and fully supports TVA's renewed vision. The IRP guides TVA in meeting its customers' power needs while addressing the substantial challenges facing the electric utility industry. The recommended planning direction provides flexibility to make sound choices as economic and regulatory changes occur. Resource recommendations in the plan balance costs, energy efficiency, system reliability, and environmental responsibility for TVA's stakeholders. TVA is currently undertaking a refresh of the 2011 IRP with the new report expected to be published in 2015.

TVA's vision sets the stage for its strategic planning process that includes strategic objectives, initiatives, and scorecards for performance designed to provide clear direction for improving TVA's core business.

### *Linking the Vision to Performance*

During 2013, TVA set measures and evaluated its operational performance by focusing on seven key indicators. The 2013 results compared with targets for these key indicators are reflected in the following chart.

Corporate Measure	Results Achieved	Threshold	Target	Stretch
Corporate total spend (\$ millions)	\$766	\$809	\$792	\$774
Total financing obligations over productive assets	75.3%	75.6%	75.2%	74.8%
Nuclear operating availability factor	96.8%	96.1%	97.2%	98.1%
Critical coal seasonal equivalent forced outage rate	5.3%	7.1%	4.6%	2.5%
Combined cycle seasonal equivalent forced outage rate	7.6%	3.6%	2.7%	1.6%
Clean energy percentage	49%	41%	43%	45%
Safe workplace (recordable injuries/hours worked)	.46	1.01	.86	.71

TVA added the clean energy percentage measure in 2013. The measure reflects TVA's commitment to be a leader in cleaner energy as stated in its vision. Nuclear generation, energy efficiency and renewable energy (wind, biomass, solar and hydro) purchases/generation are expressed as a percentage of all purchased power and TVA-operated generation.

### **Executive Overview**

Demand for electricity is contingent on a variety of factors including the economy, weather patterns, and customer usage. The continuing weak economy, loss of a major customer, and growing adoption of energy conservation by customers has resulted in lower demand for TVA power. Although weather patterns were closer to normal for the year ended September 30, 2013 as compared to the same period of 2012, sales were two percent lower primarily due to TVA's largest directly served customer ceasing operations in May 2013 and to a lesser extent from the slow economic recovery in the Tennessee Valley. This decrease in demand from customers contributed to an increase in off-system sales as a result of having excess generation available for resale during 2013.

TVA's net income for the years ended September 30, 2013 and 2012, was \$271 million and \$60 million, respectively. Base revenue decreased \$230 million for the year ended September 30, 2013, as compared to the same period of 2012. Revenue from the recovery of fuel costs decreased \$55 million for the year ended September 30, 2013, as compared to the

same period of 2012 due in part to higher hydroelectric generation. TVA's 29 hydroelectric dams produced more electricity in 2013 than any year in the agency's 80-year history.

Fuel and purchased power costs decreased for the year ended September 30, 2013, as compared to the same period of 2012 primarily due to increased hydroelectric generation resulting from increased rainfall and runoff during 2013 as compared to 2012. The increase in hydroelectric generation helped to mitigate the increase in fuel costs and lessen the need to purchase power to meet demand. Operating and maintenance costs decreased for the year ended September 30, 2013, as compared to the same period of 2012 primarily due to costs related to post-employment benefits and the timing and duration of outage and maintenance work on nuclear and fossil units. Depreciation expense was also lower during 2013 than 2012 primarily due to the effects of accelerated depreciation of coal-fired units which were idled prior to or early in 2013.

TVA's nuclear program continues to focus on resolving several regulatory items including implementing the orders and guidance stemming from the lessons learned from the events that occurred in 2011 at the Fukushima Daiichi Nuclear Power Plant ("Fukushima events"), implementing fire protection program changes at Browns Ferry Nuclear Plant ("Browns Ferry"), resolving the Nuclear Regulatory Commission ("NRC") finding of "high safety significance" and other findings at Browns Ferry, and resolving NRC findings around Sequoyah Nuclear Plant ("Sequoyah") and Watts Bar Nuclear Plant ("Watts Bar") hydrology. TVA's nuclear program is also focused on ensuring a seamless integration of Watts Bar Unit 2, which is under construction, into the existing nuclear fleet.

Near-term, TVA is initiating a series of actions to mitigate the effects of lower demand, uncertain weather patterns and operational and environmental challenges resulting in rate pressures. Projecting slower to no growth in the near future, TVA is making operational changes to its generating fleet, continuing cost reduction initiatives across all business units, including staffing reduction recommendations resulting from a recently-conducted organizational study, and other initiatives with a goal of keeping its rates competitive. TVA's priorities for 2014 and beyond include bringing operating and maintenance expenses in line with revenues, completing Watts Bar Unit 2, evaluating the remainder of its coal-fired fleet, preserving Bellefonte Nuclear Plant ("Bellefonte") as an option for future generation, continuing to explore small modular reactor technology, updating its Integrated Resource Plan, and focusing on attracting and retaining jobs for the Tennessee Valley region. The TVA Board approved a non-fuel base rate increase on wholesale rates for 2014 at its August 2013 board meeting which is intended to generate \$190 million in additional revenues.

Longer-term, TVA faces challenges related to fluctuating fuel prices and compliance with current and emerging environmental laws and regulations. In order to comply with these laws and regulations, TVA may install clean air equipment on coal-fired units and replace generating capacity of idled/retired coal-fired units with cleaner-emissions nuclear and gas-fired units. Meeting these needs will require significant capital expenditures on TVA's part. TVA plans to meet these needs through a combination of Bonds, alternative financing arrangements, operating efficiency initiatives, and rates. Although TVA is constrained by the TVA Act, which authorizes TVA to issues Bonds in an amount not to exceed \$30.0 billion outstanding at any one time, TVA management believes that the challenges described above can be met without this limit becoming an issue.

## Results of Operations

### *Sales of Electricity*

Sales of electricity accounted for virtually all of TVA's operating revenues in 2013, 2012, and 2011. TVA sells power at wholesale rates to LPCs that resell the power to their customers at retail rates. TVA also sells power to directly served customers, consisting primarily of federal agencies and customers with large or nonstandard loads. In addition, power that exceeds the needs of the TVA system is sold under exchange power arrangements with certain other power systems.

The following table compares TVA's energy sales statistics for the years ended September 30, 2013, 2012, and 2011:

<b>Sales of Electricity</b> For the years ended September 30 (millions of kWh)					
	<b>2013</b>	<b>Percent Change</b>	<b>2012</b>	<b>Percent Change</b>	<b>2011</b>
Local power companies	132,154	0.2 %	131,885	(3.8)%	137,042
Industries directly served	26,016	(14.6)%	30,446	6.6 %	28,563
Federal agencies and other	3,755	28.4 %	2,924	37.6 %	2,125
<b>Total sales of electricity</b>	<b>161,925</b>	<b>(2.0)%</b>	<b>165,255</b>	<b>(1.5)%</b>	<b>167,730</b>

Weather affects both the demand for TVA power and the price for that power. TVA uses degree days to measure the impact of weather on its power operations. Degree days measure the extent to which average temperatures in the five largest cities in TVA's service area vary from 65 degrees Fahrenheit.



## 2013 Compared to 2012

	Degree Days								
	2013	Normal <sup>(1)</sup>	Percent Variation	2012	Normal <sup>(1)</sup>	Percent Variation	2013	2012	Percent Change
Heating Degree Days	3,333	3,360	(0.8)%	2,598	3,381	(23.2)%	3,333	2,598	28.3 %
Cooling Degree Days	1,762	1,863	(5.4)%	2,116	1,863	13.6 %	1,762	2,116	(16.7)%
Total Degree Days	5,095	5,223	(2.5)%	4,714	5,244	(10.1)%	5,095	4,714	8.1 %

### Note

(1) This calculation is updated every five years in order to incorporate the then most recent 30 years. It was last updated in 2011. The 2013 Normal Heating Degree days differ from 2012 due to the occurrence of a leap year in 2012.

Sales of electricity decreased 3.3 billion kilowatt hours ("kWh") for the year ended September 30, 2013, compared to the year ended September 30, 2012, primarily due to a decrease in demand from industries directly served. The reduced demand was largely the result of a decrease in demand by TVA's largest directly served industrial customer, which began ceasing operations during the third quarter of 2013 (see 2013 Key Initiatives and Challenges — *Customers/Counterparties Risk*). Offsetting the decrease from industries directly served was an increase in sales to federal agencies and other due to an increase in off-system sales as TVA had excess generation available for resale.

## 2012 Compared to 2011

	Degree Days								
	2012	Normal <sup>(1)</sup>	Percent Variation	2011	Normal <sup>(1)</sup>	Percent Variation	2012	2011	Percent Change
Heating Degree Days	2,598	3,381	(23.2)%	3,418	3,360	1.7%	2,598	3,418	(24.0)%
Cooling Degree Days	2,116	1,863	13.6 %	2,123	1,863	14.0%	2,116	2,123	(0.3)%
Total Degree Days	4,714	5,244	(10.1)%	5,541	5,223	6.1%	4,714	5,541	(14.9)%

### Note

(1) This calculation is updated every five years in order to incorporate the then most recent 30 years. It was last updated in 2011. The 2012 Normal Heating Degree days differ from 2011 due to the occurrence of a leap year in 2012.

Sales of electricity decreased 2.5 billion kWh for the year ended September 30, 2012, compared to the year ended September 30, 2011, primarily due to a decrease in demand by LPCs. The reduced demand was largely the result of the milder than normal winter during 2012, as compared to the relatively normal winter during 2011. Heating degree days were 23.2 percent below normal during 2012, compared to 1.7 percent above normal during 2011. The customers of LPCs are largely residential and commercial customers whose usage of electricity is typically more temperature-sensitive than that of industrial customers. The decrease in sales of electricity to LPCs during this same period was partially offset by increased demand from industries directly served, primarily by TVA's largest directly served industrial customer, and increased sales to off-system customers.

## Financial Results

The following table compares operating results for 2013, 2012, and 2011:

### Summary Consolidated Statements of Operations

	2013	2012	2011
Operating revenues	\$ 10,956	\$ 11,220	\$ 11,841
Operating expenses	9,503	9,920	10,404
Operating income	1,453	1,300	1,437
Other income, net	44	33	30
Net interest expense	1,226	1,273	1,305
Net income	\$ 271	\$ 60	\$ 162

*Operating Revenues.* Operating revenues for 2013, 2012, and 2011 consisted of the following:

	Operating Revenues				
	2013	Percent Change	2012	Percent Change	2011
Electricity sales					
Local power companies	\$ 9,463	(0.5)%	\$ 9,506	(6.3)%	\$ 10,144
Industries directly served	1,199	(16.9)%	1,442	0.1 %	1,440
Federal agencies and other	167	21.0 %	138	(0.7)%	139
Electricity sales	10,829	(2.3)%	11,086	(5.4)%	11,723
Other revenue	127	(5.2)%	134	13.6 %	118
Total operating revenues	\$ 10,956	(2.4)%	\$ 11,220	(5.2)%	\$ 11,841

In April 2011, TVA implemented a revised wholesale rate structure. The rate structure provides price signals intended to encourage LPCs and end-use customers to shift energy usage from high-cost generation periods to less expensive generation periods. Under the revised wholesale structure, weather can positively or negatively impact both volume and effective rates, while only volume was impacted under the former wholesale structure. This is because the wholesale structure includes two components: a demand charge and an energy charge. The demand charge is based on the customer's peak monthly usage and increases as the peak increases. The energy charge is based on the kWhs used by the customer. In conjunction with the change, the rate structure was also revised to establish a separate fuel rate that includes the costs of natural gas, fuel oil, purchased power, coal, emission allowances, nuclear fuel and other fuel-related commodities; realized gains and losses on derivatives purchased to hedge the costs of such commodities; and tax equivalents associated with the fuel cost adjustments.

The changes in revenue components are summarized below:

	Variance 2013 vs. 2012	Variance 2012 vs. 2011
Fuel cost recovery	\$ (55)	\$ (355)
Base revenue	(230)	(294)
Other	21	28
Total	\$ (264)	\$ (621)

### 2013 Compared to 2012

Operating revenues decreased \$264 million for the year ended September 30, 2013, compared to the year ended September 30, 2012. The change was primarily due to a \$230 million decrease in base revenue and a \$55 million decrease in fuel cost recovery. The decrease in base revenue was attributable to a decrease in the effective base rate and lower sales of electricity. Partially offsetting these decreases was a slight increase in other revenue sources.

## 2012 Compared to 2011

Operating revenues decreased \$621 million for the year ended September 30, 2012, compared to the year ended September 30, 2011. The change was primarily due to a \$355 million decrease in fuel cost recovery and a \$294 million decrease in base revenue. Partially offsetting these decreases was a slight increase in other revenue sources. Of the \$355 million decrease in fuel cost recovery, \$269 million was due to lower fuel rates and \$86 million was due to lower sales of electricity. Lower demand as a result of milder weather conditions was the primary driver of the decrease in base revenues and accounted for \$209 million of the change.

See *Sales of Electricity* above for further discussion of the change in the volume of sales of electricity and *Operating Expenses* below for further discussion of the change in fuel expense.

*Operating Expenses.* Operating expenses for 2013, 2012, and 2011 consisted of the following:

Operating Expenses					
For the years ended September 30					
	2013	Percent Change	2012	Percent Change	2011
Fuel	\$ 2,820	5.2 %	\$ 2,680	(8.4)%	\$ 2,926
Purchased power	1,027	(13.6)%	1,189	(16.7)%	1,427
Operating and maintenance	3,428	(2.3)%	3,510	(3.0)%	3,617
Depreciation and amortization	1,680	(12.5)%	1,919	8.3 %	1,772
Tax equivalents	548	(11.9)%	622	(6.0)%	662
Total operating expenses	\$ 9,503	(4.2)%	\$ 9,920	(4.7)%	\$ 10,404

The following table summarizes TVA's net generation and purchased power in millions of kWh by generating source and the percentage of all electric power generated and purchased for the periods indicated:

Power Supply from TVA-Operated Generation Facilities and Purchased Power						
For the years ended September 30						
(millions of kWh)						
	2013		2012		2011	
Coal-fired	62,519	38%	58,584	34%	74,583	44%
Nuclear	52,100	32%	55,244	33%	49,562	29%
Hydroelectric	18,178	11%	12,817	8%	12,706	7%
Natural gas and/or oil-fired	13,102	8%	16,650	10%	6,809	4%
Renewable resources (non-hydro)	9	—%	25	—%	17	—%
Total TVA-operated generation facilities	145,908	89%	143,320	85%	143,677	84%
Purchased power	18,848	11%	25,294	15%	27,168	16%
Total power supply	164,756	100%	168,614	100%	170,845	100%

## 2013 Compared to 2012

Fuel expense increased \$140 million for the year ended September 30, 2013, as compared to the prior year, primarily due to the utilization of more expensive generation resources. During 2013, TVA completed four nuclear refueling outages on units at Watts Bar, Browns Ferry, and Sequoyah, which included a steam generator replacement project, compared to two nuclear refueling outages on units at Browns Ferry and Sequoyah during the prior year. This contributed to a six percent decrease in nuclear generation. A seven percent increase in coal-fired generation helped offset the decrease in nuclear generation and contributed to a \$197 million increase in fuel expense due to the higher price of coal as compared to nuclear fuel. While coal-fired generation contributed to the pricing variance, this was partially offset by a 39 percent increase in conventional hydroelectric generation, as a result of a 22 percent increase in rainfall and a 45 percent increase in runoff within the Upper Basin of the Tennessee Valley, and by a reduction in volume from lower sales of electricity of two percent, which decreased fuel expense by \$57 million.

Purchased power expense decreased \$162 million during the year ended September 30, 2013, as compared to the prior year, primarily due to a 25 percent decrease in the volume of power purchased. Higher market prices for natural gas contributed to the volume decrease, as TVA's primary source of purchased power is natural gas-fired generation. In addition, higher market prices for natural gas resulted in lower realized losses from TVA's financial trading program. Hydroelectric

generation also helped to mitigate the need to purchase power to meet demand. Lower volume reduced purchased power expense by \$303 million, but the higher market prices for the power that was purchased offset this reduction by \$141 million.

Operating and maintenance expense decreased \$82 million in 2013 as compared with 2012. The decrease was primarily attributable to a \$66 million decrease in coal-fired operations due to approximately 560 fewer outage days for coal-fired units compared with prior year. In addition, scheduled maintenance expense decreased \$58 million in 2013 as compared with 2012 in part due to the retirement or idling of less efficient units during 2012 and the first quarter of 2013. The decrease was also due to a \$60 million decrease in costs related to post-employment benefits primarily due to the increase in the discount rate assumption used in the actuarial valuation of the liability related to workers' compensation claims. These decreases were partially offset by a \$99 million increase in nuclear expense related to an increase in the number of planned nuclear refueling outages and projects in 2013 as compared with prior year.

Depreciation and amortization expense decreased \$239 million in 2013 as compared with 2012, primarily due to a decrease in the amount of accelerated depreciation recognized for certain coal-fired units to be idled. Incremental depreciation associated with the idling of coal-fired units was \$49 million for the year ended September 30, 2013, compared with \$308 million for the year ended September 30, 2012.

Tax equivalent expense decreased \$74 million in 2013, compared to the same period of the prior year. This change primarily reflects a decrease in gross revenues from the sale of power (excluding sales or deliveries to other federal agencies and off-system sales with other utilities) during 2012 compared to 2011, as tax equivalent payments are calculated based on the previous year's results.

#### 2012 Compared to 2011

Fuel expense decreased \$246 million for the year ended September 30, 2012, as compared to the prior year. Overall favorable fuel rates, as a result of the change in the mix of generation resources, accounted for \$235 million of the decrease. Coal-fired generation decreased 21 percent while natural gas-fired generation was 145 percent higher as compared to the prior year. This increase was primarily due to greater capacity as a result of the acquisition of the Magnolia Combined-Cycle Gas Plant ("Magnolia") and the completion of the John Sevier Combined Cycle Facility ("John Sevier CCF") and was also due to the increased use of natural gas-fired generation as a result of lower gas prices. The average Henry Hub natural gas spot price in 2012 was \$2.73 per mmBtu, which was 34 percent lower than the average price for the prior year. Nuclear generation also helped offset the reduction in coal-fired generation as it increased 11 percent compared to the prior year due to fewer refueling outages. Lower sales of electricity led to a decrease in overall generation, which accounted for the remaining \$11 million of the decrease in fuel expense.

Purchased power expense decreased \$238 million in 2012 from 2011 primarily due to a decrease in the average price of purchased power of 11 percent, which was largely the result of favorable natural gas prices. Lower natural gas prices reduced purchased power expense by \$140 million. In addition, purchased power volume decreased by seven percent, primarily as a result of TVA using its own sources of generation as opposed to purchasing power. This reduced purchased power expense by \$98 million in 2012 as compared to the prior year.

Operating and maintenance expense decreased \$107 million in 2012 from 2011. The primary drivers of this decrease were a reduction of \$53 million in nuclear operation expenses due to fewer nuclear refueling outages in 2012, as compared to the prior year, and a decrease in contractor and consultant expense of \$37 million. The decrease in contractor and consultant expense was primarily the result of cost savings initiatives undertaken in 2012 in order to offset lower sales and revenues. Other cost saving initiatives undertaken during 2012 included the identification of productivity enhancements to improve the overall cost effectiveness of existing programs and projects as well as project prioritization and reductions in discretionary spending.

Depreciation and amortization expense increased \$147 million in 2012 over 2011 primarily due to additional depreciation of \$308 million on certain idled coal-fired units and due to depreciation expense on net plant additions. These increases were partially offset by a \$155 million decrease in amortization expense due to the treatment of certain regulatory assets as a result of the approval of Bellefonte Unit 1 in August 2011. See Note 1 — *Property, Plant, and Equipment, and Depreciation*.

Tax equivalent expense decreased \$40 million in 2012 as compared to 2011. This change is primarily attributable to the increase in the fuel cost-related tax equivalent regulatory liability in 2011 as compared to 2010. The fuel cost-related tax equivalent regulatory liability, which is equal to five percent of the fuel-cost related revenues, increased in 2011 due to the wholesale rate structure implemented on April 1, 2011. Tax equivalent expenses related to fuel cost-related revenues are recognized in the same period the revenues are recognized. Tax equivalent expenses related to all other revenues are recognized in the year paid.

TVA calculates tax equivalent expense by subtracting the prior year fuel cost-related tax equivalent regulatory liability from the tax equivalent payments made to the states and counties and then adding back the current year fuel cost-related tax equivalent liability.

*Interest Expense.* Interest expense and interest rates for 2013, 2012, and 2011 were as follows:

Interest Expense For the years ended September 30					
	2013	Percent Change	2012	Percent Change	2011
Interest expense <sup>(1)</sup>					
Interest expense	\$ 1,394	(3.5)%	\$ 1,444	0.9 %	\$ 1,431
Allowance for funds used during construction and nuclear fuel expenditures	(168)	(1.8)%	(171)	35.7 %	(126)
Net interest expense	<u>\$ 1,226</u>	<u>(3.7)%</u>	<u>\$ 1,273</u>	<u>(2.5)%</u>	<u>\$ 1,305</u>
	2013	Percent Change	2012	Percent Change	2011
Interest rates (average)					
Long-term outstanding power bonds <sup>(2)</sup>	5.725%	(2.3)%	5.860%	1.1 %	5.799%
Long-term debt of VIE	4.824%	(1.0)%	4.874%	100.0 %	—
Membership interests of variable interest entity subject to mandatory redemption	6.887%	100.0 %	—%	— %	—%
Discount notes	0.078%	(1.3)%	0.079%	(42.3)%	0.137%
Blended	5.273%	(5.7)%	5.589%	(2.2)%	5.712%

**Notes**

(1) Interest expense includes interest on long-term debt obligations, including amortization of debt discounts, issuance, and reacquisition costs, net.

(2) The average interest rates on long-term debt obligations reflected in the table above are calculated using an average of long-term debt balances at the end of each month in the periods depicted and interest expense for those periods.

## 2013 Compared to 2012

Net interest expense decreased \$47 million for the year ended September 30, 2013. This was primarily attributable to a decrease in interest expense of \$78 million as a result of a decrease in the average interest rate of TVA's outstanding debt. This was partially offset by a \$31 million increase primarily due to the amortization of debt reacquisition cost as a result of prior year refinancings and due to the financing of the John Sevier CCF. See Note 8.

## 2012 Compared to 2011

Net interest expense decreased \$32 million for the year ended September 30, 2012. This was primarily the result of a \$45 million increase in the amount of capitalized interest related to allowance for funds used during construction ("AFUDC") as a result of ongoing construction activities at Watts Bar Unit 2. This was partially offset by a \$13 million increase in interest expense primarily due to an increase of \$34 million related to the financing of the John Sevier CCF. See Note 8 and Note 12 — *Secured Debt of VIEs*.

## Liquidity and Capital Resources

### *Sources of Liquidity*

To meet cash needs and contingencies, TVA depends on various sources of liquidity. TVA's primary sources of liquidity are cash from operations and proceeds from the issuance of short-term and long-term debt. Current liabilities may exceed current assets from time to time in part because TVA uses short-term debt to fund short-term cash needs as well as to pay scheduled maturities and other redemptions of long-term debt. The daily balance of cash and cash equivalents maintained is based on near-term expectations for cash expenditures and funding needs.

In addition to cash from operations and proceeds from the issuance of short-term and long-term debt, TVA's sources of liquidity include a \$150 million credit facility with the U.S. Treasury, three long-term revolving credit facilities totaling \$2.5 billion, and proceeds from any other financing arrangements such as lease financings, call monetization transactions, sales of assets, and sales of receivables and loans. Management expects these sources, certain of which are described below, to provide adequate liquidity to TVA for the foreseeable future.

The TVA Act authorizes TVA to issue Bonds in an amount not to exceed \$30.0 billion outstanding at any time. At September 30, 2013, TVA had \$24.8 billion of Bonds outstanding (not including noncash items of foreign currency exchange loss of \$43 million and net discount on sale of Bonds of \$85 million). Due to this limit on the amount of outstanding Bonds, TVA may

not be able to use Bonds to finance all of the capital investments planned over the next decade. However, TVA believes that other forms of financing not subject to the limit on Bonds, including lease financings (see *Lease Financings* below and Note 8), can provide supplementary funding. Also, the impact of energy efficiency and demand response initiatives may reduce generation requirements and thereby reduce capital needs. TVA anticipates that capital spending needs can be met with a combination of Bonds, lease arrangements, energy prepayments, additional power revenues through rate increases, cost reductions, or other ways.

*Issuance of Debt.* TVA Bonds are not obligations of the United States, and the United States does not guarantee the payments of principal or interest on Bonds. Bonds consist of power bonds and discount notes. Power bonds have maturities of between one and 50 years. Discount notes have maturities of less than one year. Power bonds and discount notes have a first priority and equal claim of payment out of net power proceeds. Net power proceeds are defined as the remainder of TVA's gross power revenues after deducting the costs of operating, maintaining, and administering its power properties 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 from the sale or other disposition of any power facility or interest therein.

Power bonds and discount notes are both issued pursuant to section 15d of the TVA Act and pursuant to the Basic Tennessee Valley Authority Power Bond Resolution adopted by the TVA Board on October 6, 1960, as amended on September 28, 1976, October 17, 1989, and March 25, 1992 (the "Basic Resolution"). The TVA Act and the Basic Resolution each contain two bond tests: the rate test and the bondholder protection test.

Under the rate test, TVA must 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;
- Payments to the U.S. Treasury in repayment of and as a return on the government's appropriation investment in TVA's power facilities (the "Power Program Appropriation Investment"); and
- Such additional margin as the TVA Board may consider desirable for investment in power system assets, retirement of outstanding Bonds in advance of maturity, additional reduction of the Power Program Appropriation Investment, and other purposes connected with TVA's power business, having due regard for the primary objectives of the TVA Act, including the objective that power shall be sold at rates as low as are feasible. See Note 16 — *Appropriation Investment*.

The rate test for the one-year period ended September 30, 2013, was calculated after the end of 2013, and TVA met the test's requirements.

Under the bondholder protection test, TVA must, in successive five-year periods, use an amount of net power proceeds at least equal to the sum of:

- The depreciation accruals and other charges representing the amortization of capital expenditures, and
- The net proceeds from any disposition of power facilities,

for either

- The reduction of its capital obligations (including Bonds and the Power Program Appropriation Investment), or
- Investment in power assets.

The bondholder protection test for the five-year period ended September 30, 2010, was calculated after the end of 2010, and TVA met the test's requirements. TVA must next meet the bondholder protection test for the five-year period ending September 30, 2015.

TVA uses proceeds from the issuance of discount notes, in addition to other sources of liquidity, to fund short-term cash needs and scheduled maturities of long-term debt.

The following table provides additional information regarding TVA's short-term borrowings.

Short-Term Borrowing Table							
	At September 30 2013	For the year ended September 30 2013	At September 30 2012	For the year ended September 30 2012	At September 30 2011	For the year ended September 30 2011	
<b>Amount Outstanding (at End of Period) or Average Amount Outstanding (During Period)</b>							
Discount notes	\$ 2,432	\$ 1,887	\$ 1,507	\$ 1,148	\$ 482	\$ 363	
<b>Weighted Average Interest Rate</b>							
Discount notes	0.042%	0.078%	0.085%	0.079%	0.001%	0.137%	
<b>Maximum Month-End Amount Outstanding (During Period)</b>							
Discount notes	N/A	\$ 3,261	N/A	\$ 2,550	N/A	\$ 1,401	

TVA held a higher balance of short-term debt at September 30, 2013, than at September 30, 2012, due to debt portfolio management decisions. The average balance of short-term debt was higher in 2013 than 2012 due to the decision to hold a higher percentage of the debt portfolio in short-term debt to take advantage of historically low short-term rates. TVA held a higher balance of short-term debt at September 30, 2012, than at September 30, 2011, due to the timing of cash flows and debt portfolio management decisions. The average balance of short-term debt was higher in 2012 than 2011 due to heavy refinancing activity throughout the fiscal year and the decision to hold a higher percentage of the debt portfolio in short-term debt to take advantage of historically low short-term rates. The variance in the average interest rate on discount notes is primarily due to changes in market conditions.

TVA uses a significant portion of its power bond proceeds to refinance previously-issued power bonds as they mature or are redeemed. From time to time, TVA also uses power bond proceeds for other power program purposes, including financing construction projects. In funding such projects, TVA plans to continue to adhere to its financial guiding principles whereby operating costs, debt service, and maintenance of its power system are covered primarily from the sale of electricity, while certain construction projects, including new generation investments, are funded with debt or other forms of financing. Following the principles, any additional financing obligations related to new generation projects, such as Watts Bar Unit 2, are expected to be paid off before the end of the asset's useful life.

During 2013 and 2012, TVA issued \$2.2 billion and \$1.1 billion of power bonds, respectively, and redeemed \$2.4 billion and \$2.7 billion of power bonds, respectively. Power bonds outstanding, excluding unamortized discounts and premiums and net exchange losses from foreign currency transactions, at September 30, 2013 were \$24.8 billion (including current maturities) and at September 30, 2012 were \$24.1 billion (including current maturities). For additional information about TVA debt issuance activity and debt instruments issued and outstanding at September 30, 2013, and 2012, including rates, maturities, outstanding principal amounts, and redemption features, see Note 12 — *Debt Securities Activity and Debt Outstanding*.

TVA Bonds are traded in the public bond markets. TVA's Bonds are listed on the New York Stock Exchange ("NYSE") except for TVA's discount notes, the 2009 Series A and B power bonds, and the power bonds issued under TVA's *electronotes*® program. TVA's Puttable Automatic Rate Reset Securities are traded on the NYSE under the exchange symbols "TVC" and "TVE." Other NYSE-listed bonds are assigned various symbols by the exchange, which are noted on the NYSE's web site. TVA has also listed certain bonds on foreign exchanges from time to time, including the Luxembourg, Hong Kong, and Singapore Stock Exchanges. See Item 1A, Risk Factors for additional information regarding the market for TVA's Bonds.

Although TVA Bonds are not obligations of the United States, TVA, as a corporate agency and instrumentality of the United States government, may be impacted if the sovereign credit ratings of the United States are downgraded. According to statements made by nationally recognized credit rating agencies, the credit ratings of the United States government remain under negative pressure despite recent legislative developments, and additional fiscal measures may be needed to improve the outlook on the government's bond ratings. Additionally, TVA may be impacted by how the U.S. government addresses the situation of approaching its debt limit. In June 2013, one credit rating agency changed the outlook for the ratings of the United States from negative to stable, citing receding fiscal risks, and subsequently changed the outlook on TVA from negative to stable. In October 2013, one credit rating agency placed the ratings on the United States sovereign debt on rating watch negative, and subsequently placed TVA's rating on rating watch negative. Rating watch is typically event driven, while the negative status indicates a heightened probability of a downgrade.

**Credit Facility Agreements.** TVA and the U.S. Treasury, pursuant to the TVA Act, have entered into a memorandum of understanding under which the U.S. Treasury provides TVA with a \$150 million credit facility. This credit facility was renewed for fiscal year 2014 and has a maturity date of September 30, 2014. Access to this credit facility or other similar financing arrangements with the U.S. Treasury has been available to TVA since the 1960s. TVA plans to use the U.S. Treasury credit facility as a secondary source of liquidity. The interest rate on any borrowing under this facility is based on the average rate on





outstanding marketable obligations of the United States with maturities from date of issue of one year or less. There were no outstanding borrowings under the facility at September 30, 2013. The availability of this credit facility may be impacted by how the U.S. government addresses the situation of approaching its debt limit.

The following table provides additional information regarding TVA's funding available in the form of three long-term revolving credit facilities. The credit facilities accommodate the issuance of letters of credit. The interest rate on any borrowing under these facilities varies based on market factors and the rating of TVA's senior unsecured long-term non-credit-enhanced debt. See Note 12 — *Credit Facility Agreements* and Note 14 — *Other Derivative Instruments — Collateral*.

**Summary of Long-Term Credit Facilities**

At September 30, 2013

(in billions)

<b>Maturity Date</b>	<b>Facility Limit</b>	<b>Letters of Credit Outstanding</b>	<b>Cash Borrowings</b>	<b>Availability</b>
June 2017	\$ 1.0	\$ 0.2	\$ —	\$ 0.8
December 2017	1.0	0.1	—	0.9
April 2018	0.5	0.5	—	—
	<u>\$ 2.5</u>	<u>\$ 0.8</u>	<u>\$ —</u>	<u>\$ 1.7</u>

*Lease Financings.* On August 9, 2013, TVA entered into a \$400 million leasing transaction whereby it agreed to lease for a term of approximately thirty-one years Southaven Combined Cycle Combustion Turbine Facility ("Southaven CCF") to Southaven Combined Cycle Generation, LLC ("SCCG"). The lease was funded through SCCG's issuance of \$360 million of secured notes and \$40 million of membership interests subject to mandatory redemption. On the same date, TVA agreed to lease the facility back from SCCG for a term of twenty years, at the end of which the head lease will terminate so long as TVA is not in default. TVA used the proceeds from the transaction primarily for the re-acquisition of the 90 percent undivided interest in the Southaven CCF held by Seven States Southaven, LLC ("SSSL"), a subsidiary of Seven States Power Corporation ("Seven States"). See Note 13 — *Lease/Leasebacks*.

On January 17, 2012, TVA entered into a \$1.0 billion leasing transaction whereby it agreed to lease for a term of fifty years John Sevier CCF to John Sevier Combined Cycle Generation LLC ("JSCCG"). The lease was funded through JSCCG's issuance of \$900 million of secured notes and \$100 million of membership interests subject to mandatory redemption. On the same date, TVA agreed to lease the facility back from JSCCG for a term of thirty years, at the end of which the head lease will terminate so long as TVA is not in default. TVA received proceeds of approximately \$970 million in accordance with the terms of the head lease and related construction management agreement. TVA used the proceeds from the transaction to meet its requirements under the TVA Act. JSCCG deposited approximately \$30 million with a lease indenture trustee to fund the first payments due on its secured notes and membership interests in July 2012. The membership interests in JSCCG were funded by John Sevier Holdco LLC ("Holdco") with proceeds from a \$100 million secured notes issuance.

TVA has determined that SCCG, JSCCG and Holdco are variable interest entities of which TVA is the primary beneficiary and, as such, TVA is required to account for the entities on a consolidated basis. See Note 8, Note 10 — *Membership Interests of VIE Subject to Mandatory Redemption*, and Note 12 — *Secured Debt of VIEs*.

TVA may seek to enter into similar arrangements for other assets in the future, potentially including assets under construction. While such leasing transactions allow TVA to diversify its asset financing program, financing an asset by using the proceeds of leasing transactions is typically more costly to TVA than financing an asset with the proceeds of Bonds.

## Summary Cash Flows

A major source of TVA's liquidity is operating cash flows resulting from the generation and sales of electricity. A summary of cash flow components for the years ended September 30 follows:

### Summary Cash Flows For the years ended September 30

	2013	2012	2011
Cash provided by (used in):			
Operating activities	\$ 2,597	\$ 2,574	\$ 2,437
Investing activities	(2,385)	(2,513)	(3,142)
Financing activities	522	300	884
Net change in cash and cash equivalents	\$ 734	\$ 361	\$ 179

### Operating Activities

#### 2013 Compared to 2012

Net cash flows provided by operating activities increased by \$23 million in 2013 compared to 2012. This increase is due to the increase in net income, cash savings from the increased use of hydroelectric generation as a result of increases in rainfall and runoff, the use of coal inventories which had been built up during the prior year, and the decrease in TVA's required posting of cash collateral associated with commodity hedges. These increases were partially offset by higher costs accrued in 2012, which were subsequently paid in 2013, compared to the significantly lower costs accrued at September 30, 2013, as a result of TVA's efforts to improve cost management, working capital, and operational performance.

#### 2012 Compared to 2011

Net cash flows provided by operating activities increased \$137 million in 2012 compared to 2011. This increase was primarily due to the cost savings initiatives undertaken in the second quarter of 2012, which resulted in decreased contractor and consultant services and reductions in discretionary spending. Additionally, nuclear operations expenditures decreased due to fewer nuclear refueling outages in 2012 as compared to the prior year. No pension contributions were required during 2012 as a result of significant market returns and TVA prefunding its required annual qualified defined benefit pension plan contributions for years 2010 through 2013 with a \$1 billion contribution in 2009. In 2011, TVA made an additional discretionary contribution of \$270 million due, in large part, to poor market returns during that year.

### Investing Activities

#### 2013 Compared to 2012

The majority of TVA's investing cash flows are due to investments in property, plant, and equipment for new generating assets and work on existing facilities, environmental projects, and transmission upgrades necessary to maintain reliability. Net cash flows used in investing activities decreased \$128 million in 2013 compared to 2012. This change was primarily due to the timing, prioritization, and cancellation of certain capital projects.

#### 2012 Compared to 2011

The majority of TVA's investing cash flows are related to investments in property, plant, and equipment for new generating assets, as well as additions and upgrades to existing facilities including an increase on spending for clean air projects and converting wet coal combustion residual ("CCR") facilities to dry collection facilities.

Net cash flows used in investing activities decreased \$629 million in 2012 compared to 2011. The decrease was due to the August 2011 purchase of a combined cycle plant for \$436 million and a \$298 million decrease in cash spent on major projects due primarily to a delay in the completion of Watts Bar Unit 2 and a deferral of non-critical projects due to the lower planned revenue for 2012.

These changes were offset by a \$145 million increase in Nuclear fuel expenditures for 2012 compared to 2011, due to an increase in the number of future refueling outages for which fuel was purchased.

## Financing Activities

### 2013 Compared to 2012

Net cash flows provided by financing activities increased \$222 million in 2013 compared to 2012 due to an increase in the net issuances of debt as a result of TVA's election to maintain higher cash balances due to the timing of cash flows and debt portfolio management decisions. See *Liquidity and Capital Resources — Sources of Liquidity — Issuance of Debt*. The increase of Payments on leases and leasebacks is due to the reacquisition of the Southaven CCF, the financing of which resulted in proceeds from a \$360 million secured notes issuance and the issuance of \$40 million of membership interests. See Note 8 — *Southaven*.

### 2012 Compared to 2011

Net cash flows provided by financing activities decreased by \$584 million in 2012 compared to 2011 primarily due to an increase in long-term debt redemptions net of long-term debt issuances, partially offset by an increase in short-term debt issuances. The increase in long-term debt redemptions reflects more maturing bonds and an elective redemption (call) of bonds. TVA had decreased short-term debt levels by issuing long-term debt in order to take advantage of declining interest rates, and in anticipation of upcoming maturities of debt. The increase in short-term debt in 2012 was to fund bonds redeemed. The \$1.0 billion long-term debt Issues of variable interest entities occurred in January 2012. See Note 12 — *Secured Debt of VIEs*.

## Cash Requirements and Contractual Obligations

The future planned construction expenditures for property, plant, and equipment additions, including clean air projects and new generation, are estimated to be as follows:

### Future Planned Construction Expenditures<sup>(1)</sup>

As of September 30

	Actual	Estimated Construction Expenditures		
	2013	2014	2015	2016
Watts Bar Unit 2	\$ 564	\$ 652	\$ 374	\$ 99
Other capacity expansion expenditures <sup>(2)</sup>	26	16	40	102
Environmental expenditures	196	448	280	197
Coal combustion residual	75	99	132	113
Transmission expenditures	172	339	405	458
Other capital expenditures <sup>(3),(4)</sup>	873	798	831	823
Total construction expenditures	\$ 1,906 <sup>(5)</sup>	\$ 2,352	\$ 2,062	\$ 1,792

#### Notes

- (1) TVA plans to fund these expenditures with cash from operations and proceeds from power program financings. This table shows only expenditures that are currently planned. Additional expenditures may be required, among other things, for TVA to meet growth in demand for power in its service area or to comply with new environmental laws, regulations, or orders.
- (2) Does not include the \$1.1 billion estimated cost of the Paradise natural gas-fired plant approved by the TVA Board on November 14, 2013.
- (3) Other capital expenditures are primarily associated with short lead time construction projects aimed at the continued safe and reliable operation of generating assets.
- (4) In November 2013, in accordance with the regulated operations property, plant and equipment accounting guidance, the TVA Board approved the treatment of all amounts currently included in Construction in progress related to Bellefonte as a regulatory asset.
- (5) The numbers above exclude AFUDC, capitalized during the year, related to construction expenditures, of \$168 million and the change in capital expenditures of \$23 million. Of this amount, \$23 million is reflected on TVA's consolidated balance sheets in a regulatory asset account.

TVA conducts a continuing review of its construction expenditures and financing programs. The amounts shown in the table above are forward-looking amounts based on a number of assumptions and are subject to various uncertainties. Amounts may differ materially based upon a number of factors, including, but not limited to, changes in assumptions about system load growth, environmental regulation, rates of inflation, total cost of major projects, and availability and cost of external sources of capital. See *Forward-Looking Information*.

In the near term, TVA's cash flows may be negatively impacted by investments in new generation, such as Watts Bar Unit 2, that are not expected to provide a cash return until put into service.

TVA has certain obligations and commitments to make future payments under contracts, including contracts executed in connection with certain of the planned construction expenses. The following table sets forth TVA's estimates of future payments at September 30, 2013. See Note 8, Note 9, Note 10, Note 12, Note 13, Note 16, and Note 20 for a further description of these obligations and commitments.

**Commitments and Contingencies**  
**Payments due in the year ending September 30**

	2014	2015	2016	2017	2018	Thereafter	Total
Debt <sup>(1)</sup>	\$ 2,464	\$ 1,032	\$ 32	\$ 1,555	\$ 1,682	\$ 18,056	\$ 24,821
Interest payments relating to debt	1,200	1,207	1,162	1,148	1,059	18,121	23,897
Debt of VIEs	30	32	33	35	36	1,175	1,341
Interest payments relating to debt of VIEs	62	60	58	58	56	747	1,041
Lease obligations							
Capital	5	5	5	5	5	36	61
Non-cancelable operating	37	30	29	28	27	87	238
Purchase obligations							
Power	219	204	219	231	230	3,336	4,439
Fuel	1,419	1,176	794	442	498	2,002	6,331
Other	255	210	184	182	502	1,221	2,554
Environmental Agreements	73	80	63	41	14	—	271
Membership interests of variable interest entity subject to mandatory redemption	2	2	2	2	2	30	40
Interest payments related to membership interests of variable interest entity subject to mandatory redemption	3	3	3	2	2	16	29
Nuclear power	11	36	1	—	—	—	48
Litigation settlements	11	2	—	—	—	—	13
Environmental cleanup costs-Kingston ash spill	102	67	—	—	—	—	169
Payments on other financings	100	104	104	104	104	401	917
Payments to U.S. Treasury							
Return of Power Program Appropriation Investment	10	—	—	—	—	—	10
Return on Power Program Appropriation Investment	5	8	8	8	8	93	130
Total	\$ 6,008	\$ 4,258	\$ 2,697	\$ 3,841	\$ 4,225	\$ 45,321	\$ 66,350

**Note**

(1) Does not include noncash items of foreign currency exchange loss of \$43 million and net discount on sale of Bonds of \$85 million.

In addition to the obligations above, TVA has energy prepayment obligations in the form of revenue discounts. See Note 1 — *Energy Prepayment Obligations and Discounts on Sales*.

**Energy Prepayment Obligations**  
**Obligations due in the year ending September 30**

	2014	2015	2016	2017	2018	Thereafter	Total
Energy Prepayment Obligations	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 10	\$ 510

**EnergyRight® Solutions Program.** TVA guarantees repayment on certain loans receivable from customers of TVA's LPCs in association with the EnergyRight® Solutions program. TVA sells the loans receivable to a third-party bank and has agreed with the bank to purchase any loan receivable that has been in default for 180 days or more or that TVA has determined is uncollectible. At September 30, 2013, the carrying amount of the loans receivable, net of discount, was approximately \$150 million. Such amounts are not reflected in the Commitments and Contingencies table above. The carrying amount of the financing obligation was approximately \$186 million.

*Liquidity Challenges Related to Generation Resources*

*Nuclear Regulatory Commission Safety Improvement Orders and Other Guidance.* In March 2012, the NRC issued three new safety orders stemming from lessons learned from the Fukushima events. The orders require (1) the development of strategies for responding to an interruption of off-site power, (2) the addition of more reliable instruments to measure water levels in cooling pools where spent nuclear fuel is stored, and (3) the installation of more robust containment venting systems to prevent containment failure due to overpressurization. The first two orders apply to every nuclear reactor in the U.S., including Watts Bar Unit 2, which will be required to comply prior to issuance of its operating license. The third order applies only to certain U.S. boiling water reactors, including Browns Ferry. These reactors are required to improve their containment venting systems to prevent over-pressurization due to the buildup of non-condensable gases such as hydrogen. TVA's plans to fully implement the requirements of these three orders were submitted to the NRC on February 28, 2013. TVA expects to complete the implementation of these orders by 2019, and the cost to comply with these orders is not expected to exceed \$220 million.

In addition to these orders, the NRC issued requests for information from U.S. nuclear operators regarding earthquake and flood risks and emergency planning. TVA has submitted the required information in accordance with the NRC schedule. Based on the information provided in response to these requests, the NRC will determine if additional regulatory requirements are needed for these subjects. At this time, TVA is not able to predict the final outcome of these potential requirements or the associated costs; however, these amounts could be significant.

Since the Fukushima events, the NRC has also issued and adopted additional detailed guidance on the expected response capability to be developed by each nuclear plant site. TVA has developed plans and schedules for the development and implementation of strategies and physical plant modifications to address the actions outlined in this guidance for all of its plants, including Watts Bar Unit 2. The initial studies, including the required plant walkdowns, are expected to be complete in the first quarter of 2014. Flooding and seismic re-evaluations to determine any further plant modifications are scheduled for completion in mid 2015. In addition to the actions described above, TVA may be required to take further actions to comply with any additional regulatory action that the NRC takes in response to the Fukushima events.

*Browns Ferry.* In March 2013, TVA submitted a license amendment request to the NRC requesting a change to Browns Ferry's operating license to transition to a risk-based fire protection program as defined under the fire code commonly referred to as the National Fire Protection Association Standard 805. As scoped in the license amendment request, design and modifications will be performed over the next six years. Cost estimates are still being developed and costs are expected to be significant.

*Extreme Flooding Preparedness.* Updates to the TVA analytical hydrology model have indicated that under "probable maximum flood" conditions, some of TVA's dams would not be high enough to contain the flood waters. A "probable maximum flood" is an extremely unlikely event, and TVA is taking actions with the aim of ensuring that in the case of such an event, flood waters would pass safely and would not cause failure of these dams. TVA implemented interim dam modifications in the first quarter of 2010 by installing engineered, interconnected, fabric-lined containers filled with compacted crushed stone to protect four dams. The permanent solution to a probable maximum flood event is to raise the four dams. Construction is scheduled to begin in the spring of 2014, and TVA has made a commitment to the NRC to complete construction by October 2015.

As discussed above under *Nuclear Regulatory Commission Safety Improvement Orders and Other Guidance*, the NRC has issued requests for information from U.S. nuclear operators regarding flood risks. In response to this request, TVA is performing additional hydrological analyses. In March 2013, TVA advised the NRC that it will complete these analyses in 2015. The results of these analyses and the NRC's response to the information could identify the need for additional modifications.

In June 2012, TVA committed to the NRC to make a series of near-term and longer-term improvements to reduce flooding concerns at Watts Bar and Sequoyah (in addition to the permanent dam modifications described above). The near-term improvements involve the construction of flood barriers around specific components and enhancements to systems at the plants. Any specific improvements will be identified after the completion of necessary technical and environmental reviews.

In March 2013, the NRC advised TVA of multiple apparent violations associated with TVA's management of several aspects of the hydrology issues associated with Watts Bar and Sequoyah. These apparent violations were discussed at a regulatory conference with the NRC in April 2013. In June 2013, the NRC issued the final significance determination of these apparent violations. The NRC concluded that there were two violations of low to moderate safety significance and one Severity Level III violation at Sequoyah and one violation of substantial safety significance, one violation of low to moderate safety significance, and one Severity Level III violation at Watts Bar. As a result, TVA will be subject to additional supplemental inspections with respect to these issues.

The total cost of the hydrology improvements described above are being evaluated, and the evaluation should be completed by 2015. The costs associated with these improvements could be significant.

*Watts Bar Unit 2.* Construction of Watts Bar Unit 2 is continuing in accordance with the schedule and budget expectations approved by the TVA Board in April 2012. The total estimated cost of completion is in the range of \$4.0 billion to \$4.5 billion, and TVA plans to bring Unit 2 into commercial operations by December 2015. The unit was approximately 80 percent complete at September 30, 2013.

The NRC agreed in April 2013 with the industry's approach to address seismic issues associated with the Fukushima events, which reduced uncertainty in TVA's implementation of actions to resolve this issue. Progress by the NRC in addressing waste confidence (relating to the potential environmental impacts of storage of spent fuel at each reactor site) also improves the likelihood that this issue will be resolved in a timely fashion. The current construction permit expired in March 2013. An extension to the permit has been requested, and by regulation, work is allowed to proceed. An extended construction permit is expected to be received from the NRC in the first quarter of 2014.

*Bellefonte Unit 1.* The incorporation of Watts Bar Unit 2 lessons learned into the Bellefonte Unit 1 completion estimate has revealed some similar problems and inaccuracies. TVA finalized a new estimate to complete Bellefonte Unit 1 during the first quarter of 2014 putting the total estimated cost of completion in the range of \$7.5 billion and \$8.7 billion. Work at the site has been slowed to better allocate resources on nearer-term priorities as both budget and staffing levels have been reduced in the 2014 budget. TVA believes that the resulting budgeting and staffing levels should be sufficient to preserve Bellefonte for potential future development. TVA plans to utilize its integrated resource planning process to help determine how Bellefonte best supports TVA's overall efforts to continue to meet customer demand with low-cost, reliable power.

## **Off-Balance Sheet Arrangements**

At September 30, 2013, TVA had no off-balance sheet arrangements.

## **Key Initiatives and Challenges**

### *Generation Resources*

*Coal-Fired Units.* Due to the age, lower capacity, and lower efficiency of TVA's older coal-fired units, it may not be economical to continue to operate some units in the future, particularly if new environmental laws or regulations become effective. The decision to idle or retire coal-fired units from its generation fleet will be influenced in part by the two environmental agreements reached in April 2011 (the "Environmental Agreements") (see Note 20 — *Legal Proceedings* — *Environmental Agreements*) and by the cost of adding emission control equipment to existing units.

Under the Environmental Agreements, TVA committed, among other things, to retire, on a phased schedule, 18 coal-fired units. As of September 30, 2013, TVA had already retired four coal-fired units with a summer net capability of 574 MW, and TVA idled an additional five coal-fired units with a summer net capability of 968 MW on October 1, 2013. See Item 1, Business — *Power Supply* — *Coal-Fired* for the schedule of future idling decisions.

In March 2013, TVA announced it is proceeding with a \$1.1 billion emissions control project at Gallatin Fossil Plant. The project includes the dry installation of selective catalytic reduction ("SCR") systems, scrubbers, and baghouses at all four units of the 976 MW plant. The dry scrubbers and associated baghouses are expected to be completed in 2016, and the SCR systems are expected to be completed in 2017. TVA also plans to locate a Particulate Matter Continuous Emissions Monitor ("PM CEM") on the common stack for Shawnee Fossil Plant Units 6-10. TVA had been evaluating a particulate control option for Paradise Fossil Plant ("Paradise") Units 1 and 2 or a gas-fired replacement generation option to meet the requirements of the Mercury and Air Toxics Standard ("MATS"). At its November 14, 2013 meeting, the TVA Board canceled its August 2012 conditional budget authorization for a particulate control project and approved the construction of a natural gas facility at Paradise. Upon completion of the natural gas-fired facility at the Paradise site, Paradise coal-fired Units 1 and 2 will be retired. Paradise Unit 3, a coal-fired unit, would continue to be operated.

Discontinuing the use of some coal-fired units may be constrained by transmission expansion that will be required before the units are taken out of service. TVA invested \$130 million in transmission upgrades between 2011 and 2013 and estimates future expenditures for transmission upgrades to accommodate inactive coal-fired units to be approximately \$350 million for 2014 to 2020.

*Nuclear Generation.* In October 2010, while Browns Ferry Unit 1 was shut down for a scheduled refueling outage, TVA discovered a low pressure coolant injection valve had experienced an unanticipated failure. The NRC concluded that the valve failure, and TVA's inability to identify the failure, was an issue of "high safety significance" (which is termed a "red" finding under the NRC's Reactor Oversight Process) and designated Browns Ferry in the "multiple/repetitive degraded cornerstone" category in its performance assessment process. As a result of this designation, Browns Ferry is subject to substantially higher NRC oversight. A series of intensive inspections and assessments began in the fall of 2011. In June 2012, TVA presented its plans to improve Browns Ferry's overall performance and reduce plant risk at a public meeting with the NRC. TVA described its plans to implement corrective actions and monitor the improvement of plant performance to support the NRC's supplemental inspections of Browns Ferry related to the 2011 red finding. TVA noted that while, at that time, much improvement remained to be realized, there were initial indications that improvement was occurring. Subsequently, in February 2013, TVA notified the NRC that



Browns Ferry was ready for the NRC to conduct the significant inspection associated with the red finding (referred to as a 95003 inspection). The NRC completed this inspection, conducted a public meeting on July 11, 2013, and formally notified TVA of the results by issuing a Confirmatory Action Letter on August 22, 2013. The Confirmatory Action Letter specified 10 actions that must be completed by November 2013 as well as additional longer-term actions that must be completed between May and December of 2014.

On January 7, 2013, TVA submitted the license renewal application to the NRC for Sequoyah Units 1 and 2. If approved, the operating licenses for both units would be extended by an additional 20 years, to 2040 for Unit 1 and 2041 for Unit 2. The NRC's review of the applications may take up to three years. It is possible that the approval of the license renewal applications could be impacted by the NRC's consideration of industry-wide issues, such as revisions to the Waste Confidence Decision, finalization of regulations in response to Fukushima events and other guidance, and the administrative proceeding opposing the renewal of the operating license.

Nuclear power is a core component of TVA's energy portfolio. TVA is addressing the operating issues at Browns Ferry and its other nuclear units and is accelerating required performance improvement at all plants. To this end, the TVA Board has approved the expenditure of up to \$97 million through 2015 to accelerate improvements in Browns Ferry's performance and reliability. Recent inspections by the NRC have acknowledged improvements, but TVA continues to receive additional inspections of its nuclear fleet.

*Status of Other Generation Units.* TVA had several hydroelectric and combustion turbine units removed from service as of September 30, 2013. All four units at Raccoon Mountain were out of service as of September 30, 2013, because of cracking in the rotor poles and the rotor rims. These units are undergoing a maintenance overhaul and are expected to return to service in 2014. TVA is dispatching generation from other TVA units and purchasing power, if needed, to compensate for the loss in generating capacity.

Effective May 1, 2012, four simple-cycle combustion turbine units at TVA's Allen Fossil Plant ("Allen"), with a total net summer capability of 64 MW, were designated as temporarily unavailable for operation until repairs have been performed. The units are expected to return to service in 2014.

*Capacity Agreement.* On December 27, 2012, TVA signed a 10-year conversion services agreement with Calpine Energy Service, L.P. ("Calpine"), that gives TVA exclusive rights to the Decatur Energy Center in Decatur, Alabama, a 720 MW summer capacity, natural gas-fired combined cycle plant. Under this conversion services agreement, TVA will deliver natural gas to the plant, and the plant, which is owned and operated by affiliates of Calpine, will convert the natural gas to electricity and deliver the power to TVA's transmission system. The contract became effective January 1, 2013.

#### *Cost Reduction Initiatives*

TVA is undertaking cost reduction initiatives with the goal of keeping rates low, keeping reliability high, and continuing to fulfill its broader mission of environmental stewardship and economic development. To position itself to achieve this goal, TVA, in conjunction with other actions, completed a high-level realignment of its strategic business units.

During the next phase of its cost reduction initiatives, TVA will focus on reducing operating and maintenance costs through further efficiency gains and streamlining the organization. Business unit leaders will work to identify ways to further streamline their organizations to achieve 2015 operating and maintenance cost reduction targets by eliminating unnecessary work; increasing productivity; minimizing overlaps, redundancies, and handoffs; and ensuring that accountability for compliance rests with its line organizations. Given that approximately 80 percent of TVA's operating and maintenance costs are related to labor, staffing level reductions will necessarily result from this process. The evaluation of staffing levels will take into account attrition, elimination of open positions, and retirements in order to minimize the impact on current personnel. Certain employees may be eligible for severance payments if impacted by the reorganization, but the amount of such payments is not reasonably estimable at this time as management's evaluation of staffing levels is not yet complete. TVA's goal is to reduce operating and maintenance costs by \$500 million by 2015 as compared to its 2013 budget.

#### *Regulatory Compliance*

*Kingston Fossil Plant.* In December 2008, a containment dike surrounding a portion of a landfill for ash from the Kingston Fossil Plant ("Kingston") operations failed releasing approximately 5.4 million cubic yards of coal ash. Approximately 3.0 million cubic yards of ash were recovered from the adjacent Emory River from March 2009 to December 2010 and transported offsite for disposal. TVA finished recovering approximately 2.4 million cubic yards of ash from the adjacent Swan Pond Embayment in June 2013 and is currently placing that ash in an onsite ash landfill. Once the ash is stacked in place, a multi-layer cap will be constructed over the landfill, which is approximately 230 acres. Also, in June 2013, TVA began placing the first section of the multi-layer cap. The final cap is forecasted to be completed by the first quarter of 2015. An underground perimeter slurry wall is also being constructed to stabilize the perimeter of the landfill to contain the ash in the event of an earthquake. The wall construction was completed in August 2013, and jet grout repairs are expected to continue into the third quarter of 2014.

In accordance with EPA approved plans, the long-term monitoring of the Emory River was initiated in the spring of 2013 and will continue for up to 30 years. Results of this monitoring will be used to evaluate the ecological resources in the river system and the river's natural processes for remediating any residual ash in the river. In addition, TVA is restoring the ecological habitat along the Emory River and in the Swan Pond Embayment. That work is scheduled to begin in 2014, and is expected to be finished by the spring of 2015. A final assessment, issuance of a completion report, and approval by the State of Tennessee and the EPA are expected to occur by the third quarter of 2015. See Note 9 for a discussion of the Kingston ash spill.

In December 2010, a leak was identified in the clay liner of the gypsum pond at Kingston. TVA submitted to the Tennessee Department of Environment and Conservation ("TDEC") a two-phase Corrective Action Plan to install a synthetic liner on the gypsum pond. Work on the first phase of the new gypsum storage facility was completed on October 21, 2011, and TDEC approval to place the facility back in operation was received on November 16, 2011. The plan for the second phase of the work has been incorporated into the overall Kingston CCR storage strategy, with the specific phase two work to be completed by January 2015, as part of the CCR conversion program.

*Coal Combustion Residual Facilities.* As a result of the December 2008 ash spill at Kingston, TVA retained an independent third-party engineering firm to perform a multi-phased evaluation of the overall stability and safety of all existing embankments associated with TVA's wet CCR facilities. The study showed that none of TVA's other coal-fired plants presented risks similar to the conditions that existed at Kingston at the time of the ash spill, and that the ongoing remediation work being done at the plants should bring all of them within industry standards in terms of stability upon completion. Implementation of recommended actions is ongoing, including risk mitigation steps such as performance monitoring, designing and completing repairs, developing planning documents, obtaining permits, and generally implementing the lessons learned from the Kingston ash spill at TVA's other CCR facilities.

TVA is planning to convert all of its wet fly ash and gypsum facilities to dry storage collection facilities. The expected cost of the CCR work is between \$1.5 billion and \$2.0 billion, and the work is expected to be completed by December 2022. As of September 30, 2013, \$516 million of costs had been incurred since the start of the work.

TVA is studying the adequacy of CCR storage capacity at its coal-fired plants that currently have dry storage collection facilities. If it is determined that the remaining capacity is not adequate, additional storage facilities will need to be permitted and built, or off-site disposal will need to be arranged.

*Transmission Issues.* Since the announcement of the proposed integration of Entergy Corporation ("Entergy") into the Midcontinent Independent Transmission System Operator, Inc. ("MISO") market, TVA has been evaluating potential impacts to the reliability of its transmission system. TVA completed a detailed reliability assessment during the second quarter of 2013 which identified that significant transmission upgrades will be required if new coordinated planning and operational processes are not implemented.

TVA and neighboring utilities reached a transition agreement with MISO on June 19, 2013, to limit market dispatch flows between its existing region and its new members including Entergy, Louisiana Generating, LLC, South Mississippi Electric Power Association, and others collectively referred to as the MISO South Region. The transition agreement limits power transfers between the regions and requires MISO to respect TVA flowgate limits in real-time. The transition agreement reduces the impact of these transfers on TVA and the other affected parties through April 2015, and the affected parties intend to incorporate the use of tools and processes developed in the transition period into operations agreements thereafter.

On October 17, 2013, the North American Electric Reliability Corporation ("NERC") revisions to the Transmission Planning ("TPL") Reliability Standards were approved by the Federal Energy Regulatory Commission ("FERC"). The revisions increase requirements on contingency planning, constraints on load shedding, and transparency and interactions with stakeholders. In anticipation of this revision TVA began preliminary work in 2006, and is now evaluating this final version of the TPL, including costs to comply, which will be significant.

*Adjustment to Nuclear Insurance Costs.* The Price-Anderson Act provides a layered framework of protection to compensate for losses arising from a nuclear event in the United States. In addition to requiring all NRC nuclear plant licensees to purchase nuclear liability insurance, the Price-Anderson Act requires licensees to pay a specified total amount per unit for any nuclear event, including events at other licensees' facilities, plus a five percent surcharge. The NRC adjusts this amount every five years to account for inflation. On July 12, 2013, the NRC increased this total amount to \$127 million per unit for each event, effective September 10, 2013. The maximum amount that could be recovered per year per unit is \$19 million. The prior amounts were a total assessment of \$118 million per unit for each event with a maximum annual payment of \$18 million per unit.

#### *Dam Safety Assurance Initiatives*

TVA has an established dam safety program, which includes procedures based on the Federal Guidelines for Dam Safety. One aspect of the guidelines is that dam structures will be periodically reassessed to assure that TVA's dams meet current design criteria. TVA is currently performing reassessments of its assets. These assessments include material sampling of the dam and foundational structures and detailed engineering analysis. TVA submitted 15 assessments by September 30,

2013, and three more are expected by December 31, 2013. Assessments for an additional 10 dams have been approved for 2014.

It is expected that projects will be identified during these assessments, and the work will be appropriately prioritized and completed within TVA's capital improvement process. Current dam upgrade projects already underway include raising the dam height at Cherokee, Watts Bar, Tellico, and Fort Loudon Dams to meet current predicted probable maximum flood heights, and installation of post tension anchors at Cherokee and Douglas Dams to improve stability.

#### *Future Workforce Needs and Development*

Although TVA has traditionally experienced low employee turnover, potential future risks exist because of retirements and competition for talent among utility companies. Personnel with nuclear expertise and skills related to construction and installation of new environmental controls are limited. To ensure that TVA can continue to attract and retain a skilled workforce needed to achieve its vision, TVA revised and implemented an agency wide workforce planning program in 2012.

#### *Other Initiatives*

In November 2012, the Department of Energy ("DOE") announced a grant award to Babcock & Wilcox ("B&W"), in conjunction with TVA and Bechtel, for small modular reactor ("SMR") development. TVA and B&W subsequently signed a contract in February 2013 establishing the process toward submittal and the NRC review of a license application. The B&W-designed SMR would have a scalable, modular design allowing utilities to add electrical generation capacity in increments of 360 MW. The proposed site for the reactor is TVA's Clinch River site near the DOE's Oak Ridge, Tennessee reservation. DOE will invest up to half of the total cost for design, certification, and licensing with the project's industry partners (including TVA) matching this investment by at least one-to-one.

TVA has been evaluating SMRs since 2009, but SMRs are still in the early phase of design and licensing. TVA is preparing the license application, including site characterization work, and the application should be submitted to the NRC in 2015. The Clinch River project will be evaluated at certain progress points to permit TVA to determine whether to continue the development of the project.

#### *Customers/Counterparties Risk*

*United States Enrichment Corporation.* In May 2012, TVA extended its power contract with its largest directly served customer, United States Enrichment Corporation ("USEC"), a subsidiary of USEC, Inc. On May 24, 2013, USEC announced the cessation of enrichment activities at its Paducah, Kentucky site. TVA and USEC subsequently completed agreements to extend power sales to facilitate the cessation of enrichment activities and to support non-enrichment activities at the site at a greatly reduced level. These sales arrangements may continue to be extended. Power sales to USEC represented three percent and five percent of TVA's total operating revenues for the years ended September 30, 2013, and 2012, respectively. See Note 14 — *Counterparty Credit Risk*.

The TVA-USEC power contract provided TVA with interconnection to critical electrical facilities operated and maintained by USEC, and has been amended so TVA's interconnection rights will continue until USEC's lease terminates and control of the facilities is returned to DOE, presently anticipated to occur around the second quarter of 2014. TVA has initiated discussions with DOE concerning TVA's continued use of the facilities following termination of the USEC lease.

While USEC was TVA's supplier of enrichment services for uranium for fueling TVA's nuclear units, TVA has sufficient nuclear fuel inventory available to mitigate near-term supply risks, and also expects to be able to procure material at reasonable rates in the market for nuclear fuel.

#### *Ratemaking*

TVA's rates are below the national average and TVA has established a goal to keep rates low as benchmarked against the nation's 100 largest utilities. TVA understands the importance of competitive rates as a key to its economic development mission of providing low-cost power to the people of the Tennessee Valley. In support of this goal, TVA continues to review and modify its rate structure to meet the needs of its customers.

For LPCs, the default wholesale rate structure is seasonal time-of-use ("TOU"). However, these customers have two additional wholesale options from which to elect: enhanced TOU and enhanced seasonal demand and energy ("SDE"). LPC elections as of October 1, 2013 were as follows: 144 were served under the enhanced TOU structure, five remained served under the default seasonal TOU structure, and six were served under the enhanced SDE structure.

On August 22, 2013, the TVA Board approved a five-year extension of the environmental adjustment, which commenced in 2004 and was set to terminate on September 30, 2013. The extension will continue unless acted upon as part of a rate change. The environmental adjustment, which reflects the need to collect revenue for environmental expenditures to further TVA's environmental performance, as well as comply with new, more stringent air, water, and waste regulations, currently

recovers approximately \$415 million per year. In addition, the Board approved a non-fuel base rate increase of 2.63 percent on wholesale rates. It is anticipated this will increase base revenues by approximately \$190 million for 2014.

#### *Pension Fund*

As of September 30, 2013, TVA's qualified pension plan had assets of \$7.2 billion compared with liabilities of \$11.5 billion. The potential for the plan's funded status to quickly improve is limited because of the significant amount of benefits paid each year to plan beneficiaries. The plan currently has approximately 36,000 participants, of which approximately 23,000 are retirees or beneficiaries currently receiving benefits. Benefits of approximately \$622 million were paid to participants in 2013.

#### *Pending Regulation and Legislation*

*Environmental.* TVA anticipates that there will continue to be additional, more stringent air, water, and waste regulatory requirements governing the production and transmission of electricity. TVA also expects future regulations will require the reduction of carbon dioxide emission from current levels. The cost of compliance for these measures is unknown but could require significant expenditures. TVA continues to monitor the changes and pursue actions that limit the impacts of these requirements on its operations. See Item 1, Business — *Power Supply* and — *Environmental Matters*.

*Health Care.* There is a risk of increased health care costs associated with the Affordable Care Act legislation. During 2013, 2012 and 2011, TVA changed its health care plans to include, among other things, extended coverage for children, removal of pre-existing condition provisions for minors, and expansion of certain preventative care services in order to comply with the act. Although there have been some increase in TVA's health care costs, they have not been material to its operations. TVA plans to continue to monitor the changes required by this legislation and to review its health care plans to comply in a cost-effective manner with Affordable Care Act requirements and provisions that impact TVA's health care plans.

#### *Inflation*

The economy recently experienced a very deep recession which has led to increased unemployment and low industrial capacity utilization. Given the current low levels of capacity utilization and high unemployment, inflationary pressures should remain low. However, a strong, sustained recovery with increasing labor, construction, and commodity costs, as well as high interest rates, could result in higher costs for TVA and pressure to increase power rates.

#### *Safeguarding Assets*

*Physical Security.* Non-Nuclear asset protection at TVA conforms to various federal regulations, industry best practices and Presidential directives. TVA utilizes a variety of technology solutions, security awareness activities and security personnel to prevent sabotage, vandalism and thefts. Any of these activities could negatively impact the ability of TVA to generate, transport and deliver power to its customers. TVA's Security and Emergency Management collaborates with the security departments at numerous utilities across the nation to determine the most effective protection strategies for non-nuclear assets.

Recent physical attacks at other utilities on transmission facilities across the country have heightened awareness. TVA is working with the Department of Homeland Security ("DHS"), FERC, Edison Electric Institute, Electric Power Research Institute, and other utilities to implement industry approved recommendations and standards.

*Nuclear Security.* Nuclear security is carried out in accordance with federal regulations as set forth by the NRC. These regulations are designed for the protection of TVA's nuclear power plants, the public, and employees from the threat of radiological sabotage and other nuclear-related terrorist threats. TVA has nuclear security forces to guard against such threats.

*Cyber Security.* Cyber security is a serious and ongoing challenge for the energy sector. TVA faces potential cyber attacks against its generation facilities, the transmission infrastructure used to transmit power, and its information technology systems and network infrastructure, which could negatively impact the ability of TVA to generate, transport, and deliver power, or otherwise operate its facilities in the most efficient manner. If TVA's technology systems were to fail or be breached and were not recovered in a timely manner, TVA might be unable to fulfill critical business functions, and sensitive and other data could be compromised. The theft, damage, or improper disclosure of sensitive electronic data may also subject TVA to penalties and claims from third parties.

TVA operates in a highly regulated environment. TVA's cyber security program aligns or complies with the Federal Information System Management Act, the North American Electric Reliability Corporation Critical Infrastructure Protection requirements, the NRC requirements for cyber security, as well as industry best practices. As part of the U.S. government, TVA coordinates with and works closely with the DHS and the United States Computer Emergency Readiness Team ("US-CERT"). US-CERT functions as a liaison between DHS and the public and private sectors to coordinate responses to security threats from the internet. TVA is also participating in studies funded through the DOE to identify, design, and test new solutions for protecting critical infrastructure from cyber attacks.

TVA continued to experience increased cyber activity in 2013. However, none of the attacks have impacted TVA's ability to operate as planned or compromised data which could involve TVA in legal proceedings. See Item 1A, Risk Factors — *TVA's information technology assets may not operate as planned*.

#### *Interagency Agreement with the Department of Energy*

Under the DOE's Surplus Plutonium Disposition ("SPD") Program, mixed oxide ("MOX") fuel would be fabricated with surplus plutonium and depleted uranium as a replacement for commercial uranium fuel. In February 2010, the DOE and TVA entered into an interagency agreement to evaluate the potential use of MOX fuel in reactors at Browns Ferry and Sequoyah. As part of the evaluation of MOX fuel, TVA is participating as a cooperating agency. TVA could make a decision in 2014 on whether to continue to pursue the use of MOX fuel. At the earliest, based on the expected production rate of MOX fuel, TVA could start using a small number of MOX fuel assemblies in TVA reactors after 2020. TVA's three criteria for implementing MOX fuel are it must be environmentally and operationally safe; it must be economic compared to other nuclear fuel used by TVA; and it must be licensed by the NRC for use. If TVA decides to use MOX fuel, and the NRC approves its use, some changes in the operation of the reactors are expected, and additional equipment may be required.

#### **Critical Accounting Policies and Estimates**

TVA's consolidated financial statements are prepared in accordance with GAAP, which require management to make estimates, judgments, and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Each of these estimates varies in regard to the level of judgment involved and its potential impact on TVA's financial results. Estimates are deemed critical either when a different estimate could have reasonably been used, or where changes in the estimate are reasonably likely to occur from period to period, and such use or change also would materially impact TVA's financial condition, results of operations, or cash flows. TVA's critical accounting policies are also discussed in Note 1 of the Notes to Consolidated Financial Statements in this Annual Report.

TVA believes that its most critical accounting policies and estimates relate to the following:

- Regulatory Accounting
- Environmental Cleanup Costs — Kingston Ash Spill
- Asset Retirement Obligations
- Pension and Other Post-Retirement Benefits

Management has discussed the development, selection, and disclosure of critical accounting policies and estimates with the Audit, Risk, and Regulation Committee of the TVA Board. While TVA's estimates and assumptions are based on its knowledge of current events and actions it may undertake in the future, actual results may ultimately differ from these estimates

and assumptions.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
<b>Regulatory Accounting</b>		
<p>The TVA Board is authorized by the TVA Act to set rates for power sold to customers; thus, TVA is "self-regulated." Additionally, TVA's regulated rates are designed to recover its costs of providing electricity. In view of demand for electricity and the level of competition, TVA has assumed that rates, set at levels that will recover TVA's costs, can be charged and collected. As a result of these factors, TVA records certain assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred or deferral of gains that will be credited to customers in future periods. The timeframe over which the regulatory assets are recovered from customers or regulatory liabilities are credited to customers is subject to annual TVA Board approval. At September 30, 2013, TVA had \$9.7 billion of Regulatory assets and \$213 million of Regulatory liabilities.</p>	<p>TVA assesses whether the regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes, potential legislation, and changes in technology. Based on these assessments, TVA believes the existing regulatory assets are probable of recovery. This determination reflects the current regulatory and political environment and is subject to change in the future.</p>	<p>TVA has not made any material changes in the accounting methodology used to record regulatory assets and liabilities during the past three fiscal years.</p> <p>TVA does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to record regulatory assets and liabilities.</p> <p>If future recovery of regulatory assets ceases to be probable, or any of the other factors described above cease to be applicable, TVA would be required to write off these costs and recognize them in earnings.</p>



Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
<b>Environmental Cleanup Costs - Kingston Ash Spill</b>		
<p>Environmental cleanup costs related to the Kingston ash spill are based upon estimates of the incremental direct costs of the remediation effort, including costs of compensation and benefits for those employees who are expected to devote a significant amount of time directly to the remediation effort. Such amounts are included in the estimate when it is probable that a liability has been incurred as of the financial statement date and the amount of loss can be reasonably estimated. When both of those recognition criteria are met and the estimated loss is a range, TVA accrues the amount that appears to be a better estimate than any other estimate within the range, or accrues the minimum amount in the range if no amount within the range is a better estimate than any other amount.</p>	<p>TVA's estimate of environmental cleanup costs related to the Kingston ash spill contains uncertainties because it requires management to estimate the cost required to clean up the site. Costs included in the environmental cleanup estimate for Kingston include ash dredging and processing, ash disposition, infrastructure repair, dredge cell repair, root cause analysis, certain legal and settlement costs, environmental impact studies and remediation, human health assessments, community outreach and support, regulatory oversight, cenosphere recovery, skimmer wall installation, construction of temporary ash storage areas, dike reinforcement, project management, and certain other remediation costs associated with the cleanup.</p>	<p>TVA continues to evaluate the liability associated with environmental cleanup costs.</p>
<p>At September 30, 2013, TVA estimated that these costs will range from \$1.1 billion to \$1.2 billion. TVA has incurred \$956 million of remediation costs through September 30, 2013. TVA deferred the \$1.1 billion cost estimate as a regulatory asset and is amortizing such costs into operating expenses over a 15-year period beginning in 2010 as such amounts are collected rates.</p>	<p>The following categories could have a significant effect on estimates related to the Kingston ash spill remediation costs:</p> <p>Excluded Costs – TVA has not included the following categories of costs because it has determined that these costs are currently either not probable or not reasonably estimable: penalties (other than the penalties set out in the Tennessee Department of Environmental and Conservation ("TDEC") order) or regulatory directives, natural resource damages (other than payments required under a memorandum of agreement with TDEC and the U.S. Fish and Wildlife Service establishing a process and a method for resolving the natural resource damages claim), future lawsuits and future claims, long-term environmental impact costs, final long-term disposition of ash processing area, costs associated with new laws and regulations, or costs of remediating any mixed waste discovered during the ash removal process. See Note 9.</p>	<p>TVA does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to record the environmental cleanup costs.</p>
		<p>If the actual costs materially differ from the estimate, TVA's results of operations, financial condition, and cash flows could be affected materially.</p>
		<p>A 10 percent change in TVA's estimated liability at September 30, 2013, would have affected the liability by approximately \$110 million.</p>
	<p>Insurance Coverage - TVA had property and excess liability insurance programs in place at the time of the Kingston ash spill. TVA pursued claims under both the property and excess liability programs and has settled all of its property insurance claims and some of its excess liability insurance claims. TVA has received insurance proceeds of \$92 million. TVA is seeking recovery of certain costs incurred in the clean up project, including the costs of removing ash from property or waters owned by the State of Tennessee, and related expenses. Any amounts received related to insurance settlements are being recorded as reductions to the regulatory asset and will reduce amounts collected in future rates.</p>	





## Asset Retirement Obligations

TVA recognizes legal obligations associated with the future retirement of certain tangible long-lived assets. These obligations relate to fossil fuel-fired generating plants, nuclear generating plants, hydroelectric generating plants/dams, transmission structures, and other property-related assets. These other property-related assets include, but are not limited to, leases. Activities involved with retiring these assets could include decontamination and demolition of structures, removal and disposal of wastes, and site reclamation. Revisions to the amount and timing of certain cash flow estimates of asset retirement obligations ("AROs") may be made based on engineering studies. For nuclear assets, the studies are performed every other year in accordance with the NRC requirements. For non-nuclear obligations, revisions are made whenever factors indicate that the timing or amounts of estimated cash flows have changed. Any accretion or depreciation expense related to these liabilities and assets is charged to a regulatory asset. See Note 11.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
<i>Nuclear Decommissioning</i>		
<p>Utilities that own and operate nuclear plants are required to recognize a liability for legal obligations related to nuclear decommissioning. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. The initial obligation is measured at its estimated fair value using various judgments and assumptions. Fair value is developed using an expected present value technique based on assumptions of market participants and that considers estimated retirement costs in current period dollars that are inflated to the anticipated decommissioning date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements.</p>	<p>The following key assumptions can have a significant effect on estimates related to the nuclear decommissioning costs reported in TVA's nuclear ARO liability:</p> <p>Timing - In projecting decommissioning costs, two assumptions must be made to estimate the timing of plant decommissioning. First, the date of the plant's retirement must be estimated. (At a multiple unit site, the estimated retirement date is based on the unit with the longest license period remaining.) Second, an assumption must be made on the timing of the decommissioning. Currently, TVA uses the assumption that decommissioning will occur within the first seven years after plant shut down. While the impact of these assumptions cannot be determined with precision, either assuming license extension or extending the timing of decommissioning can significantly decrease the present value of these obligations.</p>	<p>TVA has not made any material changes in the accounting methodology used to record the nuclear ARO liability during the past three years.</p> <p>A 10 percent change in TVA's ARO for nuclear decommissioning cost at September 30, 2013, would have affected the liability by approximately \$330 million.</p>
<p>TVA periodically reviews its estimated ARO costs. Any change to the ARO asset is recognized and prospectively recognized over the remaining life of the long-lived asset.</p>	<p>Technology and Regulation - There is limited experience with actual decommissioning of large nuclear facilities. Changes in technology and experience as well as changes in regulations regarding nuclear decommissioning could cause cost estimates to change significantly. TVA's cost studies assume current technology and regulations.</p>	
<p>TVA maintains a Nuclear Decommissioning Trust ("NDT") to provide funding for the ultimate decommissioning of its nuclear power plants. The trust's funds are invested in securities generally designed to achieve a return in line with overall equity market performance. The assets of the trust may be invested directly in debt and equity securities, private partnership investments, and certain other financial instruments, and indirectly in such investments through commingled funds. The other financial instruments are used across various asset classes to achieve a desired investment structure. The balance in the trust at September 30, 2013, is less than the present value of the estimated future nuclear decommissioning costs under both the NRC methodology and GAAP</p>	<p>Discount Rate - TVA uses rates between 5.15 percent and 5.66 percent to calculate the present value of the weighted estimated cash flows required to satisfy TVA's decommissioning obligation.</p> <p>Cost Escalation Factors - TVA's decommissioning estimates include an assumption that decommissioning costs will escalate over present cost levels by four percent annually.</p>	

but more than the level set forth in the assurance plan that TVA submitted to the NRC.

At September 30, 2013, the present value of the estimated future nuclear decommissioning cost recognized in the financial statements was \$2.4 billion and was included in AROs and the unamortized regulatory asset related to ARO costs of \$893 million was included in Regulatory assets.



Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
<i>Non-Nuclear Decommissioning</i>		
<p>The present value of the estimated future non-nuclear decommissioning cost was \$1.1 billion at September 30, 2013. This decommissioning cost estimate involves estimating the amount and timing of future expenditures and making judgments concerning whether or not such costs are considered a legal obligation. Estimating the amount and timing of future expenditures includes, among other things, making projections of the timing and duration of the asset retirement process and how costs will escalate with inflation.</p> <p>TVA maintains an asset retirement trust ("ART") to help fund the ultimate decommissioning of its power assets. The trust's funds are invested in securities generally designed to achieve a return in line with debt and equity market performance. The assets of the fund may be invested directly in debt and equity securities and indirectly in such financial instruments through commingled funds. Estimates involved in determining if additional funding will be made to the ART include inflation rate and rate of return projections on the fund investments.</p>	<p>The following key assumptions can have a significant effect on estimates related to the non-nuclear decommissioning costs:</p> <p>Timing – In projecting non-nuclear decommissioning costs, the date of the asset's retirement must be estimated. TVA uses a probability-weighted scenario approach based on management assumptions, type of asset, and other factors to estimate the expected retirement time period. In instances where the retirement of a specific asset differs from the anticipated retirement date, the anticipated retirement date of that specific asset is used. Additionally, TVA expects to incur certain ongoing costs subsequent to the initial asset retirement.</p> <p>Technology and Regulation – Changes in technology and experience as well as changes in regulations regarding non-nuclear decommissioning could cause cost estimates to change significantly. TVA's cost studies generally assume current technology and regulations. With respect to the CCR facilities, TVA assumes that any future closures will require more costly materials and processes than what is legally required at September 30, 2013.</p> <p>Discount Rate – TVA uses its incremental borrowing rate over a period consistent with the remaining timeframe until the costs are expected to be incurred to calculate the present value of the weighted estimated cash flows required to satisfy TVA's non-nuclear decommissioning obligation. At September 30, 2013, the discount rates used in the calculations range from 0.21 percent to 5.66 percent.</p> <p>Cost Escalation Factors – TVA's non-nuclear decommissioning estimates include an assumption that decommissioning costs will escalate over present cost levels at rates between 1.39 percent and 4.00 percent annually.</p>	<p>TVA has not made any material changes in the accounting methodology used to record the non-nuclear ARO liability during the past three fiscal years.</p> <p>TVA does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions they use to record the non-nuclear ARO liability.</p> <p>The actual decommissioning costs may vary from the derived estimates because of changes in current assumptions, such as the assumed dates of decommissioning, changes in regulatory requirements, changes in technology, and changes in the cost of labor, materials, and equipment.</p> <p>A 10 percent change in TVA's ARO for non-nuclear decommissioning costs at September 30, 2013, would have affected the liability by approximately \$110 million.</p>

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
<b>Pension and Other Post-Retirement Benefits</b>		
<p>TVA sponsors a defined benefit pension plan that is qualified under Internal Revenue Service rules and covers substantially all of its full-time annual employees. Tennessee Valley Authority Retirement System ("TVARS"), a separate legal entity governed by its own board of directors, administers the qualified defined benefit pension plan. TVA also provides a Supplemental Executive Retirement Plan ("SERP") to certain executives in critical positions, which provides supplemental pension benefits tied to compensation levels that exceed limits imposed by IRS rules applicable to the qualified defined benefit pension plan. Additionally, TVA provides post-retirement health care benefits for most of its full-time employees who reach retirement age while still working for TVA.</p>	<p>TVA's pension and other post-retirement benefits contain uncertainties because they require management to make certain assumptions related to TVA's cost to provide these benefits. Numerous factors are considered including the provisions of the plans, changing employee demographics, various actuarial calculations, assumptions, and accounting mechanisms. The most significant of these factors are discussed below</p> <p><i>Expected Return on Plan Assets.</i> The qualified defined benefit pension plan is the only plan that is funded with qualified plan assets. In determining its expected long-term rate of return on pension plan assets, TVA uses a process that incorporates actual historical asset class returns and an assessment of expected future performance and takes into consideration external actuarial advice and asset class factors. Changes in the expected return rates are generally based on annual studies performed by third party professional investment consultants. Based on the results from annual studies for 2013, 2012, and 2011, TVA adjusted the expected return on plan assets rate used to develop the net pension benefit cost for 2013, 2012, and 2011 to 7.25 percent, 7.25 percent, and 7.50 percent, respectively. Asset allocations are periodically updated using the pension plan asset/liability studies, and are part of the determination of the estimates of long-term rates of return. In September 2013, the TVARS Board approved a new initial asset allocation policy that includes additional asset class diversification and maintains the long-term expected return of 7.25 percent.</p> <p><i>Compensation Increases.</i> Assumptions related to compensation increases are based on the results obtained from an actual TVA experience study performed during the most recent five years for plan participants. TVA obtained an updated study in 2013 and determined that future compensation would increase at rates between 3.50 percent and 13.00 percent per year, depending upon the employee's age. Based upon the current active participants, the average assumed compensation increases used to determine benefit obligations for 2013 and 2012 were 5.72 percent and 4.44 percent, respectively. The average assumed compensation increases used to determine net periodic pension cost for 2013, 2012, and 2011 were 4.44 percent, 4.43 percent, and 4.41 percent, respectively.</p>	<p>Accounting Mechanisms. In accordance with current accounting guidance, TVA utilizes a number of accounting mechanisms that reduce the volatility of reported pension expense. Differences between actuarial assumptions and actual plan results are deferred and are amortized into periodic expense only when the accumulated differences exceed 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If necessary, the excess is amortized over the average remaining service period of active employees.</p> <p>TVA recognizes the impact of asset performance on pension expense over a three-year phase-in period through a market-related value of assets calculation. Since the market-related value of assets recognizes investment gains and losses over a three-year period, the future value of assets will be impacted as previously deferred gains or losses are recognized. As a result, losses that the pension plan assets experience may have an adverse impact on pension expense in future years depending on whether the actuarial losses at each measurement date exceed 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets in accordance with current accounting methodologies.</p> <p>Changes in the expected rate of return on pension plan assets do not affect TVA's post-retirement benefit plans because TVA does not separately set aside assets to fund such benefits. TVA funds its post-retirement plan benefits on an as-paid basis. These changes in the expected rate of return on pension plan assets also do not impact the SERP as any assets set aside for that plan are not considered plan assets under accounting principles generally accepted in the United States of America ("GAAP").</p> <p>A 0.25 percent increase in the assumption for compensation increases would increase the 2013 projected pension benefit obligation and the 2013 net periodic pension cost by \$16 million and \$3 million, respectively. The actuarial gain related to the difference between expected and actual return on pension plan assets for 2013 and 2012 was \$358 million and \$616 million, respectively. Compared with the assumed return of 7.25 percent, the 2013 and 2012 actuarial gains are due to the actual rates of return on the fair value of assets of 11.7 percent and 16.81 percent, respectively. The differences between expected and actual returns that result in an actuarial gain are recognized as a decrease in the related regulatory asset and the pension benefit obligation. A 0.25 percent decrease in the expected rate of return on plan assets would increase the 2013 net periodic pension cost by \$15 million.</p>





Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
	<p><i>Discount Rate.</i> In the case of selecting an assumed discount rate, TVA reviews market yields on high-quality corporate debt and long-term obligations of the U.S. Treasury and endeavors to match, through the use of a hypothetical bond portfolio, instrument maturities with the maturities of its pension obligations in accordance with the prevailing accounting standards. The selected bond portfolio is derived from a universe of high quality corporate bonds of Aa quality or higher. After the bond portfolio is selected, a single interest rate is determined that equates the present value of the plan's projected benefit payments discounted at this rate with the market value of the bonds selected. The discount rates used to determine the pension and other post-retirement benefit obligations were 5.00 percent and 5.05 percent, respectively, at September 30, 2013. At September 30, 2012, the discount rates used to determine the pension and other post-retirement benefit obligations were 4.00 percent for both the pension and post-retirement obligations. The discount rate assumptions used to determine the obligations at year-end are used to determine the net periodic benefit cost for the following year. TVA will use discount rates of 5.00 percent and 5.05 percent to estimate its 2014 pension and other post-retirement net periodic benefit costs, respectively. Changes in the discount rate for 2013 were due to increased long-term interest rates. The discount rate is somewhat volatile because it is determined based upon the prevailing rate as of the measurement date.</p>	<p>A higher discount rate decreases the plan obligations and correspondingly decreases the net periodic pension and net post-retirement benefit costs for those plans where actuarial losses are being amortized. On the other hand, a lower discount rate increases net periodic pension and net periodic post-retirement benefit costs.</p>
	<p><i>Mortality.</i> Mortality assumptions are based on the results obtained from a recent actual company experience study performed, which included retirees as well as other plan participants. TVA obtained an updated study in 2013, which indicated an improvement in TVA's mortality experience. Accordingly, TVA adjusted the projection period for the RP- 2000 Mortality Tables for males and females projected to 2022 using scale AA at September 30, 2013. At September 30, 2012 and 2011, the projection period for the RP- 2000 Mortality Tables for males and females was projected to 2013 using scale AA.</p>	<p>Assuming the other components of the calculation are held constant and excluding any impact for unamortized gains or losses, a 0.25 percent decrease would increase the 2013 net periodic pension cost by \$20 million and the 2013 pension projected benefit obligation by \$335 million.</p>
	<p><i>Health Care Cost Trends.</i> TVA reviews actual recent cost trends and projected future trends in establishing health care cost trend rates. The assumed health care trend rates used to determine post-retirement benefit obligations for 2013 and 2012 were 8.00 percent and 8.50 percent, respectively. The 2013 health care cost trend rate of 8.00 percent used to determine post-retirement benefit obligations is assumed to gradually decrease each successive year until it reaches a 5.00 percent annual increase in health care costs in the years beginning October 1, 2019, and beyond. The assumed health care cost trend rates used to determine the net periodic post-retirement cost were 8.5 percent for 2013 and 8.00 percent for 2012 and 2011. TVA plans to use 8.0 percent in the determination of 2014 net periodic post-retirement cost.</p>	<p>Periodic post-retirement benefit cost could fluctuate if there are changes in the health care cost trend rate. Assuming that the other components of the calculation are held constant and excluding any impact for unamortized actuarial gains or losses, a one percent increase in the assumed health care cost trend rate would impact the post-retirement service and interest cost components by \$8 million and the accumulated post-retirement benefit obligation by \$87 million. Likewise, a one percent decrease in the health care cost trend rate would impact the postretirement service and interest cost components by \$(8) million and the accumulated post-retirement benefit obligation by \$(89) million.</p>



Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
	<p><i>Cost of Living Adjustment.</i> Cost-of-living adjustments ("COLAs") are an increase in the benefits for eligible retirees to help maintain the purchasing power of benefits as consumer prices increase. Eligible retirees receive a COLA on the base pension portion of the monthly pension benefit in January following any year in which the 12-month average Consumer Price Index for All Urban Consumers ("CPI-U") exceeded by as much as one percent the 12-month average of the CPI-U for the preceding year. The minimum COLA is one percent and the maximum is five percent. The COLA was temporarily reduced for a four-year period beginning January 1, 2010, for current retirees, and the eligibility for the COLA was changed to age 60 from attained age 55 for employees retiring on or after January 1, 2010. The COLA assumption has been 2.5 percent since 2009; however, due to the Federal Reserve System's long-term monetary policy and the market-based expectations that inflation will remain below two percent into 2015, TVA adjusted the COLA assumption at September 30, 2013 to 1.6 percent with an assumed gradual increase each successive year until it reaches 2.5 percent in 2019.</p> <p><i>Contributions.</i> In 2013, TVA made contributions of \$6 million to the SERP and \$47 million to the other post-retirement benefit plans. TVA expects to contribute \$6 million to the SERP and \$40 million to the other post-retirement benefit plans in 2014. In 2009, TVA entered into an agreement with TVARS resulting in TVA contributing \$1.0 billion for 2010 and as an advance on contributions for 2011 through 2013. In 2011, TVA made an additional discretionary contribution of \$270 million to TVARS. In 2013 and 2012, the qualified defined pension plan's assets exceeded market return expectations and no discretionary contributions were made. TVA expects to contribute \$250 million to TVARS in 2014.</p>	<p>A higher COLA assumption increases the pension benefit obligation and correspondingly increases the net periodic pension benefit cost. A lower COLA assumption decreases the pension benefit obligation and the net periodic pension benefit cost. Assuming the other components of the calculation are held constant and excluding any impact for unamortized actuarial gains or losses, a 0.25 percent increase in the COLA assumption would increase the 2013 pension benefit obligation by \$226 million.</p>

## Fair Value Measurements

### *Investments*

Investments classified as trading consist of amounts held in the NDT, ART, and SERP. These assets are generally measured at fair value based on quoted market prices or other observable market data such as interest rate indices. These investments are primarily U.S. and international equities, real estate investment trusts, fixed income investments, high-yield fixed income investments, U.S. Treasury Inflation-Protected Securities, commodities, currencies, derivative instruments, and other investments. TVA has classified all of these trading securities as either Level 1, Level 2, or Level 3 valuations. See Note 15 — *Valuation Techniques* for a discussion of valuation levels of the investments. See Note 19 — *Fair Value Measurements* for disclosure of fair value measurements for investments held by TVARS that support TVA's qualified defined benefit pension plan.

Prices provided by third-parties for the investments are subjected to automated tolerance checks by the investment portfolio trustee to identify and avoid, where possible, the use of inaccurate prices. Any such prices identified as outside the tolerance thresholds are reported to the vendor which provided the price. If the prices are validated, the primary pricing source is used. If not, a secondary source price which has passed the applicable tolerance check is used (or queried with the vendor if it is out of tolerance), resulting in either the use of a secondary price, where validated, or the last reported default price, as in the case of a missing price. For monthly valued accounts, where secondary price sources are available, an automated inter-source tolerance report identifies prices with an inter-vendor pricing variance of over two percent at an asset class level. For daily valued accounts, each security is assigned, where possible, an indicative major market index, against which daily price movements are automatically compared. Tolerance thresholds are established by asset class. Prices found to be outside of the applicable tolerance threshold are reported and queried with vendors as described above.

In addition to the tolerance checks performed by the investment portfolio trustee, TVA performs its own analytical testing on the change in fair value measurements each period to ensure the valuations are reasonable based on changes in general market assumptions. TVA also performs pricing tests on various portfolios comprised of securities classified in Levels 1 and 2 on a monthly basis to confirm accuracy of the values received from the investment portfolio trustee.

### *Derivatives*

TVA has entered into various derivative transactions, principally commodity option contracts, forward contracts, swaps, swaptions, futures, and options on futures, to manage various market risks. Other than certain derivative instruments included in investment funds, it is TVA's policy to enter into these derivative transactions solely for hedging purposes and not for speculative purposes.

*Currency and Interest Rate Derivatives.* TVA has three currency swaps and four "fixed for floating" interest rate swaps. The currency swaps protect against changes in cash flows caused by volatility in exchange rates related to outstanding Bonds denominated in British pounds sterling. The interest rate swaps are a result of the exercise of counterparty rights associated with TVA's previous swaption transactions. The swaptions were used to protect against declines in value of embedded call provisions on certain Bond issues. The currency and interest rate swaps are classified as Level 2 valuations as the rate curves and interest rates affecting the fair value of the contracts are based on observable data. Prior to its conversion to an interest rate swap in April 2012, TVA had a swaption that was classified as a Level 3 valuation. The swaption was valued based on an income approach. The valuation was computed using a broker-provided pricing model utilizing interest and volatility rates. The application of credit valuation adjustments ("CVAs") did not materially affect the fair value of these assets and liabilities at September 30, 2013.

*Commodity Contracts.* TVA enters into commodity derivatives for coal and natural gas that require physical delivery of the contracted quantity of the commodity. The fair values of these derivative contracts are determined using internal models based on income approaches. TVA develops an overall coal forecast based on widely-used short-term and mid-range market data from an external pricing specialist in addition to long-term internal estimates. To value the volume option component of applicable coal contracts, TVA uses a Black-Scholes pricing model which includes inputs from the overall coal price forecast, contract-specific terms, and other market inputs. Based on the use of certain significant unobservable inputs, these valuations are classified as Level 3 valuations. Additionally, any settlement fees related to early termination of coal supply contracts are included at the contractual amount. The application of CVAs did not materially affect the fair value of these assets and liabilities at September 30, 2013.

*Commodity Derivatives under the Financial Trading Program ("FTP").* TVA has a FTP under which it may purchase and sell futures, swaps, options, and similar derivative instruments to hedge its exposure to changes in prices of natural gas, fuel oil, coal, and other commodities. These contracts are valued based on market approaches which utilize Chicago Mercantile Exchange ("CME") quoted prices and other observable inputs. Futures and options contracts settled on the CME are classified as Level 1 valuations. Swap contracts are valued using a pricing model based on CME inputs and are subject to nonperformance risk outside of the exit price. These contracts are classified as Level 2 valuations. The application of CVAs did not materially affect the fair value of these assets and liabilities at September 30, 2013.

TVA maintains policies and procedures to value commodity contracts using what is believed to be the best and most relevant data available. In addition, TVA's risk management group reviews valuations and pricing data. TVA retains independent pricing vendors to assist in valuing certain instruments without market liquidity.

#### *Fair Value Considerations*

In determining the fair value of its financial instruments, TVA considers the source of observable market data inputs, liquidity of the instrument, credit risk, and risk of nonperformance of itself or the counterparty to the contract. The conditions and criteria used to assess these factors are described below.

*Sources of Market Assumptions.* TVA derives its financial instrument market assumptions from market data sources (e.g., CME, Moody's Investors Service ("Moody's")). In some cases, where market data is not readily available, TVA uses comparable market sources and empirical evidence to derive market assumptions and determine a financial instrument's fair value.

*Market Liquidity.* Market liquidity is assessed by TVA based on criteria as to whether the financial instrument trades in an active or inactive market. A financial instrument is considered to be in an active market if the prices are fully transparent to the market participants, the prices can be measured by market bid and ask quotes, the market has a relatively high trading volume and the market has a significant number of market participants that will allow the market to rapidly absorb the quantity of the assets traded without significantly affecting the market price. Other factors TVA considers when determining whether a market is active or inactive include the presence of government or regulatory control over pricing that could make it difficult to establish a market-based price upon entering into a transaction.

*Nonperformance Risk.* In determining the potential impact of nonperformance risk, which includes credit risk, TVA considers changes in current market conditions, readily available information on nonperformance risk, letters of credit, collateral, other arrangements available, and the nature of master netting arrangements. TVA is a counterparty to derivative instruments that subject TVA to nonperformance risk. Nonperformance risk on the majority of investments and certain exchange-traded instruments held by TVA is incorporated into the exit price that is derived from quoted market data that is used to value the investment.

Nonperformance risk for most of TVA's derivative instruments is an adjustment to the initial asset/liability fair value. TVA adjusts for nonperformance risk, both of TVA (for liabilities) and the counterparty (for assets), by applying a CVA. TVA determines an appropriate CVA for each applicable financial instrument based on the term of the instrument and TVA's or the counterparty's credit rating as obtained from Moody's. For companies that do not have an observable credit rating, TVA uses internal analysis to assign a comparable rating to the company. TVA discounts each financial instrument using the historical default rate (as reported by Moody's for CY 1983 to CY 2011) for companies with a similar credit rating over a time period consistent with the remaining term of the contract.

All derivative instruments are analyzed individually and are subject to unique risk exposures. At September 30, 2013, the aggregate counterparty credit risk adjustments applied to TVA's derivative asset and liability positions were decreases of \$6 million and \$1 million, respectively.

*Collateral.* TVA's currency and interest rate swaps contain contract provisions that require a party to post collateral (in a form such as cash or a letter of credit) when the party's liability balance under the agreement exceeds a certain threshold. See Note 14 — *Other Derivative Instruments* — *Collateral* for a discussion of collateral related to TVA's derivative liabilities.

#### **New Accounting Standards and Interpretations**

See Note 2 for a discussion of recent accounting standards and pronouncements which became effective for TVA during the presented periods.

#### **Legislative and Regulatory Matters**

In December 2010, Congress passed the Continuing Appropriations and Surface Transportation Extensions Act, 2011, which included a two-year freeze on statutory pay adjustments for all executive branch pay schedules and a two-year freeze by executive agencies on base salary increases to all senior executives. On March 26, 2013, legislation that extends the federal pay freeze through December 31, 2013 became law. TVA officers continue to be subject to this freeze, and TVA will continue compliance with the freeze for managers, specialists, and non-represented employees for the remainder of CY 2013. The federal salary freeze does not apply to TVA's represented employees, whose salary increases are governed by the terms of collective bargaining agreements, certain promotions and changes in positions, and other forms of non-salary compensation such as lump-sum and incentive-based awards.

On April 10, 2013, the Fiscal Year 2014 Budget of the U.S. Government (the "Budget") was submitted to Congress. The Budget contains the following language regarding the TVA:

In order to meet its future capacity needs, fulfill its environmental responsibilities, and modernize its aging generation system, TVA's current capital investment plan includes more than \$24.6 billion of expenditures over the next 10 years. However, TVA's anticipated capital needs are likely to quickly exceed the agency's \$30.0 billion statutory cap on indebtedness. Reducing or eliminating the Federal Government's role in programs such as TVA, which have achieved their original objectives and no longer require Federal participation, can help put the Nation on a sustainable fiscal path. Given TVA's debt constraints and the impact to the Federal deficit of its increasing capital expenditures, the Administration intends to undertake a strategic review of options for addressing TVA's financial situation, including the possible divestiture of TVA, in part or as a whole.

Subsequent to April 10, 2013, TVA has been working with the Office of Management and Budget and other Administration officials to provide the information they have requested as part of the Administration's strategic review.

A bill has been introduced in Congress, through which Congress would approve TVA's transfer, on behalf of the United States, of the Yellow Creek Port properties to Mississippi. The property was acquired to be part of a river terminal, a railroad, and industrial sites on the Pickwick Reservoir in Tishomingo County, Mississippi. The transfer would be made under section 4(k)(b) of the TVA Act that allows TVA to dispose of land for the purpose of erecting docks and buildings for shipping purposes or the manufacture or storage of products for the purpose of trading or shipping. Transfers under this section of the TVA Act require congressional approval.

TVA continues to monitor how regulatory agencies are interpreting and implementing the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was enacted in July 2010. As a result of this act and its implementing regulations, TVA has become subject to recordkeeping, reporting, and reconciliation requirements related to its derivative transactions. In addition, depending on how regulatory agencies interpret and implement the provisions of this act, TVA's hedging costs may increase, and TVA may have to post additional collateral and margin in connection with its derivative transactions.

For a discussion of environmental legislation and regulation, see Item 1, Business — *Environmental Matters*.

TVA does not engage, and does not control any entity that is engaged, in any activity listed under Section 13(r) of the Exchange Act, which requires certain issuers to disclose certain activities relating to Iran involving the issuer and its affiliates. Based on information supplied by each such person, none of TVA's directors and executive officers are involved in any such activities. While TVA is an agency and instrumentality of the United States of America, TVA does not believe its disclosure obligations, if any, under Section 13(r), extend to the activities of any other departments, divisions, or agencies of the United States.

## **Environmental Matters**

See Item 1, Business — *Environmental Matters*, which discussion is incorporated by reference into this Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

## **Legal Proceedings**

From time to time, TVA is party to or otherwise involved in lawsuits, claims, proceedings, investigations, and other legal matters ("Legal Proceedings") that have arisen in the ordinary course of conducting its activities, as a result of catastrophic events or otherwise. TVA had accrued approximately \$302 million with respect to Legal Proceedings at September 30, 2013. No assurance can be given that TVA will not be subject to significant additional claims and liabilities. If actual liabilities significantly exceed the estimates made, TVA's results of operations, liquidity, and financial condition could be materially adversely affected.

For a discussion of certain current material Legal Proceedings, see Note 20 — *Legal Proceedings*, which discussion is incorporated into this Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

## **Risk Management Activities**

TVA is exposed to various market risks. These market risks include risks related to commodity prices, investment prices, interest rates, currency exchange rates, inflation, and counterparty credit and performance risk. To help manage certain of these risks, TVA has entered into various derivative transactions, principally commodity option contracts, forward contracts, swaps, swaptions, futures, and options on futures. Other than certain derivative instruments in its trust investment funds, it is TVA's policy to enter into these derivative transactions solely for hedging purposes and not for speculative purposes. See Note 14.

## *Risk Governance*

The Enterprise Risk Council ("ERC") was created in 2005 to strengthen and formalize TVA's enterprise-wide risk management efforts. The ERC is responsible for the highest level of risk oversight at TVA and is also responsible for communicating enterprise-wide risks with policy implications to the TVA Board or a designated TVA Board committee. The ERC's current members are the President and Chief Executive Officer (chair); Executive Vice President and Chief Operating Officer; Executive Vice President and Chief External Relations Officer; Executive Vice President and Chief Financial Officer; Executive Vice President and General Counsel; Senior Vice President of Human Resources and Communications; Senior Vice President of Shared Services; and Senior Vice President and Chief Risk Officer. The ERC has at times designated a representative from Office of the Inspector General to act as an advisory member.

The ERC has established a subordinate Risk Management Steering Committee ("RMSC"). The RMSC is responsible for (1) reviewing risk management policies to ensure their consistency with TVA's Enterprise Risk Management ("ERM") policies and guidelines, (2) reviewing Strategic Business Unit risks and emerging issues, (3) providing executive guidance and support in enterprise risk assessments and risk management plans, (4) presenting enterprise risks for consideration by the ERC, (5) recommending general risk management processes and methodologies for the enterprise, and (6) sponsoring special projects related to cross-functional risk management activities.

TVA has a designated ERM organization within its Financial Services organization responsible for (1) coordinating risk assessment efforts at TVA organizations, (2) facilitating enterprise risk discussions with the risk subject matter experts across the organization and at the RMSC, ERC, and TVA Board levels, and (3) developing and improving TVA's risk awareness culture.

TVA has cataloged major short-term and long-term enterprise level risks across the organization. A discussion of significant risks is presented in Item 1A, Risk Factors.

## *Commodity Price Risk*

TVA is exposed to effects of market fluctuations in the price of commodities that are critical to its operations, including coal, uranium, natural gas, fuel oil, crude oil, construction materials, reagents, emission allowances, and electricity. TVA's commodity price risk is substantially mitigated by its cost-based rates, including its total fuel cost adjustment. To manage cost volatility for its wholesale and directly served customers, TVA has established a FTP. Under the FTP, TVA currently hedges the risks associated with the price of natural gas, fuel oil, and crude oil. TVA is prohibited from taking speculative positions in its FTP.

Following is a discussion of the impact on the value of TVA's natural gas, fuel oil, and crude oil derivative positions in its FTP that would result from hypothetical changes in commodity prices:

*Natural Gas.* A hypothetical 10 percent decline in the market price of natural gas on September 30, 2013, and 2012, would have resulted in decreases of approximately \$60 million and \$119 million, respectively, in the fair value of TVA's natural gas trading derivative instruments at these dates.

*Fuel Oil.* A hypothetical 10 percent decline in the market price of fuel oil on September 30, 2013, and 2012, would have resulted in decreases of approximately \$4 million and \$3 million, respectively, in the fair value of TVA's fuel oil derivative instruments at these dates.

*Crude Oil.* A hypothetical 10 percent decline in the market price of crude oil on September 30, 2013, and 2012, would have resulted in decreases of approximately \$8 million and \$11 million, respectively, in the fair value of TVA's crude oil derivative instruments at these dates.

## *Investment Price Risk*

TVA's investment price risk relates primarily to investments in TVA's NDT, ART, pension fund, and SERP.

*Nuclear Decommissioning Trust.* The NDT is generally designed to achieve a return in line with overall equity market performance. The assets of the trust are invested in debt and equity securities, private partnerships and limited liability companies, and certain derivative instruments including forwards, futures, options, and swaps, and through these investments the trust has exposure to U.S. equities, international equities, real estate investment trusts, high-yield debt, domestic debt, U.S. Treasury Inflation-Protected Securities ("TIPS"), commodities, and private real estate, private equity, and absolute return strategies. At September 30, 2013, and 2012, an immediate 10 percent decrease in the price of the investments in the trust would have reduced the value of the trust by \$132 million and \$117 million, respectively. See *Critical Accounting Policies and Estimates — Asset Retirement Obligations — Nuclear Decommissioning* for more information regarding TVA's NDT.

*Asset Retirement Trust.* The ART is presently invested to achieve a return in line with equity and fixed-income market performance. The assets of the trust are invested in securities directly and indirectly through commingled funds. At



September 30, 2013, and 2012, an immediate 10 percent decrease in the price of the investments in the trust would have reduced the value of the trust by \$34 million and \$26 million, respectively.

**Qualified Pension Plan.** TVARS has a long-term investment plan which contains a dynamic de-risking strategy that allocates investments to assets that better match the liability, such as long duration fixed income securities, over time as funding status targets are met. In September 2013, the TVARS Board approved a new initial asset allocation policy. The approved investment allocation policy has targets of 47 percent equity including U.S., non-U.S., private, and low volatility global public equity investments, 28 percent fixed income securities, 15 percent public real assets including TIPS, commodities, and Master Limited Partnerships ("MLPs"), and 10 percent private real assets. The qualified pension plan assets are invested across global public equity, private equity, cash, core fixed income, long term core fixed income, investment grade credit, high yield fixed income, global TIPS, MLPs, and private real assets. The TVARS asset allocation policy includes permissible deviations from these target allocations. The TVARS Board can take action, as appropriate, to rebalance the system's assets consistent with the asset allocation policy. At September 30, 2013, and 2012, an immediate 10 percent decrease in the value of the net assets of the fund would have reduced the value of the fund by approximately \$722 million and \$703 million, respectively.

**Supplemental Executive Retirement Plan.** The SERP is a non-qualified defined benefit pension plan similar to those typically found in other companies in TVA's peer group and is provided to a limited number of executives. TVA's SERP was created to recruit and retain key executives. The plan is designed to provide a competitive level of retirement benefits in excess of the limitations on contributions and benefits imposed by TVA's qualified defined benefit plan and Internal Revenue Code section 415 limits on qualified retirement plans. The SERP currently targets an asset allocation policy for its plan assets of 65 percent equity securities, which includes U.S. and non-U.S. equities, and 35 percent fixed income securities. The SERP plan assets are presently invested to achieve a return in line with overall investment market performance. At September 30, 2013, and 2012, an immediate 10 percent decrease in the value of the SERP investments would have reduced the value by \$4 million.

#### *Interest Rate Risk*

TVA's interest rate risk is related primarily to its short-term investments, short-term debt, long-term debt, and interest rate derivatives.

**Short-Term Investments.** At September 30, 2013, TVA had \$1.6 billion of cash and cash equivalents, and the average balance of cash and cash equivalents for 2013 was \$1.0 billion. The average interest rate that TVA received on its short-term investments during 2013 was less than one percent. If the rates of interest that TVA received on its short-term investments during 2013 were zero percent, TVA would have received \$1 million less in interest from its short-term investments during 2013. At September 30, 2012, TVA had \$868 million of cash and cash equivalents, and the average balance of cash and cash equivalents for 2012 was \$593 million. The average interest rate that TVA received on its short-term investments during 2012 was less than one percent. If the rates that TVA received on its short-term investments during 2012 were zero percent, TVA would have received \$1 million less in interest on short-term investments during 2012. In addition to affecting the amount of interest that TVA receives from its short-term investments, changes in interest rates could affect the value of the investments in its pension plan, ART, NDT, and SERP. See *Risk Management Activities — Investment Price Risk*.

**Short-Term Debt.** At September 30, 2013, TVA's short-term borrowings were \$2.4 billion, and the current maturities of long-term debt were \$62 million. Based on TVA's interest rate exposure at September 30, 2013, an immediate one percentage point increase in interest rates would have resulted in an increase of \$25 million in TVA's short-term interest expense. At September 30, 2012, TVA's short-term borrowings were \$1.5 billion, and the current maturities of long-term debt were \$2.3 billion. Based on TVA's interest rate exposure at September 30, 2012, an immediate one percentage point increase in interest rates would have resulted in an increase of \$38 million in TVA's short-term interest expense.

**Long-Term Debt.** At September 30, 2013, and 2012, the interest rates on all of TVA's outstanding long-term debt were fixed (or subject only to downward adjustment under certain conditions). Accordingly, an immediate one percentage point increase in interest rates would not have affected TVA's interest expense associated with its long-term debt. When TVA's long-term debt matures or is redeemed, however, TVA typically refinances this debt by issuing additional long-term debt. Accordingly, if interest rates are high when TVA issues this additional long-term debt, TVA's cash flows, results of operations, and financial condition may be adversely affected. This risk is somewhat mitigated by the fact that TVA's debt portfolio is diversified in terms of maturities and has a long average life. At September 30, 2013, and 2012, the average life of TVA's debt portfolio was 17.8 years and 17.0 years, respectively. A schedule of TVA's debt maturities is contained in Note 12 — *Debt Outstanding*.

**Interest Rate Derivatives.** Changes in interest rates also affect the mark-to-market valuation of TVA's interest rate derivatives. TVA had four interest rate swaps outstanding at September 30, 2013 and September 30, 2012. Net unrealized gains and losses on these instruments are reflected on TVA's consolidated balance sheets in a regulatory asset account, and realized gains and losses are reflected in earnings. Based on TVA's interest rate exposure at September 30, 2013, an immediate one-half percentage point decrease in interest rates would have increased the interest rate swap liabilities by \$220 million. Based on TVA's interest rate exposure at September 30, 2012, an immediate one-half percentage point decrease in interest rates would have increased the interest rate swap liabilities by \$295 million.

### Currency Exchange Rate Risk

At September 30, 2013, and 2012, TVA had three issues of Bonds outstanding whose principal and interest payments were denominated in British pounds sterling. TVA issued these Bonds in amounts of £200 million, £250 million, and £150 million in 1999, 2001, and 2003, respectively. When TVA issued these Bonds, it hedged its currency exchange rate risk by entering into currency swap agreements. Accordingly, at September 30, 2013, and 2012, a 10 percent change in the British pound sterling-U.S. dollar exchange rate would not have had a material impact on TVA's cash flows, results of operations, or financial position.

### Counterparty Credit Risk

Counterparty credit risk is the exposure to economic loss that would occur as a result of a counterparty's nonperformance of its contractual obligations. Where exposed to counterparty credit risk, TVA analyzes the counterparty's financial condition prior to entering into an agreement, establishes credit limits, monitors the appropriateness of those limits, as well as any changes in the creditworthiness of the counterparty, on an ongoing basis, and employs credit mitigation measures, such as collateral or prepayment arrangements and master purchase and sale agreements, to mitigate credit risk.

**Credit of Customers.** The majority of TVA's counterparty credit risk is limited to trade accounts receivable from delivered power sales to LPCs, all located in the Tennessee Valley region. To a lesser extent, TVA is exposed to credit risk from industries and federal agencies directly served and from exchange power arrangements with a small number of investor-owned regional utilities related to either delivered power or the replacement of open positions of longer-term purchased power or fuel agreements. As previously mentioned in Item 1, Business — *Customers* — *Other Customers*, power sales to USEC represented three percent of TVA's total operating revenues in 2013. TVA has determined that this customer has the equivalent of a non-investment grade credit rating. As a result of its credit ratings, this customer has provided credit assurance to TVA under the terms of its power contract. On May 24, 2013, the customer announced the cessation of enrichment activities at one of its sites. TVA and the customer subsequently completed agreements to extend power sales to facilitate the cessation of enrichment activities and to support non-enrichment activities at the site at a greatly reduced level. These sales may continue to be extended.

TVA had concentrations of accounts receivable from three customers that represented 27 percent and 26 percent of total accounts receivable at September 30, 2013 and 2012, respectively.

The table below summarizes TVA's customer credit risk from trade accounts receivable at September 30, 2013 and 2012:

<b>Customer Credit Risk</b>			
At September 30			
		<b>2013</b>	<b>2012</b>
<b>Trade accounts receivable</b>			
Investment grade			
Local power companies	\$	756	\$ 871
Exchange power arrangements		2	3
Industries and federal agencies directly served		51	44
Internally rated - investment grade			
Local power companies		661	636
Exchange power arrangements		3	1
Industries and federal agencies directly served		8	11
Non-investment grade			
Industries and federal agencies directly served		3	5
Internally rated - non-investment grade			
Exchange power arrangements		3	3
Industries and federal agencies directly served		8	11
Total trade accounts receivable		1,495	1,585
<b>Other accounts receivable</b>			
Miscellaneous accounts		73	88
Provision for uncollectible accounts		(1)	(7)
Total other accounts receivable		72	81
Accounts receivable, net	\$	1,567	\$ 1,666

**Note**  
\* Includes unbilled power receivables of \$15 million and \$13 million at September 30, 2013 and September 30, 2012, respectively.

*Counterparty Performance Risk.* In addition to being exposed to economic loss due to the nonperformance of TVA's customers, TVA is exposed to economic loss because of the nonperformance of its other counterparties, including suppliers and counterparties to its derivative contracts. Where exposed to performance risk, TVA analyzes the counterparty's financial condition prior to entering into an agreement and employs performance assurance measures, such as parent guarantees, letters of credit, cash deposits, or performance bonds, to mitigate the risk.

TVA has various agreements under which it has exposure to various financial institutions with which it does business. Most of these are not material on a net exposure basis. TVA believes its policies and procedures for counterparty performance risk reviews have generally protected TVA against significant exposure to financial institutions impacted by recent market and economic conditions.

*Credit of Suppliers.* If one of TVA's fuel or purchased power suppliers fails to perform under the terms of its contract with TVA, TVA might lose the money that it paid to the supplier under the contract and have to purchase replacement fuel or power on the spot market, perhaps at a significantly higher price than TVA was entitled to pay under the contract. In addition, TVA might not be able to acquire replacement fuel or power in a timely manner and thus might be unable to satisfy its own obligations to deliver power. TVA has a power purchase agreement with a supplier that expires on March 31, 2032. TVA has determined that the supplier has the equivalent of a non-investment grade credit rating. As a result of the supplier's credit ratings, the company has provided credit assurance to TVA under the terms of its agreement.

*Credit of Derivative Counterparties.* TVA has entered into derivative contracts for hedging purposes, and TVA's NDT and qualified pension plan have entered into derivative contracts for investment purposes. If a counterparty to one of TVA's hedging transactions defaults, TVA might incur substantial costs in connection with entering into a replacement hedging transaction. If a counterparty to the derivative contracts into which the NDT and the qualified pension plan have entered for investment purposes defaults, the value of the investment could decline significantly, or perhaps become worthless.

#### *Credit of TVA*

A downgrade in TVA's credit rating could have material adverse effects on TVA's cash flows, results of operations, and financial condition and could harm investors in TVA securities. Among other things, a downgrade could have the following effects:

- A downgrade could increase TVA's interest expense by increasing the interest rates that TVA pays on new Bonds that it issues. An increase in TVA's interest expense may reduce the amount of cash available for other purposes, which may result in the need to increase borrowings, to reduce other expenses or capital investments, or to increase power rates.
- A downgrade could result in TVA's having to post additional collateral under certain physical and financial contracts that contain rating triggers.
- A downgrade below a contractual threshold could prevent TVA from borrowing under three credit facilities totaling \$2.5 billion.
- A downgrade could lower the price of TVA securities in the secondary market, thereby hurting investors who sell TVA securities after the downgrade and diminishing the attractiveness and marketability of TVA Bonds.

For a discussion of risk factors related to TVA's credit rating, see Item 1A, Risk Factors.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Quantitative and qualitative disclosures about market risk are reported in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — *Risk Management Activities*, which discussion is incorporated into this Item 7A, Quantitative and Qualitative Disclosures About Market Risk.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**TENNESSEE VALLEY AUTHORITY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the years ended September 30  
(in millions)

	2013	2012	2011
<b>Operating revenues</b>			
Electricity sales	\$ 10,829	\$ 11,086	\$ 11,723
Other revenue	127	134	118
Total operating revenues	10,956	11,220	11,841
<b>Operating expenses</b>			
Fuel	2,820	2,680	2,926
Purchased power	1,027	1,189	1,427
Operating and maintenance	3,428	3,510	3,617
Depreciation and amortization	1,680	1,919	1,772
Tax equivalents	548	622	662
Total operating expenses	9,503	9,920	10,404
<b>Operating income</b>	1,453	1,300	1,437
Other income (expense), net	44	33	30
<b>Interest expense</b>			
Interest expense	1,394	1,444	1,431
Allowance for funds used during construction and nuclear fuel expenditures	(168)	(171)	(126)
Net interest expense	1,226	1,273	1,305
<b>Net income (loss)</b>	\$ 271	\$ 60	\$ 162

The accompanying notes are an integral part of these consolidated financial statements.

**TENNESSEE VALLEY AUTHORITY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
For the years ended September 30  
(in millions)

	2013	2012	2011
Net income (loss)	\$ 271	\$ 60	\$ 162
Other comprehensive income (loss)			
Net unrealized gain (loss) on cash flow hedges	78	99	(50)
Reclassification to earnings from cash flow hedges	(1)	(35)	7
Total other comprehensive income (loss)	\$ 77	\$ 64	\$ (43)
Total comprehensive income (loss)	\$ 348	\$ 124	\$ 119

The accompanying notes are an integral part of these consolidated financial statements.

**TENNESSEE VALLEY AUTHORITY  
CONSOLIDATED BALANCE SHEETS**

At September 30  
(in millions)

<b>ASSETS</b>			
		<b>2013</b>	<b>2012</b>
<b>Current assets</b>			
Cash and cash equivalents	\$	1,602	\$ 868
Restricted cash and investments		33	11
Accounts receivable, net		1,567	1,666
Inventories, net		1,091	1,097
Regulatory assets		561	774
Other current assets		52	90
Total current assets		4,906	4,506
<b>Property, plant, and equipment</b>			
Completed plant		47,073	45,917
Less accumulated depreciation		(23,157)	(22,169)
Net completed plant		23,916	23,748
Construction in progress		4,704	4,768
Nuclear fuel		1,256	1,176
Capital leases		47	35
Total property, plant, and equipment, net		29,923	29,727
<b>Investment funds</b>		1,701	1,465
<b>Regulatory and other long-term assets</b>			
Regulatory assets		9,131	11,127
Other long-term assets		445	509
Total regulatory and other long-term assets		9,576	11,636
<b>Total assets</b>	\$	46,106	\$ 47,334

The accompanying notes are an integral part of these consolidated financial statements.

**TENNESSEE VALLEY AUTHORITY  
CONSOLIDATED BALANCE SHEETS**  
At September 30  
(in millions)

**LIABILITIES AND PROPRIETARY CAPITAL**

	2013	2012
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,627	\$ 1,922
Environmental cleanup costs - Kingston ash spill	102	126
Accrued interest	378	376
Current portion of leaseback obligations	69	443
Current portion of energy prepayment obligations	100	102
Regulatory liabilities	212	191
Short-term debt, net	2,432	1,507
Current maturities of power bonds	32	2,308
Current maturities of long-term debt of variable interest entities	30	13
<b>Total current liabilities</b>	<b>4,982</b>	<b>6,988</b>
<b>Other liabilities</b>		
Post-retirement and post-employment benefit obligations	5,348	6,279
Asset retirement obligations	3,472	3,289
Other long-term liabilities	1,861	2,680
Leaseback obligations	692	760
Energy prepayment obligations	410	510
Environmental cleanup costs - Kingston ash spill	67	143
Regulatory liabilities	1	109
<b>Total other liabilities</b>	<b>11,851</b>	<b>13,770</b>
<b>Long-term debt, net</b>		
Long-term power bonds, net	22,315	20,269
Long-term debt of variable interest entities	1,311	981
<b>Total long-term debt, net</b>	<b>23,626</b>	<b>21,250</b>
<b>Total liabilities</b>	<b>40,459</b>	<b>42,008</b>
<b>Commitments and contingencies (Note 20)</b>		
<b>Proprietary capital</b>		
Power program appropriation investment	268	288
Power program retained earnings	4,767	4,492
<b>Total power program proprietary capital</b>	<b>5,035</b>	<b>4,780</b>
Nonpower programs appropriation investment, net	609	620
Accumulated other comprehensive income (loss)	3	(74)
<b>Total proprietary capital</b>	<b>5,647</b>	<b>5,326</b>
<b>Total liabilities and proprietary capital</b>	<b>\$ 46,106</b>	<b>\$ 47,334</b>

The accompanying notes are an integral part of these consolidated financial statements.

**TENNESSEE VALLEY AUTHORITY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended September 30**  
(in millions)

	2013	2012	2011
<b>Cash flows from operating activities</b>			
Net income (loss)	\$ 271	\$ 60	\$ 162
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization (including amortization of debt issuance costs and premiums/discounts)	1,723	1,947	1,792
Amortization of nuclear fuel cost	268	264	225
Non-cash retirement benefit expense	622	607	465
Prepayment credits applied to revenue	(102)	(105)	(105)
Fuel cost adjustment deferral	97	(61)	69
Fuel cost tax equivalents	2	47	135
Environmental cleanup costs – Kingston ash spill – non cash	72	73	76
Changes in current assets and liabilities			
Accounts receivable, net	114	89	(62)
Inventories and other, net	27	(131)	(71)
Accounts payable and accrued liabilities	(296)	60	60
Accrued interest	1	(26)	(4)
Regulatory assets costs	(21)	(14)	(21)
Pension contributions	(6)	(8)	(274)
Environmental cleanup costs – Kingston ash spill, net	(52)	(103)	(108)
Other, net	(123)	(125)	98
Net cash provided by operating activities	2,597	2,574	2,437
<b>Cash flows from investing activities</b>			
Construction expenditures	(2,051)	(2,119)	(2,417)
Combustion turbine asset acquisition	—	—	(436)
Nuclear fuel expenditures	(287)	(361)	(216)
Change in restricted cash and investments	—	—	(11)
Purchases of investments, net	(48)	(48)	(56)
Loans and other receivables			
Advances	(6)	(2)	(21)
Repayments	9	10	11
Other, net	(2)	7	4
Net cash used in investing activities	(2,385)	(2,513)	(3,142)
<b>Cash flows from financing activities</b>			
Long-term debt			
Issues of power bonds	2,122	1,126	1,587
Issues of variable interest entities	360	1,000	—
Redemptions and repurchases of power bonds	(2,358)	(2,717)	(1,021)
Payments on debt of variable interest entities	(13)	(6)	—
Short-term debt issues (redemptions), net	924	1,024	455
Payments on leases and leasebacks	(446)	(84)	(118)
Proceeds from call monetization	—	60	—
Financing costs, net	(20)	(75)	(8)
Payments to U.S. Treasury	(27)	(27)	(27)
Other, net	(20)	(1)	16
Net cash provided by financing activities	522	300	884
Net change in cash and cash equivalents	734	361	179
Cash and cash equivalents at beginning of year	868	507	328
<b>Cash and cash equivalents at end of year</b>	<b>\$ 1,602</b>	<b>\$ 868</b>	<b>\$ 507</b>

The accompanying notes are an integral part of these consolidated financial statements.





**TENNESSEE VALLEY AUTHORITY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN PROPRIETARY CAPITAL**  
**For the years ended September 30**  
(in millions)

	<b>Power Program Appropriation Investment</b>	<b>Power Program Retained Earnings</b>	<b>Nonpower Programs Appropriation Investment, Net</b>	<b>Accumulated Other Comprehensive Income (Loss) Net Gains (Losses) on Cash Flow Hedges</b>	<b>Total</b>
<b>Balance at September 30, 2010</b>	\$ 328	\$ 4,264	\$ 640	\$ (95)	\$ 5,137
Net income (loss)	—	172	(10)	—	162
Total other comprehensive income (loss)	—	—	—	(43)	(43)
Return on power program appropriation investment	—	(7)	—	—	(7)
Return of power program appropriation investment	(20)	—	—	—	(20)
<b>Balance at September 30, 2011</b>	\$ 308	\$ 4,429	\$ 630	\$ (138)	\$ 5,229
Net income (loss)	—	70	(10)	—	60
Total other comprehensive income (loss)	—	—	—	64	64
Return on power program appropriation investment	—	(7)	—	—	(7)
Return of power program appropriation investment	(20)	—	—	—	(20)
<b>Balance at September 30, 2012</b>	\$ 288	\$ 4,492	\$ 620	\$ (74)	\$ 5,326
Net income (loss)	—	282	(11)	—	271
Total other comprehensive income (loss)	—	—	—	77	77
Return on power program appropriation investment	—	(7)	—	—	(7)
Return of power program appropriation investment	(20)	—	—	—	(20)
<b>Balance at September 30, 2013</b>	\$ 268	\$ 4,767	\$ 609	\$ 3	\$ 5,647

The accompanying notes are an integral part of these consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Dollars in millions except where noted)*

<b>Note</b>		<b>Page No.</b>
1	Summary of Significant Accounting Policies	88
2	Impact of New Accounting Standards and Interpretations	94
3	Accounts Receivable, Net	94
4	Inventories, Net	95
5	Net Completed Plant	95
6	Other Long-Term Assets	95
7	Regulatory Assets and Liabilities	96
8	Variable Interest Entities	99
9	Kingston Fossil Plant Ash Spill	101
10	Other Long-Term Liabilities	102
11	Asset Retirement Obligations	102
12	Debt and Other Obligations	103
13	Leaseback Obligations	108
14	Risk Management Activities and Derivative Transactions	108
15	Fair Value Measurements	114
16	Proprietary Capital	120
17	Other Income (Expense), Net	122
18	Supplemental Cash Flow Information	122
19	Benefit Plans	122
20	Commitments and Contingencies	136
21	Related Parties	143
22	Unaudited Quarterly Financial Information	144

**1. Summary of Significant Accounting Policies***General*

The Tennessee Valley Authority ("TVA") is a corporate agency and instrumentality of the United States that was created in 1933 by legislation enacted by the United States ("U.S.") Congress in response to a request by President Franklin D. Roosevelt. TVA was created to, among other things, improve navigation on the Tennessee River, reduce the damage from destructive flood waters within the Tennessee River system and downstream on the lower Ohio and Mississippi Rivers, further the economic development of TVA's service area in the southeastern United States, and sell the electricity generated at the facilities TVA operates.

Today, TVA operates the nation's largest public power system and supplies power in most of Tennessee, northern Alabama, northeastern Mississippi, and southwestern Kentucky and in portions of northern Georgia, western North Carolina, and southwestern Virginia to a population of over nine million people.

TVA also manages the Tennessee River, its tributaries, and certain shorelines to provide, among other things, year-round navigation, flood damage reduction, and affordable and reliable electricity. Consistent with these primary purposes, TVA also manages the river system and public lands to provide recreational opportunities, adequate water supply, improved water quality, cultural and natural resource protection, and economic development.

The power program has historically been separate and distinct from the stewardship programs. It is required to be self-supporting from power revenues and proceeds from power financings, such as proceeds from the issuance of bonds, notes, or other evidences of indebtedness ("Bonds"). Although TVA does not currently receive congressional appropriations, it is required to make annual payments to the U.S. Treasury in repayment of and as a return on the government's appropriation investment in TVA's power facilities (the "Power Program Appropriation Investment"). In the 1998 Energy and Water Development Appropriations Act, Congress directed TVA to fund essential stewardship activities related to its management of the Tennessee River system and nonpower or stewardship properties with power revenues in the event that there were insufficient appropriations or other available funds to pay for such activities in any fiscal year. Congress has not provided any appropriations to TVA to fund such activities since 1999. Consequently, during 2000, TVA began paying for essential stewardship activities primarily with power revenues, with the remainder funded with user fees and other forms of revenues derived in connection with those activities. The activities related to stewardship properties do not meet the criteria of an

operating segment under accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, these assets and properties are included as part of the power program, TVA's only operating segment.

Power rates are established by the TVA Board of Directors ("TVA Board") as authorized by the Tennessee Valley Authority Act of 1933, as amended, 16 U.S.C. §§ 831-831ee (as amended, the "TVA Act"). The TVA Act requires TVA to charge rates for power that 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 ("tax equivalents"); debt service on outstanding indebtedness; payments to the U.S. Treasury in repayment of and as a return on the Power Program Appropriation Investment; and such additional margin as the TVA Board may consider desirable for investment in power system assets, retirement of outstanding Bonds in advance of maturity, additional reduction of the Power Program Appropriation Investment, and other purposes connected with TVA's power business. In setting TVA's rates, the TVA Board is charged by the TVA Act to have due regard for the primary objectives of the TVA Act, including the objective that power shall be sold at rates as low as are feasible. Rates set by the TVA Board are not subject to review or approval by any state or other federal regulatory body.

#### *Fiscal Year*

TVA's fiscal year ends September 30. Years (2013, 2012, etc.) refer to TVA's fiscal years unless they are preceded by "CY," in which case the references are to calendar years.

#### *Cost-Based Regulation*

Since the TVA Board is authorized by the TVA Act to set rates for power sold to its customers, TVA is self-regulated. Additionally, TVA's regulated rates are designed to recover its costs. In view of demand for electricity and the level of competition, TVA believes that rates, set at levels that will recover TVA's costs, can be charged and collected. As a result of these factors, TVA records certain assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred or deferral of gains that will be credited to customers in future periods. TVA assesses whether the regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes, potential legislation, and changes in technology. Based on these assessments, TVA believes the existing regulatory assets are probable of recovery. This determination reflects the current regulatory and political environment and is subject to change in the future. If future recovery of regulatory assets ceases to be probable, or any of the other factors described above cease to be applicable, TVA would no longer be considered to be a regulated entity and would be required to write off these costs. Most regulatory asset write offs would be required to be recognized in earnings in the period in which future recovery ceases to be probable.

#### *Basis of Presentation*

The accompanying consolidated financial statements, which have been prepared in accordance with GAAP, include the accounts of TVA and variable interest entities of which TVA is determined to be the primary beneficiary. See Note 8. Intercompany balances and transactions have been eliminated in consolidation.

#### *Use of Estimates*

The preparation of financial statements requires TVA to estimate the effects of various matters that are inherently uncertain as of the date of the consolidated financial statements. Although the consolidated financial statements are prepared in conformity with GAAP, TVA is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the amounts of revenues and expenses reported during the reporting period. Each of these estimates varies in regard to the level of judgment involved and its potential impact on TVA's financial results. Estimates are considered critical either when a different estimate could have reasonably been used, or where changes in the estimate are reasonably likely to occur from period to period, and such use or change would materially impact TVA's financial condition, results of operations, or cash flows.

#### *Reclassifications*

Certain reclassifications have been made to the 2012 and 2011 Statements of Cash Flows in the Cash flows from operating activities section as \$(14) million and \$(21) million previously reported as Other, net for the years ended September 30, 2012 and 2011, respectively, were reclassified as Regulatory assets and \$42 million for the year ended September 30, 2011, previously reported as Nuclear refueling outage amortization cost was reclassified as Other, net. Additionally, a reclassification has been made to the 2011 Statement of Cash Flows in the Cash flows from financing activities section as \$5 million previously reported as Proceeds from leasebacks was reclassified as Other, net.

### *Cash and Cash Equivalents*

Cash includes cash on hand and non-interest bearing cash and deposit accounts. All highly liquid investments with original maturities of three months or less are considered cash equivalents.

### *Restricted Cash and Investments*

Restricted cash reflects amounts related to collateral posted with TVA by a swap counterparty.

### *Allowance for Uncollectible Accounts*

The allowance for uncollectible accounts reflects TVA's estimate of probable losses inherent in its accounts and loans receivable balances. TVA determines the allowance based on known accounts, historical experience, and other currently available information including events such as customer bankruptcy and/or a customer failing to fulfill payment arrangements after 90 days. It also reflects TVA's corporate credit department's assessment of the financial condition of customers and the credit quality of the receivables.

The allowance for uncollectible accounts was \$1 million and \$7 million at September 30, 2013, and 2012, respectively, for accounts receivable. Additionally, loans receivable of \$73 million and \$76 million at September 30, 2013, and 2012, respectively, are included in Other long-term assets and reported net of allowances for uncollectible accounts of \$10 million and \$12 million at September 30, 2013, and 2012, respectively.

### *Revenues*

Revenues from power sales are recorded as electricity is delivered to customers. In addition to power sales invoiced and recorded during the month, TVA accrues estimated unbilled revenues for power sales provided to six customers whose billing date occurs prior to the end of the month. Exchange power sales are presented in the accompanying consolidated statements of operations as a component of Sales of electricity. Exchange power sales are sales of excess power after meeting TVA native load and directly served requirements. (Native load refers to the customers on whose behalf a company, by statute, franchise, regulatory requirement, or contract, has undertaken an obligation to serve.)

From time to time TVA transfers fiber optic capacity on TVA's network to telecommunications service carriers and TVA local power company customers of TVA ("LPCs"). These transactions are structured as indefeasible rights of use ("IRUs"), which are the exclusive right to use a specified amount of fiber optic capacity for a specified term. TVA accounts for the consideration received on transfers of fiber optic capacity for cash and on all of the other elements deliverable under an IRU as revenue ratably over the term of the agreement. TVA does not recognize revenue on any contemporaneous exchanges of its fiber optic capacity for an IRU of fiber optic capacity of the counterparty to the exchange.

TVA engages in a wide array of arrangements in addition to power sales. TVA records revenue when it is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the price or fee is fixed or determinable; and collectability is reasonably assured. Revenues from activities related to TVA's overall mission are recorded as other operating revenue versus those that are not related to the overall mission, which are recorded in Other income (expense), net.

### *Inventories*

*Certain Fuel, Materials, and Supplies.* Coal, oil, limestone, tire-based fuel inventories, and materials and supplies inventories are valued using an average unit cost method. A new average cost is computed after each inventory purchase transaction, and inventory issuances are priced at the latest moving weighted average unit cost. Natural gas inventories are valued using an average cost method, and a new average cost is computed monthly.

*Allowance for Inventory Obsolescence.* TVA reviews material and supplies inventories by category and usage on a periodic basis. Each category is assigned a probability of becoming obsolete based on the type of material and historical usage data. Based on the estimated value of the inventory, TVA adjusts its allowance for inventory obsolescence.

*Emission Allowances.* TVA has emission allowances for sulfur dioxide ("SO<sub>2</sub>") and nitrogen oxides ("NO<sub>x</sub>") which are accounted for as inventory. The average cost of allowances used each month is charged to operating expense based on tons of SO<sub>2</sub> and NO<sub>x</sub> emitted during the respective compliance periods. Allowances granted to TVA by the Environmental Protection Agency ("EPA") are recorded at zero cost.

### *Property, Plant, and Equipment, and Depreciation*

*Property, Plant, and Equipment.* Additions to plant are recorded at cost, which includes direct and indirect costs and an allowance for funds used during construction ("AFUDC"). The cost of current repairs and minor replacements is charged to operating expense. Nuclear fuel inventories, which are included in Property, plant, and equipment, are valued using the average

cost method for raw materials and the specific identification method for nuclear fuel in a reactor. Amortization of nuclear fuel in a reactor is calculated on a units-of-production basis and is included in fuel expense.

**Depreciation.** TVA accounts for depreciation of its properties using the composite depreciation convention of accounting. Accordingly, the original cost of property retired, less salvage value, is charged to accumulated depreciation. Except as described below, depreciation is generally computed on a straight-line basis over the estimated service lives of the various classes of assets. Depreciation expense for the years ended September 30, 2013, 2012, and 2011 was \$1.4 billion, \$1.7 billion, and \$1.4 billion, respectively. Depreciation expense expressed as a percentage of the average annual depreciable completed plant was 3.12 percent for 2013, 3.78 percent for 2012, and 3.21 percent for 2011. Average depreciation rates by asset class are as follows:

<b>Property, Plant, and Equipment Depreciation Rates</b> At September 30 (percent)			
Asset Class	2013	2012	2011
Nuclear	2.86	2.71	2.58
Coal-Fired	3.47	5.65	3.80
Hydroelectric	1.30	1.35	1.43
Gas and oil-fired	3.21	3.67	3.70
Transmission	2.76	2.99	3.39
Other	8.14	8.10	7.39

In April 2011, TVA entered into two substantively similar agreements, one with the EPA and the other with Alabama, Kentucky, North Carolina, Tennessee, and three environmental advocacy groups (collectively, the "Environmental Agreements"). See Note 20 — *Legal Proceedings — Environmental Agreements*. Under the Environmental Agreements, TVA committed, among other things, to retire, on a phased schedule, 18 coal-fired units.

Consistent with the Environmental Agreements, Units 1 and 2 at John Sevier Fossil Plant ("John Sevier") were retired on December 31, 2012 and Units 3 and 5 at Widows Creek Fossil Plant ("Widows Creek") were retired on July 31, 2013. In addition on December 31, 2012, John Sevier Units 3 and 4 were idled, and on October 1, 2013, Colbert Fossil Plant ("Colbert") Unit 5 and Johnsonville Fossil Plant ("Johnsonville") Units 5, 6, 9, and 10 were idled.

Depreciation rates are adjusted to reflect current assumptions so that the units will be fully depreciated by the applicable idle dates. As a result of TVA's decision to idle or retire units, TVA recognized \$49 million and \$308 million in accelerated depreciation expense related to the units during the years ended September 30, 2013, and 2012, respectively.

On November 14, 2013, the TVA Board of Directors (the "TVA Board") approved the retirement of Colbert Units 1-5 no later than June 30, 2016 and the retirement of Widows Creek Unit 8. Additionally, the TVA Board approved the retirement of Paradise Fossil Plant ("Paradise") Units 1 and 2 upon the completion of a natural gas-fired plant at the Paradise location.

**Capital Lease Agreements.** Property, plant, and equipment also includes assets recorded under capital lease agreements. These primarily consist of power production facilities, water treatment assets, and land of \$42 million and power production facilities of \$24 million at September 30, 2013 and 2012, respectively, and fuel fabrication and blending facilities of \$5 million and \$11 million at September 30, 2013 and 2012, respectively.

**Allowance for Funds Used During Construction.** AFUDC capitalized during the year ended September 30, 2013, was \$168 million, of which \$23 million is reflected in the consolidated balance sheets as a regulatory asset, as compared to \$171 million capitalized during the year ended September 30, 2012. TVA capitalizes interest as AFUDC, based on the average interest rate of TVA's outstanding debt. The allowance is applicable to construction in progress related to projects with (1) an expected total project cost of \$1.0 billion or more, and (2) an estimated construction period of at least three years in duration. During 2012 and 2011, TVA also included certain nuclear fuel inventories in the calculation of the allowance. During 2012, the TVA Board approved a change in the AFUDC methodology which removed the inclusion of nuclear fuel from the AFUDC calculation effective October 1, 2012. The accumulated balance of costs, which is used to calculate AFUDC, averaged approximately \$3.1 billion for the year ended September 30, 2013. Subsequent to August 31, 2013, the accumulated balance of costs for Bellefonte Nuclear Plant ("Bellefonte") were removed from this calculation.

**Software Costs.** TVA capitalizes certain costs incurred in connection with developing or obtaining internal-use software. Capitalized software costs are included in Property, plant, and equipment on the consolidated balance sheets and are amortized primarily over five years. At September 30, 2013 and 2012, unamortized computer software costs totaled \$5 million and \$26 million, respectively. Amortization expense related to capitalized computer software costs was \$31 million for each of 2013, 2012, and 2011. Software costs that do not meet capitalization criteria are expensed as incurred.

*Impairment of Assets.* TVA evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. For long-lived assets, TVA bases its evaluation on impairment indicators such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, and other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of an asset may not be recoverable, TVA determines whether an impairment has occurred based on an estimate of undiscounted cash flows attributable to the asset as compared with the carrying value of the asset. If an impairment has occurred, the amount of the impairment recognized is measured as the excess of the asset's carrying value over its fair value. Additionally, TVA regularly evaluates construction projects. If the project is canceled or deemed to have no future economic benefit, the project is written off as an asset impairment.

#### *Decommissioning Costs*

TVA recognizes legal obligations associated with the future retirement of certain tangible long-lived assets. These obligations relate to fossil fuel-fired generating plants, nuclear generating plants, hydroelectric generating plants/dams, transmission structures, and other property-related assets. These other property-related assets include, but are not limited to, easements and coal rights. Activities involved with retiring these assets could include decontamination and demolition of structures, removal and disposal of wastes, and site reclamation. Revisions to the estimates of asset retirement obligations ("AROs") are made whenever factors indicate that the timing or amounts of estimated cash flows have changed. Any accretion or depreciation expense related to these liabilities and assets is charged to a regulatory asset. See Note 7 — *Nuclear Decommissioning Costs and Non-Nuclear Decommissioning Costs*.

#### *Blended Low-Enriched Uranium Program*

Under the blended low-enriched uranium ("BLEU") program, TVA, the Department of Energy ("DOE"), and certain nuclear fuel contractors have entered into agreements providing for the DOE's surplus of enriched uranium to be blended with other uranium down to a level that allows the blended uranium to be fabricated into fuel that can be used in nuclear power plants. This blended nuclear fuel was first loaded in a Browns Ferry Nuclear Plant ("Browns Ferry") reactor in 2005 and is expected to continue to be used to reload the Browns Ferry reactors through at least 2016. BLEU fuel was loaded into Sequoyah Nuclear Plant ("Sequoyah") Unit 2 three times but is not expected to be used in the Sequoyah reactors in the future.

Under the terms of an interagency agreement between TVA and the DOE, in exchange for supplying highly enriched uranium materials to the appropriate third-party fuel processors for processing into usable BLEU fuel for TVA, the DOE participates to a degree in the savings generated by TVA's use of this blended nuclear fuel. Over the life of the program, TVA projects that the DOE's share of savings generated by TVA's use of this blended nuclear fuel could result in payments to the DOE of as much as \$175 million. TVA accrues an obligation with each BLEU reload batch related to the portion of the ultimate future payments estimated to be attributable to the BLEU fuel currently in use. During 2009, the DOE and TVA agreed that this obligation will be offset by amounts that the DOE expects to owe TVA in the future for certain decommissioning costs that TVA will pay on the DOE's behalf. Accordingly, TVA will remit the BLEU fuel savings amounts to the DOE, only after those future decommissioning costs have been offset against TVA's obligation to the DOE. At September 30, 2013, TVA had paid out approximately \$106 million for this program and the obligation recorded was \$6 million.

The third-party fuel processors own the conversion and processing facilities and will retain title to all land, property, plant, and equipment used in the BLEU fuel program. However, the fuel fabrication contract qualifies as a capital lease, and TVA has recognized a capital lease asset and corresponding lease obligation related to amounts paid or payable to the processor.

#### *Investment Funds*

Investment funds consist primarily of trust funds designated to fund nuclear decommissioning requirements (see Note 20 — *Contingencies — Decommissioning Costs*), non-nuclear AROs (see Note 7 — *Non-Nuclear Decommissioning Costs*), and the Supplemental Executive Retirement Plan ("SERP") (see Note 19 — *Overview of Plans and Benefits — Supplemental Executive Retirement Plan*). Nuclear decommissioning funds and SERP funds are invested in portfolios of securities generally designed to achieve a return in line with overall equity market performance, while asset retirement funds are invested in portfolios of securities generally designed to achieve a return in line with overall equity and debt market performance. The nuclear decommissioning funds, asset retirement funds, and SERP funds are all classified as trading.

#### *Energy Prepayment Obligations and Discounts on Sales*

During 2002, TVA introduced an energy prepayment program, the discounted energy units ("DEU") program. Under this program, TVA LPCs could purchase DEUs generally in \$1 million increments, and each DEU entitles the purchaser to a \$.025/kilowatt-hour discount on a specified quantity of firm power over a period of years (5, 10, 15, or 20) for each kilowatt-hour in the prepaid block. The remainder of the price of the kilowatt-hours delivered to the LPC is due upon billing. TVA's DEU program allowed LPCs to use cash on hand to prepay TVA for some of their power needs, providing funding to TVA and a savings to LPCs in the form of a discount on future purchases. The LPC receives a discount on a specified volume of firm



energy purchased. The supplement to the power contract specifies the discount rate (2.5 cents per kilowatt-hour), the monthly block of kilowatt-hours to which the discount applies, the number of years (term), and contingencies upon contract termination.

TVA has not offered the DEU program since the end of 2004. Total sales for the program since inception have been approximately \$55 million. TVA is accounting for the prepayment proceeds as unearned revenue and is reporting the obligations to deliver power as Energy prepayment obligations and Current portion of energy prepayment obligations on the September 30, 2013 and 2012 Consolidated Balance Sheets.

TVA recognizes revenue as electricity is delivered to LPCs, based on the ratio of units of kilowatt-hours delivered to total units of kilowatt-hours under contract. At September 30, 2013, approximately \$54 million had been applied against power billings on a cumulative basis during the life of the program, of which approximately \$2 million was recognized as noncash revenue during 2013. Approximately \$5 million was applied against power billings during each of 2012 and 2011.

In 2004, TVA and its largest customer, Memphis Light, Gas and Water Division ("MLGW"), entered into an energy prepayment agreement under which MLGW prepaid TVA \$1.5 billion for the future costs of electricity to be delivered by TVA to MLGW over a period of 180 months. TVA accounted for the prepayment as unearned revenue and is reporting the obligation to deliver power under this arrangement as Energy prepayment obligations and Current portion of energy prepayment obligations on the September 30, 2013 and 2012 Consolidated Balance Sheets. TVA expects to recognize approximately \$100 million of noncash revenue in each year of the arrangement as electricity is delivered to MLGW based on the ratio of units of kilowatt-hours delivered to total units of kilowatt-hours under contract. At September 30, 2013, \$990 million had been recognized as noncash revenue on a cumulative basis during the life of the agreement, \$100 million of which was recognized as noncash revenue during each of 2013, 2012, and 2011.

Discounts, which are recorded as a reduction to electricity sales, for both programs amounted to \$47 million for each of the years ended September 30, 2013, 2012, and 2011.

#### *Insurance*

Although TVA uses private companies to administer its healthcare plans for eligible active and retired employees not covered by Medicare, TVA does not purchase health insurance. Third-party actuarial specialists assist TVA in determining certain liabilities for self-insured claims. TVA recovers the costs of claims through power rates and through adjustments to the participants' contributions to their benefit plans. These liabilities are included in Other liabilities on the balance sheets.

The Federal Employees' Compensation Act ("FECA") governs liability to employees for service-connected injuries. TVA purchases excess workers' compensation insurance above a self-insured retention.

TVA purchases nuclear liability insurance, nuclear property, decommissioning, and decontamination insurance, and nuclear accidental outage insurance. See Note 20 — *Contingencies — Nuclear Insurance*.

TVA purchases excess liability insurance for aviation, auto, marine, and general liability exposures. TVA purchases property insurance for certain conventional (non-nuclear) assets.

The insurance policies are subject to the terms and conditions of the specific policy. Each of the insurance policies purchased contains deductibles or self-insured retentions. TVA recovers the costs of losses through power rates.

In May 2013, TVA discontinued its directors and officers insurance program after determining that TVA's internal indemnification policies and procedures provided sufficient protection to TVA's directors and officers.

#### *Research and Development Costs*

Research and development costs are expensed when incurred. TVA's research programs include those related to transmission technologies, emerging technologies (clean energy, renewables, distributed resources, and energy efficiency), technologies related to generation (fossil fuel, nuclear, and hydroelectric), and environmental technologies.

#### *Tax Equivalents*

The TVA Act requires TVA to make payments to states and counties in which TVA conducts its power operations and in which TVA has acquired power properties previously subject to state and local taxation. The total amount of these payments is five percent of gross revenues from sales of power during the preceding year, excluding sales or deliveries to other federal agencies and off-system sales with other utilities, with a provision for minimum payments under certain circumstances. TVA calculates tax equivalent expense by subtracting the prior year fuel cost-related tax equivalent regulatory asset or liability from the payments made to the states and counties and then adds back the current year fuel cost-related tax equivalent regulatory asset or liability. Fuel cost-related tax equivalent expense is recognized in the same accounting period in which the fuel cost-related revenue is recognized.

## Maintenance Costs

TVA records maintenance costs and repairs related to its property, plant, and equipment in the statements of operations as they are incurred except for the recording of certain regulatory assets.

Prior to 2010, TVA deferred nuclear outage costs that were incurred during the operating cycle subsequent to the refueling outage. These costs are incurred in the process of performing a nuclear fuel reload outage, and the benefits of these costs are realized during the subsequent 18 to 24 months when the nuclear fuel is burned during its operating cycle in producing electricity. The TVA Board historically included in rates the amortization of these deferred nuclear outage costs during the operating cycle subsequent to the refueling outage.

Beginning in 2010, TVA implemented a new policy to expense any future outage costs as incurred consistent with a rate-making change approved by the TVA Board. However, TVA continued to amortize the related existing regulatory asset and included such amounts in rates. These amounts became fully amortized in 2011.

## 2. Impact of New Accounting Standards and Interpretations

In June 2011, the Financial Accounting Standards Board ("FASB") issued guidance that requires adjustments to the presentation of TVA's financial information. The guidance eliminated the option to report comprehensive income and its components in the statement of changes in proprietary capital. The guidance required the presentation of net income and other comprehensive income in either one continuous statement or in two separate but consecutive statements. TVA chose the two statement approach. These changes became effective for TVA on October 1, 2012. The adoption of this guidance did not have an impact on TVA's financial condition, results of operations, or cash flows.

The following accounting standards have been issued, but as of September 30, 2013, were not effective and had not been adopted by TVA.

**Balance Sheet.** In December 2011, FASB issued guidance that requires additional disclosures relating to the rights of offset or other netting arrangements of assets and liabilities that are presented on a net or gross basis in the consolidated balance sheets. The guidance applies to derivative and other financial instruments and requires the disclosure of the gross amounts subject to offset, actual amounts offset in accordance with GAAP, and the related net exposure. These changes became effective for TVA on October 1, 2013, and are applied on a retrospective basis. This guidance relates solely to enhanced disclosures in the notes to the consolidated financial statements and does not have an impact on TVA's financial condition, results of operations, or cash flows.

**Comprehensive Income.** In February 2013, FASB issued guidance that requires public reporting companies under the Securities Act of 1933 to present information about reclassification adjustments from accumulated other comprehensive income in their annual and interim financial statements in a single location. The guidance requires that companies present the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. This information may be disclosed either in a single note or parenthetically on the face of the financial statements. If a component is not required to be reclassified to net income in its entirety, companies must cross reference to the related footnote for additional information. These changes became effective for TVA on October 1, 2013, and are applied on a prospective basis. TVA has chosen to disclose the required information in a single note. This guidance relates solely to enhanced disclosures and does not have an impact on TVA's financial condition, results of operations, or cash flows.

## 3. Accounts Receivable, Net

Accounts receivable primarily consist of amounts due from customers for power sales. The table below summarizes the types and amounts of TVA's accounts receivable:

Accounts Receivable, Net				
At September 30				
	2013		2012	
Power receivables	\$	1,495	\$	1,585
Other receivables		73		88
Allowance for uncollectible accounts		(1)		(7)
Accounts receivable, net	\$	1,567	\$	1,666

#### 4. Inventories, Net

The table below summarizes the types and amounts of TVA's inventories:

Inventories, Net At September 30		
	2013	2012
Materials and supplies inventory	\$ 620	\$ 605
Fuel inventory	494	508
Emission allowance inventory	14	12
Allowance for inventory obsolescence	(37)	(28)
Inventories, net	\$ 1,091	\$ 1,097

#### 5. Net Completed Plant

Net completed plant consisted of the following:

Net Completed Plant At September 30						
	2013			2012		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Coal-fired	\$ 13,847	\$ 8,429	\$ 5,418	\$ 13,726	\$ 7,962	\$ 5,764
Gas and oil-fired	3,386	1,008	2,378	3,334	916	2,418
Nuclear	18,725	9,103	9,622	18,042	8,791	9,251
Transmission	6,300	2,562	3,738	6,075	2,427	3,648
Hydroelectric	2,392	892	1,500	2,278	869	1,409
Other electrical plant	1,452	792	660	1,490	842	648
Subtotal	46,102	22,786	23,316	44,945	21,807	23,138
Multipurpose dams	928	356	572	928	347	581
Other stewardship	43	15	28	44	15	29
Subtotal	971	371	600	972	362	610
Total	\$ 47,073	\$ 23,157	\$ 23,916	\$ 45,917	\$ 22,169	\$ 23,748

#### 6. Other Long-Term Assets

The table below summarizes the types and amounts of TVA's other long-term assets:

Other Long-Term Assets At September 30		
	2013	2012
EnergyRight® receivables	\$ 117	\$ 115
Unamortized debt issue cost of power bonds	75	70
Loans and other long-term receivables, net	73	76
Coal contract derivative assets	1	107
Prepaid capacity payments	62	59
Currency swap assets	28	21
Other	89	61
Total other long-term assets	\$ 445	\$ 509

TVA guarantees repayment on certain loans receivable from customers of TVA's LPCs in association with the EnergyRight® Solutions program. TVA sells the loans receivable to a third-party bank and has agreed with the bank to purchase any loan receivable that has been in default for 180 days or more or that TVA has determined is uncollectible. The transaction is accounted for as a financing arrangement. The loans receivable, and the financing obligation, are shown in Other long-term assets and Other long-term liabilities, respectively, on TVA's consolidated balance sheets. The current portion of the loans receivable and the associated financing obligation are shown in Current assets and Current liabilities, respectively, on TVA's consolidated balance sheets. At September 30, 2013, and 2012, the carrying amount of the loans receivable, net of discount, was approximately \$150 million. The carrying amount of the financing obligation was approximately \$186 million and \$185 million at September 30, 2013 and 2012, respectively. See Note 10.

## 7. Regulatory Assets and Liabilities

Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred or deferral of gains that will be credited to customers in future periods. Components of regulatory assets and regulatory liabilities are summarized in the table below.

**Regulatory Assets and Liabilities**  
At September 30

	2013	2012
<b>Current regulatory assets</b>		
Unrealized losses on commodity derivatives	\$ 183	\$ 310
Deferred nuclear generating units	237	237
Environmental agreements	73	87
Fuel cost adjustment receivable	—	68
Environmental cleanup costs – Kingston ash spill	68	72
Total current regulatory assets	561	774
<b>Non-current regulatory assets</b>		
Deferred pension costs and other post-retirement benefits costs	4,076	5,517
Unrealized losses on interest rate derivatives	808	1,332
Nuclear decommissioning costs	893	914
Environmental cleanup costs - Kingston ash spill	681	797
Construction costs	—	619
Non-nuclear decommissioning costs	571	550
Deferred nuclear generating units	1,438	473
Unrealized losses on commodity derivatives	139	335
Environmental agreements	189	237
Other non-current regulatory assets	336	353
Total non-current regulatory assets	9,131	11,127
<b>Total regulatory assets</b>	\$ 9,692	\$ 11,901
<b>Current regulatory liabilities</b>		
Fuel cost adjustment tax equivalents	\$ 176	\$ 173
Fuel cost adjustment liability	29	—
Unrealized gains on commodity derivatives	7	18
Total current regulatory liabilities	212	191
<b>Non-current regulatory liabilities</b>		
Unrealized gains on commodity derivatives	1	109
Total non-current regulatory liabilities	1	109
<b>Total regulatory liabilities</b>	\$ 213	\$ 300

*Unrealized Gains (Losses) on Commodity Derivatives.* Unrealized gains (losses) on coal purchase contracts, included as part of unrealized losses on commodity derivatives, relate to the mark-to-market ("MtM") valuation of coal purchase contracts that contain options to purchase additional or lesser quantities. These contracts qualify as derivative contracts but do not qualify for cash flow hedge accounting treatment. As a result, TVA recognizes the changes in the market value of these derivative contracts as a regulatory liability or asset. This treatment reflects TVA's ability and intent to recover the cost of these commodity

contracts on a settlement basis for ratemaking purposes through the fuel cost adjustment. TVA has historically recognized the actual cost of fuel received under these contracts in fuel expense at the time the fuel is used to generate electricity. These contracts expire at various times through 2018. Unrealized gains and losses on contracts with a maturity of less than one year are included as a current regulatory asset or liability on TVA's consolidated balance sheets. See Note 14.

Deferred gains and losses relating to TVA's Financial Trading Program ("FTP") represent net unrealized gains and losses on swaps, futures, options, and combinations of these instruments and are also included as part of unrealized losses on commodity derivatives. The program is used to reduce TVA's economic risk exposure associated with electricity generation, purchases, and sales. TVA defers all FTP MtM unrealized gains or losses as regulatory liabilities or assets, respectively, and records realized gains or losses in fuel and purchased power expense to match the delivery period of the underlying commodity product. Net unrealized losses at September 30, 2013, and September 30, 2012, were approximately \$166 million and \$228 million, respectively. This accounting treatment reflects TVA's ability and intent to recover the cost of these commodity contracts in future periods through the fuel rate. The current regulatory asset/liability for net unrealized gains and losses, included as part of the commodity derivatives, represents deferred gains and losses from contracts with a maturity of less than one year.

*Deferred Nuclear Generating Units and Construction Costs.* In July 2005, the TVA Board approved the amortization, and inclusion into rates, of TVA's \$3.9 billion investment in the two deferred nuclear generating units at Bellefonte over a 10-year recovery period beginning in 2006. In August 2011, the TVA Board approved the completion of Bellefonte Unit 1. Approximately \$619 million of the remaining balance in the deferred nuclear generating units regulatory asset at that date did not continue to be amortized into rates, but was to be included in the Bellefonte plant asset balance at completion. This amount had been segregated into a separate non-current regulatory asset account titled Construction costs. TVA is evaluating the completion of Bellefonte Unit 1. In the interim, work at the site has been slowed to better allocate resources on nearer-term priorities as both budget and staffing levels for the project have been reduced in the 2014 budget. TVA believes that the resulting budgeting and staffing levels should be sufficient to preserve Bellefonte for potential future development. TVA plans to utilize its integrated resource planning process to help determine how Bellefonte best supports TVA's overall efforts to continue to meet customer demand with low-cost, reliable power. In November 2013, in accordance with the regulated operations property, plant and equipment accounting guidance, the TVA Board approved the treatment of all amounts currently included in Construction in progress related to Bellefonte as a regulatory asset. Additionally, the Board approved combining the amounts related to Bellefonte previously included in Construction in progress, the \$619 million in Regulatory asset-Construction costs and the remaining amounts included in Regulatory asset-Deferred nuclear generating units into a single regulatory asset titled Deferred nuclear generating units totaling \$1.7 billion at September 30, 2013. Such amounts have been classified as a Regulatory asset in the September 30, 2013 balance sheet. The Board approved the recovery of this asset in future rates at an amount of \$237 million per year until fully recovered. The amount to be amortized over the next year is included as a current regulatory asset on TVA's consolidated balance sheets.

*Environmental Agreements.* In conjunction with the Federal Facilities Compliance Agreement with the EPA and the agreement with Alabama, Kentucky, North Carolina, Tennessee, the Sierra Club, National Parks Conservation Association, and Our Children's Earth Foundation (collectively, the "Environmental Agreements") (see Note 20 — *Legal Proceedings* — *Environmental Agreements*), TVA recorded certain liabilities totaling \$360 million (\$290 million investment in energy efficiency projects, demand response projects, renewable energy projects, and other TVA projects; \$60 million to be provided to Alabama, Kentucky, North Carolina, and Tennessee to fund environmental projects with preference for projects in the Tennessee River watershed, and \$10 million in civil penalties). The TVA Board determined that these costs would be collected in customer rates in the future and, accordingly, the amounts were deferred as a regulatory asset. Through the end of 2013, \$52 million has been paid with respect to energy efficiency projects, \$36 million has been paid to Alabama, Kentucky, North Carolina, and Tennessee, and \$10 million has been paid with respect to civil penalties. The remaining amounts will be charged to expense and recovered in rates over future periods as payments are made.

*Environmental Cleanup Costs – Kingston Ash Spill.* In August 2009, TVA began using regulatory accounting treatment to defer all actual costs incurred and expected future costs related to the Kingston Fossil Plant ("Kingston") ash spill. The TVA Board approved a plan to amortize these costs over 15 years beginning October 1, 2009. At September 30, 2009, TVA's remediation cost estimate of \$933 million was deferred as a regulatory asset. During 2010, the estimate was revised and increased by \$192 million to a total estimate of \$1.1 billion. The additional amount will be amortized over the remaining term. Amounts included as a current regulatory asset on TVA's consolidated balance sheets represent the amount to be amortized in the next 12 months. Any future revisions to the estimate will be amortized as a change in estimate over the remaining term.

*Fuel Cost Adjustment Receivable.* The fuel cost adjustment provides a mechanism to alter rates monthly to reflect changing fuel and purchased power costs, including realized gains and losses relating to transactions under TVA's FTP. There is typically a lag between the occurrence of a change in fuel and purchased power costs and the reflection of the change in rates. Balances in the fuel cost adjustment regulatory accounts represent over-collected or under-collected revenues that offset fuel and purchased power costs and are recovered or refunded in fuel rates.

*Deferred Pension Costs and Other Post-retirement Benefit Costs.* TVA measures its benefit obligations related to pension and other post-retirement benefit ("OPEB") costs at each year-end balance sheet date. TVA recognizes the funded status of the plans on TVA's consolidated balance sheets which in an unregulated environment would result in a corresponding

offset to accumulated other comprehensive income ("AOCI"). "Incurred cost" is a cost arising from cash paid out or an obligation to pay for an acquired asset or service, and a loss from any cause that has been sustained and for which payment has been or must be made. In the cases of pension and OPEB costs, the unfunded obligation represents a projected liability to the employee for services rendered, and thus it meets the definition of an incurred cost. Therefore, amounts that otherwise would be charged to AOCI for these costs are recorded as a regulatory asset since TVA has historically recovered pension and OPEB expense in rates. Through historical and current year expense included in ratemaking, the TVA Board has demonstrated the ability and intent to include pension and OPEB costs in allowable costs and in rates for ratemaking purposes. As a result, it is probable that future revenue will result from inclusion of the pension and OPEB regulatory assets in allowable costs for ratemaking purposes.

These regulatory assets are classified as long-term, which is consistent with the pension and post-retirement liabilities, and not amortized to the consolidated statements of operations over a specified recovery period. They are adjusted either upward or downward each year in conjunction with the adjustments to the unfunded pension liability, as calculated by the actuaries. Ultimately this regulatory asset will be recognized in the consolidated statements of operations in the form of pension expense as the actuarial liability is eliminated in future periods. These costs are included in other non-current regulatory assets. See Note 19 — *Obligations and Funded Status*.

*Unrealized Losses on Interest Rate Derivatives.* TVA uses regulatory accounting treatment to defer the MtM unrealized gains and losses on certain interest rate derivative contracts to reflect that the gain or loss is included in the ratemaking formula when these contracts actually settle. The unrealized losses on these interest rate derivatives are recorded on TVA's consolidated balance sheets as non-current regulatory assets and the related realized gains or losses, if any, are recorded in TVA's consolidated statements of operations.

*Nuclear Decommissioning Costs.* Nuclear decommissioning costs include: (1) certain deferred charges related to the future closure and decommissioning of TVA's nuclear generating units under the Nuclear Regulatory Commission ("NRC") requirements, (2) recognition of changes in the liability, (3) recognition of changes in the value of TVA's Nuclear Decommissioning Trust ("NDT"), and (4) certain other deferred charges under the accounting rules for AROs. These future costs will be funded through a combination of the NDT, future earnings on the NDT, and, if necessary, additional TVA cash contributions to the NDT and future earnings thereon. See Note 1 — *Investment Funds*. There is not a specified recovery period; therefore, the regulatory asset is classified as long-term consistent with the NDT investments and ARO liability.

*Non-Nuclear Decommissioning Costs.* TVA has established an Asset Retirement Trust ("ART") to more effectively segregate, manage, and invest funds to help meet future AROs. The funds from the ART may be used, among other things, to pay the costs of retiring non-nuclear long-lived assets. The costs of retiring non-nuclear long-lived assets represent the net deferred costs related to the future closure and retirement of TVA's non-nuclear long-lived assets under various legal requirements. These future costs can be funded through a combination of investment funds already set aside in the ART, future earnings on those investment funds, and future cash contributions to the ART and future earnings thereon. There is not a specified recovery period; therefore, the regulatory asset is classified as long-term, consistent with the ART investments and ARO liability.

*Other Non-Current Regulatory Assets.* Other non-current regulatory assets consist of the following:

*Debt Reacquisition Costs.* Reacquisition expenses, call premiums, and other related costs, such as unamortized debt issue costs associated with redeemed Bond issues, are deferred and amortized (accrued) on a straight-line basis over the weighted average life of TVA's debt portfolio.

*Nuclear Training Costs.* As a result of refurbishing and restarting Browns Ferry Unit 1 in 2007 and the construction and startup of Watts Bar Nuclear Plant ("Watts Bar") Unit 2, nuclear training costs associated with these units have been deferred as a regulatory asset and will be amortized over a cost recovery period equivalent to the expected useful life of the operating nuclear units.

*Retirement Removal Costs.* Retirement removal costs that are not legally required are capitalized into fixed assets to be depreciated consistent with the lives in the depreciation study. See Note 1 — *Property, Plant, and Equipment, and Depreciation — Depreciation*. The TVA Board has consistently set rates to cover the depreciation of these assets; therefore, these assets are probable of future recovery.

*Fuel Cost Adjustment Tax Equivalents.* The fuel cost adjustment includes a provision related to the current funding of the future payments TVA will make. As TVA records the fuel cost adjustment, the percent of the calculation that relates to a future asset or liability for tax equivalent payments is recorded as a current regulatory asset or liability and paid in the following year.



## 8. Variable Interest Entities

A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of owning a controlling financial interest. The analysis to determine whether an entity is a VIE considers factors such as contracts with an entity, credit support for an entity, the adequacy of the equity investment of an entity, the extent of an entity's activities that either involve or are conducted on behalf of an investor with disproportionate voting rights, and the relationship of voting power to the amount of equity invested in an entity. A VIE is consolidated by its primary beneficiary. The primary beneficiary has both (i) the power to direct the activities that most significantly impact the entity's economic performance and (ii) the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. The determination of the primary beneficiary requires continual reassessment.

When TVA determines that it has a variable interest in a variable interest entity, a qualitative evaluation is performed to assess which interest holders have the power to direct the activities that most significantly impact the economic performance of the entity and have the obligation to absorb losses or receive benefits that could be significant to the entity. The evaluation considers the purpose and design of the business, the risks that the business was designed to create and pass along to other entities, the activities of the business that can be directed and which party can direct them, and the expected relative impact of those activities on the economic performance of the business through its life. TVA has the power to direct the activities of an entity when it has the ability to make key operating and financing decisions, including, but not limited to, capital investment and the issuance of debt.

### *Southaven*

On August 6, 2013, TVA and the United States of America entered into an asset purchase agreement for the reacquisition by TVA (as agent for the United States of America with respect to real property) of a 90 percent undivided interest in the Southaven Combined Cycle Combustion Turbine Facility ("Southaven CCF") and related real property located in Southaven, Mississippi (the "Asset Purchase Agreement") from Seven States Power Corporation ("Seven States"), through its subsidiary, Seven States Southaven, LLC ("SSSL"). Seven States was formed by LPCs that distribute TVA power. Seven States originally purchased the 90 percent interest in the Southaven CCF and the related real property from TVA in 2008 and leased the interest back to TVA. TVA continued to operate the Southaven CCF. See Note 13 for further discussion regarding the purchase arrangement.

As a condition to the closing of the Asset Purchase Agreement, on August 9, 2013, TVA entered into a lease financing arrangement with Southaven Combined Cycle Generation, LLC ("SCCG") in which TVA agreed to lease the Southaven CCF to SCCG for a term of approximately 31 years (the "Southaven Head Lease") in exchange for a one-time rental payment of \$400 million to TVA. Also on August 9, 2013, SCCG leased the Southaven CCF back to TVA for a term of approximately 20 years (the "Southaven Facility Lease") in exchange for scheduled amortizing, semi-annual lease payments commencing on February 15, 2014 and ending on August 15, 2033. Throughout the term of the Southaven Facility Lease, TVA is responsible for the operation and maintenance (and improvement to the extent required by applicable law) of the Southaven CCF and takes all power generated by the facility. The Southaven Head Lease will terminate upon expiration of the Southaven Facility Lease so long as all payments under the Southaven Facility Lease have been made and there is no significant event of default for which SCCG has exercised remedies to dispossess TVA of the Southaven CCF. Upon expiration of the Southaven Head Lease and Southaven Facility Lease, TVA will own the Southaven CCF at no additional cost to TVA.

SCCG, a newly formed special single-purpose entity, was established to finance the Southaven CCF through a \$360 million secured notes issuance (the "SCCG notes") and the issuance of \$40 million of membership interests. See Note 12 — *Secured Debt of VIEs*. The membership interests were purchased by Southaven Holdco, LLC ("SHLLC"), also a newly-formed special single-purpose entity, established to acquire and hold the membership interests of SCCG. They were purchased by SHLLC with proceeds from the issuance of \$40 million of secured notes (the "SHLLC notes") and are subject to mandatory redemption pursuant to scheduled amortizing, semi-annual payments due each August 15 and February 15, with a final payment due on August 15, 2033. See Note 10 — *Membership Interests of VIE Subject to Mandatory Redemption*. The payment dates for the mandatorily redeemable membership interests are the same as those of the SHLLC notes, the SCCG notes, and the lease payments under the Southaven Facility Lease.

The sale of the SCCG notes, the membership interests in SCCG, and the SHLLC notes closed on August 9, 2013. The SCCG notes are secured by TVA's lease payments. The SHLLC notes are secured by SHLLC's investment in, and amounts receivable from, SCCG. TVA's lease payments, under the terms of the Southaven Facility Lease, are equal to the sum of (i) SCCG's semi-annual debt service payments, (ii) SHLLC's semi-annual debt service payments, and (iii) scheduled pre-determined payments to be made to SSSL on each lease payment date by SHLLC as agreed in the Asset Purchase Agreement and SHLLC's formation documents (the "Seven States Return"). In addition to the lease payments, TVA pays the administrative and miscellaneous expenses incurred by SCCG and SHLLC. Certain agreements related to this transaction contain default and acceleration provisions.



TVA participated in the design, business conduct, and financial support of SCCG and has determined that it has a direct variable interest in SCCG resulting from risk associated with the value of the Southaven CCF at the end of the lease term. Based on its analysis, TVA has determined that it is the primary beneficiary of SCCG and, as such, is required to account for SCCG on a consolidated basis.

*John Sevier*

On January 17, 2012, TVA entered into a \$1.0 billion construction management agreement and lease financing arrangement with John Sevier Combined Cycle Generation LLC ("JSCCG") for the completion and lease by TVA of the John Sevier Combined Cycle Facility ("John Sevier CCF"). JSCCG is a special single-purpose limited liability company formed in January 2012 to finance the John Sevier CCF through a \$900 million secured note issuance (the "JSCCG notes") and the issuance of \$100 million of membership interests subject to mandatory redemption. The membership interests were purchased by John Sevier Holdco LLC ("Holdco"). Holdco is a special single-purpose entity, also formed in January 2012, established to acquire and hold the membership interests in JSCCG. A non-controlling interest in Holdco is held by a third party through nominal membership interests, to which none of the income, expenses, and cash flows is allocated.

The membership interests held by Holdco in JSCCG were purchased with proceeds from the issuance of \$100 million of secured notes (the "Holdco notes") and are subject to mandatory redemption pursuant to scheduled amortizing, semi-annual payments due each January 15 and July 15, with a final payment due on January 15, 2042. The payment dates for the mandatorily redeemable membership interests are the same as those of the Holdco notes. The sale of the JSCCG notes, the membership interests in JSCCG, and the Holdco notes closed on January 17, 2012. The JSCCG notes are secured by TVA's lease payments, and the Holdco notes are secured by Holdco's investment in, and amounts receivable from, JSCCG. TVA's lease payments to JSCCG are equal to and payable on the same dates as JSCCG's and Holdco's semi-annual debt service payments. In addition to the lease payments, TVA pays administrative and miscellaneous expenses incurred by JSCCG and Holdco. Certain agreements related to this transaction contain default and acceleration provisions.

Due to its participation in the design, business conduct, and credit and financial support of JSCCG and Holdco, TVA has determined that it has a variable interest in each of these entities. Based on its analysis, TVA has concluded that it is the primary beneficiary of JSCCG and Holdco and, as such, is required to account for the VIEs on a consolidated basis. Holdco's membership interests in JSCCG are eliminated in consolidation.

The financial statement items attributable to carrying amounts and classifications of JSCCG and Holdco as of September 30, 2013 and 2012, and SCCG as of September 30, 2013, as reflected in the Consolidated Balance Sheets are as follows:

**Summary of Impact of VIEs on Consolidated Balance Sheets**

	<b>At September 30, 2013</b>	<b>At September 30, 2012</b>
<b>Current liabilities</b>		
Accrued interest	\$ 12	\$ 10
Current portion of membership interests of VIE subject to mandatory redemption	2	—
Current maturities of long-term debt of VIE	30	13
<b>Total current liabilities</b>	<b>44</b>	<b>23</b>
<b>Other liabilities</b>		
Membership interests of VIE subject to mandatory redemption	38	—
<b>Total other liabilities</b>	<b>38</b>	<b>—</b>
<b>Long-term debt, net</b>		
Long-term debt of VIE	1,311	981
<b>Total long-term debt, net</b>	<b>1,311</b>	<b>981</b>
<b>Total liabilities</b>	<b>\$ 1,393</b>	<b>\$ 1,004</b>

Interest expense of \$50 million and \$34 million related to debt of variable interest entities and membership interests of variable interest entity subject to mandatory redemption is included in the Consolidated Statements of Operations for the years ended September 30, 2013 and 2012, respectively.

Creditors of the VIEs do not have any recourse to the general credit of TVA. TVA does not have any obligations to provide financial support to the VIEs other than as prescribed in the terms of the agreements related to these transactions.

## 9. Kingston Fossil Plant Ash Spill

### *The Event*

In December 2008, one of the dredge cells at the Kingston Fossil Plant ("Kingston") failed, and approximately five million cubic yards of water and coal fly ash flowed out of the cell. TVA is continuing cleanup and recovery efforts in conjunction with federal and state agencies. TVA completed the removal of time-critical ash from the river during the third quarter of 2010, and removal of the remaining ash is considered to be non-time-critical. In November 2012, the EPA and the Tennessee Department of Environment and Conservation ("TDEC") approved a plan to allow the Emory River's natural processes to remediate the remaining ash in the river, and to conduct a long-term monitoring program. TVA estimates that the physical cleanup work (final removal) will be completed in the spring of 2015. A final assessment, issuance of a completion report, and approval by the State of Tennessee and the EPA are expected to occur by the third quarter of 2015.

### *Claims and Litigation*

See Note 20 — *Legal Proceedings* — *Legal Proceedings Related to the Kingston Ash Spill* and — *Civil Penalty and Natural Resource Damages for the Kingston Ash Spill*.

### *Financial Impact*

Because of the uncertainty at this time of the final costs to complete the work prescribed by the ash disposal plan, a range of reasonable estimates has been developed by cost category. Known amounts, most likely scenarios, or the low end of the range for each category have been accumulated and evaluated to determine the total estimate. The range of costs varies from approximately \$1.1 billion to approximately \$1.2 billion.

TVA recorded an estimate of \$1.1 billion for the cost of cleanup related to this event. In August 2009, TVA began using regulatory accounting treatment to defer all actual costs already incurred and expected future costs related to the ash spill. The cost is being charged to expense as it is collected in rates over 15 years, beginning October 1, 2009. As the estimate changes, additional costs may be deferred and charged to expense prospectively as they are collected in future rates.

As work continues to progress and more information is available, TVA will review its estimates and revise them as appropriate. TVA has accrued a portion of the estimated cost in current liabilities, with the remaining portion shown as a long-term liability on TVA's consolidated balance sheets. Amounts spent since the event through September 30, 2013, totaled \$956 million. The remaining estimated liability at September 30, 2013, was \$169 million.

TVA has not included the following categories of costs in the above estimate since it has been determined that these costs are currently either not probable or not reasonably estimable: penalties (other than the penalties set out in a June 2010 TDEC order), regulatory directives, natural resources damages (other than payments required under a memorandum of agreement with TDEC and the U.S. Fish and Wildlife Service establishing a process and a method for resolving the natural resource damages claim), future lawsuits, future claims, long-term environmental impact costs, final long-term disposition of the ash processing area, and costs associated with new laws and regulations. There are certain other costs that will be incurred that have not been included in the estimate as they are appropriately accounted for in other areas of the consolidated financial statements. Associated capital asset purchases are recorded in property, plant, and equipment. Ash handling and disposition costs from current plant operations are recorded in operating expenses. A portion of the dredge cell closure costs are also excluded from the estimate, as they are included in the non-nuclear ARO liability.

### *Insurance*

TVA had property and excess liability insurance programs in place at the time of the Kingston ash spill. TVA pursued claims under both the property and excess liability programs and has settled all of its property insurance claims and some of its excess liability insurance claims. TVA has received insurance proceeds of \$92 million. In April 2012, TVA initiated arbitration proceedings against the remaining excess liability insurance companies in accordance with the policies' dispute resolution provisions. TVA is seeking recovery of certain costs incurred in the cleanup project, including the costs of removing ash from property or waters owned by the State of Tennessee, and related expenses. Any amounts received related to insurance settlements are being recorded as reductions to the regulatory asset and will reduce amounts collected in future rates.

## 10. Other Long-Term Liabilities

Other long-term liabilities consist primarily of liabilities related to certain derivative agreements as well as liabilities under agreements related to compliance with certain environmental regulations (see Note 20 — *Legal Proceedings — Environmental Agreements*). The table below summarizes the types and amounts of Other long-term liabilities:

Other Long-Term Liabilities At September 30		
	2013	2012
Interest rate swap liabilities	\$ 1,199	\$ 1,723
Environmental agreements liability	190	237
EnergyRight® financing obligation	149	148
Membership interests of VIE subject to mandatory redemption	38	—
Coal contract derivative liabilities	35	205
Commodity swap derivative liabilities	36	59
Currency swap liabilities	15	54
Other	199	254
Total other long-term liabilities	\$ 1,861	\$ 2,680

**EnergyRight® Purchase Obligation.** TVA guarantees repayment on certain loans receivable from customers of TVA's LPCs in association with the EnergyRight® Solutions program. TVA sells the loans receivable to a third-party bank and has agreed with the bank to purchase any loan receivable that has been in default for 180 days or more or that TVA has determined is uncollectible. The transaction is accounted for as a financing arrangement. As of September 30, 2013 and September 30, 2012, the carrying amount of the financing obligation was approximately \$186 million and \$185 million, respectively. As of September 30, 2013 and 2012, \$37 million of this was current and included in Accounts payable and accrued liabilities. See Note 6.

**Membership Interests of VIE Subject to Mandatory Redemption.** On August 9, 2013, SCCG issued 100 percent of its membership interests to SHLLC for a total of \$40 million. The membership interests in SCCG are mandatorily redeemable pursuant to a schedule of payments that indicates the amount of each payment and the corresponding dates on which each payment is due. The schedule requires SCCG to make semi-annual payments to SHLLC sufficient to provide returns on, as well as returns of, capital until the investment has been repaid in full, including a \$4 million balloon payment as part of the final disbursement which is due on August 15, 2033. The return on capital includes the Seven States Return. These payments provide a return on investment to SHLLC of 7.0 percent, which is reflected as interest expense in the consolidated statements of operations. As of September 30, 2013, the carrying amount of the Membership interests of VIE subject to mandatory redemption was \$40 million. As of September 30, 2013, \$2 million of this was current and included in Accounts payable and accrued liabilities.

In the event that TVA were to choose to exercise an early buy out feature of the Southaven Facility Lease, in part or in whole, TVA must pay to SCCG amounts sufficient for SCCG to repay or partially repay on a pro rata basis the membership interests held by SHLLC, including any outstanding investment amount plus accrued but unpaid return. TVA also has the right, at any time and without any early redemption of the other portions of the Southaven Facility Lease payments due to SCCG, to fully repay SHLLC's investment, upon which repayment SHLLC will transfer the membership interests to a designee of TVA.

## 11. Asset Retirement Obligations

During the year ended September 30, 2013, TVA's total ARO liability increased \$199 million. The increase in the liability resulted from accretion and a change in estimate. These items were partially offset by ash area settlement projects that were conducted during the year ended September 30, 2013. The nuclear and non-nuclear accretion expenses were deferred as regulatory assets, and \$40 million of the related regulatory assets was amortized into expense as this amount was collected in rates. The change in estimate is a result of TVA's biennial update to its nuclear ARO in order to adjust for changes in expected labor factors, burial rates, and fuel expenses, among other factors. This review resulted in a \$66 million increase to the nuclear ARO.

### Reconciliation of Asset Retirement Obligation Liability

	Nuclear	Non-Nuclear	Total
Balance at September 30, 2011	\$ 2,091	\$ 1,047	\$ 3,138
Settlements (ash storage areas)	—	(22)	(22)
Accretion (recorded as regulatory asset)	117	55	172
Additional obligations	—	2	2
Change in estimate	—	(1)	(1)
Balance at September 30, 2012	\$ 2,208	\$ 1,081	\$ 3,289
Settlements (ash storage areas)	—	(37)	(37)
Accretion (recorded as regulatory asset)	125	45	170
Additional obligations	—	—	—
Change in estimate	66	—	66
Balance at September 30, 2013	\$ 2,399	\$ 1,089	\$ 3,488 *

**Note**

\* The current portion of ARO in the amount of \$16 million is included in Accounts payable and accrued liabilities.

## 12. Debt and Other Obligations

### General

The TVA Act authorizes TVA to issue Bonds in an amount not to exceed \$30.0 billion at any time. At September 30, 2013, TVA had only two types of Bonds outstanding: power bonds and discount notes. Power bonds have maturities between one and 50 years, and discount notes have maturities of less than one year. Power bonds and discount notes are both issued pursuant to section 15d of the TVA Act and pursuant to the Basic Tennessee Valley Authority Power Bond Resolution adopted by the TVA Board on October 6, 1960, as amended on September 28, 1976, October 17, 1989, and March 25, 1992 (the "Basic Resolution"). TVA Bonds are not obligations of the United States, and the United States does not guarantee the payments of principal or interest on Bonds.

Power bonds and discount notes rank on parity and have first priority of payment out of net power proceeds, which are defined as the remainder of TVA's gross power revenues after deducting the costs of operating, maintaining, and administering its power properties, and tax equivalent payments, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds from the sale or other disposition of any power facility or interest therein.

TVA considers its scheduled rent payments under its leaseback transactions, as well as its scheduled payments under its lease financing arrangements involving John Sevier CCF and Southaven CCF, as costs of operating, maintaining, and administering its power properties; however, such treatment is not free from doubt. Costs of operating, maintaining, and administering TVA's power properties have priority over TVA's payments on the Bonds. Once net power proceeds have been applied to payments on power bonds and discount notes as well as any other Bonds that TVA may issue in the future that rank on parity with or subordinate to power bonds and discount notes, Section 2.3 of the Basic Resolution provides that the remaining net power proceeds shall be used only for minimum payments into the U.S. Treasury required by the TVA Act in repayment of, and as a return on, the Power Program Appropriation Investment, investment in power assets, additional reductions of TVA's capital obligations, and other lawful purposes related to TVA's power program.

The TVA Act and the Basic Resolution each contain two bond tests: the rate test and the bondholder protection test. Under the rate test, TVA must charge rates for power which will produce gross revenues sufficient to provide funds for, among other things, debt service on outstanding Bonds. As of September 30, 2013, TVA was in compliance with the rate test. See Note 1 — *General*. Under the bondholder protection test, TVA must, in successive five-year periods, use an amount of net power proceeds at least equal to the sum of (1) the depreciation accruals and other charges representing the amortization of capital expenditures and (2) the net proceeds from any disposition of power facilities for either the reduction of its capital obligations (including Bonds and the Power Program Appropriation Investment) or investment in power assets.

TVA met the bondholder protection test for the five-year period ended September 30, 2010, and must next meet the bondholder protection test for the five-year period ending September 30, 2015.

### *Secured Debt of VIEs*

On August 9, 2013, SCCG issued secured notes totaling \$360 million that bear interest at a rate of 3.846 percent. The SCCG notes require amortizing semi-annual payments on each February 15 and August 15, and mature on August 15, 2033. Also on August 9, 2013, SCCG issued \$40 million of membership interests subject to mandatory redemption. The proceeds from the secured notes issuance and the issuance of the membership interests was paid to TVA in accordance with the terms of the Southaven Head Lease. See Note 8 — *Southaven*. TVA used the proceeds from the transaction primarily to fund the acquisition of the Southaven CCF from SSSL.

On January 17, 2012, JSCCG issued secured notes totaling \$900 million in aggregate principal amount that bear interest at a rate of 4.626 percent. Also on January 17, 2012, Holdco issued secured notes totaling \$100 million that bear interest at a rate of 7.1 percent. The JSCCG notes and the Holdco notes require amortizing semi-annual payments on each January 15 and July 15, and mature on January 15, 2042. The Holdco notes require a \$10 million balloon payment upon maturity.

Approximately \$970 million of the proceeds from the secured notes issuances was paid to TVA in accordance with the terms of the Head Lease and CMA. See Note 8. JSCCG deposited approximately \$30 million with a lease indenture trustee to fund the payments due on July 15, 2012, in connection with the JSCCG notes and Holdco's membership interests in JSCCG. TVA used the proceeds from the transaction to meet its requirements under the TVA Act.

Secured debt of VIEs, including current maturities, outstanding at September 30, 2013 and 2012 totaled approximately \$1.3 billion and \$994 million, respectively.

### *Short-Term Debt*

The weighted average rates applicable to short-term debt outstanding at September 30, 2013, 2012, and 2011, were 0.04 percent, 0.09 percent, and 0.00 percent, respectively. During 2013, 2012, and 2011, the maximum outstanding balances of TVA short-term borrowings held by the public were \$3.4 billion, \$3.2 billion, and \$1.4 billion, respectively. For these same years, the average amounts (and weighted average interest rates) of TVA short-term borrowings were approximately \$1.9 billion (0.08 percent), \$1.1 billion (0.08 percent), and \$363 million (0.14 percent), respectively.

### *Put and Call Options*

Bond issues of \$848 million held by the public are redeemable in whole or in part, at TVA's option, on call dates ranging from the present to 2020 and at call prices of 100 percent of the principal amount. Twenty-three Bond issues totaling \$708 million, with maturity dates ranging from 2025 to 2043, include a "survivor's option," which allows for right of redemption upon the death of a beneficial owner in certain specified circumstances. There is no accounting difference between a "survivor's option" put and a "regular" put on any TVA put Bond. These Bonds are classified as long-term as of September 30, 2013 and 2012.

Additionally, TVA has two issues of Putable Automatic Rate Reset Securities ("PARRS") outstanding. After a fixed-rate period of five years, the coupon rate on the PARRS may automatically be reset downward under certain market conditions on an annual basis. The coupon rate reset on the PARRS is based on a calculation. For both series of PARRS, the coupon rate will reset downward on the reset date if the rate calculated is below the then-current coupon rate on the Bond. The calculation dates, potential reset dates, and terms of the calculation are different for each series. The coupon rate on the 1998 Series D PARRS may be reset on June 1 (annually) if the sum of the five-day average of the 30-Year Constant Maturity Treasury ("CMT") rate for the week ending the last Friday in April, plus 94 basis points, is below the then-current coupon rate. The coupon rate on the 1999 Series A PARRS may be reset on May 1 (annually) if the sum of the five-day average of the 30-Year CMT rate for the week ending the last Friday in March, plus 84 basis points, is below the then-current coupon rate. The coupon rates may only be reset downward, but investors may request to redeem their Bonds at par value in conjunction with a coupon rate reset for a limited period of time prior to the reset dates under certain circumstances.

The coupon rate for the 1998 Series D PARRS, which mature in June 2028, has been reset six times, from an initial rate of 6.75 percent to the current rate of 3.830 percent. In connection with these resets, \$251 million of the Bonds have been redeemed, so that \$324 million of the Bonds were outstanding at September 30, 2013. The coupon rate for the 1999 Series A PARRS, which mature in May 2029, has been reset five times, from an initial rate of 6.50 percent to the current rate of 3.955 percent. In connection with these resets, \$255 million of the Bonds have been redeemed, so that \$270 million of the Bonds were outstanding at September 30, 2013.

Due to the contingent nature of the put option on the PARRS, TVA determines whether the PARRS should be classified as long-term debt or current maturities of long-term debt by calculating the expected reset rate for the bonds on the calculation dates, described above, which occur in the third quarter of TVA's fiscal year. If the reset rate is less than the then-current coupon rate on the PARRS, the PARRS are included in current maturities. Otherwise, the PARRS are included in long-term debt. At September 30, 2013, TVA has not determined that it is probable that the reset rate will be less than the current coupon rate on the PARRS on the calculation dates; therefore, the par amount outstanding for each series of PARRS was classified as long-term debt.

# *Debt Securities Activity*

The table below summarizes the long-term debt securities activity for the period from October 1, 2011, to September 30, 2013.

<b>Debt Securities Activity</b>		
<b>For the year ended September 30</b>		
	<b>2013</b>	<b>2012</b>
<b>Issues</b>		
Debt of variable interest entities	\$ 360	\$ 1,000
electronotes <sup>®</sup>	152	135
2012 Series A <sup>(1)</sup>	—	1,000
2012 Series B <sup>(2)</sup>	1,000	—
2013 Series A <sup>(3)</sup>	1,000	—
Discount on debt issues	(30)	(9)
Total	<u>\$ 2,482</u>	<u>\$ 2,126</u>
<b>Redemptions/Maturities<sup>(4)</sup></b>		
Debt of variable interest entities	\$ 13	\$ 6
electronotes <sup>®</sup>	50	189
1992 Series D	—	1,000
1998 Series C	1,359	—
1998 Series D	2	5
1999 Series A	1	2
2000 Series F	—	29
2002 Series A	—	1,486
2003 Series C	940	—
2009 Series A	4	4
2009 Series B	2	2
Total	<u>\$ 2,371</u>	<u>\$ 2,723</u>

## Notes

(1) The 2012 Series A bonds were issued at 99.12 percent of par.

(2) The 2012 Series B bonds were issued at 97.49 percent of par.

(3) The 2013 Series A bonds were issued at 99.52 percent of par.

(4) All redemptions were at 100 percent of par.

## Debt Outstanding

Total debt outstanding at September 30, 2013, and 2012, consisted of the following:

<b>Short-Term Debt</b> At September 30					
<b>CUSIP or Other Identifier</b>	<b>Maturity</b>	<b>Call/(Put) Date</b>	<b>Coupon Rate</b>	<b>2013 Par</b>	<b>2012 Par</b>
Short-term debt, net				\$ 2,432	\$ 1,507
Current maturities of long-term debt of variable interest entities				30	13
Current maturities of power bonds					
880591EE8	5/15/2014		2.250%	3	3
880591EF5	6/15/2014		3.770%	26	3
880591CW0	3/15/2013		6.000%	—	1,359
880591DW9	8/1/2013		4.750%	—	940
880591TEL1	5/15/2014		2.650%	3	3
Total current maturities of power bonds				32	2,308
Total current debt outstanding, net				\$ 2,494	\$ 3,828

<b>Long-Term Debt<sup>(1)</sup></b> At September 30						
<b>CUSIP or Other Identifier</b>	<b>Maturity</b>	<b>Coupon Rate</b>	<b>Call Date</b>	<b>2013 Par</b>	<b>2012 Par</b>	<b>Stock Exchange Listings</b>
electronotes <sup>(2)</sup>	05/15/2020 - 02/15/2043	2.375 - 4.875%	4/15/2013 - 02/15/2018	\$ 723	\$ 622	None
880591DY5	6/15/2015	4.375%		1,000	1,000	New York, Luxembourg
880591EE8 <sup>(3)</sup>	11/15/2015	2.250%		4	8	None
880591DS8	12/15/2016	4.875%		524	524	New York
880591EA6	7/18/2017	5.500%		1,000	1,000	New York, Luxembourg
880591CU4	12/15/2017	6.250%		650	650	New York
880591EC2	4/1/2018	4.500%		1,000	1,000	New York, Luxembourg
880591EQ1	10/15/2018	1.750%		1,000	—	New York
880591EL2	2/15/2021	3.875%		1,500	1,500	New York
880591DC3	6/7/2021	5.805% <sup>(4)</sup>		324	324	New York, Luxembourg
880591EN8	8/15/2022	1.875%		1,000	1,000	New York
880591CJ9	11/1/2025	6.750%		1,350	1,350	New York, Hong Kong, Luxembourg, Singapore
880591300 <sup>(5)</sup>	6/1/2028	4.060%		324	326	New York
880591409 <sup>(5)</sup>	5/1/2029	4.150%		270	271	New York
880591DM1	5/1/2030	7.125%		1,000	1,000	New York, Luxembourg



## Table of Contents

880591DP4	6/7/2032	6.587%	<sup>(4)</sup>	405	404	New York, Luxembourg
880591DV1	7/15/2033	4.700%		472	472	New York, Luxembourg
880591EF5 <sup>(3)</sup>	6/15/2034	3.770%		414	440	None
880591DX7	6/15/2035	4.650%		436	436	New York
880591CK6	4/1/2036	5.980%		121	121	New York
880591CS9	4/1/2036	5.880%		1,500	1,500	New York
880591CP5	1/15/2038	6.150%		1,000	1,000	New York
880591ED0	6/15/2038	5.500%		500	500	New York
880591EH1	9/15/2039	5.250%		2,000	2,000	New York
880591EP3	12/15/2042	3.500%		1,000	—	New York
880591DU3	6/7/2043	4.962%	<sup>(4)</sup>	243	242	New York, Luxembourg
880591CF7	7/15/2045	6.235%	7/15/2020	140	140	New York
880591EB4	1/15/2048	4.875%		500	500	New York, Luxembourg
880591DZ2	4/1/2056	5.375%		1,000	1,000	New York
880591EJ7	9/15/2060	4.625%		1,000	1,000	New York
Subtotal				22,400	20,330	
Unamortized discounts, premiums, and other				(85)	(61)	
Total long-term outstanding power bonds, net				22,315	20,269	
Long-term debt of variable interest entities				1,311	981	
Total long-term debt, net				\$ 23,626	\$ 21,250	

### Notes

(1) Includes net exchange losses from currency transactions of \$43 million at September 30, 2013 and \$41 million at September 30, 2012.

(2) Includes one electronotes<sup>®</sup> issue with partial maturities of principal for each required annual payment.

(3) These Bonds include partial maturities of principal for each required annual payment.

(4) The coupon rate represents TVA's effective interest rate.

(5) TVA PARRS, CUSIP numbers 880591300 and 880591409, may be redeemed under certain conditions. See *Put and Call Options*.

	Maturities Due in the Year Ending September 30						
	2014	2015	2016	2017	2018	Thereafter	Total
Long-term power bonds and long-term debt of variable interest entities including current maturities <sup>(1)</sup>	\$ 62	\$ 1,064	\$ 65	\$ 1,590	\$ 1,718	\$ 19,231	\$23,730

### Note

(1) Does not include noncash items of foreign currency exchange loss of \$43 million and net discount on sale of Bonds of \$85 million.

### Credit Facility Agreements

TVA and the U.S. Treasury, pursuant to the TVA Act, have entered into a memorandum of understanding under which the U.S. Treasury provides TVA with a \$150 million credit facility. This credit facility was renewed for fiscal year 2014 with a maturity date of September 30, 2014. Access to this credit facility or other similar financing arrangements with the U.S. Treasury has been available to TVA since the 1960s. TVA plans to use the U.S. Treasury credit facility as a secondary source of liquidity. The interest rate on any borrowing under this facility is based on the average rate on outstanding marketable obligations of the United States with maturities from date of issue of one year or less. There were no outstanding borrowings under the facility at September 30, 2013. The availability of this credit facility may be impacted by how the U.S. government addresses the situation of approaching its debt limit.

TVA also has funding available in the form of three long-term revolving credit facilities totaling \$2.5 billion. One \$1.0 billion credit facility matures on June 25, 2017, another \$1.0 billion credit facility matures on December 13, 2017, and the \$0.5 billion credit facility matures on April 5, 2018. The interest rate on any borrowing under these facilities varies based on market

factors and the rating of TVA's senior unsecured long-term non-credit-enhanced debt. TVA is required to pay an unused facility fee on the portion of the total \$2.5 billion that TVA has not borrowed or committed under letters of credit. This fee, along with letter of credit fees, may fluctuate depending on the rating of TVA's senior unsecured long-term non-credit-enhanced debt. At September 30, 2013, and September 30, 2012, there were \$0.8 billion and \$1.1 billion, respectively, of letters of credit outstanding under the facilities, and there were no borrowings outstanding. See Note 14 — *Other Derivative Instruments — Collateral*.

### 13. Leaseback Obligations

#### *Lease/Leasebacks*

Prior to 2004, TVA received approximately \$945 million in proceeds by entering into leaseback transactions for 24 new peaking combustion turbine units ("CTs"). TVA also received approximately \$389 million in proceeds by entering into a leaseback transaction for qualified technological equipment and software ("QTE") in 2003. Due to TVA's continuing involvement in the operation and maintenance of the leased units and equipment and its control over the distribution of power produced by the combustion turbine facilities during the leaseback term, TVA accounted for the lease proceeds as financing obligations. At September 30, 2013, and September 30, 2012, the outstanding leaseback obligations related to CTs and QTE were \$761 million and \$825 million, respectively.

In 2008, TVA acquired the Southaven CCF pursuant to an agreement under which Seven States had an option to purchase a 90 percent undivided interest in the facility, which option Seven States subsequently exercised through its subsidiary, SSSL. SSSL financed the purchase of its undivided interest in the facility with funds received from a credit agreement with a third-party lender. SSSL leased its undivided interest in the facility back to TVA, and TVA continued to operate the facility. TVA accounted for the leaseback obligation under the financing method.

On August 6, 2013, TVA and the United States of America entered into the Asset Purchase Agreement involving the Southaven CCF, underlying real property, and related assets, whereby TVA (as agent for the United States of America with respect to real property) re-acquired the undivided 90 percent interest in the facility from SSSL. In exchange for SSSL's undivided interest in the facility, TVA paid the recorded amount of the buy-back obligation as of the date of closing of approximately \$364 million. SSSL used these proceeds to repay the amounts outstanding under its credit agreement. The credit agreement was closed upon repayment.

Also, as a condition to the closing of the Asset Purchase Agreement, TVA was required to enter into the Southaven Head Lease and Southaven Facility Lease through which SSSL will receive semi-annual payments over 20 years each February 15 and August 15, beginning February 15, 2014, with the final payment due on August 15, 2033. These payments, totaling approximately \$9 million, will be funded by TVA as part of the lease payments to SCCG that will be paid to SHLLC. The payments to be made to SSSL are included in a schedule to SHLLC's formation documents. SSSL has no equity or debt investment in, and has made no contribution to, SHLLC. TVA entered into the Southaven Head Lease and the Southaven Facility Lease on August 9, 2013. See Note 8 and Note 10 — *Membership Interests of VIE Subject to Mandatory Redemption*.

#### *Lease Ratings Downgrade*

On November 29, 2011, one credit rating agency downgraded its ratings on various long-term leases backed by obligations of TVA from AA+ to AA-, and set the outlook on the ratings to stable. The downgrades include leaseback obligations related to CTs and QTE. According to the rating agency, the downgrade reflects the application of new criteria to the leases, rather than any TVA action, event, or change in business conditions. While the downgrades do not change TVA's obligations under the leases, they may affect the cost to TVA of similar future financings.

### 14. Risk Management Activities and Derivative Transactions

TVA is exposed to various market risks. These market risks include risks related to commodity prices, investment prices, interest rates, currency exchange rates, inflation, and counterparty credit and performance risks. To help manage certain of these risks, TVA has entered into various derivative transactions: principally, commodity option contracts, forward contracts, swaps, swaptions, futures, and options on futures. Other than certain derivative instruments in investment funds, it is TVA's policy to enter into these derivative transactions solely for hedging purposes and not for speculative purposes.

#### *Overview of Accounting Treatment*

TVA recognizes certain of its derivative instruments as either assets or liabilities on its consolidated balance sheets at fair value. The accounting for changes in the fair value of these instruments depends on (1) whether TVA uses regulatory accounting to defer the derivative gains and losses, (2) whether the derivative instrument has been designated and qualifies for hedge accounting treatment, and (3) if so, the type of hedge relationship (for example, cash flow hedge).

The following tables summarize the accounting treatment that certain of TVA's financial derivative transactions receive.

**Summary of Derivative Instruments That Receive Hedge Accounting Treatment (part 1)**

Derivatives in Cash Flow Hedging Relationship	Objective of Hedge Transaction	Accounting for Derivative Hedging Instrument	Amount of Mark-to-Market <sup>(1)</sup> Gain (Loss) Recognized in Other Comprehensive Income (Loss) <sup>(2)</sup> Years Ended September 30	
			2013	2012
Currency swaps	To protect against changes in cash flows caused by changes in foreign currency exchange rates (exchange rate risk)	Cumulative unrealized gains and losses are recorded in OCI and reclassified to interest expense to the extent they are offset by cumulative gains and losses on the hedged transaction	\$ 78	\$ 99

**Notes**

(1) Mark-to-market ("MtM")

(2) Other comprehensive income (loss) ("OCI")

**Summary of Derivative Instruments That Receive Hedge Accounting Treatment (part 2)**

Derivatives in Cash Flow Hedging Relationship	Amount of Gain (Loss) Reclassified from OCI to Interest Expense Years Ended September 30	
	2013	2012
Currency swaps	\$ (1)	\$ (35)

**Note**

There were no ineffective portions or amounts excluded from effectiveness testing for any of the periods presented.

**Summary of Derivative Instruments That Do Not Receive Hedge Accounting Treatment**

Derivative Type	Objective of Derivative	Accounting for Derivative Instrument	Amount of Gain (Loss) Recognized in Income on Derivatives Years Ended September 30	
			2013	2012
Interest rate swaps	To fix short-term debt variable rate to a fixed rate (interest rate risk)	MtM gains and losses are recorded as regulatory assets or liabilities until settlement, at which time the gains/losses are recognized in gain/loss on derivative contracts.	\$ —	\$ —
Commodity contract derivatives	To protect against fluctuations in market prices of purchased coal or natural gas (price risk)	MtM gains and losses are recorded as regulatory assets or liabilities. Realized gains and losses due to contract settlements are recognized in fuel expense as incurred.	(11)	(22)
Commodity derivatives under FTP	To protect against fluctuations in market prices of purchased commodities (price risk)	MtM gains and losses are recorded as regulatory assets or liabilities. Realized gains and losses are recognized in fuel expense or purchased power expense when the related commodity is used in production.	(126)	(342)

**Note**

All of TVA's derivative instruments that do not receive hedge accounting treatment have unrealized gains (losses) that would otherwise be recognized in income but instead are deferred as regulatory assets and liabilities. As such, there was no related gain (loss) recognized in income for these unrealized gains (losses) for the years ended 2013 and 2012.

**Mark-to-Market Values of TVA Derivatives  
At September 30**

2013			2012		
Derivatives that Receive Hedge Accounting Treatment:					
	Balance	Balance Sheet Presentation		Balance	Balance Sheet Presentation
Currency swaps					
£200 million Sterling	\$ (15)	Other long-term liabilities	\$ (23)		Other long-term liabilities
£250 million Sterling	51	Other long-term assets	21		Other long-term assets
£150 million Sterling	10	Other long-term assets	(31)		Other long-term liabilities
Derivatives that Do Not Receive Hedge Accounting Treatment:					
	Balance	Balance Sheet Presentation		Balance	Balance Sheet Presentation
Interest rate swaps					
\$1.0 billion notional	(886)	Other long-term liabilities	(1,247)		Other long-term liabilities
\$476 million notional	(300)	Other long-term liabilities	(458)		Other long-term liabilities
\$42 million notional	(13)	Other long-term liabilities	(18)		Other long-term liabilities
Commodity contract derivatives	(141)	Other long-term assets \$1; Other current assets \$2; Other long-term liabilities \$(35); Accounts payable and accrued liabilities \$(109)	(267)		Other long-term assets \$107; Other current assets \$12; Other long-term liabilities \$(205); Accounts payable and accrued liabilities \$(181)
FTP					
Margin cash account <sup>(1)</sup>	11	Other current assets	43		Other current assets
Derivatives under FTP <sup>(2)</sup>	(166)	Other current assets \$(97); Other long-term liabilities \$(36); Accounts payable and accrued liabilities \$(33)	(228)		Other long-term assets \$2; Other current assets \$(104); Other long-term liabilities \$(59); Accounts payable and accrued liabilities \$(67)

**Notes**

(1) In accordance with certain credit terms, TVA uses leverage to trade financial instruments under the FTP. Therefore, the margin cash account balance does not represent 100 percent of the net market value of the derivative positions outstanding as shown in the Derivatives Under Financial Trading Program table.

(2) The September 30, 2013, and September 30, 2012 balances in the Derivatives Under Financial Trading Program table show all open derivative positions in the FTP.

**Cash Flow Hedging Strategy for Currency Swaps**

To protect against exchange rate risk related to three British pound sterling denominated Bond transactions, TVA entered into foreign currency hedges at the time the Bond transactions occurred. TVA had the following currency swaps outstanding at September 30, 2013:

<b>Currency Swaps Outstanding At September 30, 2013</b>			
<b>Effective Date of Currency Swap Contract</b>	<b>Associated TVA Bond Issues Currency Exposure</b>	<b>Expiration Date of Swap</b>	<b>Overall Effective Cost to TVA</b>
1999	£200 million	2021	5.81%
2001	£250 million	2032	6.59%
2003	£150 million	2043	4.96%

When the dollar strengthens against the British pound sterling, the transaction gain on the Bond liability is offset by a currency exchange loss on the swap contract. Conversely, when the dollar weakens against the British pound sterling, the transaction loss on the Bond liability is offset by an exchange gain on the swap contract. All such exchange gains or losses on the Bond liability are included in Long-term debt, net. The offsetting exchange losses or gains on the swap contracts are recognized in Accumulated other comprehensive income (loss). If any gain (loss) were to be incurred as a result of the early termination of the foreign currency swap contract, the resulting income (expense) would be amortized over the remaining life of the associated Bond as a component of Interest expense.

## Derivatives Not Receiving Hedge Accounting Treatment

**Interest Rate Derivatives.** TVA uses regulatory accounting treatment to defer the MtM gains and losses on its interest rate swaps. The net deferred unrealized gains and losses are classified as regulatory assets or liabilities on TVA's consolidated balance sheets and are included in the ratemaking formula when the transactions settle. The values of these derivatives are included in Other long-term assets or Other long-term liabilities on the consolidated balance sheets, and realized gains and losses, if any, are included in TVA's consolidated statements of operations.

For the years ended 2013 and 2012, the changes in market value of the interest rate derivatives resulted in deferred unrealized gains (losses) of \$524 million and \$(168) million, respectively. There were no realized gains or losses for the years ended 2013 and 2012.

**Commodity Derivatives.** TVA enters into certain derivative contracts for coal and natural gas that require physical delivery of the contracted quantity of the commodity. TVA marks to market all such contracts. At September 30, 2013, and September 30, 2012, TVA's coal contract derivatives had net market values of \$(140) million and \$(267) million, respectively, which TVA deferred as regulatory assets or liabilities on a gross basis. At September 30, 2013, TVA's coal contract derivatives had terms of up to five years.

The total market value of natural gas derivative contracts was \$(1) million at September 30, 2013, and was less than \$(1) million at September 30, 2012. At September 30, 2013, natural gas derivative contracts had terms of up to two years.

### Commodity Contract Derivatives At September 30

	2013			2012		
	Number of Contracts	Notional Amount	Fair Value (MtM)	Number of Contracts	Notional Amount	Fair Value (MtM)
Coal contract derivatives	19	43 million tons	\$ (140)	23	46 million tons	\$ (267)
Natural gas contract derivatives	13	39 million mmBtu	\$ (1)	25	51 million mmBtu	\$ —

**Derivatives Under FTP.** TVA has a FTP under which it may purchase and sell futures, swaps, options, and combinations of these instruments (as long as they are standard in the industry) to hedge TVA's exposure to (1) the price of natural gas, fuel oil, electricity, coal, emission allowances, nuclear fuel, and other commodities included in TVA's fuel cost adjustment calculation, (2) the price of construction materials, and (3) contracts for goods priced in or indexed to foreign currencies. The combined transaction limit for the fuel cost adjustment and construction material transactions is \$130 million (based on one-day value at risk). In addition, the maximum hedge volume for the construction material transactions is 75 percent of the underlying net notional volume of the material that TVA anticipates using in approved TVA projects, and the market value of all outstanding hedging transactions involving construction materials is limited to \$100 million at the execution of any new transaction. The portfolio value at risk limit for the foreign currency transactions is \$5 million and is separate and distinct from the \$130 million transaction limit discussed above. TVA's policy prohibits trading financial instruments under the FTP for speculative purposes.

At September 30, 2013 and 2012, the risks hedged under the FTP were the economic risks associated with the prices of natural gas, fuel oil, and crude oil. At September 30, 2013 and 2012, TVA had no outstanding coal contract derivatives under the FTP. There were no futures contracts or options contracts outstanding under the FTP at September 30, 2013, and swap contracts under the FTP had remaining terms of five years or less.

**Derivatives Under Financial Trading Program**

	<b>At September 30, 2013</b>		<b>At September 30, 2012</b>	
	<b>Notional Amount</b>	<b>Fair Value (MtM) (in millions)</b>	<b>Notional Amount</b>	<b>Fair Value (MtM) (in millions)</b>
<b>Natural gas (in mmBtu)</b>				
Futures contracts	—	\$ —	—	\$ —
Swap contracts	152,922,500	(169)	294,462,500	(232)
Option contracts	—	—	—	—
Natural gas financial positions	<u>152,922,500</u>	<u>\$ (169)</u>	<u>294,462,500</u>	<u>\$ (232)</u>
<b>Fuel oil/crude oil (in barrels)</b>				
Futures contracts	—	\$ —	—	\$ —
Swap contracts	1,205,000	3	1,390,000	4
Option contracts	—	—	—	—
Fuel oil/crude oil financial positions	<u>1,205,000</u>	<u>\$ 3</u>	<u>1,390,000</u>	<u>\$ 4</u>

**Note**

Due to the right of setoff and method of settlement, TVA elects to record commodity derivatives under the FTP based on its net commodity position with the broker or other counterparty. Notional amounts disclosed represent the net absolute value of contractual amounts.

TVA defers all FTP unrealized gains (losses) as regulatory liabilities (assets) and records realized gains or losses to match the delivery period of the underlying commodity contract. In addition to the open commodity derivatives disclosed above, TVA had closed derivative contracts with market values of \$(8) million at September 30, 2013, and \$(21) million at September 30, 2012. TVA experienced the following unrealized and realized gains and losses related to the FTP at the dates and during the periods, as applicable, set forth in the tables below:

**Financial Trading Program Unrealized Gains (Losses)  
At September 30**

<b>FTP unrealized gains (losses) deferred as regulatory liabilities (assets)</b>	<b>2013</b>		<b>2012</b>	
Natural gas	\$	(169)	\$	(232)
Fuel oil/crude oil		3		4
Coal		—		—

**Financial Trading Program Realized Gains (Losses)  
Years Ended September 30**

<b>Decrease (increase) in fuel expense</b>	<b>2013</b>		<b>2012</b>	
Natural gas	\$	(78)	\$	(116)
Fuel oil/crude oil		4		10
Coal		(1)		—

**Financial Trading Program Realized Gains (Losses)  
Years Ended September 30**

**Decrease (increase) in purchased power  
expense**

**2013**

**2012**

Natural gas	\$	(51)	\$	(236)
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*Other Derivative Instruments*

*Investment Fund Derivatives.* Investment funds consist primarily of funds held in the NDT, ART, and SERP. All securities in the trusts are classified as trading. See Note 15 — *Investments* for a discussion of the trusts' objectives and the types of investments included in the various trusts. These trusts may invest in derivative instruments which may include swaps, futures, options, forwards, and other instruments. At September 30, 2013, and September 30, 2012, the fair value of derivative instruments in these trusts was not material to TVA's consolidated financial statements.

*Collateral.* TVA's interest rate swaps and its currency swaps contain contract provisions that require a party to post collateral (in a form such as cash or a letter of credit) when the party's liability balance under the agreement exceeds a certain threshold. At September 30, 2013, the aggregate fair value of all derivative instruments with credit-risk related contingent features that were in a liability position was \$1.2 billion. TVA's collateral obligations at September 30, 2013, under these arrangements, was \$0.8 billion, for which TVA had posted \$0.8 billion in letters of credit. These letters of credit reduce the available balance under the related credit facilities. TVA's assessment of the risk of its nonperformance includes a reduction in its exposure under the contract as a result of this posted collateral.

For all of its derivative instruments with credit-risk related contingent features:

- If TVA remains a majority-owned U.S. government entity but Standard & Poor's ("S&P") or Moody's Investors Service ("Moody's") downgrades TVA's credit rating to AA or Aa2, respectively, TVA's collateral obligations would likely increase by \$22 million; and
- If TVA ceases to be majority-owned by the U.S. government, TVA's credit rating would likely be downgraded and TVA would be required to post additional collateral.

*Counterparty Credit Risk*

Credit risk is the exposure to economic loss that would occur as a result of a counterparty's nonperformance of its contractual obligations. Where exposed to counterparty credit risk, TVA analyzes the counterparty's financial condition prior to entering into an agreement, establishes credit limits, monitors the appropriateness of those limits, as well as any changes in the creditworthiness of the counterparty on an ongoing basis, and employs credit mitigation measures, such as collateral or prepayment arrangements and master purchase and sale agreements, to mitigate credit risk.

*Credit of Customers.* The majority of TVA's counterparty credit risk is associated with trade accounts receivable from delivered power sales to LPCs, all located in the Tennessee Valley region. To a lesser extent, TVA is exposed to credit risk from directly served industries and federal agencies, and from exchange power arrangements with a small number of investor-owned regional utilities, related to either delivered power or the replacement of open positions of longer-term purchased power or fuel agreements. TVA had concentrations of accounts receivable from three customers that represented 27 percent of total outstanding accounts receivable at September 30, 2013, and 26 percent of total outstanding accounts receivable at September 30, 2012. Power sales to TVA's largest directly served industrial customer represented three percent and five percent of TVA's total operating revenues for the years ended September 30, 2013 and 2012, respectively. TVA has determined that this customer has the equivalent of a non-investment grade credit rating. As a result of its credit ratings, this customer has provided credit assurance to TVA under the terms of its power contract. On May 24, 2013, the customer announced the cessation of enrichment activities at one of its sites. TVA and the customer subsequently completed agreements to extend power sales to facilitate the cessation of enrichment activities and to support non-enrichment activities at the site at a greatly reduced level. These sales may continue to be extended.

*Credit of Derivative Counterparties.* TVA has entered into derivative contracts for hedging purposes, and TVA's NDT fund and qualified defined benefit pension plan have entered into derivative contracts for investment purposes. If a counterparty to one of TVA's hedging transactions defaults, TVA might incur substantial costs in connection with entering into a replacement hedging transaction. If a counterparty to the derivative contracts into which the NDT fund and the pension plan have entered for investment purposes defaults, the value of the investment could decline significantly or perhaps become worthless. TVA has concentrations of credit risk from the banking and coal industries because multiple companies in these industries serve as counterparties to TVA in various derivative transactions. At September 30, 2013, all of TVA's currency swaps, interest rate swaps, and commodity derivatives under the FTP were with counterparties whose Moody's credit rating was Baa1 or higher. At September 30, 2013, all of TVA's coal contract derivatives were with counterparties whose Moody's credit rating, or TVA's



internal analysis when such information was unavailable, was B3 or higher. See *Derivatives Not Receiving Hedge Accounting Treatment*.

TVA currently utilizes two active futures commission merchants ("FCMs") to clear commodity contracts, including futures, options, and similar financial derivatives. These transactions are executed under the FTP by the FCMs on exchanges on behalf of TVA. TVA maintains margin cash accounts with the FCMs. See notes to the *Mark-to-Market Values of TVA Derivatives* table.

*Credit of Suppliers.* If one of TVA's fuel or purchased power suppliers fails to perform under the terms of its contract with TVA, TVA might lose the money that it paid to the supplier under the contract and have to purchase replacement fuel or power on the spot market, perhaps at a significantly higher price than TVA was entitled to pay under the contract. In addition, TVA might not be able to acquire replacement fuel or power in a timely manner and thus might be unable to satisfy its own obligations to deliver power. To help ensure a reliable supply of coal, TVA had coal contracts with multiple suppliers at September 30, 2013. The contracted supply of coal is sourced from multiple geographic regions of the United States and is to be delivered via various transportation methods (for example, barge, rail, and truck). TVA purchases the majority of its natural gas requirements from a variety of suppliers under short-term contracts.

TVA has a power purchase agreement that expires on March 31, 2032, with a supplier of electricity for 440 megawatts ("MW") of summer net capability from a lignite-fired generating plant. TVA has determined that the supplier has the equivalent of a non-investment grade credit rating.

## 15. Fair Value Measurements

Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the asset or liability's principal market, or in the absence of a principal market, the most advantageous market for the asset or liability in an orderly transaction between market participants. TVA uses market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

### *Valuation Techniques*

The measurement of fair value results in classification into a hierarchy by the inputs used to determine the fair value as follows:

Level 1	—	Unadjusted quoted prices in active markets accessible by the reporting entity for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing.
Level 2	—	Pricing inputs other than quoted market prices included in Level 1 that are based on observable market data and that are directly or indirectly observable for substantially the full term of the asset or liability. These include quoted market prices for similar assets or liabilities, quoted market prices for identical or similar assets in markets that are not active, adjusted quoted market prices, inputs from observable data such as interest rate and yield curves, volatilities and default rates observable at commonly quoted intervals, and inputs derived from observable market data by correlation or other means.
Level 3	—	Pricing inputs that are unobservable, or less observable, from objective sources. Unobservable inputs are only to be used to the extent observable inputs are not available. These inputs maintain the concept of an exit price from the perspective of a market participant and should reflect assumptions of other market participants. An entity should consider all market participant assumptions that are available without unreasonable cost and effort. These are given the lowest priority and are generally used in internally developed methodologies to generate management's best estimate of the fair value when no observable market data is available.

A financial instrument's level within the fair value hierarchy (where Level 3 is the lowest and Level 1 is the highest) is based on the lowest level of input significant to the fair value measurement.

The following sections describe the valuation methodologies TVA uses to measure different financial instruments at fair value. Except for gains and losses on SERP assets, all changes in fair value of these assets and liabilities have been reflected in regulatory assets, regulatory liabilities, or accumulated other comprehensive income (loss) on TVA's consolidated balance sheets, and consolidated statements of comprehensive income (loss). Except for gains and losses on SERP assets, there has been no impact to TVA's consolidated statements of operations or its consolidated statements of cash flows related to these fair value measurements.

## Investments Funds

At September 30, 2013, Investment funds were composed of \$1.7 billion of securities classified as trading and measured at fair value and \$1 million of equity investments not required to be measured at fair value. Trading securities are held in the NDT, ART, and SERP. The NDT holds funds for the ultimate decommissioning of TVA's nuclear power plants. The ART holds funds for the costs related to the future closure and retirement of TVA's long-lived assets. TVA established a SERP for certain executives in critical positions to provide supplemental pension benefits tied to compensation that exceeds limits set by Internal Revenue Service ("IRS") rules applicable to the qualified defined benefit pension plan. The NDT, ART, and SERP are invested in securities generally designed to achieve a return in line with overall equity market performance.

The NDT, ART, and SERP are composed of multiple types of investments and are managed by external institutional managers. Most U.S. and international equities, Treasury Inflation-Protected Securities, real estate investment trust securities, cash securities, and certain derivative instruments are measured based on quoted exchange prices in active markets and are classified as Level 1 valuations. Fixed-income investments, high-yield fixed-income investments, currencies, and most derivative instruments are non-exchange traded and are classified as Level 2 valuations. These measurements are based on market and income approaches with observable market inputs.

Private partnership investments may include holdings of investments in private real estate, venture capital, buyout, mezzanine or subordinated debt, restructuring or distressed debt, and special situations through funds managed by third-party investment managers. Investments in private partnerships generally involve a three-to-four-year period where the investor contributes capital. This is followed by a period of distribution, typically over several years. The investment period is generally, at a minimum, ten years or longer. The NDT had unfunded commitments related to private partnerships of \$149 million at September 30, 2013. These investments have no redemption or limited redemption options and may also have imposed restrictions on the NDT's ability to liquidate its investments. There are no readily available quoted exchange prices for these investments. The fair value of the investments is based on TVA's ownership percentage of the fair value of the underlying investments as provided by the investment managers. These investments are typically valued on a quarterly basis. TVA's private partnership investments are valued at net asset values ("NAV") as a practical expedient for fair value. TVA classifies its interest in these types of investments as Level 3 within the fair value hierarchy.

Commingled funds represent investment funds comprising multiple individual financial instruments. The commingled funds held by the NDT, ART, and SERP consist of either a single class of securities, such as equity, debt, or foreign currency securities, or multiple classes of securities. All underlying positions in these commingled funds are either exchange traded (Level 1) or measured using observable inputs for similar instruments (Level 2). The fair value of commingled funds is based on NAV per fund share (the unit of account), derived from the prices of the underlying securities in the funds. These commingled funds can be redeemed at the measurement date NAV and are classified as Level 2 valuations.

Realized and unrealized gains and losses on trading securities are recognized in current earnings and are based on average cost. The gains and losses of the NDT and ART are subsequently reclassified to a regulatory liability or asset account in accordance with TVA's regulatory accounting policy. See Note 1 — *Cost-Based Regulation*. TVA recorded unrealized gains and losses related to its trading securities held as of the end of each period as follows:

		<b>Unrealized Investment Gains (Losses)</b>	
		<b>At September 30</b>	
<b>Financial Statement Presentation</b>		<b>2013</b>	<b>2012</b>
SERP	Other income (expense)	\$ 2	\$ 4
NDT	Regulatory asset	48	121
ART	Regulatory asset	33	27

## Currency and Interest Rate Derivatives

See Note 14 — *Cash Flow Hedging Strategy for Currency Swaps and Derivatives Not Receiving Hedge Accounting Treatment* for a discussion of the nature, purpose, and contingent features of TVA's currency and interest rate swaps. These swaps are classified as Level 2 valuations and are valued based on income approaches using observable market inputs for similar instruments.

*Commodity Contract Derivatives and Commodity Derivatives Under FTP*

*Commodity Contract Derivatives.* Most of these contracts are valued based on market approaches which utilize short- and mid-term market-quoted prices from an external industry brokerage service. A small number of these contracts are valued based on a pricing model using long-term price estimates from TVA's coal price forecast. To value the volume option component of applicable coal contracts, TVA uses a Black-Scholes pricing model which includes inputs from the forecast, contract-specific terms, and other market inputs. These contracts are classified as Level 3 valuations.

*Commodity Derivatives Under FTP.* These contracts are valued based on market approaches which utilize Chicago Mercantile Exchange ("CME") quoted prices and other observable inputs. Futures and options contracts settled on the CME are classified as Level 1 valuations. Swap contracts are valued using a pricing model based on CME inputs and are subject to nonperformance risk outside of the exit price. These contracts are classified as Level 2 valuations.

See Note 14 — *Derivatives Not Receiving Hedge Accounting Treatment — Commodity Derivatives and Derivatives Under FTP* for a discussion of the nature and purpose of coal contracts and derivatives under TVA's FTP.

*Nonperformance Risk*

The assessment of nonperformance risk, which includes credit risk, considers changes in current market conditions, readily available information on nonperformance risk, letters of credit, collateral, other arrangements available, and the nature of master netting arrangements. TVA is a counterparty to currency swaps, interest rate swaps, commodity contracts, and other derivatives which subject TVA to nonperformance risk. Nonperformance risk on the majority of investments and certain exchange-traded instruments held by TVA is incorporated into the exit price that is derived from quoted market data that is used to mark the investment to market.

Nonperformance risk for most of TVA's derivative instruments is an adjustment to the initial asset/liability fair value. TVA adjusts for nonperformance risk, both for TVA (for liabilities) and the counterparty (for assets), by applying credit valuation adjustments ("CVAs"). TVA determines an appropriate CVA for each applicable financial instrument based on the term of the instrument and TVA's or the counterparty's credit rating as obtained from Moody's. For companies that do not have an observable credit rating, TVA uses internal analysis to assign a comparable rating to the company. TVA discounts each financial instrument using the historical default rate (as reported by Moody's for CY 1983 to CY 2011) for companies with a similar credit rating over a time period consistent with the remaining term of the contract. The application of CVAs resulted in a \$6 million decrease in the fair value of assets and a \$1 million decrease in the fair value of liabilities at September 30, 2013.

The following tables set forth by level, within the fair value hierarchy, TVA's financial assets and liabilities that were measured at fair value on a recurring basis at September 30, 2013, and September 30, 2012. Financial assets and liabilities have been classified in their entirety based on the lowest level of input that is significant to the fair value measurement. TVA's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the determination of the fair value of the assets and liabilities and their classification in the fair value hierarchy levels.

# Fair Value Measurements

At September 30, 2013

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting <sup>(1)</sup>	Total
Investments					
Equity securities	\$ 151	\$ —	\$ —	\$ —	\$ 151
Debt securities					
U.S. government corporations and agencies	38	67	—	—	105
Corporate debt securities	—	255	—	—	255
Residential mortgage-backed securities	—	25	—	—	25
Commercial mortgage-backed securities	—	7	—	—	7
Collateralized debt obligations	—	10	—	—	10
Private partnerships	—	—	159	—	159
Commingled funds <sup>(2)</sup>					
Equity security commingled funds	—	741	—	—	741
Debt security commingled funds	—	248	—	—	248
Total investments	189	1,353	159	—	1,701
Currency swaps	—	61	—	—	61
Commodity contract derivatives	—	—	3	—	3
Commodity derivatives under FTP					
Swap contracts	—	101	—	(97)	4
Total commodity derivatives under FTP	—	101	—	(97)	4
Total	\$ 189	\$ 1,515	\$ 162	\$ (97)	\$ 1,769
Liabilities	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting <sup>(1)</sup>	Total
Currency swaps	\$ —	\$ 15	\$ —	\$ —	\$ 15
Interest rate swaps	—	1,199	—	—	1,199
Commodity contract derivatives	—	1	143	—	144
Commodity derivatives under FTP					
Swap contracts	—	267	—	(97)	170
Total commodity derivatives under FTP	—	267	—	(97)	170
Total	\$ —	\$ 1,482	\$ 143	\$ (97)	\$ 1,528

## Notes

(1) Due to the right of setoff and method of settlement, TVA elects to record commodity derivatives under the FTP based on its net commodity position with the counterparty or broker.

(2) Commingled funds represent investment funds comprising multiple individual financial instruments and are classified in the table based on their existing investment portfolio as of the measurement date. Commingled funds primarily composed of one class of security are classified in that category.

**Fair Value Measurements**

At September 30, 2012

<b>Assets</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Netting<sup>(1)</sup></b>	<b>Total</b>
Investments					
Equity securities	\$ 173	\$ —	\$ —	\$ —	\$ 173
Debt securities					
U.S. government corporations and agencies	59	103	—	—	162
Corporate debt securities	—	197	—	—	197
Residential mortgage-backed securities	—	20	—	—	20
Commercial mortgage-backed securities	—	6	—	—	6
Collateralized debt obligations	—	12	—	—	12
Private partnerships	—	—	53	—	53
Commingled funds <sup>(2)</sup>					
Equity security commingled funds	—	657	—	—	657
Debt security commingled funds	—	182	—	—	182
Total investments	232	1,177	53	—	1,462
Currency swaps	—	21	—	—	21
Commodity contract derivatives	—	—	119	—	119
Commodity derivatives under FTP					
Swap contracts	—	123	—	(115)	8
Total commodity derivatives under FTP	—	123	—	(115)	8
<b>Total</b>	<b>\$ 232</b>	<b>\$ 1,321</b>	<b>\$ 172</b>	<b>\$ (115)</b>	<b>\$ 1,610</b>
<b>Liabilities</b>	<b>Quoted Prices in Active Markets for Identical Liabilities (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Netting<sup>(1)</sup></b>	<b>Total</b>
Currency swaps	\$ —	\$ 54	\$ —	\$ —	\$ 54
Interest rate swaps	—	1,723	—	—	1,723
Commodity contract derivatives	—	—	386	—	386
Commodity derivatives under FTP					
Swap contracts	—	351	—	(115)	236
Total commodity derivatives under FTP	—	351	—	(115)	236
<b>Total</b>	<b>\$ —</b>	<b>\$ 2,128</b>	<b>\$ 386</b>	<b>\$ (115)</b>	<b>\$ 2,399</b>

**Notes**

(1) Due to the right of setoff and method of settlement, TVA elects to record commodity derivatives under the FTP based on its net commodity position with the counterparty or broker.

(2) Commingled funds represent investment funds comprising multiple individual financial instruments and are classified in the table based on their existing investment portfolio as of the measurement date. Commingled funds primarily composed of one class of security are classified in that category.

TVA uses internal and external valuation specialists for the calculation of its fair value measurements classified as Level 3. Analytical testing is performed on the change in fair value measurements each period to ensure the valuation is reasonable based on changes in general market assumptions. Significant changes to the estimated data used for unobservable inputs, in isolation or combination, may result in significant variations to the fair value measurement reported.

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

<b>Fair Value Measurements Using Significant Unobservable Inputs</b>			
For the Year Ended September 30			
	<b>Private Partnerships</b>	<b>Commodity Contract Derivatives</b>	<b>Interest Rate Swaption</b>
Balance at October 1, 2011	\$ 22	\$ 239	\$ (1,077)
Purchases	27	—	—
Issuances	—	—	—
Sales	—	—	—
Settlements <sup>(1)</sup>	—	—	1,077
Net unrealized gains (losses) deferred as regulatory assets and liabilities	4	(506)	—
Balance at September 30, 2012	53	(267)	—
Purchases	101	—	—
Issuances	—	—	—
Sales	(4)	—	—
Settlements	—	—	—
Net unrealized gains (losses) deferred as regulatory assets and liabilities	9	127	—
Balance at September 30, 2013	\$ 159	\$ (140)	\$ —

**Note**

(1) The interest rate swaption was converted to an interest rate swap in April 2012.

There were no realized gains or losses related to the instruments measured at fair value using significant unobservable inputs during the year ended September 30, 2013. All unrealized gains and losses related to these instruments have been reflected as increases or decreases in regulatory assets and liabilities. See Note 7.

The following table presents quantitative information related to the significant unobservable inputs used in the measurement of fair value of TVA's assets and liabilities classified as Level 3 in the fair value hierarchy:

Quantitative Information about Level 3 Fair Value Measurements					
	Fair Value at September 30 2013	Valuation Technique(s)	Unobservable Inputs	Range	
Assets					
Commodity contract derivatives	\$ 3	Discounted cash flow	Credit risk	21%	
		Pricing model	Coal supply and demand	0.9 - 1.0 billion tons/year	
			Long-term market prices	\$10.25 - \$85.25/ton	
Liabilities					
Commodity contract derivatives	\$ 143	Pricing model	Coal supply and demand	0.9 - 1.0 billion tons/year	
			Long-term market prices	\$10.25 - \$85.25/ton	

\* Applies to only one contract.

## Other Financial Instruments Not Recorded at Fair Value

TVA uses the methods and assumptions described below to estimate the fair value of each significant class of financial instrument. The fair market value of the financial instruments held at September 30, 2013, and September 30, 2012, may not be representative of the actual gains or losses that will be recorded when these instruments mature or are called or presented for early redemption. The estimated values of TVA's financial instruments not recorded at fair value at September 30, 2013, and September 30, 2012, were as follows:

**Estimated Values of Financial Instruments Not Recorded at Fair Value  
At September 30**

	Valuation Classification	2013		2012	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
EnergyRight® receivables (including current portion)	Level 2	\$ 150	\$ 150	\$ 150	\$ 150
Loans and other long-term receivables, net	Level 2	\$ 73	\$ 67	\$ 76	\$ 70
EnergyRight® purchase obligation (including current portion)	Level 2	\$ 186	\$ 210	\$ 185	\$ 209
Membership interests of variable interest entity subject to mandatory redemption (including current portion)	Level 2	\$ 40	\$ 50	\$ —	\$ —
Long-term outstanding power bonds (including current maturities), net	Level 2	\$ 22,347	\$ 24,603	\$ 22,577	\$ 28,041
Long-term debt of variable interest entities (including current maturities)	Level 2	\$ 1,341	\$ 1,386	\$ 994	\$ 1,116

Due to the short-term maturity of Cash and cash equivalents, Restricted cash and investments, and Short-term debt, net (each considered a Level 1 valuation classification), the carrying amounts of these instruments approximate their fair values.

The fair value for loans and other long-term receivables is estimated by determining the present value of future cash flows using a discount rate equal to lending rates for similar loans made to borrowers with similar credit ratings and for similar remaining maturities, where applicable.

The fair value of long-term debt traded in the public market is determined by multiplying the par value of the debt by the indicative market price at the balance sheet date. The fair value of other long-term debt and membership interests of variable interest entity subject to mandatory redemption is estimated by determining the present value of future cash flows using current market rates for similar obligations, giving effect to credit ratings and remaining maturities.

## 16. Proprietary Capital

### Appropriation Investment

TVA's power program and stewardship (nonpower) programs were originally funded primarily by appropriations from Congress. In 1959, Congress passed an amendment to the TVA Act that required TVA's power program to be self-financing from power revenues and proceeds from power program financings. While TVA's power program did not directly receive appropriated funds after it became self-financing, TVA continued to receive appropriations for certain multipurpose and other nonpower mission-related activities as well as for its stewardship activities. TVA has not received any appropriations from Congress for any activities since 1999, and since that time, TVA has funded stewardship program activities primarily with power revenues.

The 1959 amendment to the TVA Act also required TVA, beginning in 1961, to make annual payments to the U.S. Treasury from net power proceeds as a repayment of and as a return on the Power Program Appropriation Investment until an additional \$1.0 billion of the Power Program Appropriation Investment has been repaid. Of this \$1.0 billion amount, \$10 million remained unpaid at September 30, 2013. Once the \$1.0 billion has been repaid, the TVA Act requires TVA to continue making payments to the U.S. Treasury as a return on the remaining Power Program Appropriation Investment. The remaining Power



Program Appropriation Investment will be \$258 million if TVA receives no additional appropriations from Congress for its power program.

The table below summarizes TVA's activities related to appropriated funds.

**Summary of Proprietary Capital Activity**  
At or for the Years Ended September 30

	2013		2012	
	Power Program	Nonpower Programs	Power Program	Nonpower Programs
<b>Appropriation Investment</b>				
Balance at beginning of year	\$ 288	\$ 4,351	\$ 308	\$ 4,351
Return of power program appropriation investment	(20)	—	(20)	—
Balance at end of year	268	4,351	288	4,351
<b>Retained Earnings</b>				
Balance at beginning of year	4,492	(3,731)	4,429	(3,721)
Net income (expense) for year	282	(11)	70	(10)
Return on power program appropriation investment	(7)	—	(7)	—
Balance at end of year	4,767	(3,742)	4,492	(3,731)
Net proprietary capital at September 30	\$ 5,035	\$ 609	\$ 4,780	\$ 620

*Payments to the U.S. Treasury*

TVA paid \$20 million each year for 2013, 2012, and 2011 as a repayment of the Power Program Appropriation Investment. In addition, TVA paid the U.S. Treasury \$7 million in 2013, \$7 million in 2012, and \$7 million in 2011 as a return on the Power Program Appropriation Investment. The amount of the return on the Power Program Appropriation Investment is based on the Power Program Appropriation Investment balance at the beginning of that year and the computed average interest rate payable by the U.S. Treasury on its total marketable public obligations at the same date. The interest rates payable by TVA on the Power Program Appropriation Investment were 2.10 percent, 2.33 percent, and 2.40 percent for 2013, 2012, and 2011, respectively.

*Accumulated Other Comprehensive Income (Loss)*

The items included in Accumulated other comprehensive income (loss) consist of market valuation adjustments for certain derivative instruments. See Note 14.

TVA records exchange rate gains and losses on debt in net income and marks its currency swap assets and liabilities to market through other comprehensive income. TVA had unrealized gains of \$78 million and \$99 million in 2013 and 2012, respectively, on the mark-to-market of currency swaps. TVA then reclassifies an amount out of accumulated other comprehensive income into net income, offsetting the gain/loss from recording the exchange gain/loss on the debt. The amounts reclassified from other comprehensive income into net income resulted in increases to net income of \$1 million and \$35 million in 2013 and 2012, respectively, and a decrease to net income of \$7 million in 2011. These reclassifications, coupled with the recording of the exchange gain/loss on the debt, did not have an impact on net income in 2013, 2012, and 2011. Based on forecasted foreign currency exchange rates, TVA expects to reclassify approximately \$53 million of losses from accumulated other comprehensive income to interest expense within the next twelve months to offset amounts anticipated to be recorded in interest expense related to exchange gain on the debt.

## 17. Other Income (Expense), Net

Income and expenses not related to TVA's operating activities are summarized in the following table:

**Other Income (Expense), Net**  
For the years ended September 30

	2013	2012	2011
Interest income	\$ 23	\$ 21	\$ 8
External services	18	7	19
Gains (losses) on investments	4	5	1
Miscellaneous	(1)	—	2
Total other income (expense), net	\$ 44	\$ 33	\$ 30

## 18. Supplemental Cash Flow Information

Interest paid was \$1.3 billion, \$1.4 billion, and \$1.4 billion in 2013, 2012, and 2011, respectively. These amounts differ from interest expense due to the timing of payments and interest capitalized of \$168 million in 2013, \$171 million in 2012, and \$126 million in 2011 as a part of major capital expenditures.

Construction in progress and Nuclear Fuel expenditures included in Accounts payable and accrued liabilities at September 30, 2013, 2012, and 2011 were \$270 million, \$204 million, and \$307 million, respectively, and are excluded from the Statements of Consolidated Cash Flows for the years ending 2013, 2012, and 2011 as non-cash investing activities. In November 2013, in accordance with the regulated operations property, plant and equipment accounting guidance, the TVA Board approved the treatment of all amounts currently included in Construction in progress related to Bellefonte as a regulatory asset. Bellefonte amounts included in Construction expenditures for 2013, 2012, and 2011 were \$162 million, \$212 million, and \$199 million.

Cash flows from futures contracts, forward contracts, option contracts, and swap contracts that are accounted for as hedges are classified in the same category as the item being hedged or on a basis consistent with the nature of the instrument.

## 19. Benefit Plans

TVA sponsors a qualified defined benefit pension plan that covers most of its full-time employees, a qualified defined contribution plan that covers most of its full-time employees, two unfunded post-retirement health care plans that provide for non-vested contributions toward the cost of eligible retirees' medical coverage, other postemployment benefits such as workers' compensation, and the SERP.

### *Overview of Plans and Benefits*

**Defined Benefit Pension Plan.** TVA sponsors a qualified defined benefit pension plan for most of its full-time annual employees that provides two benefit structures: the Original Benefit Structure and the Cash Balance Benefit Structure. Eligible employees initially hired on or after January 1, 1996, must participate in the Cash Balance Benefit Structure. A summary of the benefits provided by each structure is as follows:

- **Original Benefit Structure.** The pension benefit for a member participating in the Original Benefit Structure is based on the member's creditable service, the member's average monthly salary for the highest three consecutive years of base pay, and a pension factor based on the member's age and years of service, less a Social Security offset.
- **Cash Balance Benefit Structure.** The pension benefit for a member participating in the Cash Balance Benefit Structure is based on credits accumulated in the member's account and the member's age. A member's account receives pay credits equal to six percent of his or her straight-time earnings. The account also receives interest credits at a rate set at the beginning of each calendar year equal to the change in the Consumer Price Index for All Urban Consumers ("CPI-U") plus three percent, with the provision that the rate may not be less than six percent or more than ten percent. The interest crediting rate was six percent for calendar years 2013 and 2012.

There are two investment funds within the defined benefit pension plan: the Fixed Benefit Fund and the Variable Fund. TVA's plan contributions are deposited in the Fixed Benefit Fund. Eligible employees are allowed to make voluntary contributions to either the Variable Fund, the Fixed Fund within the Fixed Benefit Fund, or both. Employee contributions are limited to \$10,000 per year per eligible employee. The pension plan pays interest at the lesser of six percent or the actuarial

assumed rate of return less 0.5 percent to employees in the Fixed Fund. Employee contributions in the Fixed Fund were credited an annual rate of interest of six percent during 2013 and 2012, resulting in credit amounts of \$36 million and \$38 million, respectively. Employee contributions to the Variable Fund are invested in an S&P 500 Stock Index Fund.

The defined benefit pension plan is administered by a separate legal entity, Tennessee Valley Authority Retirement System ("TVARS"), which is governed by its own board of directors (the "TVARS Board"). Upon notification by the TVARS Board of the minimum required and recommended contributions, TVA determines the level of contribution to make to TVARS for the upcoming fiscal year.

In 2009, changes were made to the cost of living adjustment ("COLA") provisions of the defined benefit pension plan. The eligibility for the COLA became age 60 for employees who retire on or after January 1, 2010. In addition, the COLA was subject to caps for calendar years 2010 to 2013. As a result, the COLA for eligible retirees for the four years beginning January 1, 2010 were as follows:

- For CY 2010, the COLA was zero.
- For CY 2011, the COLA was 1.15 percent.
- For CY 2012, the COLA was zero.
- For CY 2013, the COLA was 2.3 percent.

In CY 2014, the COLA benefit of CPI-U, capped at 5.0 percent, is to be restored.

Members of both the Original Benefit Structure and the Cash Balance Benefit Structure can also become eligible for a supplemental pension benefit based on age and years of service at retirement, which is designed to help offset the cost of retiree medical insurance.

*Defined Contribution Plan.* TVARS also administers a qualified defined contribution 401(k) plan to which TVA makes matching contributions of 25 cents on the dollar (up to 1.5 percent of annual pay) for members participating in the Original Benefit Structure and 75 cents on the dollar (up to 4.5 percent of annual pay) for members participating in the Cash Balance Benefit Structure. TVA made matching contributions of approximately \$34 million to the plan during 2013, \$34 million during 2012, and \$31 million during 2011.

*Supplemental Executive Retirement Plan.* TVA has established a SERP for certain executives in critical positions to provide supplemental pension benefits tied to compensation that exceeds limits imposed by IRS rules applicable to the qualified defined benefit pension plan. TVA has historically funded the annual calculated expense.

*Other Post-Retirement Benefits.* TVA sponsors two unfunded post-retirement benefit plans that provide for non-vested contributions toward the cost of certain eligible retirees' medical coverage. The first plan covers only certain retirees and surviving dependents who do not qualify for TVARS benefits, including the supplemental pension benefit. The second plan is designed to place a limit on the out-of-pocket amount certain eligible retirees pay for medical coverage and provides a credit based on years of TVA service and monthly base pension amount, reduced by any TVARS supplemental pension benefits or any TVA contribution from the first plan, described above.

*Other Post-Employment Benefits.* TVA employees injured in work-related incidents are covered by the workers' compensation program for federal employees administered through the Department of Labor by the Office of Workers' Compensation Programs in accordance with the provisions of FECA. FECA provides compensation and medical benefits to federal employees for permanent and temporary disability due to employment-related injury or disease.

#### *Accounting Mechanisms*

*Regulatory Accounting.* TVA has classified all amounts related to unrecognized prior service costs, net actuarial gains or losses, and the funded status as regulatory assets as such amounts are probable of collection in future rates.

*Cost Method.* TVA uses the projected unit credit cost method to determine the service cost and the projected benefit obligation for retirement, termination, and ancillary benefits. Under this method, a "projected accrued benefit" is calculated at the beginning of the year and at the end of the year for each benefit that may be payable in the future. The "projected accrued benefit" is based on the plan's accrual formula and upon service at the beginning or end of the year, but it uses final average compensation, social security benefits, and other relevant factors projected to the age at which the employee is assumed to leave active service. The projected benefit obligation is the actuarial present value of the "projected accrued benefits" at the beginning of the year for employed participants and is the actuarial present value of all benefits for other participants. The service cost is the actuarial present value of the difference between the "projected accrued benefits" at the beginning and end of the year.

*Amortization of Net Gain or Loss.* TVA utilizes the corridor approach for gain/loss amortization. Differences between actuarial assumptions and actual plan results are deferred and amortized into periodic cost only when the accumulated

differences exceed 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If necessary, the excess is amortized over the average remaining service period of active employees.

**Asset Method.** TVA recognizes the impact of asset performance on pension expense over a three-year phase-in period through a “market-related” value of assets calculation. Since the “market-related” value of assets recognizes investment gains and losses over a three-year period, the future value of assets will be impacted as previously deferred gains or losses are recognized. The “market-related” value is used in calculating expected return on plan assets and net gain or loss for pension cost determination.

#### *Obligations and Funded Status*

The changes in plan obligations, assets, and funded status for the years ended September 30, 2013 and 2012, were as follows:

	<b>Obligations and Funded Status</b>			
	For the year ended September 30			
	<b>Pension Benefits</b>		<b>Other Post-Retirement Benefits</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 11,995	\$ 11,255	\$ 811	\$ 800
Service cost	154	139	24	19
Interest cost	468	490	31	35
Plan participants' contributions	29	30	79	80
Amendments	4	3	—	—
Actuarial loss (gain)	(549)	686	(163)	(2)
Net transfers from variable fund/401(k) plan	4	7	—	—
Expenses paid	(6)	(5)	—	—
Benefits paid	(628)	(610)	(126)	(121)
Benefit obligation at end of year	11,471	11,995	656	811
<b>Change in plan assets</b>				
Fair value of net plan assets at beginning of year	7,029	6,546	—	—
Actual return on plan assets	787	1,053	—	—
Plan participants' contributions	29	30	79	80
Net transfers from variable fund/401(k) plan	4	7	—	—
Employer contributions	6	8	47	41
Expenses paid	(6)	(5)	—	—
Benefits paid	(628)	(610)	(126)	(121)
Fair value of net plan assets at end of year	7,221	7,029	—	—
<b>Funded status</b>	<b>\$ (4,250)</b>	<b>\$ (4,966)</b>	<b>\$ (656)</b>	<b>\$ (811)</b>

The pension actuarial gain above for 2013 primarily reflects the impact of the increase in the discount rate from 4.00 percent to 5.00 percent, which decreased the liability by approximately \$1.4 billion. The actuarial gain is offset by the impact of including certain retiree benefits in the pension obligation which were not considered in prior periods, which increased the 2013 liability by \$705 million. The pension actuarial loss for 2012 primarily reflects the impact of the reduction in the discount rate from 4.50 percent to 4.00 percent, which increased the liability by approximately \$683 million.

The other post-retirement actuarial gain for 2013 primarily reflects the impact of the increase in the discount rate from 4.00 percent to 5.05 percent, which decreased the liability by \$93 million. Additional gains were due to demographic experience related to per capita costs, contributions, participation rates, and changes in plan provisions, which decreased the liability by \$43 million. Changes in the adjustment of the impact of the excise tax assumption decreased the liability by \$33 million. These decreases in the post-retirement liability were slightly offset by the change in the COLA and mortality assumptions.

The other post-retirement actuarial gain for 2012 is primarily due to demographic experience related to per capita costs, contributions, and a slight reduction in the participation rate from 90 percent to 85 percent. These gains were offset by the increase in the health care cost trend rate from 8.00 percent to 8.50 percent and the reduction of the discount rate from 4.50 percent to 4.00 percent, which increased the post-retirement obligation by \$46 million and \$49 million, respectively. The accumulated post-retirement benefit obligation increased by \$11 million from 2011 to 2012.

Amounts related to these benefit plans recognized on TVA's consolidated balance sheets consist of regulatory assets that have not been recognized as components of net periodic benefit cost at September 30, 2013 and 2012, and the funded status of TVA's benefit plans, which are included in Accounts payable and accrued liabilities and Post-retirement and post-employment benefit obligations:

**Amounts Recognized on TVA's Consolidated Balance Sheets**  
At September 30

	<b>Pension Benefits</b>		<b>Other Post-Retirement Benefits</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Regulatory assets	\$ 3,910	\$ 5,168	\$ 166	\$ 349
Accounts payable and accrued liabilities	(5)	(5)	(39)	(37)
Pension and post-retirement benefit obligations <sup>(1)</sup>	(4,245)	(4,961)	(617)	(774)

Note

(1) Table above excludes \$486 million and \$544 million of post-employment benefit costs that are recorded in Post-retirement and post-employment benefit obligations on the Consolidated Balance Sheets at September 30, 2013 and 2012, respectively.

Unrecognized amounts included in regulatory assets yet to be recognized as components of accrued benefit cost at September 30 consisted of:

**Postretirement Benefit Costs Deferred as  
Regulatory Assets**  
At September 30

	<b>Pension Benefits</b>		<b>Other Post-Retirement Benefits</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Unrecognized prior service cost (credit)	\$ (203)	\$ (229)	\$ (45)	\$ (51)
Unrecognized net loss	4,113	5,397	211	400
Total regulatory assets	\$ 3,910	\$ 5,168	\$ 166	\$ 349

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan at September 30, 2013, and 2012, were as follows:

**Projected Benefit Obligations and Accumulated Benefit Obligations in Excess of Plan Assets**  
At September 30

	<b>2013</b>	<b>2012</b>
Projected benefit obligation	\$ 11,471	\$ 11,955
Accumulated benefit obligation	11,216	11,680
Fair value of net plan assets	7,221	7,029

The components of net periodic benefit cost and other amounts recognized as changes in regulatory assets for the years ended September 30, 2013, and 2012, were as follows:

**Components of Net Periodic Benefit Cost**  
For the years ended September 30

	Pension Benefits			Other Post-Retirement Benefits		
	2013	2012	2011	2013	2012	2011
Service cost	\$ 154	\$ 139	\$ 120	\$ 24	\$ 19	\$ 13
Interest cost	468	490	502	31	35	32
Expected return on plan assets	(428)	(437)	(488)	—	—	—
Amortization of prior service cost	(22)	(23)	(23)	(6)	(6)	(6)
Recognized net actuarial loss	377	361	282	25	29	22
Net periodic benefit cost as actuarially determined	549	530	393	74	77	61
Amount charged (capitalized) due to actions of regulator	—	—	11	—	—	—
Total net periodic benefit cost recognized	\$ 549	\$ 530	\$ 404	\$ 74	\$ 77	\$ 61

The amounts in the regulatory asset that are expected to be recognized as components of net periodic benefit cost during the next fiscal year are as follows:

**Expected Amortization of Regulatory Assets in 2014**  
At September 30, 2013

	Pension Benefits	Other Post-Retirement Benefits	Total
Prior service cost (credit)	\$ (21)	\$ (6)	\$ (27)
Net actuarial loss	278	11	289

*Plan Assumptions*

TVA's reported costs of providing the plan benefits are impacted by numerous factors including the provisions of the plans, changing employee demographics, and various assumptions, the most significant of which are noted below.

**Actuarial Assumptions**  
At September 30

	Pension Benefits		Other Post-Retirement Benefits	
	2013	2012	2013	2012
<b>Assumptions utilized to determine benefit obligations at September 30</b>				
Discount rate	5.00%	4.00%	5.05%	4.00%
Rate of compensation increase	5.72%	4.44%	N/A	N/A
Initial health care cost trend rate	N/A	N/A	8.00%	8.50%
Ultimate health care cost trend rate	N/A	N/A	5.00%	5.00%
Ultimate trend rate is reached in year beginning	N/A	N/A	2019	2019
<b>Assumptions utilized to determine net periodic benefit cost for the years ended September 30</b>				
Discount rate	4.00%	4.50%	4.00%	4.50%
Expected return on plan assets	7.25%	7.25%	N/A	N/A
Rate of compensation increase	4.44%	4.43%	N/A	N/A
Initial health care cost trend rate	N/A	N/A	8.50%	8.00%
Ultimate health care cost trend rate	N/A	N/A	5.00%	5.00%
Ultimate trend rate is reached in year beginning	N/A	N/A	2019	2017

*Discount Rate.* In selecting the assumed discount rate, TVA reviews market yields on high-quality corporate debt and long-term obligations of the U.S. Treasury and endeavors to match, through the use of a hypothetical bond portfolio, instrument maturities with the maturities of its pension obligations in accordance with the prevailing accounting standards. The selected bond portfolio is derived from a universe of high quality corporate bonds of Aa-rated quality or higher. After the bond portfolio is selected, a single interest rate is determined that equates the present value of the plan's projected benefit payments discounted at this rate with the market value of the bonds selected. Based on recent market trends, TVA increased its discount rate used to determine the pension benefit obligation and other post-retirement obligation from 4.00 percent at the end of 2012 for both obligations to 5.00 percent and 5.05 percent, respectively, at the end of 2013. TVA had decreased its discount rate from 4.50 percent at the end of 2011 to 4.00 percent at the end of 2012 for both pension and other post-retirement obligations. The discount rate assumptions used to determine the obligations at year-end are used to determine the net periodic benefit costs for the following year.

*Rate of Return.* In determining its expected long-term rate of return on pension plan assets, TVA uses a process that incorporates actual historical asset class returns and an assessment of expected future performance and takes into consideration external actuarial advice and asset class factors. Changes in the expected return rates are generally based on annual studies performed by third party professional investment consultants. Based on the results from annual studies for 2013, 2012, and 2011, TVA adjusted the expected return on plan assets rate used to develop the net periodic pension benefit cost for 2013, 2012, and 2011 to 7.25 percent, 7.25 percent, and 7.50 percent, respectively. Asset allocations are periodically updated using the pension plan asset/liability studies, and are part of the determination of the estimates of long-term rates of return. The expected rate of return had been reduced in 2011 based upon the annual study performed and a change of investment allocation policies. Investment allocation changes in 2010 shifted a portion of equities to fixed income, and in September 2011, the TVARS Board approved a long-term investment plan which contains a dynamic de-risking strategy that allocates investments to assets that better match the liability, such as long duration fixed-income securities over time as funding status targets are met. In September 2013, the TVARS Board approved a new initial asset allocation policy that includes additional asset class diversification and maintains the long-term expected return of 7.25 percent (see *Plan Investments* below). The actual rate of return for the years ended September 30, 2013 and 2012 were 11.69 percent and 16.81 percent, respectively.

*Compensation Increases.* Assumptions related to compensation increases are based on the results obtained from an actual company experience study performed during the most recent five years for plan participants. TVA obtained an updated study in 2013 and determined that future compensation would likely increase at rates between 3.50 percent and 13.00 percent per year, depending upon the employee's age. Based upon the current active participants, the average assumed compensation increase used to determine benefit obligations for 2013 and 2012 was 5.72 percent and 4.44 percent, respectively.

*Mortality.* Mortality assumptions are based on the results obtained from a recent actual company experience study performed which included retirees as well as other plan participants. TVA obtained an updated study in 2013, determining an improvement in TVA's mortality experience. Accordingly, TVA adjusted the projection period for the RP-2000 Mortality Tables for males and females projected to 2022 using scale AA at September 30, 2013. At September 30, 2012 and 2011, the projection period for the RP 2000 Mortality Tables for males and females was projected to 2013 using scale AA.

*Health Care Cost Trends.* TVA reviews actual recent cost trends and projected future trends in establishing health care cost trend rates. As of September 30, 2013 and 2012, the medical care trend rates used to determine the post-retirement benefit obligations were 8.00 percent and 8.50 percent, respectively. TVA increased the rate in 2012 based upon exhibited annual increases in costs per covered life due primarily to changes in inflation, utilization, and recent healthcare regulations. The rate is assumed to gradually decrease each successive year until it reaches a 5.00 percent annual increase in health care costs in the year beginning October 1, 2019, and beyond. The assumed health care cost trend rate used to determine the post-retirement net periodic benefit cost was 8.50 percent for 2013, 8.00 percent for 2012, and 8.00 percent for 2011.

*Cost of Living Adjustment.* COLAs are an increase in the benefits for eligible retirees to help maintain the purchasing power of benefits as consumer prices increase. Eligible retirees may receive a COLA in January following any year in which the 12-month average CPI-U exceeded by as much as one percent the 12-month average of the CPI-U for the preceding year on the base pension portion of the monthly pension benefit. The minimum COLA is one percent and the maximum is five percent. The COLA was temporarily reduced for a four-year period beginning January 1, 2010 for current retirees, and the eligibility for the COLA was changed to age 60 from attained age 55 for employees retiring on or after January 1, 2010. The COLA assumption has been 2.50 percent since 2009; however, due to the Federal Reserve System's long-term monetary policy and the market-based measure of inflation expectations that inflation will remain below two percent into 2015, TVA adjusted the COLA assumption at September 30, 2013 to 1.6 percent with an assumed gradual increase each successive year until it reaches 2.5 percent in 2019.



*Sensitivity of Costs to Changes in Assumptions.* The following chart reflects the sensitivity of pension cost to changes in certain actuarial assumptions:

**Sensitivity to Certain Changes in Pension Assumptions**  
At September 30, 2013

Actuarial Assumption	Change in Assumption	Impact on 2013 Pension Cost	Impact on 2013 Projected Benefit Obligation
Discount rate	(0.25)	\$ 20	\$ 335
Rate of return on plan assets	(0.25)	15	N/A

Each fluctuation above assumes that the other components of the calculation are held constant and excludes any impact for unamortized actuarial gains or losses.

The following chart reflects the sensitivity of post-retirement benefit cost to changes in the health care trend rate:

**Sensitivity to Changes in Assumed Health Care Cost Trend Rates**  
At September 30, 2013

	1% Increase	1% Decrease
Effect on total of service and interest cost components for the year	\$ 8	\$ (8)
Effect on end-of-year accumulated post-retirement benefit obligation	87	(89)

Each fluctuation above assumes that the other components of the calculation are held constant and excludes any impact for unamortized actuarial gains or losses.

*Plan Investments*

The qualified defined benefit pension plan (the "Plan"), which includes the Original Benefit Structure and the Cash Balance Benefit Structure, is the only plan that includes qualified plan assets. TVARS has a long-term investment plan which contains a dynamic de-risking strategy that allocates investments to assets that better match the liability, such as long duration fixed income securities, over time as funding status targets are met. In September 2013, the TVARS Board approved a new initial asset allocation policy. The approved investment allocation policy has targets of 47 percent equity including U.S., non-U.S., private, and low volatility global public equity investments, 28 percent fixed income securities, 15 percent public real assets including Treasury Inflation-Protected Securities ("TIPS"), commodities, and Master Limited Partnerships ("MLPs"), and 10 percent private real assets. The qualified pension plan assets are invested across global public equity, private equity, cash, core fixed income, long-term core fixed income, investment grade credit, high yield fixed income, global TIPS, MLPs, and private real assets. The TVARS asset allocation policy includes permissible deviations from these target allocations. The TVARS Board can take action, as appropriate, to rebalance the system's assets consistent with the asset allocation policy. At September 30, 2013 and 2012, the asset holdings of the system included the following:

**Asset Holdings of TVARS**  
At September 30

Asset Category	Target Allocation	Plan Assets at September 30	
		2013	2012
Global equity	32%	48%	47%
Private equity	10%	6%	6%
Low volatility global public equity	5%	—%	—%
Cash	2%	2%	1%
Core fixed income	5%	5%	8%
Long-term core fixed income	5%	4%	4%
Investment grade credit	6%	6%	9%
International emerging markets fixed income	5%	—%	—%
High yield fixed income	5%	10%	10%
Global TIPS	5%	7%	9%
Private real assets	10%	7%	6%
Commodities	5%	—%	—%
MLPs	5%	5%	—%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

# Fair Value Measurements

The following table provides the fair value measurement amounts for assets held by TVARS at September 30, 2013:

TVA Retirement System At September 30, 2013				
	Total <sup>(1) (2)</sup>	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Equity securities	\$ 1,689	\$ 1,686	\$ —	\$ 3
Preferred securities	22	17	—	5
Debt securities				
Corporate debt securities	1,352	—	1,334	18
Residential mortgage-backed securities	355	—	352	3
Debt securities issued by U.S. Treasury and other U.S. government agencies	113	113	—	—
Debt securities issued by foreign governments	31	—	30	1
Asset-backed securities	120	—	110	10
Debt securities issued by state/local governments	36	—	36	—
Commercial mortgage-backed securities	21	—	18	3
Commingled Funds				
Equity	1,182	—	1,182	—
Debt	786	—	786	—
Blended	263	—	263	—
Institutional mutual funds	26	26	—	—
Cash equivalents and other short-term investments	395	1	394	—
Private equity funds	528	—	—	528
Private real estate funds	382	—	297	85
Treasury bills, U.S. Government notes, and securities held as futures and other derivative collateral	39	8	31	—
Securities lending commingled funds	3	—	3	—
Derivatives				
Foreign currency forward receivable	594	—	594	—
Purchased options	6	—	6	—
Interest rate swaps	4	—	4	—
Futures	4	4	—	—
<b>Total Assets</b>	<b>\$ 7,951</b>	<b>\$ 1,855</b>	<b>\$ 5,440</b>	<b>\$ 656</b>
<b>Liabilities</b>				
Derivatives				
Foreign currency forward payable	\$ 594	\$ —	\$ 594	\$ —
Credit default swaps	1	—	1	—
Written option obligations	1	—	1	—
<b>Total Liabilities</b>	<b>\$ 596</b>	<b>\$ —</b>	<b>\$ 596</b>	<b>\$ —</b>

Notes

(1) Excludes approximately \$131 million in net payables associated with security purchases and sales and various other payables.

(2) Excludes a \$3 million payable for collateral on loaned securities in connection with TVARS's participation in securities lending programs.

The following table provides the fair value measurement amounts for assets held by TVARS at September 30, 2012:

TVA Retirement System At September 30, 2012				
	Total <sup>(1) (2)</sup>	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Equity securities	\$ 1,294	\$ 1,293	\$ —	\$ 1
Preferred securities	26	18	3	5
Debt securities				
Corporate debt securities	1,601	—	1,589	12
Residential mortgage-backed securities	390	—	386	4
Debt securities issued by U.S. Treasury and other U.S. government agencies	184	182	2	—
Debt securities issued by foreign governments	46	—	43	3
Asset-backed securities	109	—	95	14
Debt securities issued by state/local governments	46	—	41	5
Commercial mortgage-backed securities	28	—	28	—
Commingled Funds				
Equity	1,129	—	1,129	—
Debt	802	—	802	—
Blended	275	—	275	—
Institutional mutual funds	32	32	—	—
Cash equivalents and other short-term investments	311	—	311	—
Private equity funds	519	—	—	519
Private real estate funds	340	—	270	70
Treasury bills, U.S. Government notes, and securities held as futures and other derivative collateral	37	5	32	—
Securities lending commingled funds	3	—	3	—
Derivatives				
Foreign currency forward receivable	487	—	487	—
Purchased options	7	—	7	—
<b>Total Assets</b>	<b>\$ 7,666</b>	<b>\$ 1,530</b>	<b>\$ 5,503</b>	<b>\$ 633</b>
<b>Liabilities</b>				
Derivatives				
Foreign currency forward payable	\$ 488	\$ —	\$ 488	\$ —
Futures	3	3	—	—
Credit default swaps	1	—	1	—
Written option obligations	1	—	1	—
<b>Total Liabilities</b>	<b>\$ 493</b>	<b>\$ 3</b>	<b>\$ 490</b>	<b>\$ —</b>

Notes

(1) Excludes approximately \$141 million in net payables associated with security purchases and sales and various other payables.

(2) Excludes a \$3 million payable for collateral on loaned securities in connection with TVARS's participation in securities lending programs.

The following table provides a reconciliation of beginning and ending balances of pension plan assets measured at fair value on a recurring basis where the determination of fair value includes significant unobservable inputs (Level 3):

**Fair Value Measurements Using Significant Unobservable Inputs**  
For the years ended September 30

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>
Balance at October 1, 2011	\$ 813
Net realized/unrealized gains (losses)	85
Purchases, sales, issuances, and settlements (net)	(17)
Transfers in and/or out of Level 3 <sup>(1)</sup>	(248)
Balance at September 30, 2012	633
Net realized/unrealized gains (losses)	45
Purchases, sales, issuances, and settlements (net)	(21)
Transfers in and/or out of Level 3	(1)
Balance at September 30, 2013	\$ 656

**Note**

(1) Transfers in and out of Level 3 in 2012 were primarily due to a change in TVA's policy to classify investments with redemption restriction periods of three months or less as Level 2 and investments with more restrictive redemption terms as Level 3.

The following descriptions of the valuation methods and assumptions used by the Plan to estimate the fair value of investments apply to investments held directly by the Plan. Third-party pricing vendors provide valuations for investments held by the Plan in most instances. In instances where pricing is determined to be based on unobservable inputs, a Level 3 classification has been assigned.

Vendor-provided prices for the Plan's investments are subjected to automated tolerance checks by the trustee to identify and avoid, where possible, the use of inaccurate prices. Any questionable prices identified are reported to the vendor that provided the price. If the prices are validated, the primary pricing source is used. If not, a secondary source price that has passed the applicable tolerance check is used (or queried with the vendor if it is out of tolerance), resulting in either the use of a secondary price, where validated, or the last reported default price, as in the case of a missing price. For monthly valued accounts, where secondary price sources are available, an automated inter-source tolerance report identifies prices with an inter-vendor pricing variance of over two percent at an asset class level. For daily valued accounts, each security is assigned, where possible, an indicative major market index, against which daily price movements are automatically compared. Tolerance thresholds are established by asset class. Prices found to be outside of the applicable tolerance threshold are reported and queried with vendors as described above.

**Equities.** Investment securities, including common stock, mutual funds, and MLPs, listed on either a national or foreign securities exchange or traded in the over-the-counter National Market System, are generally valued each business day at the official closing price (typically the last reported sale price) on the exchange on which the security is primarily traded. If there are no current day sales, the securities are valued at their last quoted bid price. Equities priced by an exchange in an active market are classified as Level 1.

**Preferred Securities.** Preferred securities are valued at their quoted market price (Level 1 inputs). Most preferred securities classified as Level 2 have been priced by dealer quote. Others may have been evaluated using theoretical assumptions based on observable market data, such as yields on bonds from the same issuer or industry.

**Corporate Debt Securities.** Corporate bonds are valued based upon recent bid prices or the average of recent bid and asked prices when available (Level 2 inputs) and, if not available, they are valued through matrix pricing models developed by sources considered by management to be reliable. Matrix pricing, which is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

**Residential Mortgage-Backed Securities.** Residential mortgage-backed securities consist of collateralized mortgage obligations ("CMOs") and U.S. pass-through security pools related to government-sponsored enterprises ("GSE"). CMO pricing is typically based on either a volatility-driven, multidimensional, single-cash-flow stream model or an option-adjusted spread model. These models incorporate available market data such as trade information, dealer quotes, market color, spreads, bids,



and offers. Pricing for GSE securities, including the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Government National Mortgage Association, is typically based on quotes from the To Be Announced ("TBA") market, which is highly liquid with multiple electronic platforms that facilitate the execution of trading between investors and broker/dealers. Prices from the TBA market are then compared against other live data feeds as well as input obtained directly from the dealer community. A tolerance check, adjusted dynamically in response to market conditions, is applied to check for consistency across the trading platforms and dealer quotes. If discrepancies are identified, the data is reviewed to resolve the differences and determine an appropriate evaluation. Residential mortgage-backed securities are considered to be priced using Level 2 inputs because of the nature of their market-data-based pricing models.

*U.S. Treasury and Agency Securities.* For U.S. Treasury securities, fair values reflect the closing price reported in the active market in which the security is traded (Level 1 inputs). Agency securities are typically priced using evaluated pricing applications and models incorporating U.S. Treasury yield curves. Agency securities are classified as Level 2 because of the nature of their market-data-based pricing models.

*Debt Securities Issued by Foreign Governments.* These include foreign government bonds and foreign government inflation-linked securities. They are typically priced based on proprietary discounted cash flow models, incorporating option-adjusted spread features as appropriate. Debt securities issued by foreign governments are classified as Level 2 because of the nature of their market-data-based pricing models.

*Asset-Backed Securities.* Asset-backed securities are typically priced based on a single cash-flow stream model, which incorporates available market data such as trade information, dealer quotes, market color, spreads, bids, and offers. Because of the market-data-based nature of such pricing models, asset-backed securities are classified as Level 2.

*Debt Securities Issued by State and Local Governments.* Debt securities issued by state and local governments are typically priced using market-data-based pricing models, and are therefore classified as Level 2. These pricing models incorporate market data such as quotes, trading levels, spread relationships, and yield curves, as applicable.

*Commercial Mortgage-Backed Securities.* Commercial mortgage-backed securities are typically priced based on a single-cash-flow stream model, which incorporates available market data such as trade information, dealer quotes, market color, spreads, bids, and offers. Because of the market-data-based nature of such pricing models, commercial mortgage-backed securities are classified as Level 2.

*Private Equity Funds.* Private equity limited partnerships and other similar alternative investments are reported at fair value, which is derived by independent appraisals or investment management judgment. The inputs used by the General Partners in estimating the fair value of the limited partnerships include the original transaction prices, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investments or comparable issues, subsequent rounds of financing, recapitalizations, and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. These investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discounts estimated by the General Partners in the absence of market information. Due to the lack of observable inputs, the determination of the fair value by the General Partners may differ materially from the value ultimately realized by the Partnership.

The private equity managers recognize realized gains or losses when they receive income or dispose of an investment. The net realized capital gains or losses, which include management fees and fund expenses, are allocated to the partners in proportion to their commitments. The fair values of the private equity funds are estimated utilizing the net asset values provided by the fund managers and are classified as Level 3.

The private equity limited partnerships typically make longer-term investments in private companies and seek to obtain financial returns through long-term appreciation based on corporate stewardship, improved operating processes, and financial restructuring, which may involve a merger or acquisition. Significant investment strategies include venture capital; buyout; mezzanine, or subordinated, debt; restructuring, or distressed, debt; and special situations. Venture capital partnerships consist of two main groupings. Early-stage venture capital partnerships invest in businesses still in the conceptual stage where products may not be fully developed and where revenues and/or profits may be several years away. Later-stage venture capital partnerships invest in more mature companies in need of growth or expansion capital. Buyout partnerships provide the equity capital for acquisition transactions either from a private seller or the public, which may represent the purchase of the entire company or a refinancing or recapitalization transaction where equity is invested. Mezzanine or subordinated debt partnerships provide the intermediate capital between equity and senior debt in a buyout or refinancing transaction and typically own a security in the company that carries current interest payments as well as a potential equity interest in the company. Restructuring or distressed debt partnerships purchase opportunities generated by overleveraged or poorly managed companies. Special situation partnerships include organizations with a specific industry focus not covered by the other private equity subclasses or unique opportunities that fall outside the regular subclasses.

The private equity funds have no investment withdrawal provisions prior to the termination of the partnerships. Partnerships generally continue 10 to 12 years after the inception of the fund. The partnerships are subject to three to four one-

year extensions at the discretion of the General Partner. Partnerships can generally be dissolved by an 80 percent vote in interest by all limited partners, with some funds requiring the occurrence of a specific event.

*Private Real Estate Investments.* The Plan's ownership in private real estate investments consists of a pro rata share and not a direct ownership of the underlying investments. The fair values of the Plan's private real estate investments are estimated utilizing net asset values provided by the investment managers. The methodologies utilized by the investment managers to calculate their net asset values are summarized as follows:

The Plan is invested in limited partnerships that invest in real estate securities, real estate partnerships, and direct real estate properties. This includes investments in office, multifamily, industrial, and retail investment properties in the U.S. and international markets. The investment strategy focuses on distressed, opportunistic, and value-added opportunities. Partnership investments also include mortgage and/or real estate-related fixed-income instruments and related securities. Investments are diversified by property type and geographic location.

The Plan is invested in a commingled fund that develops, renovates, and re-leases real estate properties to create value. Investments are predominantly in top tier real estate markets that offer deep liquidity. Property types include residential, office, industrial, hotel, retail, and land. Properties are diversified by geographic region within the U.S. domestic market. The Plan is invested in a second commingled fund that invests primarily in core, well-leased, operating real estate properties with a focus on income generation. Investments are diversified by property type with a focus on office, industrial, apartment, and retail. Properties are diversified within the U.S. with an overweight to major market and coastal regions.

Fair value estimates of the underlying investments in these limited partnerships and commingled fund investments are primarily based upon property appraisal reports prepared by independent real estate appraisers within a reasonable amount of time following acquisition of the real estate and no less frequently than annually thereafter. The appraisals are based on one or a combination of three methodologies: cost of reproduction analysis, discounted cash flow analysis, and sales comparison analysis. Pricing for certain investments in mortgage-backed and asset-backed securities is typically based on models that incorporate observable inputs.

The Plan is invested in a private real estate investment trust formed to make direct or indirect investments in commercial timberland properties. Pricing for these types of investments is based on comprehensive appraisals that are conducted shortly after initial purchase of properties and at three-year intervals thereafter. All appraisals are conducted by third-party timberland appraisal firms. Appraisals are based on either a sales comparison analysis or a discounted cash flow analysis.

The fair value hierarchy level classifications for the Plan's real estate investments are determined based on redemption terms. Investments which cannot be redeemed at the measurement date, but which can be redeemed at a future date, are evaluated based on the length of time until the investment will become redeemable in determining whether the investment should be reported in either Level 2 or Level 3 of the fair value hierarchy. Generally, investments which allow redemptions quarterly or more frequently are classified as Level 2, and investments with more restrictive redemption terms are classified as Level 3.

*Derivatives.* The Plan invests in a variety of derivative instruments. The valuation methodologies for these instruments are as follows:

Futures. The Plan enters into futures. The futures contracts are listed on either a national or foreign securities exchange and generally valued each business day at the official closing price (typically the last reported sales price) on the exchange on which the security is primarily traded. The pricing is performed by third-party vendors. Since futures are priced by an exchange in an active market, they are classified as Level 1.

Options. The Plan enters into purchased and written options. Options that are listed on either a national or foreign securities exchange are generally valued each business day at the official closing price (typically the last reported sales price) on the exchange on which the security is primarily traded. These options are classified as Level 1. Options traded over the counter and not on exchanges are priced by third-party vendors and are classified as Level 2.

Swaps. The Plan enters into various types of swaps. Credit default swaps are priced at market using models that consider cash flows, credit curves, recovery rates, and other factors. The pricing is performed by third-party vendors. Interest rate swap contracts are priced at market using forward rates derived from the swap curve, and the pricing is also performed by third-party vendors. Other swaps such as equity index swaps and variance swaps are priced by third-party vendors using market inputs such as spot rates, yield curves, and volatility. The Plan's swaps are generally classified as Level 2 based on the observable nature of their pricing inputs.

Foreign Currency Forwards. The Plan enters into foreign currency forwards. All commitments are marked to market daily at the applicable translation rates, and any resulting unrealized gains or losses are recorded. Foreign currency forwards are priced by third-party vendors and are classified as Level 2.

## Table of Contents

**Commingled Funds.** The Plan invests in commingled funds, which include collective trusts, unit investment trusts, and similar investment funds that predominantly hold debt and/or equity securities as underlying assets. The Plan's ownership consists of a pro rata share and not a direct ownership of an underlying investment. These commingled funds are valued at their closing net asset values (or unit value) per share as reported by the managers of the commingled funds and as supported by the unit prices of actual purchases and sale transactions occurring as of or close to the financial statement date (Level 2 inputs).

The Plan is invested in actively managed debt commingled funds. The actively managed equity funds seek to outperform certain equity benchmarks through a combination of fundamental and technical analysis. Active funds select portfolio positions based upon their research.

The Plan is invested in commingled funds, which invest across multiple asset classes that can be categorized as blended. These funds seek to outperform a passive benchmark through active security selection. The funds invest in securities across equity, fixed income, currency, and commodities. The portfolios employ fundamental, quantitative, and technical analysis.

The Plan's investments in equity, debt, and blended commingled funds can generally be redeemed at any time upon notification of the investment managers, with required notice periods varying from same-day to monthly. These investments do not have unfunded commitments.

**Institutional Mutual Funds.** Participation units of institutional mutual funds are stated at their quoted redemption values as reported by the investment managers based on their net asset values, which reflect the fair values of the underlying investments. These funds are traded at published net asset values in an active market (Level 1 inputs).

**Cash Equivalents and Other Short-Term Investments.** Cash equivalents and other short-term investments represent securities with maturities of less than twelve months. Cash equivalents are highly liquid securities and consists of certificates of deposit and commercial paper. The carrying amounts of these instruments approximate their fair values and each are considered a Level 1 valuation classification. Other short-term investments consists of U.S. Treasury securities, residential mortgage-backed securities, corporate bonds, and asset-backed securities. U.S. Treasury securities are valued using the closing price reported in the active market in which the security is traded and is considered a Level 1 valuation classification. Residential mortgage-backed securities and asset-backed securities are typically valued with pricing models using observable market data such as trade information, dealer quotes, market color, spreads, bids, and offers. Accordingly, these securities are considered Level 2 classifications. Corporate bonds are valued based upon recent bid prices or the average of recent bid and asked prices, or are valued through matrix pricing models using market information for similar benchmark quoted securities, and are also considered Level 2 classifications.

The valuation methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

### *Cash Flows*

**Estimated Future Benefit Payments.** The following table sets forth the estimated future benefit payments under the benefit plans.

**Estimated Future Benefits Payments**  
At September 30, 2013

	<b>Pension Benefits</b>	<b>Other Post- Retirement Benefits</b>
2014	\$ 720	\$ 40
2015	719	42
2016	727	43
2017	731	44
2018	736	45
2019 - 2023	3,773	210

**Contributions.** In 2013, TVA made contributions of \$6 million to the SERP and \$47 million to the other post-retirement benefit plans. TVA expects to contribute \$6 million to the SERP and \$40 million to the other post-retirement benefit plans in 2014. In 2009, TVA entered into an agreement with TVARS resulting in TVA contributing \$1.0 billion for 2010 and as an advance on contributions for 2011 through 2013. In 2011, TVA made an additional discretionary contribution to TVARS. TVA plans to contribute \$250 million to the defined pension plan in 2014.

## Other Post-Employment Benefits

Post-employment benefit cost estimates are revised to properly reflect changes in actuarial assumptions made at the end of each year. TVA utilizes a discount rate determined by reference to the U.S. Treasury Constant Maturities corresponding to calculated average durations of TVA's future estimated post-employment claims payments. The use of a 2.64 percent discount rate resulted in the recognition of approximately \$(8) million in expenses in 2013 and an unpaid benefit obligation of about \$535 million at September 30, 2013. The 2013 current portion of the obligation is \$49 million and is recorded in Accounts payable and accrued liabilities. The 2013 long-term portion of \$486 million is recorded in Post-retirement and post-employment benefit obligations. TVA utilized discount rates of 1.65 percent and 1.92 percent in 2012 and 2011, respectively. The use of these discount rates resulted in expense and unpaid benefit obligations of \$52 million and \$597 million, respectively, for 2012 and expense and unpaid benefit obligations of \$81 million and \$596 million, respectively, for 2011. The 2012 current portion of the obligation is \$53 million and is recorded in Accounts payable and accrued liabilities. The 2012 long-term portion of \$544 million is recorded in Post-retirement and post-employment benefit obligations. The amounts in the current portion of the obligation represent the total unpaid losses and administrative fees for each year that are due one month following TVA's fiscal year end.

The decrease in the unpaid benefit obligation and expense from 2012 to 2013 is due primarily to the increase in the discount rate from 1.65 percent in 2012 to 2.64 percent in 2013 resulting in a decrease of \$45 million. Decreases in loss experiences and other changes in demographic experiences also decreased the unpaid benefit obligation and expense to a lesser degree.

While the 2012 discount rate increased the expense for 2012, the overall expense decreased for 2012 in comparison to 2011. The decrease in expense is primarily due to the improvement in TVA's loss experience and the 2012 discount rate dropping only 27 basis points in comparison to the 2011 discount rate dropping 61 basis points from the 2010 discount rate.

## 20. Commitments and Contingencies

### Commitments

At September 30, 2013, the amounts of contractual cash commitments maturing in each of the next five years and beyond are shown below:

#### Commitments and Contingencies Payments due in the year ending September 30

	2014	2015	2016	2017	2018	Thereafter	Total
Debt <sup>(1)</sup>	\$ 2,464	\$ 1,032	\$ 32	\$ 1,555	\$ 1,682	\$ 18,056	\$ 24,821
Debt of VIEs	30	32	33	35	36	1,175	1,341
Membership interests of variable interest entity subject to mandatory redemption	2	2	2	2	2	30	40
Lease obligations							
Capital	5	5	5	5	5	36	61
Non-cancelable operating	37	30	29	28	27	87	238
Purchase obligations							
Power	219	204	219	231	230	3,336	4,439
Fuel	1,419	1,176	794	442	498	2,002	6,331
Other	255	210	184	182	502	1,221	2,554
Payments on other financings	100	104	104	104	104	401	917
<b>Total</b>	<b>\$ 4,531</b>	<b>\$ 2,795</b>	<b>\$ 1,402</b>	<b>\$ 2,584</b>	<b>\$ 3,086</b>	<b>\$ 26,344</b>	<b>\$ 40,742</b>

**Note**  
(1) Does not include noncash items of foreign currency exchange loss of \$43 million and net discount on sale of Bonds of \$85 million.

In addition to the cash requirements, above, TVA has contractual obligations in the form of revenue discounts related to energy prepayments. See Note 1 — *Energy Prepayment Obligations and Discounts on Sales*.

### Energy Prepayment Obligations

	2014	2015	2016	2017	2018	Thereafter	Total
Energy Prepayment Obligations	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 10	\$ 510

*Debt.* At September 30, 2013, TVA had outstanding discount notes of \$2.4 billion and long-term debt (including current maturities) at varying maturities and interest rates of \$22.4 billion for total outstanding indebtedness of \$24.8 billion. See Note 12.

*Debt of VIEs.* At September 30, 2013, TVA had outstanding long-term debt (including current maturities) attributable to its three VIEs of which it is the primary beneficiary of \$1.3 billion. See Note 8.

*Membership Interests of VIE Subject to Mandatory Redemption.* At September 30, 2013, TVA had outstanding membership interests subject to mandatory redemption (including current portion) of \$40 million issued by one of its VIEs of which it is the primary beneficiary. See Note 8.

*Leases.* TVA leases certain property, plant, and equipment under agreements with terms ranging from one to 80 years. Of the total obligations for TVA's capital leases, \$18 million represents the cost of financing. TVA's rental expense for operating leases was \$71 million in 2013, \$67 million in 2012, and \$77 million in 2011.

*Power Purchase Obligations.* TVA has contracted with various independent power producers and LPCs for additional capability to be made available to TVA. Several of these agreements have contractual minimum payments. In total, these agreements provide 1,621 MW of summer net capability. The remaining terms of the agreements range up to 19 years. TVA incurred \$322 million, \$447 million, and \$713 million of expense under power purchase agreements during 2013, 2012, and 2011, respectively. Certain power purchase obligations are accounted for as capital leases. Costs under TVA's power purchase agreements not accounted for as capital leases are included in TVA's consolidated statements of operations as purchased power expense and are expensed as incurred.

Under federal law, TVA is obligated to purchase power from qualifying facilities, cogenerators, and small power producers. As of September 30, 2013, there was a combined qualifying capacity of 913 MW, from six different suppliers, from which TVA purchased power under this law. TVA's obligations to purchase power from these qualifying facilities are not included in the Commitments and Contingencies table.

TVA, along with others, contracted with the Southeastern Power Administration ("SEPA") to obtain power and energy from eight U.S. Army Corps of Engineers hydroelectric facilities on the Cumberland River system. The agreement with SEPA can be terminated upon three years' notice, but this notice of termination may not become effective prior to June 30, 2017. The contract requires SEPA to provide TVA an annual minimum of 1,500 hours of energy for each megawatt of TVA's 405 MW allocation, and all surplus energy from the Cumberland River system. Because hydroelectric production has been reduced at two of the hydroelectric facilities on the Cumberland River system and because of reductions in the summer stream flow on the Cumberland River, SEPA declared "force majeure" on February 25, 2007. SEPA then instituted an emergency operating plan that, among other things, eliminates SEPA's obligation to provide TVA and other affected customers with a minimum amount of power or energy. It is unclear how long the emergency operating plan will remain in effect. TVA's obligations under its contract with SEPA are not included in the Commitments and Contingencies table.

*Fuel Purchase Obligations.* TVA has approximately \$2.3 billion in long-term fuel purchase commitments ranging in terms of up to 10 years primarily for the purchase and transportation of coal. TVA also has approximately \$4.0 billion of long-term commitments ranging in terms of up to 17 years for the purchase of enriched uranium and fabrication of nuclear fuel assemblies.

*Other Obligations.* Other obligations of \$2.6 billion consist of contracts at September 30, 2013, for goods and services primarily related to capital projects as well as other major recurring operating costs.

### Contingencies

*Nuclear Insurance.* The Price-Anderson Act provides a layered framework of protection to compensate for losses arising from a nuclear event in the United States. For the first layer, all of the NRC nuclear plant licensees, including TVA, purchase \$375 million of nuclear liability insurance from American Nuclear Insurers for each plant with an operating license. Funds for the second layer, the Secondary Financial Program, would come from an assessment of up to \$127 million from the licensees of each of the 104 NRC licensed reactors in the United States. The assessment for any nuclear accident would be limited to \$19 million per year per unit. American Nuclear Insurers, under a contract with the NRC, administers the Secondary Financial Program. With its six licensed units, TVA could be required to pay a maximum of \$764 million per nuclear incident, but it would have to pay no more than \$114 million per incident in any one year. When the contributions of the nuclear plant licensees are added to the insurance proceeds of \$375 million, over \$13.0 billion, including a five percent surcharge for

legal expenses, would be available. Under the Price-Anderson Act, if the first two layers are exhausted, the U.S. Congress is required to take action to provide additional funds to cover the additional losses.

TVA carries property, decommissioning, and decontamination insurance of \$4.6 billion for its licensed nuclear plants, with up to \$2.1 billion available for a loss at any one site, to cover the cost of stabilizing or shutting down a reactor after an accident. Some of this insurance, which is purchased from Nuclear Electric Insurance Limited ("NEIL"), may require the payment of retrospective premiums up to a maximum of approximately \$105 million.

TVA purchases accidental outage (business interruption) insurance for TVA's nuclear sites from NEIL. In the event that an accident covered by this policy takes a nuclear unit offline or keeps a nuclear unit offline, NEIL will pay TVA, after a waiting period, an indemnity (a set dollar amount per week) up to a maximum indemnity of \$490 million per unit. This insurance policy may require the payment of retrospective premiums up to a maximum of approximately \$32 million.

**Decommissioning Costs.** TVA recognizes legal obligations associated with the future retirement of certain tangible long-lived assets related primarily to coal-fired generating plants and nuclear generating plants, hydroelectric generating plants/dams, transmission structures, and other property-related assets.

**Nuclear.** Provision for decommissioning costs of nuclear generating units is based on options prescribed by the NRC procedures to dismantle and decontaminate the facilities to meet the NRC criteria for license termination. At September 30, 2013, the present value of the estimated future decommissioning cost of \$2.4 billion was included in AROs. The actual decommissioning costs may vary from the derived estimates because of, among other things, changes in current assumptions, such as the assumed dates of decommissioning, changes in regulatory requirements, changes in technology, and changes in the cost of labor, materials, and equipment. Utilities that own and operate nuclear plants are required to use different procedures in calculating nuclear decommissioning costs under GAAP than those that are used in calculating nuclear decommissioning costs when reporting to the NRC. The two sets of procedures produce different estimates for the costs of decommissioning primarily because of the difference in the discount rates used to calculate the present value of decommissioning costs.

TVA maintains a NDT to provide funding for the ultimate decommissioning of its nuclear power plants. TVA monitors the value of its NDT and believes that, over the long term and before cessation of nuclear plant operations and commencement of decommissioning activities, adequate funds from investments will be available to support decommissioning. TVA's nuclear power units are currently authorized to operate until 2020-2036, depending on the unit. It may be possible to extend the operating life of some of the units with approval from the NRC. See Note 7 — *Nuclear Decommissioning Costs* and Note 11.

**Non-Nuclear Decommissioning.** The present value of the estimated future non-nuclear decommissioning cost ARO was \$1.1 billion at September 30, 2013. This decommissioning cost estimate involves estimating the amount and timing of future expenditures and making judgments concerning whether or not such costs are considered a legal obligation. Estimating the amount and timing of future expenditures includes, among other things, making projections of the timing and duration of the asset retirement process and how costs will escalate with inflation. The actual decommissioning costs may vary from the derived estimates because of changes in current assumptions, such as the assumed dates of decommissioning, changes in regulatory requirements, changes in technology, and changes in the cost of labor, materials, and equipment.

TVA maintains an ART to help fund the ultimate decommissioning of its power assets. Estimates involved in determining if additional funding will be made to the ART include inflation rate and rate of return projections on the fund investments. See Note 7 — *Non-Nuclear Decommissioning Costs* and Note 11.

**Environmental Matters.** TVA's power generation activities, like those across the utility industry and in other industrial sectors, are subject to most federal, state, and local environmental laws and regulations. Major areas of regulation affecting TVA's activities include air quality control, water quality control, and management and disposal of solid and hazardous wastes. In the future, regulations in all of these areas are expected to become more stringent. Regulations are also expected to apply to new emissions and sources, with a particular emphasis on climate change, renewable generation, and energy efficiency.

TVA has incurred, and expects to continue to incur, substantial capital and operating and maintenance costs to comply with evolving environmental requirements primarily associated with, but not limited to, the operation of TVA's coal-fired generating units. It is virtually certain that environmental requirements placed on the operation of TVA's coal-fired and other generating units will continue to become more restrictive and potentially apply to new emissions and sources. Litigation over emissions or discharges from coal-fired generating units is also occurring, including litigation against TVA. Failure to comply with environmental and safety laws can result in TVA being subject to enforcement actions, which can lead to the imposition of significant civil liability, including fines and penalties, criminal sanctions, and/or the shutting down of non-compliant facilities.

From 1977 to 2013, TVA spent approximately \$5.6 billion to reduce emissions from its power plants, including \$182 million, \$38 million, and \$34 million in 2013, 2012, and 2011, respectively. TVA estimates that compliance with future Clean Air Act ("CAA") requirements (excluding greenhouse gas ("GHG") requirements) could lead to additional costs of \$1.3 billion from 2014 to 2022. There could be additional material costs if reductions of GHGs, including carbon dioxide ("CO<sub>2</sub>"), are mandated



under the CAA or by legislation or regulation, or if future legislative, regulatory, or judicial actions lead to more stringent emission reduction requirements for conventional pollutants. These costs cannot reasonably be predicted at this time because of the uncertainty of such potential actions.

Liability for releases and cleanup of hazardous substances is primarily regulated by the federal Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), and other federal and parallel state statutes. In a manner similar to many other industries and power systems, TVA has generated or used hazardous substances over the years.

TVA is aware of alleged hazardous-substance releases at certain non-TVA areas for which it may have some liability. Although there is little or no known evidence that TVA contributed any significant quantity of hazardous substances to most of the non-TVA areas, there is evidence that TVA sent some materials to Ward Transformer, a non-TVA site in Raleigh, North Carolina. The Ward Transformer site is contaminated by PCBs from electrical equipment. There is documentation showing that TVA sent a limited amount of electrical equipment containing PCBs to the site in 1974. A working group of potentially responsible parties (the "PRP Work Group") is cleaning up on-site contamination in accordance with an agreement with the EPA. The cleanup effort has been divided into four areas: two phases of soil cleanup; cleanup of off-site contamination in the downstream drainage basin; and supplemental groundwater remediation. The cost estimate for the first phase of soil cleanup is approximately \$55 million. The cost estimate for the second phase of soil cleanup is \$10 million. Estimates for cleanup of off-site contamination in the downstream drainage basin range from \$6 million to \$25 million. There are no reliable estimates for the supplemental groundwater remediation phase. On April 30, 2009, the PRP Work Group filed an amended complaint in federal court against potentially responsible parties who had not yet settled, including TVA, regarding the two phases of soil cleanup. TVA settled this lawsuit and its potential liability for the two phases of soil cleanup for \$300 thousand and has been dismissed as a party. Although the settlement with respect to the first two phases does not prohibit TVA from having liability in connection with the other two phases or any natural resource damages, the U.S. Department of Justice is attempting to negotiate a government-wide settlement of the liability of all federal agencies (including TVA) for cleanup of offsite contamination in the downstream drainage basin and the investigative portion of the supplemental groundwater remediation. TVA believes that its liability for the remaining two phases and natural resource damages is less than \$1 million.

TVA operations at some TVA facilities have resulted in oil spills and other contamination that TVA is addressing. At September 30, 2013, TVA's estimated liability for cleanup and similar environmental work for those sites for which sufficient information is available to develop a cost estimate (primarily the TVA sites) was approximately \$15 million on a non-discounted basis and was included in Accounts payable and accrued liabilities and Other long-term liabilities on the Balance Sheet.

*Other.* TVA is undertaking cost reduction initiatives with the goal of keeping rates low, keeping reliability high, and continuing to fulfill its broader mission of environmental stewardship and economic development. TVA will focus on reducing operating and maintenance costs through further efficiency gains and streamlining the organization. Given that approximately 80 percent of TVA's operating and maintenance costs are related to labor, staffing level reductions will necessarily result from this process. The evaluation of staffing levels will take into account attrition, elimination of open positions, and retirements in order to minimize the impact on current personnel. Certain employees may be eligible for severance payments if impacted by the reorganization, but the amount of such payments is not reasonably estimable at this time as management's evaluation of staffing levels is not yet complete. Accordingly, no severance costs have been accrued as of September 30, 2013. TVA's goal is to reduce operating and maintenance costs by \$500 million by 2015 as compared to its 2013 budget.

#### *Legal Proceedings*

From time to time, TVA is party to or otherwise involved in lawsuits, claims, proceedings, investigations, and other legal matters ("Legal Proceedings") that have arisen in the ordinary course of conducting TVA's activities, as a result of a catastrophic event or otherwise.

*General.* At September 30, 2013, TVA had accrued approximately \$302 million of probable losses with respect to Legal Proceedings and estimated the range of these losses to be from \$302 million to \$314 million. Of the accrued amount, \$189 million is included in Other long-term liabilities, \$85 million is included in Accounts payable and accrued liabilities, and \$28 million is included in Regulatory assets. TVA is currently unable to estimate any amount or any range of amounts of reasonably possible losses, and no assurance can be given that TVA will not be subject to significant additional claims and liabilities. If actual liabilities significantly exceed the estimates made, TVA's results of operations, liquidity, and financial condition could be materially adversely affected.

*Environmental Agreements.* In April 2011, TVA entered into two substantively similar agreements, one with the EPA and the other with Alabama, Kentucky, North Carolina, Tennessee, and three environmental advocacy groups: the Sierra Club, the National Parks Conservation Association, and Our Children's Earth Foundation (collectively, the "Environmental Agreements"). They became effective in June 2011. Under the Environmental Agreements, TVA committed to (1) retire on a phased schedule 18 coal-fired units with a combined summer net dependable capability of 2,200 MW, (2) control, convert, or retire additional coal-fired units with a combined summer net dependable capability of 3,500 MW, (3) comply with annual, declining emission caps for SO<sub>2</sub> and NO<sub>x</sub>, (4) invest \$290 million in certain TVA environmental projects, (5) provide \$60 million to Alabama, Kentucky, North Carolina, and Tennessee to fund environmental projects, and (6) pay civil penalties of \$10 million. In exchange for these commitments, most past claims against TVA based on alleged New Source Review and associated



violations were waived and cannot be brought against TVA. Future claims including those for sulfuric acid mist and GHG emissions can still be brought against TVA, and claims for increases in particulates can also be pursued at many of TVA's coal-fired units. Additionally, the Environmental Agreements do not address compliance with new laws and regulations or the cost associated with such compliance.

The liabilities related to the Environmental Agreements are included in Accounts payable and accrued liabilities and Other long-term liabilities on the September 30, 2013 Consolidated Balance Sheet. In conjunction with the approval of the Environmental Agreements, the TVA Board determined that it was appropriate to record TVA's liabilities under the Environmental Agreements as regulatory assets, and they are included as such on the September 30, 2013 Consolidated Balance Sheet and will be recovered in rates in future periods.

Several legal and administrative clean air proceedings have already been terminated in connection with the Environmental Agreements. Additionally, the proceeding discussed below involving the John Sevier CAA permit is expected to be narrowed in scope.

*Legal Proceedings Related to the Kingston Ash Spill.* Seventy-eight lawsuits based on the Kingston ash spill have been filed in the United States District Court for the Eastern District of Tennessee. Fifteen of these lawsuits have been dismissed, and 63 lawsuits are active and in various stages of litigation. Plaintiffs are residents, businesses, and property owners in the Kingston area and allege tort claims for damage to property (for example, nuisance, strict liability, trespass, and negligence), with some plaintiffs also alleging claims for personal injury, business loss, and inverse condemnation. Plaintiffs seek unspecified compensatory and punitive damages, court orders to clean up properties, and other relief. TVA is the only active defendant in these actions.

A bench trial on the issue of dike failure causation in the seven earliest cases was held in September and October 2011 ("Phase I trial"). Plaintiffs in the 56 remaining cases have agreed to be bound by the Phase I trial record and decision. In August 2012, the court issued its Phase I decision, finding that certain actions by TVA contributed to the ash spill. On November 20, 2012, the court ordered the parties to participate in mediation within 120 days of the issuance of the order. The court has extended the mediation period three times, and the mediation period is now scheduled to end on January 14, 2014. If the case is not resolved through mediation, the case will proceed to the damages phase ("Phase II") trial, during which the individual plaintiffs must prove both that they incurred damages and that the ash spill was the cause of the damages. The date for the Phase II trial has not yet been set.

TVA has received several notices of intent to sue under various environmental statutes from both individuals and environmental groups, but no such suits have been filed.

*Civil Penalty and Natural Resource Damages for the Kingston Ash Spill.* In June 2010, TDEC issued a civil penalty order of approximately \$12 million to TVA for the Kingston ash spill, citing violations of the Tennessee Solid Waste Disposal Act and the Tennessee Water Quality Control Act. Of the \$12 million, TVA has satisfied \$10 million, and TDEC has approved environmental projects valued at \$2 million as a credit against the penalty amount. In January 2011, TVA entered into a memorandum of agreement with TDEC and the U.S. Fish and Wildlife Service establishing a process and a method for resolving the natural resource damage claim associated with the Kingston ash spill. As part of this memorandum of agreement, TVA agreed to pay \$250 thousand each year for three years as a down payment on the amount of natural resource damages ultimately established, and to reimburse TDEC and the U.S. Fish and Wildlife Service for their costs.

*Case Involving Tennessee Valley Authority Retirement System.* In March 2010, eight current and former participants in and beneficiaries of TVARS filed suit in the United States District Court for the Middle District of Tennessee against the six then-current members of the TVARS Board. The lawsuit challenged the TVARS Board's decision to suspend the TVA contribution requirements for 2010 through 2013, and to amend the TVARS Rules and Regulations to (1) reduce the calculation for COLA benefits for CY 2010 through CY 2013, (2) reduce the interest crediting rate for the fixed fund accounts, and (3) increase the eligibility age to receive COLAs from age 55 to 60. The plaintiffs allege that these actions violated the TVARS Board members' fiduciary duties to the plaintiffs (and the purported class) and the plaintiffs' contractual rights, among other claims. The plaintiffs sought, among other things, unspecified damages, an order directing the TVARS Board to rescind the amendments, and the appointment of a seventh TVARS Board member. Five of the six individual defendants filed motions to dismiss the lawsuit, while the remaining defendant filed an answer to the complaint. In July 2010, TVA moved to intervene in the suit in the event it was not dismissed. In September 2010, the district court dismissed the breach of fiduciary duty claim against the directors without prejudice, allowing the plaintiffs to file an amended complaint within 14 days against TVARS and TVA but not the individual directors. The plaintiffs previously had voluntarily withdrawn their constitutional claims, so the court also dismissed those claims without prejudice. The court dismissed with prejudice the plaintiffs' claims for breach of contract, violation of the Internal Revenue Code, and appointment of a seventh TVARS Board member.

In September 2010, the plaintiffs filed an amended complaint against TVARS and TVA. The plaintiffs allege, among other things, violations of their constitutional rights (due process, equal protection, and property rights), violations of the Administrative Procedure Act, and breach of statutory duties owed to the plaintiffs. They seek a declaratory judgment and appropriate relief for the alleged statutory and constitutional violations and breaches of duty. TVA filed its answer to the amended complaint in December 2010. In May 2012, the court granted the parties' joint motion to administratively close the

case subject to reopening to allow the parties the opportunity to engage in mediation. In July 2013, the court granted the plaintiffs' motion to reopen the lawsuit.

*Case Arising out of Hurricane Katrina.* In April 2006, TVA was added as a defendant to a class action lawsuit brought in the United States District Court for the Southern District of Mississippi by 14 Mississippi residents allegedly injured by Hurricane Katrina. The plaintiffs sued seven large oil companies and an oil company trade association, three large chemical companies and a chemical trade association, and 31 large companies involved in the mining and/or burning of coal, alleging that the defendants' GHG emissions contributed to global warming and were a proximate and direct cause of Hurricane Katrina's increased destructive force. Action by the United States Supreme Court in January 2011 ended this case in a manner favorable to TVA.

However, in May 2011, under a Mississippi state statute that permits the re-filing of lawsuits that were dismissed on procedural grounds, the plaintiffs filed another lawsuit in the United States District Court for the Southern District of Mississippi against the same and additional defendants, again alleging that the defendants' GHG emissions contributed to global warming and were a proximate and direct cause of Hurricane Katrina's increased destructive force. The court dismissed the lawsuit in March 2012 for a variety of reasons, including that the lawsuit presented a non-justiciable political question and that all of the claims were preempted by the CAA. The plaintiffs appealed the dismissal to the United States Court of Appeals for the Fifth Circuit, which affirmed the dismissal on May 14, 2013.

*Case Involving the NRC Waste Confidence Decision on Spent Nuclear Fuel Storage.* In June 2012, the U.S. Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") vacated the NRC's updated WCD. The WCD is a generic determination by the NRC that spent nuclear fuel can be safely managed until a permanent off-site repository is established and has been a key component of the NRC licensing activities since 1984. The most recent update provided that the permanent repository would be available when necessary and that spent fuel could be stored for 60 years after a plant's license terminated. The D.C. Circuit vacated this update on the grounds that, among other things, the NRC failed to support it with an adequate National Environmental Policy Act review and the NRC did not evaluate what would happen if the repository was never built.

In June 2012, multiple intervenor groups submitted a petition to the NRC to (a) hold in abeyance all pending reactor licensing decisions that would depend upon the WCD and (b) establish a process for ensuring that the remanded proceeding complies with the public participation requirements of Section 189a of the Atomic Energy Act. In August 2012, the NRC issued an order (the "August NRC Order") preventing the issuance of a final licensing decision in all proceedings affected by the petition, including Watts Bar Unit 2 and Bellefonte Units 3 and 4. While resolution of unrelated contentions can proceed, the NRC stated that it will not issue final licensing decisions until it has "appropriately addressed" the D.C. Circuit decision, and all pending contentions concerning the WCD are being held in abeyance pending the NRC's completion of an environmental review and generic rulemaking addressing the shortcomings identified by the D.C. Circuit. A draft rule and Environmental Impact Statement addressing the D.C. Circuit decision were issued by the NRC staff for public comment in September 2013. The NRC is currently scheduled to address this issue by September 2014.

*Administrative Proceeding Regarding Renewal of Operating License for Sequoyah Nuclear Plant.* In May 2013, the Blue Ridge Environmental Defense League ("BREDL"), the Bellefonte Efficiency and Sustainability Team ("BEST"), and Mothers Against Tennessee River Radiation filed a petition with the NRC opposing the renewal of the operating license for Sequoyah Nuclear Plant Units 1 and 2. The petition contains eight specific contentions challenging the adequacy of the license renewal application that TVA submitted to the NRC in January 2013. TVA filed a response with the Atomic Safety and Licensing Board ("ASLB") opposing the admission of all eight of the petitioners' contentions. In July 2013, the ASLB concluded that BREDL is the only one of the three petitioners that has standing to intervene in this proceeding. The ASLB also held that seven of the contentions were inadmissible, and held one portion of the remaining contention related to WCD in abeyance pending further direction from the NRC.

*Administrative Proceedings Regarding Bellefonte Units 3 and 4.* TVA submitted its combined construction and operating license application ("CCOLA") for two Advanced Passive 1000 reactors at Bellefonte Units 3 and 4 to the NRC in October 2007. In June 2008, Bellefonte Efficiency and Sustainability Team ("BEST"), BREDL, and Southern Alliance for Clean Energy ("SACE") submitted a joint petition for intervention and a request for a hearing. The Atomic Safety and Licensing Board ("ASLB") denied standing to BEST and admitted four of the 20 contentions submitted by BREDL and SACE. The NRC reversed the ASLB's decision to admit two of the four contentions, leaving only two contentions (concerning the estimated costs of the new nuclear plant and the impact of the facility's operations on aquatic ecology) to be litigated in a future hearing. In January 2012, TVA notified the ASLB that the NRC had placed the CCOLA in "suspended" status indefinitely at TVA's request, and TVA requested that the ASLB hold the proceeding in abeyance pending a decision by TVA regarding the best path forward with regards to the CCOLA.

In July 2012, BREDL petitioned for the admission of another new, late-filed contention stemming from the D.C. Circuit's order vacating the WCD. This contention is being held in abeyance pursuant to the August NRC Order.

*Administrative Proceedings Regarding Watts Bar Unit 2.* In July 2009, SACE, the Tennessee Environmental Council, the Sierra Club, We the People, and BREDL filed a request for a hearing and petition to intervene in the NRC administrative process reviewing TVA's application for an operating license for Watts Bar Unit 2. In November 2009, the ASLB granted SACE's

request for hearing, admitted two of SACE's seven contentions for hearing, and denied the request for hearing submitted on behalf of the other four petitioners. The ASLB subsequently dismissed one contention, leaving one aquatic impact contention. In November 2011, TVA filed a motion for summary disposition, arguing that additional aquatic studies conducted by TVA indicate there is no longer a genuine issue of material fact in connection with SACE's remaining aquatic impact contention. In July 2013, SACE filed a motion to withdraw its aquatic impact contention. The ASLB has granted this motion.

In July 2012, SACE petitioned for the admission of another new, late-filed contention, similar to the one filed in the Bellefonte Units 3 and 4 proceeding, stemming from the D.C. Circuit's order vacating the WCD. Similarly, this contention is being held in abeyance pursuant to the August NRC Order.

*John Sevier Fossil Plant Clean Air Act Permit.* In September 2010, the Environmental Integrity Project, the Southern Environmental Law Center, and the Tennessee Environmental Council filed a petition with the EPA, requesting that the EPA Administrator object to the CAA permit issued to TVA for operation of John Sevier. Among other things, the petitioners allege that repair, maintenance, or replacement activities undertaken at John Sevier Unit 3 in 1986 triggered the Prevention of Significant Deterioration ("PSD") requirements for SO<sub>2</sub> and NO<sub>x</sub>. The CAA permit, issued by TDEC, remains in effect pending the disposition of the petition. The Environmental Agreements should narrow the scope of this proceeding. See *Environmental Agreements*.

*National Environmental Policy Act Challenge at Gallatin Fossil Plant.* To comply with the Environmental Agreements and the Mercury and Air Toxics Standards, TVA chose to reduce emissions at the Gallatin Fossil Plant by installing controls and an associated landfill. Pursuant to the National Environmental Policy Act ("NEPA"), TVA completed an Environmental Assessment in March 2013 to assess the impact of installing these emission controls. In April 2013, the Tennessee Environmental Council, Tennessee Scenic Rivers Association, Sierra Club, and Center for Biological Diversity filed suit in the United States District Court for the Middle District of Tennessee alleging that TVA violated NEPA when it decided to install additional emission controls and construct an associated landfill at the Gallatin Fossil Plant. Plaintiffs demand that TVA prepare an Environmental Impact Statement, and are asking the court to enjoin TVA from taking any further action relating to these matters pending compliance with NEPA. This case has been transferred to the United States District Court for the Eastern District of Tennessee.

*Kingston Fossil Plant NPDES Permit Administrative Appeal.* The Sierra Club filed a challenge to the National Pollutant Discharge Elimination System ("NPDES") permit issued by Tennessee for the scrubber-gypsum pond discharge at Kingston in November 2009 before the Tennessee Board of Water Quality, Oil, and Gas ("TN Board"). TDEC is the defendant in the challenge, and TVA has intervened in support of TDEC's decision to issue the permit. The matter was set for a hearing before the TN Board in February 2011, but has since been stayed by agreement of the parties.

*Bull Run Fossil Plant NPDES Permit Administrative Appeal.* SACE and the Tennessee Clean Water Network ("TCWN") filed a challenge to the NPDES permit for the Bull Run Fossil Plant in November 2010. TDEC is the defendant in the challenge, and TVA's motion to intervene to support TDEC's decision to issue the permit was granted in January 2011. At the contested case hearing in October 2013, the TN Board granted TDEC's and TVA's joint motion for involuntary dismissal following the conclusion of the petitioners' presentation of evidence.

*Johnsonville Fossil Plant NPDES Permit Administrative Appeal.* SACE and TCWN filed a challenge to the NPDES permit for the Johnsonville Fossil Plant in March 2011. TDEC is the defendant in the challenge. TVA's motion to intervene was granted in August 2011. The matter has not yet been given a hearing date before the TN Board.

*John Sevier Fossil Plant NPDES Permit Administrative Appeal.* SACE and TCWN filed a challenge to the NPDES permit for John Sevier in May 2011. TDEC is the defendant in the challenge. TVA's motion to intervene was granted in August 2011. The matter has not yet been given a hearing date before the TN Board.

*Gallatin Fossil Plant NPDES Permit Administrative Appeal.* SACE, TCWN, and the Sierra Club filed a challenge to the NPDES permit for the Gallatin Fossil Plant in June 2012. TDEC is the defendant in the challenge. TVA's motion to intervene was granted in September 2012. Administrative discovery is underway. The matter has been set for a hearing before the TN Board in September 2014.

*Case Involving Colbert Fossil Plant.* On April 1, 2013, the Alabama Department of Environmental Management ("ADEM") filed suit in the Circuit Court of Colbert County, Alabama, alleging that unauthorized discharges from TVA's Colbert Fossil Plant were violating the Alabama Water Pollution Control Act. On May 13, 2013, TVA and ADEM entered into a consent decree which resolves this lawsuit. The decree requires, among other things, that TVA continue remediation efforts TVA had begun prior to the suit being filed and stop using an unlined landfill after a lined landfill is approved and constructed. TVA also agreed to pay \$150 thousand.

*Petitions Resulting from Japanese Nuclear Events.* As a result of events that occurred at the Fukushima Daiichi Nuclear Power Plant in March 2011, petitions have been filed with the NRC which could impact TVA's nuclear program. While some petitions have been dismissed after review, petitions that remain open include the following:

- *Petition to Immediately Suspend the Operating Licenses of GE BWR Mark I Units Pending the Full NRC Review With Independent Expert and Public Participation From Affected Emergency Planning Zone Communities*

Beyond Nuclear filed a petition in April 2011, requesting that the NRC take emergency enforcement action against all nuclear reactor licensees that operate units that use the General Electric Mark I BWR design. TVA uses this design at Browns Ferry Units 1, 2, and 3. The petition requests the NRC to take several actions, including the suspension of the operating licenses at the affected nuclear units, including Browns Ferry, until several milestones have been met. In December 2011, the NRC provided its initial response to the petition. The NRC accepted five specific requests that would apply directly or indirectly to Browns Ferry, including issues relating to spent fuel pool use and location, Mark I containment hardened vent systems and design, and backup electrical power. Each of these items was accepted for further investigation, but the requests for immediate action were rejected. The NRC has not yet rendered a decision regarding the petition.

- *Twelve separate petitions on various issues*

In August 2011, the Natural Resources Defense Council submitted twelve separate letters to the NRC requesting action on various health and safety aspects of operating nuclear facilities in the United States. The NRC is treating these as a single 10 CFR 2.206 Petition. The NRC has not yet rendered a decision regarding the petition.

- *Petition Pursuant to 10 CFR 2.206 - Demand For Information Regarding Compliance with 10 CFR 50, Appendix A, General Design Criterion 44, Cooling Water, and 10 CFR 50.49, Environmental Qualification of Electric Equipment Important to Safety for Nuclear Power Plants*

A petition was filed by the Union of Concerned Scientists in July 2011, requesting that a demand for information be issued for affected licensees, including TVA with regards to Browns Ferry, describing how the facilities comply with General Design Criterion 44, Cooling Water, within Appendix A to 10 CFR Part 50, and with 10 CFR 50.49, Environmental Qualification of Electric Equipment Important to Safety for Nuclear Power Plants, for all applicable design and licensing bases events. The NRC has not yet rendered a decision regarding the petition.

## 21. Related Parties

TVA is a wholly-owned corporate agency of the federal government, and because of this relationship, TVA's revenues and expenses are included as part of the federal budget as a revolving fund. TVA's purpose and responsibilities as an agency are described under the "Other Agencies" section of the federal budget.

TVA currently receives no appropriations from Congress and funds its business using power system revenues, power financings, and other revenues. TVA is a source of cash to the federal government. TVA must repay an additional \$10 million of the Power Program Appropriation Investment, and then pay a return on the outstanding balance of this investment indefinitely. See Note 16 — *Appropriation Investment*.

TVA also has access to a financing arrangement with the U.S. Treasury pursuant to the TVA Act. TVA and the U.S. Treasury entered into a memorandum of understanding under which the U.S. Treasury provides TVA with a \$150 million credit facility. This credit facility was renewed and has a maturity date of September 30, 2014. Access to this credit facility or other similar financing arrangements has been available to TVA since the 1960s. See Note 12 — *Credit Facility Agreements*.

In the normal course of business, TVA contracts with other federal agencies for sales of electricity and other services. Transactions with agencies of the federal government were as follows:

**Related Party Transactions**  
For the years ended, or at, September 30

	2013	2012	2011
Electricity sales	\$ 120	\$ 117	\$ 130
Other income	102	164	104
Operating and maintenance	314	375	295
Cash and cash equivalents	38	32	27
Accounts receivable, net	58	49	84
Accounts payable and accrued liabilities	133	204	175
Return on Power Program Appropriation Investment	7	7	7
Return of Power Program Appropriation Investment	20	20	20

**22. Unaudited Quarterly Financial Information**

A summary of the unaudited quarterly results of operations for the years 2013 and 2012 follows. This summary should be read in conjunction with the audited consolidated financial statements appearing herein. Results for interim periods may fluctuate as a result of seasonal weather conditions, changes in rates, and other factors.

**Unaudited Quarterly Financial Information**  
**2013**

	First	Second	Third	Fourth	Total
Operating revenues	\$ 2,579	\$ 2,741	\$ 2,602	\$ 3,034	\$ 10,956
Operating expenses	2,523	2,380	2,324	2,276	9,503
Operating income	56	361	278	758	1,453
Net income (loss)	(245)	54	(12)	474	271

**Unaudited Quarterly Financial Information**  
**2012**

	First	Second	Third	Fourth	Total
Operating revenues	\$ 2,568	\$ 2,604	\$ 2,777	\$ 3,271	\$ 11,220
Operating expenses	2,431	2,358	2,499	2,632	9,920
Operating income	137	246	278	639	1,300
Net income (loss)	(173)	(94)	(23)	350	60

## Report of Independent Registered Public Accounting Firm

The Board of Directors of Tennessee Valley Authority

We have audited the accompanying consolidated balance sheets of Tennessee Valley Authority as of September 30, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in proprietary capital, and cash flows for each of the three years in the period ended September 30, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tennessee Valley Authority at September 30, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Tennessee Valley Authority's internal control over financial reporting as of September 30, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated November 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst and Young LLP

Chattanooga, Tennessee  
November 15, 2013



## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

## ITEM 9A. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

TVA's management, including the President and Chief Executive Officer, the Executive Vice President and Chief Financial Officer, and members of the Disclosure Control Committee, including the Vice President and Controller (Principal Accounting Officer), evaluated the effectiveness of TVA's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of September 30, 2013. Based on this evaluation, TVA's management, including the President and Chief Executive Officer, the Executive Vice President and Chief Financial Officer, and members of the Disclosure Control Committee, including the Vice President and Controller (Principal Accounting Officer), concluded that TVA's disclosure controls and procedures were effective as of September 30, 2013, to ensure that information required to be disclosed by TVA in reports that it files or submits under the Exchange Act, is recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by TVA in such reports is accumulated and communicated to TVA's management, including the President and Chief Executive Officer, the Executive Vice President and Chief Financial Officer, and members of the Disclosure Control Committee, including the Vice President and Controller (Principal Accounting Officer), as appropriate, to allow timely decisions regarding required disclosure.

### Internal Control over Financial Reporting

#### (a) Management's Annual Report on Internal Control over Financial Reporting

TVA's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) and required by Section 404 of the Sarbanes-Oxley Act. TVA's internal control over financial reporting is designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. Because of the inherent limitations in all control systems, internal controls over financial reporting and systems may not prevent or detect misstatements.

TVA's management, including the President and Chief Executive Officer, the Executive Vice President and Chief Financial Officer, and members of the Disclosure Control Committee, including the Vice President and Controller (Principal Accounting Officer), evaluated the design and effectiveness of TVA's internal control over financial reporting as of September 30, 2013, based on the framework in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, TVA's management concluded that TVA's internal control over financial reporting was effective as of September 30, 2013.

Although management's report on the effectiveness of internal control over financial reporting was not required to be subject to attestation by TVA's registered public accounting firm, TVA has chosen to obtain such a report. Ernst & Young LLP, the registered public accounting firm that audited the financial statements included in this Annual Report, has issued an attestation report on TVA's internal control over financial reporting.

#### (b) Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2013, there were no changes in TVA's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, TVA's internal control over financial reporting.



## Report of Independent Registered Public Accounting Firm

The Board of Directors of Tennessee Valley Authority

We have audited Tennessee Valley Authority's internal control over financial reporting as of September 30, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Tennessee Valley Authority's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Tennessee Valley Authority maintained, in all material respects, effective internal control over financial reporting as of September 30, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Tennessee Valley Authority as of September 30, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in proprietary capital, and cash flows for each of the three years in the period ended September 30, 2013 of Tennessee Valley Authority and our report dated November 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst and Young LLP

Chattanooga, Tennessee  
November 15, 2013

**ITEM 9B. OTHER INFORMATION**

Not applicable.

### PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

### Directors

TVA is administered by a board of nine part-time members appointed by the President of the United States with the advice and consent of the U.S. Senate. The Chairman of the TVA Board is selected by the members of the TVA Board. Under the TVA Act, to be eligible to be appointed as a member of the TVA Board, an individual (i) must be a United States citizen; (ii) must have management expertise relative to a large for-profit or nonprofit corporate, government, or academic structure; (iii) cannot be a TVA employee; (iv) must make a full disclosure to Congress of any investment or other financial interest that the individual holds in the energy industry; and (v) must affirm support for the objectives and missions of TVA, including being a national leader in technological innovation, low-cost power, and environmental stewardship. In addition, the President of the United States, in appointing members of the TVA Board, must (i) consider recommendations from other public officials such as the Governors of the states in TVA's service area; individual citizens; business, industrial, labor, electric power distribution, environmental, civic, and service organizations; and the Congressional delegations of the states in TVA's service area; and (ii) seek qualified members from among persons who reflect the diversity, including geographical diversity, and needs of TVA's service area. At least seven of the nine TVA Board members must be legal residents of the TVA service area.

TVA Board members serve five-year terms, and at least one member's term ends each year. After a member's term ends, the member is permitted under the TVA Act to remain in office until the earlier of the end of the current session of Congress or the date a successor takes office. The TVA Board, among other things, establishes broad goals, objectives, and policies for TVA; develops long-range plans to guide TVA in achieving these goals, objectives, and policies; approves annual budgets; and establishes a compensation plan for employees.

The TVA Board as of November 15, 2013, consisted of the following individuals with their ages and terms of office provided:

Directors	Age	Year Current Term Began	Year Term Expires
William B. Sansom, Chairman	72	2010	2014
Neil G. McBride	67	2010	2013 <sup>(1)</sup>
Barbara S. Haskew	73	2010	2014
Richard C. Howorth	62	2011	2015
Marilyn A. Brown	64	2013	2017
V. Lynn Evans	60	2013	2017
C. Peter Mahurin	75	2013	2016
Michael R. McWherter	57	2013	2016
Joe H. Ritch	63	2013	2016

#### Notes

(1) Although the term of this director expired in May 2013, he is permitted under the TVA Act to remain in office until the earlier of the end of the current session of Congress or the date a successor takes office.

Mr. Sansom of Knoxville, Tennessee, served on the TVA Board from March 2006 until December 2009, was Chairman of the TVA Board from March 2006 until May 2009, and began a second term on the TVA Board in October 2010. He was elected Vice Chairman of the TVA Board in April 2011, and Chairman in January 2012. Mr. Sansom is Chairman and Chief Executive Officer of the H.T. Hackney Co., a diversified company involved in the wholesale grocery and furniture manufacturing businesses, and has held that position since 1983. Since 1995, Mr. Sansom has also been a director of Astec Industries, Inc., a corporation based in Chattanooga, Tennessee, that manufactures equipment and components used in road construction, and since 1984, he has been a director at First Horizon National Corporation, a Memphis, Tennessee, bank holding company. In 2006, he was named director of Mid-America Apartment Communities, Inc., a real estate investment trust with ownership interests in apartment homes. From 1994 to 2006, he was a director of Martin Marietta Materials, Inc., a company based in Raleigh, North Carolina, that is in the construction material business.

Mr. McBride of Oak Ridge, Tennessee, joined the TVA Board in October 2010. Mr. McBride is the General Counsel of Legal Aid Society of Middle Tennessee and the Cumberland ("Legal Aid") and Managing Director of the Oak Ridge Office of Legal Aid, positions he has held since 2002. In 1978, he founded Rural Legal Services of Tennessee and served as its director until it was consolidated with Legal Aid in 2002. Mr. McBride became a director of the Tennessee Alliance for Legal Services in 1980 and currently serves as a member of its executive committee. He has been a member of the Tennessee Bar Association House of Delegates from 2001 to present. Mr. McBride was a director of the Highlander Research and Education Center from 2002 to 2008. He also works as an independent consultant for various legal services organizations.

## [Table of Contents](#)

Dr. Haskew of Chattanooga, Tennessee, joined the TVA Board in October 2010. Dr. Haskew began working at Memphis State University in 1965. She joined Middle Tennessee State University ("MTSU") in 1970 and chaired the Department of Economics and Finance from 1974 until 1980. In 1980 she left MTSU and managed the TVA Rate Staff for eight years. Dr. Haskew returned to MTSU in 1988 and served as Dean of the College of Business until her appointment as Provost and Vice President for Academic Affairs in 1995. She retired from MTSU in August 2010. Dr. Haskew is a labor and employment arbitrator on the rosters of the American Arbitration Association and the Federal Mediation and Conciliation Service.

Mr. Howorth of Oxford, Mississippi, joined the TVA Board in July 2011. He is the owner of Square Books, an Oxford independent bookstore he founded in 1979. Mr. Howorth served two terms as the mayor of Oxford, from 2001 to 2009, during which time he was chairman of the authority overseeing the Oxford Electric Department. From 2001 to 2009, he also served as a director and officer of the North Mississippi Industrial Development Association, an economic development consortium made up of power association directors and mayors of cities in 29 Mississippi counties in the TVA service area.

Dr. Brown of Atlanta, Georgia, served on the TVA Board from October 2010 to January 2013 and began a second term on the TVA Board in September 2013. Dr. Brown has been a Professor in the School of Public Policy at Georgia Institute of Technology in Atlanta, Georgia, since August 2006. From 1984 to August 2006, Dr. Brown worked at the Oak Ridge National Laboratory ("ORNL") in Oak Ridge, Tennessee. At ORNL, she was Deputy Director and Acting Director of the Engineering Science and Technology Division (from 2005 to 2006) and Program Director of the Energy Efficiency and Renewable Energy Program (from 2000 to 2005). Dr. Brown served from 2006 until 2009 as a member of the Board of Directors of the Southeast Energy Efficiency Alliance, serving as Board Chair from 2006 until 2008. She served as a member of the Board of Directors of the American Council for an Energy-Efficient Economy from 2002 until 2009. From 2002 until 2009, Dr. Brown was a commissioner on the National Commission on Energy Policy. She served as a member of the Board of Directors of the Alliance to Save Energy from 2000 through 2009.

Ms. Evans of Memphis, Tennessee, joined the TVA Board in January 2013. She has been the owner of V. Lynn Evans, CPA, a certified public accounting and consulting firm in Memphis, Tennessee, since 1983. Ms. Evans was a board member of Memphis Light, Gas, and Water Division, a TVA local power company customer, from 2004 to January 2013, and served as Chair from January 2008 to December 2009. She has been a director of community-based First Alliance Bank in Memphis, Tennessee, since its inception in 1998, holding various positions, including Chair of the audit committee and loan committee member. Ms. Evans has also served in leadership positions in a number of community organizations, including as a board member of ArtsMemphis from 1995 to 2008, Community Foundation of Greater Memphis from 1995 to 2004 and from 2006 to present, the RISE Foundation from 1997 to 2007, and the Women's Foundation for a Greater Memphis from 1999 to 2001. Ms. Evans is a member of the American Institute of Certified Public Accountants and the Tennessee Society of Certified Public Accountants (Memphis Chapter).

Mr. Mahurin, of Bowling Green, Kentucky, joined the TVA Board in January 2013. He has been Chairman of Hilliard Lyons Financial Services, a financial services firm based in Louisville, Kentucky, since 2008. Mr. Mahurin has worked for Hilliard Lyons in various capacities since 1968. Mr. Mahurin has been a director of Houchens Industries, Inc., a diversified conglomerate based in Bowling Green, Kentucky, since 1992; Gray Construction, an engineering, design and construction company based in Lexington, Kentucky, since 2007; Albany Bancorp, Inc., a bank holding company based in Albany, Kentucky, since 1992; First Cecelian Bancorp, a bank holding company based in Cecilia, Kentucky, since 1997; and Jackson Financial, a bank holding company based in Mayfield, Kentucky, since 2007. He is also a board member of the Governor Scholars of Kentucky.

Mr. McWherter of Jackson, Tennessee, joined the TVA Board in January 2013. He has been the owner and president of Central Distributors, Inc., and Volunteer Distributing, both Tennessee-based beverage distribution companies, since 1989 and 1986, respectively. He has been a director of First State Bank, a bank holding company in Union City, Tennessee, since 2002, and served as Chairman from 2007 to 2009. He also served as Chairman of the First State Bank Audit Committee from 2007 to 2009. He served as a director of the Jackson Energy Authority, a TVA local power company customer, from 2007 to January 2013. Mr. McWherter has also served in leadership positions in a number of community organizations, including as a board member of the Tennessee Performing Arts Center from 1988 to 1995, a director of the Jackson Chamber of Commerce from 1990 to 1996, a director of the Nashville Arts Council from 1982 to 1985, and a member of the Tennessee Executive Residence Preservation Foundation Board from 2002 to 2010.

Mr. Ritch of Huntsville, Alabama, joined the TVA Board in January 2013. He has been an attorney at the Sirote & Permutt, PC law firm in Huntsville, Alabama, since 1982. He has been a director of Axometrics, which designs and manufactures Mueller Matrix polarization testing for LCD panels, since 2004. He has also served as Chairman of the Tennessee Valley Base Realignment and Closure Committee since 1994, as Co-Chairman of the Tennessee Valley Growth Coordination Group since 2008, and as a board member of the Von Braun Center for Innovative Science since 2006. He was a member of the University of Alabama System Board of Trustees from 2005 to 2011.

## Executive Officers

TVA's executive officers as of November 15, 2013, their titles, their ages, and the date their employment with TVA commenced are as follows:

Executive Officers	Title	Age	Employment Commenced
William D. Johnson	President and Chief Executive Officer	59	2013
Joseph P. Grimes, Jr.	Executive Vice President and Chief Nuclear Officer	57	2013
Robin E. Manning	Executive Vice President and Chief External Relations Officer Senior Vice President of Shared Services	57	2008
Charles G. Pardee	Executive Vice President and Chief Operating Officer	53	2013
Ralph E. Rodgers	Executive Vice President and General Counsel	59	1979
John M. Thomas, III	Executive Vice President and Chief Financial Officer	50	2005
Katherine J. Black	Senior Vice President of Human Resources and Communications	58	1986
Michael D. Skaggs	Senior Vice President, Watts Bar Nuclear Operations and Construction	53	1994
Diane T. Wear	Vice President and Controller (Principal Accounting Officer)	45	2008

Mr. Johnson has served as TVA's President and Chief Executive Officer since January 2013. Mr. Johnson served as Chairman, President and Chief Executive Officer of Progress Energy, Inc. ("Progress Energy"), an electric utility based in Raleigh, North Carolina, from October 2007 to July 2012. During this time, Mr. Johnson also served as the Chairman of Progress Energy Carolinas, Inc., and Progress Energy Florida, Inc., both of which are subsidiaries of Progress Energy. Mr. Johnson held a number of other positions before he became Chairman and CEO of Progress Energy, including President and Chief Operating Officer of Progress Energy; Group President for Energy Delivery; President and Chief Executive Officer for Progress Energy Service Company, LLC; and General Counsel and Corporate Secretary for Progress Energy. Mr. Johnson joined Carolina Power & Light Company ("CP&L"), a predecessor to Progress Energy, in 1992. Before joining CP&L, Mr. Johnson was a partner with the Raleigh, N.C., law office of Hunton & Williams LLP, where he specialized in the representation of utilities.

Mr. Grimes was named TVA's Executive Vice President and Chief Nuclear Officer in July 2013. Before joining TVA, Mr. Grimes worked at Exelon Nuclear and held a variety of positions there, including Senior Vice President, Engineering and Technical Services, Exelon Nuclear Fleet (from 2011 to 2013), Senior Vice President, Mid-Atlantic Operations (from 2009 to 2011), and Site Vice President at Peach Bottom Nuclear Station (from 2007 to 2008). Mr. Grimes joined Exelon Nuclear in 1979.

Mr. Manning was named TVA's Executive Vice President and Chief External Relations Officer and Senior Vice President of Shared Services in September 2013. Mr. Manning joined TVA in August 2008 and served as TVA's Executive Vice President and Chief Energy Delivery Officer from February 2012 to September 2013 and as TVA's Executive Vice President, Power System Operations from August 2008 to February 2012. From April 2006 to August 2008, Mr. Manning served as Vice President of Field Operations for Duke Energy Corporation. Mr. Manning joined Duke Energy Corporation in 1978 and held a variety of leadership positions there, including Vice President, Central Region for Duke Energy Power Delivery (from January 2004 to April 2006), Vice President of Engineering Standards and Process Management for Duke Energy Electric Transmission (from May 2003 to January 2004), and Vice President of Engineering for Duke Energy Gas Transmission (now Spectra Corporation) (from September 2000 to June 2003).

Mr. Pardee joined TVA in April 2013 as Executive Vice President and Chief Generation Officer, and he was named Executive Vice President and Chief Operating Officer in September 2013. Mr. Pardee worked at Exelon Corporation, an energy company, and its subsidiaries from February 2000 to November 2012. He served as Chief Operating Officer, Exelon Generation from April 2010 to November 2012, as Chief Nuclear Officer, Exelon Nuclear from October 2007 to April 2010, as Chief Operating Officer, Exelon Nuclear from June 2005 to October 2007, as Senior Vice President, Nuclear Fleet Services from August 2003 to June 2005, as Senior Vice President, Mid Atlantic Operations from January 2002 to August 2003, and as Site Vice President, LaSalle County Generation Station from February 2000 to January 2002.

Mr. Rodgers was named TVA's Executive Vice President and General Counsel in July 2011. He served as Acting General Counsel from April 2010 to July 2011, as Deputy General Counsel from January 2010 to April 2010, as Assistant General Counsel from February 2001 to January 2010, and as an attorney from June 1979 to March 1986 and from June 1987 to February 2001.

Mr. Thomas has served as TVA's Chief Financial Officer since June 2010 and was also named Executive Vice President in February 2012. He served as Executive Vice President of People and Performance from January 2010 to June 2010, as Senior Vice President, Corporate Governance and Compliance from July 2009 to January 2010, as Controller and Chief Accounting Officer from January 2008 to September 2009, and as the General Manager, Operations Business Services from November 2005 to January 2008. Prior to joining TVA, Mr. Thomas was Chief Financial Officer during 2005 for Benson

Security Systems. He was also the Controller of Progress Fuels Corporation (from 2003 to 2005) and Controller of Progress Ventures, Inc. (from 2001 to 2002), both subsidiaries of Progress Energy.

Ms. Black was named TVA's Senior Vice President of Human Resources and Communications in September 2013. She previously served as Vice President of Human Resources from October 2010 to September 2013 and Director of Employee Relations from February 2010 to April 2011. Before being selected as Vice President, Ms. Black served in several human resources positions. Prior to joining TVA in 1986, Ms. Black served in the U.S. Army.

Mr. Skaggs was named Senior Vice President, Watts Bar Nuclear Operations and Construction in September 2013. Since joining TVA in 1993 as Manager of Projects at Watts Bar Nuclear Plant, Mr. Skaggs has held several management positions, including Senior Vice President, Nuclear Construction (February 2012 to September 2013), Senior Vice President of Nuclear Generation Development and Construction (October 2011 to February 2012), Site Vice President of Sequoyah Nuclear Plant (November 2010 to October 2011), Vice President of Nuclear Operations Support (December 2009 to November 2010), Site Vice President at Watts Bar Nuclear Plant (July 2005 to December 2009), and Site Vice President at Browns Ferry Nuclear Plant (July 2004 to July 2005).

Ms. Wear has served as TVA's Vice President and Controller since March 2012. Ms. Wear was the Assistant Controller from February 2010 to March 2012. Between April 2008, when she joined TVA, and February 2010, Ms. Wear was the General Manager, External Reporting/Accounting Policy and Research. Prior to joining TVA, Ms. Wear was a Managing Director at PricewaterhouseCoopers LLP. Ms. Wear joined a predecessor firm to PricewaterhouseCoopers LLP in January 1992.

### **Disclosure and Financial Code of Ethics**

TVA has a Disclosure and Financial Ethics Code ("Financial Ethics Code") that applies to all executive officers (including the Chief Executive Officer, Chief Financial Officer, and Controller) and directors of TVA as well as to all employees who certify information contained in quarterly reports or annual reports or who have responsibility for internal control self-assessments. The Financial Ethics Code includes provisions covering conflicts of interest, ethical conduct, compliance with applicable laws, rules, and regulations, responsibility for full, fair, accurate, timely, and understandable disclosures, and accountability for adherence to the Financial Ethics Code. TVA will provide a current copy of the Financial Ethics Code to any person, without charge, upon request. Requests may be made by calling 888-882-4975 or by sending an e-mail to: [investor@tva.com](mailto:investor@tva.com). Any waivers of or changes to provisions of the Financial Ethics Code that require disclosure pursuant to applicable Securities and Exchange Commission requirements will be promptly disclosed to the public, subject to limitations imposed by law, on TVA's website at: [www.tva.gov](http://www.tva.gov). Information contained on TVA's website shall not be deemed incorporated into, or to be a part of, this Annual Report.

### **Committees of the TVA Board**

The TVA Board has an Audit, Risk, and Regulation Committee established in accordance with the TVA Act. TVA's Audit, Risk, and Regulation Committee consists of Neil G. McBride, V. Lynn Evans, Joe H. Ritch and Marilyn A. Brown. At the November 14, 2013 TVA Board meeting, the TVA Board approved Marilyn A. Brown's assignment to the Audit, Risks and Regulation Committee and External Relations Committee. Director Evans is an "audit committee financial expert" as defined in Item 407(d)(5) of Regulation S-K under the Exchange Act.

TVA is exempted by section 37 of the Exchange Act from complying with section 10A(m)(3) of the Exchange Act, which requires each member of a listed issuer's audit committee to be an independent member of the board of directors of the issuer. The TVA Act contains certain provisions that are similar to the considerations for independence under section 10A(m)(3) of the Exchange Act, including that to be eligible for appointment to the TVA Board, an individual shall not be an employee of TVA and shall make full disclosure to Congress of any investment or other financial interest that the individual holds in the energy industry.

Under section 10A(m)(2) of the Exchange Act, which applies to TVA, the audit committee is directly responsible for the appointment, compensation, and oversight of the external auditor; however, the TVA Act assigns the responsibility for engaging the services of the external auditor to the TVA Board.

The TVA Board has also established the following committees in addition to the Audit, Risk and Regulation Committee:

- Finance, Rates, and Portfolio Committee
- External Relations Committee
- People and Performance Committee
- Nuclear Oversight Committee

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

This discussion and analysis describes TVA's compensation philosophy and the policies and decisions that guided compensation for TVA's named executive officers in 2013. The 2013 Named Executive Officers are William D. Johnson, President and Chief Executive Officer ("CEO"); Tom D. Kilgore, former President and CEO; John M. Thomas, III, Executive Vice President and Chief Financial Officer ("CFO"); Preston D. Swafford (Executive Vice President and Chief Nuclear Officer); Ralph E. Rodgers (Executive Vice President and General Counsel); and Michael D. Skaggs (Senior Vice President, Watts Bar Nuclear Operations and Construction). Detailed compensation information for these executives is listed in the Summary Compensation Table. On August 14, 2012, Mr. Kilgore announced his intention to retire. TVA announced on November 5, 2012, the appointment of William D. Johnson to succeed Mr. Kilgore, effective January 1, 2013. Mr. Swafford resigned from TVA effective October 4, 2013.

#### *Executive Summary*

TVA aims to support its mission by attracting, retaining, and motivating highly qualified and committed executives to guide the organization's strategy and performance. TVA follows a compensation plan ("Compensation Plan") as adopted by the TVA Board in accordance with specific guidance of the TVA Act. The Compensation Plan is designed to:

- Provide market-based, competitive compensation levels so TVA can attract, retain and motivate highly competent employees.  
  
-Total direct compensation generally targets the 50th percentile of the relevant labor market, although some positions, such as those requiring certain nuclear expertise, are targeted up to the 75th percentile based on market scarcity and other issues.
- Pay for performance by rewarding all employees for improved performance and by putting substantial pay at risk for all executives, including the Named Executive Officers, tied to performance improvement. At least half (and in some cases more than two-thirds) of each Named Executive Officer's targeted, direct compensation is tied to performance-based incentive programs.
- Align the organization's short- and long-term goals and objectives by providing a mix of salary and performance-based annual and long-term incentives.
- Align performance and productivity improvement at all levels by setting consistent performance goals and objectives for all levels of the organization.

In designing and implementing its compensation programs under the Compensation Plan, the TVA Board follows the requirements of the TVA Act that:

- Compensation will be based on an annual survey of prevailing compensation for similar positions in private industry, including engineering and electric utility companies, publicly owned electric utilities, and federal, state and local governments; and
- Compensation will take into account education, experience, level of responsibility, geographic differences, and retention and recruitment needs.



Consistent with these requirements, the compensation programs for the Named Executive Officers under the Compensation Plan include the following:

**Compensation Program Components for Named Executive Officers**

<b>Compensation Component</b>	<b>Objective</b>	<b>Key Features</b>
Annual Salary	Fixed base compensation to executives	<p>Annual salary is targeted at the median (50<sup>th</sup> percentile) for similar positions at other companies in TVA's peer group, above the median (50<sup>th</sup> to 75<sup>th</sup> percentile) for positions affected by market scarcity, recruitment and retention issues, and other business reasons, or below the median (25<sup>th</sup> to 50<sup>th</sup> percentile) for positions for which TVA does not compete exclusively with the energy and utility services industry or which are not subject to competitive pressures</p> <p>In past years, salary has been typically reviewed annually to consider changes in peer group benchmark salaries and/or exceptional individual merit performances (see <i>Executive Compensation Program Components — Federal Salary Freeze</i> for discussion on impacts of current salary freeze)</p>
Annual Incentive Compensation (Executive Annual Incentive Plan)	Not-guaranteed, variable, and based on the attainment of pre-established performance goals for the fiscal year	<p>Target annual incentive opportunities increase with position and responsibility and are based on the opportunities other companies in TVA's peer group provided to those in similar positions</p> <p>Annual incentive payouts are based on the results of performance goals at the TVA enterprise-wide level, as determined from year to year by the TVA Board, and the results of strategic business unit goals, as determined from year to year by the CEO. Annual incentive payouts may be adjusted by the TVA Board or CEO, as appropriate, based on the evaluation of performance during the year</p> <p>Annual incentive opportunities are reviewed annually to consider changes in peer group benchmark short-term incentives</p>
Long-Term Incentive Compensation (Executive Long-Term Incentive Plan)	Not-guaranteed, variable, and based on the attainment of pre-established performance goals for a performance cycle, typically three fiscal years	<p>Participation in TVA's long-term incentive plan is limited to executives in critical positions who make decisions that significantly influence developing and attaining TVA's long-term strategic objectives</p> <p>Long-term incentive payouts are based on achieving performance goals established for a specific performance cycle and may be adjusted by the TVA Board based on the evaluation of performance during the cycle</p> <p>Long-term incentive opportunities are reviewed annually to consider changes made in the long-term incentives by companies in TVA's peer group</p>
Long-Term Deferred Compensation (Long-Term Deferred Compensation Plan)	Awarded in the form of annual credits that vest after a specified period of time, typically three to five years	<p>Awarded to provide retention incentives to executives similar to the retention incentive provided by restricted stock or restricted stock units in publicly-traded companies</p> <p>Executives generally must remain at TVA for the entire length of the agreement in order to receive compensation credits</p> <p>Long-term deferred compensation is reviewed annually and credits are targeted to approximately 20 percent of total long-term compensation</p>
Total Direct Compensation	Annual Salary plus Annual Incentive Compensation plus Long-Term Incentive Compensation plus Long-Term Deferred Compensation	Total direct compensation (salary plus annual and long-term incentive compensation plus long-term deferred compensation) is targeted at the median (50 <sup>th</sup> percentile) for similar positions at other companies in TVA's peer group, above the median (50 <sup>th</sup> to 75 <sup>th</sup> percentile) for positions affected by market scarcity, recruitment and retention issues, and other business reasons, or below the median (25 <sup>th</sup> to 50 <sup>th</sup> percentile) for positions which are not subject to competitive pressures
Pension Plans (Supplemental Executive)	Both qualified and supplemental, which provide compensation beginning with retirement or	Broad-based plans available to full-time employees of TVA that are qualified under IRS rules and that are similar to the qualified plans provided by other companies in TVA's peer group

Retirement Plan)	termination of employment (if vesting requirements are satisfied)	Certain executives in critical positions also participate in a non-qualified pension plan that provides supplemental pension benefits at compensation levels that exceed the limits permitted by the IRS regulations applicable to qualified plans; these supplemental benefits are comparable to those provided by other companies in TVA's peer group
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TVA's Enterprise Risk Management organization evaluates potential risk that could arise from the Compensation Plan and TVA's executive and non-executive compensation policies and practices. For 2013, the evaluation found no reasonably likely risk associated with the Compensation Plan and TVA's executive and non-executive compensation policies and practices.

#### *Authority for the Executive Compensation Program*

The TVA Board, under the authority of the TVA Act, has responsibility for establishing compensation for TVA employees, including the Named Executive Officers. The TVA Board is directed under section 2 of the TVA Act to establish a plan that specifies all compensation (such as salary or any other pay, benefits, incentives and any other form of remuneration) for the CEO and TVA employees.

The TVA Act also provides that:

- The TVA Board will annually approve all compensation (such as salary or any other pay, benefits, incentives and other form of remuneration) of all managers and technical personnel who report directly to the CEO (including any adjustment to compensation);
- On the recommendation of the CEO, the TVA Board will approve the salaries of employees whose salaries would be in excess of Level IV of the Executive Schedule (\$155,500 in 2013); and
- The CEO will determine the salary and benefits of employees whose annual salary is not greater than Level IV of the Executive Schedule (\$155,500 in 2013).

The Compensation Plan's philosophy on market-competitive pay is grounded in the TVA Act. The plan recognizes that employees, including executives, must have the education, experience and professional qualifications to carry out TVA's mission safely, reliably and efficiently. These requirements make it necessary for TVA to offer compensation to its specialized employees that makes it possible for TVA to attract and retain highly qualified candidates for positions similar to those in relevant industries.

Through the authority of the TVA Act, the TVA Board, its People and Performance Committee (the "Committee") and individual Board members are actively involved in compensation matters. The TVA Board has delegated to the CEO the authority to approve, or delegate to others the authority to approve, all personnel and compensation actions for which the TVA Board is responsible but has not reserved for itself. The TVA Board has taken additional action to delegate authority with respect to executive compensation as follows:

- The TVA Board has approved for the direct reports to the CEO compensation ranges of 80 percent to 110 percent of the targeted total direct compensation for comparable positions. These targeted levels of total direct compensation are consistent with the Compensation Plan and with external benchmarking sources. The Board has also authorized the CEO to set or adjust compensation for present or future direct reports within such compensation ranges, as well as to approve the parameters under which such executives may participate in certain supplemental benefit plans, such as TVA's Supplemental Executive Retirement Plan ("SERP"), provided that the CEO may not finally set or adjust such compensation until the TVA Board members have been notified of the proposed compensation and given the opportunity to ask the Committee, or the full TVA Board, to review the proposed compensation before it becomes effective.
- The TVA Board has delegated to the Chairman of the TVA Board, in consultation with the Committee and with input from individual members of the TVA Board, the authority to evaluate and rate the CEO's performance during the year, and the authority to approve any payout to the CEO under the Executive Annual Incentive Plan ("EAIP") based on, among other things, the CEO's evaluated performance during the year.
- The TVA Board has delegated to the CEO, in consultation with the Committee and with input from individual members of the TVA Board, the authority to approve the individual performance goals for the CEO's direct reports and the authority to evaluate and rate the performance of the CEO's direct reports during the year.

#### *TVA Board Committee Oversight*

The Committee was responsible for oversight of executive compensation pursuant to the Compensation Plan, review of this Compensation Discussion and Analysis, and review of performance goal achievement for 2013. As delegated by the TVA Board, the Committee also (1) reviewed proposed CEO actions to set or adjust compensation for his direct reports, (2) consulted with the Chairman of the TVA Board about the Chairman's proposed evaluation and rating of the CEO's performance during the year and about the proposed payout to the CEO under the EAIP, and (3) consulted with the CEO on the proposed individual performance goals and evaluation and performance ratings for the CEO's direct reports for the year. The Committee has selected independent consulting firm Towers Watson to help evaluate competitive compensation. The Committee completed an assessment of certain independence factors and determined the firm's work raised no potential conflict of interest.

### *Use of Market Data and Benchmarking*

TVA generally targets total direct compensation for executives at a competitive level based on the relevant labor market. Market information for total direct compensation, as well as each element of compensation, for the Named Executive Officers for 2013 was obtained through the following:

- Published and customized compensation surveys of the relevant labor markets for designated positions; and
- Publicly disclosed information from the proxy statements and annual reports on Form 10-K of energy services companies with revenues ranging from one-half to two times TVA's revenue.

After compiling competitive market compensation for the positions at the beginning of 2013, the Committee, with assistance from Towers Watson, used this information to:

- Test target compensation level and incentive opportunity competitiveness; and
- Determine appropriate target compensation levels and incentive opportunities to maintain the desired degree of market competitiveness.

TVA's relevant labor market for most executives, including the Named Executive Officers, comprised both private and publicly owned companies in the energy services industry of similar revenue and scope to TVA. For the survey-based analysis, TVA looked at the following energy services companies with annual revenues greater than \$6.0 billion from the 2012 Towers Watson Energy Services Executive Compensation Database:

AES Corp.	Duke Energy Corp.	NRG Energy, Inc.
Ameren Corp.	Edison International	Pacific Gas and Electric Co.
American Electric Power Co., Inc.	Energy Future Holdings Corp.	PPL Corp.
CenterPoint Energy, Inc.	Entergy Corp.	Progress Energy, Inc.
CMS Energy Corp.	Exelon Corp.	Public Service Enterprise Group, Inc.
Consolidated Edison, Inc.	FirstEnergy Corp.	Sempra Energy
Dominion Resources, Inc.	IPR-GDF SUEZ North America	The Southern Company
DTE Energy Co.	NextEra Energy, Inc.	Xcel Energy, Inc.

For the analysis of proxy statements and annual reports on Form 10-K, TVA looked at all companies in the peer group above (except for IPR-GDF SUEZ North America), as well as three additional companies in the energy services industry (Calpine Corp., NiSource Inc. and Pepco Holdings, Inc.), as recommended by Towers Watson. These three companies were added to the analysis because they are energy services firms with annual revenues between one-half and two times TVA's revenue but (i) did not participate in the 2012 Towers Watson Energy Services Executive Compensation Survey (NiSource Inc.), (ii) did not submit data prior to the time TVA's market assessment was conducted (Calpine), or (iii) reported an annual revenue for 2012 that fell just short of \$6 billion (Pepco Holdings, Inc.).

In addition, TVA informally considered the following companies with revenues between \$3.0 billion and \$6.0 billion that participated in the 2012 Towers Watson Energy Services Executive Compensation Survey: Alliant Energy Corp.; El Paso Corp.; Integrys Energy Group; MDU Resources; Northeast Utilities Systems; OGE Energy; Pepco Holdings Inc.; Pinnacle West Capital; Puget Energy Inc.; SCANA Corp.; and Wisconsin Energy Corp.

The following government entities that participated in the 2012 Towers Watson Energy Services Executive Compensation Survey were also informally considered by the Committee: Colorado Springs Utilities, ElectricCities of North Carolina, Energy Northwest, Lower Colorado River Authority, New York Power Authority, Omaha Public Power and Salt River Project. Each of these government entities has annual revenue of less than \$3.0 billion.

### *Executive Compensation Program Components*

**Federal Salary Freeze.** In December 2010, Congress passed the Continuing Appropriations and Surface Transportation Extensions Act of 2011, which included a two-year freeze on statutory pay adjustments for all executive branch pay schedules and a two-year freeze by executive agencies on base salary increases to all senior executives. These two-year freezes applied to calendar years 2011 and 2012. The TVA Board members are covered by the first freeze and TVA's officers (Vice President and above), including the Named Executive Officers, are covered by the second freeze. Congress passed a Continuing Resolution (H.J. Res. 117) in September 2012 extending these federal employee salary freezes through March 27, 2013, and in March 2013, Congress passed a stop-gap spending bill that extended the freezes through December 31, 2013. Accordingly, TVA's officers, including the Named Executive Officers, have not and will not receive any salary increase, except for

promotions, for calendar years 2011, 2012 and 2013. TVA voluntarily implemented the salary freeze for manager, specialist and excluded employees for calendar years 2011, 2012 and 2013. The federal salary freeze does not apply to TVA's represented employees whose salary increases are governed by the terms of collective bargaining agreements, and also does not apply to certain promotions and changes in positions and other forms of non-salary compensation, such as lump-sum and incentive-based awards.

**Salary.** The salaries of the Named Executive Officers for 2013 were as follows: \$950,000 for Mr. Johnson, \$850,000 for Mr. Kilgore, \$520,000 for Mr. Thomas, \$545,000 for Mr. Swafford, \$400,000 for Mr. Rodgers, and \$415,000 for Mr. Skaggs. As a result of the federal salary freeze, the 2013 salaries for Mr. Kilgore, Mr. Thomas, Mr. Swafford and Mr. Rodgers were the same as in 2011 and 2012.

Executive	Position	2011	2012	2013	2013 Market Position
Mr. Johnson	President and CEO	NA	NA	\$950,000	Near the 25th percentile
Mr. Kilgore <sup>(1)</sup>	Former President and CEO	\$850,000	\$850,000	\$850,000	Near the 25th percentile
Mr. Thomas	EVP and CFO	\$520,000	\$520,000	\$520,000	Near the 25th percentile
Mr. Swafford	EVP & Chief Nuclear Officer <sup>(2)</sup>	\$545,000	\$545,000	\$545,000	Near the 75th percentile
Mr. Rodgers	EVP & General Counsel	\$400,000	\$400,000	\$400,000	Near the 25th percentile
Mr. Skaggs	SVP, Watts Bar Nuclear Operations and Construction <sup>(2)</sup>	NA	NA	\$415,000	Near the 75th percentile

**Notes**

(1) As the result of his retirement Mr. Kilgore was paid his salary on a bi-weekly basis at the annual rate of \$850,000 through December 31, 2012 only.

(2) Salaries for Messrs. Swafford and Skaggs are targeted at the 75th percentile inasmuch as their positions are subject to high demand and scarcity, and because of recruitment and retention issues within the nuclear industry.

More information about the approval of Mr. Johnson's compensation for 2013 is below. See *Considerations Specific to Mr. Johnson*.

**Annual Incentive Compensation.** All executives, including the Named Executive Officers, participate in the Executive Annual Incentive Plan ("EAIP"). The EAIP is designed to encourage and reward executives for successfully achieving annual financial and operational goals. For 2013, the EAIP focused on achieving both enterprise-wide and strategic business unit goals. The specific award opportunities, metrics and associated goals are described below.

Annual incentive opportunities for participants in the EAIP generally increase with position and responsibility. For 2013, the TVA Board set Mr. Johnson's target EAIP award opportunity at 100 percent of salary. See *Considerations Specific to Mr. Johnson*. As a result of Mr. Kilgore's retirement prior to the end of the fiscal year, he was not eligible for any award under the EAIP for 2013. In February 2013, Mr. Johnson evaluated the appropriateness of the EAIP award opportunities (no adjustments could be made in base salary levels due to the federal salary freeze) for Mr. Thomas, Mr. Swafford, Mr. Rodgers and Mr. Skaggs. As a result, the CEO approved an adjustment to bring Mr. Skaggs' target EAIP award opportunity closer to the targeted (75<sup>th</sup> percentile) market compensation for his position at that time of Senior Vice President, Nuclear Construction. Specifically, Mr. Johnson approved increasing Mr. Skaggs' target EAIP award opportunity from 60 percent of salary in 2012 to 70 percent of salary for 2013. The CEO made no change for 2013 to the 2012 target EAIP award opportunities for Mr. Thomas, Mr. Swafford and Mr. Rodgers, which remained at 80 percent, 80 percent, and 60 percent, respectively. Accordingly, target EAIP award opportunities of the Named Executive Officers for 2013 were as follows:

NEO	Target Annual Incentive Opportunity*
Mr. Johnson	100%
Mr. Thomas	80%
Mr. Swafford	80%
Mr. Rodgers	60%
Mr. Skaggs	70%
* Represents a percent of each NEO's salary.	

The target 2013 EAIP award opportunities approved by the TVA Board for Mr. Johnson, and by the CEO for Mr. Thomas, Mr. Swafford, Mr. Rodgers and Mr. Skaggs, were at such levels that target payouts (together with salary, target payout of long-term incentive opportunities, and long-term deferred compensation credits) would place their total direct compensation at the following levels relative to the benchmark total direct compensation for comparable positions in TVA's peer group:

NEO	Targeted Total Direct Compensation
Mr. Johnson	Near the 25th Percentile
Mr. Thomas	Near the 25th Percentile
Mr. Swafford	Near the 75th Percentile <sup>(1)</sup>
Mr. Rodgers	Near the 25th Percentile
Mr. Skaggs	Near the 75th Percentile <sup>(1)</sup>

Note

(1) Targeted at the 75th percentile of benchmark total direct compensation because these positions are subject to high demand and scarcity, and because of recruitment and retention issues within the nuclear industry.

The TVA Board established five TVA enterprise-wide performance measures for the 2013 EAIP:

- Total Financing Obligations over Productive Assets
- Nuclear Operating Availability Factor
- Critical Coal Seasonal Equivalent Forced Outage Rate
- Combined Cycle Seasonal Equivalent Forced Outage Rate; and
- Clean Energy Percentage.

## [Table of Contents](#)

These were the same enterprise-wide performance measures used to determine annual incentive payouts for all non-executive TVA employees who participated in TVA's 2013 Winning Performance Team Incentive Plan ("WPTIP"). These performance measures represented 60 percent of the potential payout for employees participating in the WPTIP and EAIP. The remaining 40 percent of the potential payout was based on achievement of performance measures on applicable strategic business unit ("SBU") and business unit ("BU") scorecards, which were based on performance measures approved by the CEO. The weight and goals associated with the enterprise-wide performance measures, as well as the results for 2013, were as follows:

### 2013 TVA Enterprise Wide Performance Measures and Results

Performance Measure	Weight	Results Achieved	Percent of Target Award Opportunity Achieved	Goals		
				Threshold (50%)	Target (100%)	Maximum (150%)
Total Financing Obligations over Productive Assets <sup>(1)</sup>	15%	75.3	87.50%	75.6 (business plan + 0.4% point)	75.2 (business plan)	74.8 (business plan - 0.4% point)
Nuclear Operating Availability Factor <sup>(2)</sup>	20%	96.8	81.82%	96.1 (3-year average + 0.1% point)	97.2 (median)	98.1 (top quartile)
Critical Coal Seasonal Equivalent Forced Outage Rate <sup>(3)</sup>	10%	5.3	86.00%	7.1 (3-year average - 0.1% point)	4.6 (median)	2.5 (top quartile)
Combined Cycle Seasonal Equivalent Forced Outage Rate <sup>(4)</sup>	5%	7.6	0.00%	3.6 (3-year average - 0.1% point)	2.7 (median)	1.6 (top quartile)
Clean Energy Percentage <sup>(5)</sup>	10%	49.0	150.00%	41 (3-year average - 0.1% point)	43 (top quartile)	45 (top quartile + 2.0% point)
Overall Percent of Opportunity Achieved			88.48%			

#### Notes

- (1) Total Financing Obligations over Productive Assets is a measure of debt, leaseback obligations, and energy prepayment obligations over assets (excluding regulatory assets).
- (2) Nuclear Operating Availability Factor is calculated as follows: Winter Net Dependable Capacity x Period Hours - Total Megawatt Hour Losses / Winter Net Dependable Capacity x Period Hours - Planned Outage Megawatt Hour Losses (Refueling Outages Only).
- (3) Critical Coal Seasonal Equivalent Forced Outage Rate measures the generation lost because of forced events as a percentage of time a unit would have been scheduled to run. This indicator is for the months of December to March and June to September and includes the Allen, Cumberland, Gallatin, Paradise, and Shawnee coal-fired plants.
- (4) Combined Cycle Seasonal Equivalent Forced Outage Rate measures the generation lost because of forced events as a percentage of time a unit would have been scheduled to run. This indicator is for combined cycle plants for the months of December to March and June to September.
- (5) Clean Energy Percentage tracks and measures the percent of TVA's clean energy generation and purchases. Clean energy is defined as energy that has a near-zero carbon emission rate or energy efficiency improvements. Generation from energy resources with zero or low emissions of greenhouse gases include nuclear, wind, biomass, solar, hydroelectric, and other non-fossil sources such as waste heat. This metric includes all clean energy generated and purchased by TVA.

The Board approved two design changes to the WPTIP and EAIP beginning in 2013. The first change revised the previously approved corporate modifier. The corporate modifier was established to allow the CEO to adjust the amount of incentive awards (-20 percent to +20 percent) based on the CEO's assessment of TVA's performance during the year and factors that may be significant but hard to quantify. To strengthen the alignment of the WPTIP and EAIP incentive plans with TVA enterprise-wide performance, the TVA Board assumed authority to exercise the corporate modifier, providing Board members an opportunity to determine performance adjustments at year end. The corporate modifier, ranging from 75 percent to 125 percent, would apply to all WPTIP/EAIP scorecards. This Board-initiated modifier will be based on several metrics and other factors, such as net cash flow, stakeholder and customer satisfaction, and significant events during the year.

The second design change to the WPTIP and EAIP adjusts the weighting of the TVA enterprise-wide performance measures and SBU/BU performance measures in determining awards under the plans. Starting in FY 2013, the TVA enterprise-wide performance measures will represent 60 percent of the potential payout, and the applicable SBU or BU performance measures will represent 40 percent of the potential payout for all employees, including the Named Executive Officers.

The 2013 EAIP maintained the CEO's discretion to adjust individual incentive awards based on subjective assessments of individual performance during 2013. In addition, for 2013, the Chairman of the Board, in consultation with the Committee and with input from individual Board members, will continue to evaluate the CEO's performance to determine adjustments to his incentive award under the EAIP.



For 2013, an executive's annual incentive payment under the EAIP was calculated as follows:

$$\text{EAIP Amount} = \text{Annual Salary} \times \text{Annual Target Incentive Opportunity} \times \text{Percent of Opportunity Achieved (0\% to 150\%)} \times \text{Corporate Modifier (75\% to 125\%)} \times \text{Subjective Individual Assessment}$$

For EAIP participants, including the Named Executive Officers, the percent of opportunity achieved constituted the weighted average of the results of corporate goal achievement (representing 60%) and strategic business-unit goal achievement (representing 40%). Based on the results for the enterprise-wide performance measures described above for 2013, the enterprise wide goal achievement was equal to 88.48 percent.

**2013 EAIP Award Opportunity Achievement**

NEO	BU Scorecard	BU Performance Measures	Weighting of BU Performance Results	BU Performance Results	Overall BU Performance Achieved	Overall Enterprise Wide Performance Achieved	Percent of Target Award Opportunity Achieved
William D. Johnson John M. Thomas, III Ralph E. Rodgers	TVA Corporate	Corporate Total Spend	30%	150%	150.00%	88.48%	113.09%
		TVA Safe Workplace	10%	150%			
		NPG Total Spend	15%	150%			
Preston D. Swafford	Nuclear Power Group (NPG)	NPG Equipment Reliability Index	15%	75%	122.00%	88.48%	101.84%
		NPG Safe Workplace	10%	150%			
		NC Total Spend	15%	104%			
Michael D. Skaggs	Nuclear Construction (NC)	NC Milestones Completed	15%	125%	124.00%	88.48%	102.50%
		NC Safe Workplace	10%	150%			

As discussed above, in 2013 the corporate modifier ranged from 75 percent to 125 percent and allowed the Board to adjust the scorecard achievement results based on several metrics and other factors. The Board determined, however, that no adjustment would be made using the corporate modifier.

At the end of 2013, the Chairman of the TVA Board, in consultation with the Committee and with input from individual members of the TVA Board, evaluated Mr. Johnson's performance as CEO during 2013. Based on this review, the Chairman of the TVA Board rated Mr. Johnson's performance for 2013 as 3.54 out of 4.00, which falls between meets and exceeds expectations, and decided that Mr. Johnson's final annual incentive award should not be adjusted.

Once all other preliminary 2013 EAIP payouts were calculated, the CEO evaluated each participant's performance (except his own) to determine whether any upward or downward adjustment should be made to the final annual incentive award of the participants, including each Named Executive Officer. The individual performance evaluation was conducted by the CEO for his direct reports, or each participant's supervisor in consultation with the CEO, after the end of the year, based on a purely subjective review of how the participant performed during the year and/or how the business unit, over which the participant had responsibility, performed.

At the end of 2013, pursuant to TVA Board delegations described above, Mr. Johnson as CEO, in consultation with the Committee and with input from individual members of the TVA Board, subjectively evaluated the performance of Mr. Thomas, Mr. Rodgers and Mr. Skaggs as his direct reports during 2013. Based on his review, Mr. Johnson, with input from individual members of the TVA Board, made the following determinations regarding the final annual incentive awards for his direct reports:

- Mr. Thomas' award should not be adjusted
- Mr. Rodgers' award should not be adjusted

- Mr. Skaggs' award should not be adjusted

Mr. Johnson and Mr. Charles G. Pardee, TVA's Executive Vice President and Chief Operating Officer (to whom Mr. Swafford reported), subjectively evaluated Mr. Swafford's performance during 2013. Based on this review, Mr. Johnson and Mr. Pardee made the following determination regarding the final annual incentive award for 2013:

- Mr. Swafford's award should not be adjusted

As a result of the above process, the Named Executive Officers were awarded the following EAIP payouts for 2013 in comparison to the 2013 target payouts:

2013 EAIP Payouts							
NEO	Salary	Target EAIP Incentive Opportunity (% of Salary)	Target EAIP Payout	Percent of Opportunity Achieved	Corporate Modifier	Individual Performance Adjustment	Actual EAIP Payout
William D. Johnson	\$950,000	100%	\$712,500 <sup>(1)</sup>	113.09%	0%	0%	\$805,766 <sup>(2)</sup>
John M. Thomas, III	\$520,000	80%	\$416,000	113.09%	0%	0%	\$470,454
Preston D. Swafford	\$545,000	80%	\$436,000	101.84%	0%	0%	\$444,022
Ralph E. Rodgers	\$400,000	60%	\$240,000	113.09%	0%	0%	\$271,416
Michael D. Skaggs	\$415,000	70%	\$290,500	102.50%	0%	0%	\$297,763

**Note**

(1) Represents the target amount for 2013. If Mr. Johnson would have been a participant for the entire plan year, his target award would have been \$950,000.

(2) Mr. Johnson's EAIP award was prorated based on the number of full months he was a participant in the EAIP.

Awards to the Named Executive Officers under the EAIP for 2013 are reported in the "Non-Equity Incentive Plan Compensation" column in the Summary Compensation Table.

**Long-Term Incentive Compensation.** In addition to the EAIP, certain executives in critical positions, including the Named Executive Officers, participate in the ELTIP. Executives in critical positions make decisions that significantly influence the development and execution of TVA's long-term strategic objectives. The ELTIP is designed to properly and competitively reward executives for helping TVA improve in areas directly related to TVA's long-term success by:

- Using enterprise-wide performance criteria that are directly aligned with TVA's mission;
- Using a "cumulative" performance approach to measure performance achieved over a three-year period with a new three-year performance cycle beginning each year;
- Targeting award opportunities for each performance cycle at levels that approximate median levels of competitiveness with TVA's peer group and incorporating the Committee's policy of targeting that (i) about 80 percent of each executive's total long-term incentive opportunity be performance-based (under the ELTIP) and (ii) about 20 percent of each executive's total long-term incentive opportunity be retention and security-oriented (under the Long-Term Deferred Compensation Plan ("LTDCP") as described below under the heading "Long-Term Deferred Compensation"); and
- Using a potential payment range of 50 percent to 150 percent of target incentive opportunity to enable awards that are commensurate with performance achievements.

Under the ELTIP, an executive's incentive payment is calculated as follows:

$$\text{ELTIP Payout} = \text{Salary} \times \text{Target ELTIP Incentive Opportunity} \times \text{Percent of Opportunity Achieved}$$

The ELTIP establishes incentive opportunities for each of the Named Executive Officers that equal about 80 percent of each Named Executive Officer's total long-term compensation based on a percentage of the base salary rate at the end of the performance cycle. Except for Mr. Skaggs, as described below, target long-term incentive opportunities of the Named Executive Officers for 2013 were the same as 2012:

NEO	Target Long-Term Incentive Opportunity*
Mr. Johnson	150%
Mr. Thomas	120%
Mr. Swafford	100%
Mr. Rodgers	120%
Mr. Skaggs	90%
* Represents a percent of each NEO's salary.	

The long-term incentive opportunities for the 2011-2013 performance cycle were approved by the TVA Board for Mr. Johnson and by Mr. Johnson, as CEO, for Mr. Thomas, Mr. Swafford, Mr. Rodgers and Mr. Skaggs. As a result of Mr. Kilgore's retirement prior to the end of the fiscal year, he was not eligible for any award under the ELTIP for 2013. In February 2013, Mr. Johnson, as CEO, evaluated the compensation of Mr. Thomas, Mr. Swafford, Mr. Rodgers and Mr. Skaggs relative to TVA's peer group and TVA's compensation philosophy to determine whether to make adjustments to their compensation for 2013. The CEO approved an adjustment to the target long-term incentive opportunity for Mr. Skaggs to bring his pay closer to the targeted market compensation (75th percentile) for his position at that time of Senior Vice President, Nuclear Construction, which is subject to market scarcity and retention issues, and to meet the objective of having target ELTIP awards constitute about 80 percent of total long-term compensation. Specifically, Mr. Johnson approved an increase in Mr. Skaggs' target long-term incentive opportunity from 60 percent of salary in 2012 to 90 percent of salary for 2013. For each of the other Named Executive Officers, the objective of having target ELTIP awards constitute about 80 percent of total long-term compensation was achieved by maintaining the target ELTIP incentive opportunities for the 2011-2013 performance cycle at the same level as for the 2010-2012 performance cycle. In addition, these same target levels of long-term incentive opportunity kept the total direct compensation of each Named Executive Officer at the percentage of TVA's peer group described above. See *Annual Incentive Compensation*.

#### 2011 - 2013 Performance Cycle

For the three-year cycle ended September 30, 2013, the TVA Board approved three overall long-term incentive measures of TVA performance to be applied to all participants in the ELTIP:

- retail rates (the sum of distributor-reported retail power revenue plus directly-served power revenue divided by the sum of distributor-reported retail sales plus directly-served power sales);
- load not served (the product of the percentage of total load not served times the number of minutes in the period); and
- organizational health index (measures and tracks the organizational elements that drive TVA's performance culture).

The retail rates performance measure represents 12-month averages comparing TVA's rates with those of surveyed regional holding company utilities, with goals that reflect percent gap improvements to achieve top quartile rates by 2020. The goals approved for the retail rates performance measure for the three-year performance cycle ended September 30, 2013, were as follows:

- The threshold goal was TVA's performance improvement to a 10.75 percent gap relative to the top quartile of a comparison group of regional utilities. The ELTIP Retail Rates Comparison Group includes Southern Company, Next Era Energy, Inc., American Electric Power Co., Inc., Duke Energy Corp., Progress Energy, Inc., Entergy Corp., Dominion Resources, Inc., Ameren Corp., and PPL.
- The target goal was TVA's performance improvement to a 10 percent gap relative to the top quartile of the ELTIP Retail Rates Comparison Group's performance.
- The maximum goal was TVA's performance improvement to a 9 percent gap relative to the top quartile of the ELTIP Retail Rates Comparison Group's performance.

TVA obtained retail rate data (retail sales plus retail revenue) for the ELTIP Retail Rates Comparison Group from the EIA-826 Monthly Electric Utility Database.

Load not served performance was calculated as a percentage of total load-not-served multiplied by the number of minutes in period (with the value expressed in system minutes and excluding events during declared major storms) during the three-year cycle ended September 30, 2013, with a threshold goal of 7.8 (99.999% reliability), a target goal of 5.9 (75th percentile), and a maximum goal of 3.8 (90th percentile).

The Organizational Health Index measures and tracks TVA's performance culture. Some examples of measures include leadership, culture and climate; accountability, coordination and control; capabilities, motivation, innovation and learning; and external orientation. Threshold, target and maximum goals are based on a five-year plan (from 2009 to 2014) to achieve performance improvement measures. The performance targets were based on incremental improvements leading to median performance in 2013 (threshold), mid-second quartile performance in 2013 (target), and top quartile performance in 2013 (maximum).

The following table shows the performance goals and weighting and percent of opportunity achieved for the ELTIP for the three-year cycle ended September 30, 2013:

**ELTIP Performance Goals, Weighting, and Percent of Opportunity Achieved**

Performance Measure	Goals			Performance Results	Performance Achievement			
	Threshold (50%)	Target (100%)	Maximum (150%)		Actual (%)	X	Weight (%)	= Result (%)
Retail Rates	Improve to 10.75% gap vs. 2012 top quartile	Improve to 10% gap vs. 2012 top quartile	Improve to 9% gap vs. 2012 top quartile	6.00%	150.00%		40%	60.00%
Load Not Served	7.8	5.9	3.8	4.41	135.48%		30%	40.64%
Organizational Health Index	61%	66%	71%	66.00%	100.00%		30%	30.00%
Overall Percent of Opportunity Achieved								130.64%

As a part of the ELTIP, the TVA Board reserves discretion to review results and peer group comparisons and to approve adjustments in payouts, if appropriate. The TVA Board did not adjust any payout for 2013.

As a result, the Named Executive Officers were awarded the following ELTIP payouts for the 2011 - 2013 Performance Cycle in comparison to the 2011 - 2013 Performance Cycle target payouts:

**2011 - 2013 Performance Cycle ELTIP Payouts**

NEO	Salary	Target ELTIP Incentive Opportunity	Target ELTIP Payout	Percent of Opportunity Achieved	ELTIP Payout
William D. Johnson	\$950,000	150%	\$1,425,000	130.64%	\$1,861,620
John M. Thomas, III	\$520,000	120%	\$624,000	130.64%	\$815,194
Preston D. Swafford	\$545,000	100%	\$545,000	130.64%	\$711,988
Ralph E. Rodgers	\$400,000	120%	\$480,000	130.64%	\$627,072
Michael D. Skaggs	\$415,000	90%	\$373,500	130.64%	\$487,940

Awards to the Named Executive Officers under the ELTIP for the performance cycle that ended September 30, 2013, are reported in the "Non-Equity Incentive Plan Compensation" column in the Summary Compensation Table.

## 2012 - 2014 Performance Cycle

The TVA Board approved the following overall measures of TVA performance for all participants in the ELTIP for the three-year cycle ending September 30, 2014:

Performance Measure	Weight	Threshold (50%)	Target (100%)	Maximum (150%)
Wholesale Rate Excluding Fuel <sup>(1)</sup>	40%	Target + 2%	FY 2014 Business Plan	Target -2%
System Reliability Load Not Served <sup>(2)</sup>	30%	7.8 (99.999% reliable)	6.8	3.3
Responsibility External Measures <sup>(3)</sup>	30%	76.9	84.8	92.0

### Notes

- (1) The Wholesale Rate Excluding Fuel measure represents TVA's electric sales revenue excluding fuel divided by electric power sales. For the 2012-2014 ELTIP performance cycle, the Wholesale Rate Excluding Fuel measure will be calculated using the 2014 results.
- (2) Load Not Served is equal to the product of (i) the percentage of total load not served and (ii) the number of minutes in the period (excluding events during declared major storms) and will be based on the average of the three years within the ELTIP cycle.
- (3) For the 2012-2014 ELTIP performance cycle, the External Measures metric will be calculated using the 2014 results. The External Measures metric is designed to maintain and enhance TVA's reputation and is derived from the following items:

Performance Measure	Weight	Threshold	Target	Maximum
External performance indicators for the TVA nuclear fleet	25%	80.0	83.0	86.0
Percent of positive and balanced TVA news coverage compared to all TVA coverage	25%	80.0	84.0	85.0
Survey of public opinion of TVA	10%	81	81.5	82.0
Survey of TVA customers	10%	48.0	49.0	50.0
Board level significant events	30%	Two Unfavorable (80)	Zero (100)	Two Favorable (120)
Composite score for external measures		76.9	84.8	92.0

## 2013 - 2015 Performance Cycle

The TVA Board approved the following overall measures of TVA performance for all participants in the ELTIP for the three-year cycle ending September 30, 2015:

Performance Measure	Weight	Threshold (50%)	Target (100%)	Maximum (150%)
Wholesale Rate Excluding Fuel <sup>(1)</sup>	40%	Target +2%	FY 2014 Business Plan	Target -2%
System Reliability Load Not Served <sup>(2)</sup>	30%	(99.999% reliable)	Top Quartile	Top Decile
Responsibility External Measures <sup>(3)</sup>	30%	77.9	85.8	92.9

### Notes

- (1) The Wholesale Rate Excluding Fuel measure represents TVA's electric sales revenue excluding fuel divided by electric power sales. For the 2013-2015 ELTIP performance cycle, the Wholesale Rate Excluding Fuel measure will be calculated using an average of the 2014 and 2015 results.
- (2) Load Not Served is equal to the product of (i) the percentage of total load not served and (ii) the number of minutes in the period (excluding events during declared major storms) and will be based on the average of the three years within the ELTIP cycle.
- (3) For the 2013-2015 ELTIP performance cycle, the External Measures metric will be calculated using an average of the 2014 and 2015 results, except for the external performance indicators for the TVA nuclear fleet, which will be based on 2015 results.

**Long-Term Deferred Compensation.** As a corporate agency of the United States, TVA does not have equity securities that provide stock awards, options or other equity-based awards as compensation for its employees. To help retain leaders, TVA enters into agreements with certain executives, including the Named Executive Officers, which are administered under TVA's Long-Term Deferred Compensation Plan and provide a retention incentive similar to restricted stock or restricted stock units. The LTDCP agreements are aimed to encourage executives to remain with TVA and to provide, in combination with salary and EAIP and ELTIP incentive awards, a competitive level of total direct compensation. Under the LTDCP, credits are made to an account in an executive's name (typically on an annual basis) for a predetermined period. If the executive remains employed at TVA until the end of this period (typically three to five years), the executive becomes vested in the balance of the account, including any return on investment on the credits in the account, and receives a distribution in accordance with a deferral election made at the time the LTDCP agreement was made. The default return on investment on the credits in executives' accounts is interest calculated based on the composite rate of all marketable U.S. Treasury issues, which is credited daily to the

balance reflected in the executives' accounts. Executives may alternatively choose to have their balances adjusted based on the return on certain mutual funds.

Annual LTDCP credits are awarded to the Named Executive Officers in amounts targeted to constitute about 20 percent of each Named Executive Officer's total long-term compensation in conjunction with targeted ELTIP compensation described above. Annual credits provided to the Named Executive Officers under LTDCP agreements in 2013 are reported in the "All Other Compensation" column in the Summary Compensation Table. These credits are also reported in the "Registrant Contributions in Last FY" column in the Nonqualified Deferred Compensation Table, since the credits were placed in deferred compensation accounts in the Named Executives Officers' names.

*Considerations Specific to Mr. Johnson.* As a part of the TVA Board's employment negotiations with Mr. Johnson, the Committee, in consultation with Towers Watson, developed a compensation package commensurate with his experience and the position, while taking into account the Board-approved compensation for Mr. Kilgore the previous year. The TVA Board, with recommendation of the Committee, approved on October 30, 2012, the following compensation package for Mr. Johnson, effective January 1, 2013: annual salary of \$950,000, a target EAIP incentive opportunity of 100 percent of salary (subject to proration based on the number of months employed during the fiscal year), a target ELTIP incentive opportunity of 150 percent of salary (eligible for full award beginning in 2011-2013 performance cycle), a \$300,000 credit under an LTDCP agreement, and an award of up to \$325,000 under a performance incentive arrangement (described in *Other Agreements* below). The credit provided under the LTDCP in 2013 is reported in both the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table and the "Registrant Contributions in Last FY" column of the Nonqualified Deferred Compensation Table.

The chart below compares (i) the total direct compensation earned by Mr. Johnson for 2013; (ii) the 2013 compensation opportunity approved by the TVA Board for Mr. Johnson; (iii) the 2012 compensation opportunity approved by the TVA Board for Mr. Kilgore; and (iv) the chief executive officer median compensation data provided to the Committee by Towers Watson, based on TVA's peer group as discussed above.

**CEO Peer Group Compensation Comparison**

<b>Compensation Component</b>	<b>TVA CEO (Johnson) Compensation Earned for 2013</b>	<b>TVA CEO (Johnson) Compensation Opportunity for 2013</b>	<b>TVA CEO (Kilgore) Compensation Opportunity for 2013</b>	<b>2013 Towers Watson Chief Executive Officer Median Market Data Range (TVA Peer Group)<sup>(1)</sup></b>
Base Salary	\$712,500 <sup>(2)</sup>	\$950,000	\$850,000	\$1,165,000
Total Annual Incentive	113% <sup>(3)</sup> (% of target)	100% <sup>(3)</sup> (target)	100% <sup>(4)</sup> (target)	100% <sup>(4)</sup> (target)
Total Cash Compensation	\$1,518,266	\$1,900,000	\$1,700,000	\$2,300,000
Total Long-Term Incentive Compensation	131% <sup>(5)</sup> (% of target)	150% <sup>(5)</sup> (target)	150% <sup>(4)</sup> (target)	350% - 410% <sup>(4)</sup> (target)
Total Direct Compensation	\$4,004,886 <sup>(6)</sup>	\$3,950,000 <sup>(7)</sup>	\$3,600,000 <sup>(8)</sup>	\$6,757,000

**Notes**

(1) Market assessment effective October, 2012.

(2) Mr. Johnson received base salary for nine of the 12 months of the fiscal year based on his hire date of January 1, 2013.

(3) For 2013, Mr. Johnson's EAIP award was prorated based on the number of months he was employed during the fiscal year; accordingly, Mr. Johnson's target EAIP award for 2013 was 100 percent of \$712,500, and his actual award was 113 percent of this amount.

(4) Represents percent of salary.

(5) For the 2011-2013 ELTIP performance cycle, Mr. Johnson was eligible for a full award; accordingly, for the 2011-2013 ELTIP performance cycle, Mr. Johnson's target ELTIP award was 150 percent of \$950,000, and his actual award was 131 percent of this amount.

(6) Includes an annual credit of \$300,000 provided under a January 2013 LTDCP agreement and an award of \$325,000 provided under an additional performance based arrangement. See information regarding the details of the LTDCP agreement following the Grants of Plan-Based Awards Table.

(7) Includes an annual credit of \$300,000 provided under a January 2013 LTDCP agreement and an award of up to \$325,000 to be provided under an additional performance based arrangement. See information regarding the details of the LTDCP agreement following the Grants of Plan-Based Awards Table.

(8) Includes an annual credit of \$300,000 provided under a November 2009 LTDCP agreement and the credit opportunity of up to \$325,000 under an additional incentive-based long-term deferred compensation arrangement. See information regarding the details of the LTDCP agreement following the Grants of Plan-Based Awards Table.

The Committee's compensation recommendation for Mr. Johnson was lower than that of his peers in the CEO compensation benchmarking group, but competitive enough to attract Mr. Johnson to the position. In addition, the Committee made its recommendation based on the special place and mission of TVA, the belief that Mr. Johnson's target total direct compensation should be lower than the median market compensation for chief executive officers in TVA's peer group and the

belief that Mr. Johnson's compensation should be placed at greater risk than any other TVA executive (68 percent of overall target compensation).

*Pension Benefits.* All Named Executive Officers are eligible to participate in the following qualified plans available to all annual TVA employees:

- Defined benefit plan
  - Original Benefit Structure ("OBS") for employees covered under the plan prior to January 1, 1996, with a pension based on a final average pay formula.
  - Cash Balance Benefit Structure ("CBBS") for employees first hired on or after January 1, 1996, with a pension based on an account that receives pay credits equal to six percent of compensation plus interest.
  - Fixed and variable funds.
- 401(k) plan
  - For OBS members, TVA provides matching contributions of 25 cents on every dollar up to 1.5 percent of annual salary.
  - For CBBS members, TVA provides matching contributions of 75 cents on every dollar up to 4.5 percent of annual salary.

The availability of, and level of benefits provided by, these qualified plans are comparable to similar qualified plans provided by other companies in TVA's peer group.

In addition to its qualified retirement plans, TVA has a SERP for selected executives, who are critical to the ongoing success of the enterprise. TVA's SERP is a non-qualified plan that is similar to the SERPs used by most other companies in its peer group. The purpose of the SERP is to:

- Provide a competitive retirement benefit level that cannot be delivered solely through TVA's qualified retirement plans due to IRS limitations
- Provide a benefit level (as a percentage replacement of pre-retirement pay) that is more comparable to that of employees who are not subject to the IRS limitations.

Because "compensation" as calculated for purposes of the SERP benefit includes EAIP awards earned by the participants, the SERP benefits are somewhat sensitive to TVA's performance achievements. Also, discretionary actions by TVA's Board or the CEO to reduce EAIP payouts could reduce SERP benefits.

More information regarding these retirement and pension plans is found following the Pension Benefits Table.

*Perquisites.* Vehicle allowances are granted on a "business need" basis to a limited number of executives. In 2013, TVA provided certain executives, including Mr. Thomas, Mr. Swafford, Mr. Rodgers and Mr. Skaggs, a flat-dollar biweekly vehicle allowance that may be applied toward the purchase or lease of a vehicle, operating fees, excess mileage, maintenance, repairs and insurance. TVA eliminated its vehicle allowance program, effective September 22, 2013. Vehicle allowance amounts for the Named Executive Officers are reported in the "All Other Compensation" column in the Summary Compensation Table.

In connection with his move to Tennessee in 2013, Mr. Johnson received a relocation incentive payment. In 2013, Mr. Skaggs received a lump sum payment in lieu of any relocation benefits he would have been eligible to receive under TVA's relocation policy. These payments are reported in the "All Other Compensation" column in the Summary Compensation Table.

TVA did not provide any other perquisites to the Named Executive Officers in 2013.

*Health and Other Benefits.* TVA offers a group of health and other benefits (medical, dental, vision, life and accidental death and disability insurance, and long-term disability insurance) that are available to a broad group of employees. The Named Executive Officers are eligible to participate in TVA's health benefit plans and other non-retirement benefit plans on the same terms and at the same contribution rates as other TVA employees.

*Other Agreements.* As discussed in "Considerations Specific to Mr. Johnson," at the time of Mr. Johnson's appointment as CEO, the TVA Board approved an arrangement under which he would be eligible to receive an additional performance incentive award ("PIA") of up to \$325,000 per year based on the evaluation of his performance, which may be subjective and/or based on the achievement of defined short- and/or long-term goals. Under the arrangement, the TVA Board delegated to its



Chairman, in consultation with the Committee and with input from individual members of the TVA Board, the authority to set and approve any goals and the periods of performance for any such goals, evaluate the performance of Mr. Johnson subjectively and/or with respect to any goals, and approve any awards to Mr. Johnson. The Board was satisfied with the leadership Mr. Johnson demonstrated in 2013 in directing TVA's focus on safety, customer satisfaction, and the initial steps taken to address the impact of rising operating and maintenance (O&M) costs. Additionally, TVA had satisfactory performance during the fiscal year taking into account cost savings and improvements initiatives. Based on these factors the Chairman of the TVA Board approved an award to Mr. Johnson of \$325,000 for 2013 under this performance incentive arrangement.

In September 2009, the CEO approved an on-going performance arrangement that provided Mr. Swafford, as long as he remained responsible for managing TVA's Nuclear Power Group, the opportunity to receive annual performance awards for improvements in the overall performance of any of TVA's nuclear plants based on nuclear power industry peer evaluations. The arrangement allowed Mr. Swafford to receive a lump-sum performance award of \$100,000 following each fiscal year in which at least one nuclear plant in TVA's generation portfolio achieved an improved performance evaluation. If performance of any plant dropped below that achieved in the most recent evaluation of the plant, no award was to be made. All awards are approved by the CEO at the end of each fiscal year. Based on an overall peer evaluation, Mr. Swafford did not receive an annual performance award under this arrangement for 2013.

In February 2013, the CEO approved an arrangement that will provide Mr. Skaggs a performance award in the amount of \$300,000 if the Watts Bar Unit 2 completion project is completed on or ahead of schedule and on or under budget as defined under the "Watts Bar Unit 2 Project Completion Plan," as long as Mr. Skaggs remains in a position responsible for completion of the project. The scheduled project completion date is December 31, 2015, under the "Watts Bar Unit 2 Project Completion Plan."

## Executive Compensation Tables and Narrative Disclosures

### Summary Compensation and Grants of Plan-Based Awards

The following table provides information on compensation earned by each of the Named Executive Officers in 2013 (and 2012 and 2011 as applicable).

**Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Tom Kilgore	2013	\$ 304,039	—	—	—	\$ — <sup>(1)</sup>	\$ 0 <sup>(2)</sup>	\$ 8,000 <sup>(3)</sup>	\$ 312,039
Former President and Chief	2012	\$ 850,000	—	—	—	\$ 1,706,455 <sup>(4)</sup>	\$ 1,162,082 <sup>(5)</sup>	\$ 311,025	\$ 4,029,562
Executive Officer	2011	\$ 853,269	—	—	—	\$ 1,855,010 <sup>(6)</sup>	\$ 931,256 <sup>(7)</sup>	\$ 311,025	\$ 3,950,560
William D. Johnson	2013	\$ 712,500	—	—	—	\$ 2,667,386 <sup>(8)</sup>	\$ 2,063,395 <sup>(9)</sup>	\$ 461,250 <sup>(10)</sup>	\$ 5,904,531
President and Chief	2012	\$ —	—	—	—	\$ —	\$ —	\$ —	\$ —
Executive Officer	2011	\$ —	—	—	—	\$ —	\$ —	\$ —	\$ —
John M. Thomas, III	2013	\$ 522,000	—	—	—	\$ 1,285,648 <sup>(11)</sup>	\$ 161,119 <sup>(12)</sup>	\$ 172,500 <sup>(13)</sup>	\$ 2,141,267
Executive Vice President	2012	\$ 520,000	—	—	—	\$ 997,277 <sup>(14)</sup>	\$ 493,749 <sup>(15)</sup>	\$ 203,349	\$ 2,214,375
and Chief Financial Officer	2011	\$ 522,000	—	—	—	\$ 707,481 <sup>(16)</sup>	\$ 303,019 <sup>(17)</sup>	\$ 145,394	\$ 1,677,894
Preston D. Swafford	2013	\$ 547,096	—	—	—	\$ 1,156,008 <sup>(18)</sup>	\$ 103,140 <sup>(19)</sup>	\$ 122,500 <sup>(20)</sup>	\$ 1,928,744
Executive Vice President	2012	\$ 545,000	—	—	—	\$ 808,300 <sup>(21)</sup>	\$ 653,320 <sup>(22)</sup>	\$ 278,349	\$ 2,284,969
and Chief Nuclear Officer	2011	\$ 547,865	—	—	—	\$ 677,070 <sup>(23)</sup>	\$ 530,467 <sup>(24)</sup>	\$ 195,394	\$ 1,950,796
Ralph E. Rodgers	2013	\$ 401,539	—	—	—	\$ 898,488 <sup>(25)</sup>	\$ 473,297 <sup>(26)</sup>	\$ 145,000 <sup>(27)</sup>	\$ 1,918,324
Executive Vice President	2012	\$ 400,001	—	—	—	\$ 677,136 <sup>(28)</sup>	\$ 1,334,835 <sup>(29)</sup>	\$ 145,375	\$ 2,557,347
and General Counsel	2011	\$ —	—	—	—	\$ —	\$ —	\$ —	\$ —
Michael D. Skaggs	2013	\$ 416,596	—	—	—	\$ 785,703 <sup>(30)</sup>	\$ 212,967 <sup>(31)</sup>	\$ 197,500 <sup>(32)</sup>	\$ 1,612,766
Senior Vice President	2012	\$ —	—	—	—	\$ —	\$ —	\$ —	\$ —
Watts Bar Nuclear Operations and Construction	2011	\$ —	—	—	—	\$ —	\$ —	\$ —	\$ —

#### Notes

(1) Mr. Kilgore retired January 1, 2013 and did not receive an award under the EAIP or ELTIP.

(2) Represents increase of \$76,046 in 2013 under the CBBS and a decrease of \$306,227 in 2013 under the SERP.

(3) Represents \$8,000 earned in 2013 for his service as a witness on behalf of TVA in a legal proceeding following his retirement. Mr. Kilgore also received a LTDC credit of \$300,000 on December 1, 2012. This credit did not vest prior to his retirement and was forfeited.

(4) Represents \$350,000 awarded under the EAIP, \$1,081,455 awarded under the ELTIP, and a deferred compensation credit of \$275,000 provided under an incentive-based long-term deferred compensation arrangement. An additional \$350,000 may be paid under the EAIP at the time Watts Bar Unit 2 begins commercial operation, but only if the total cost of the project is \$4.4 billion or less and commercial operation is achieved on or before December 31, 2015.

(5) Reflects increases of \$20,804 under the CBBS and \$1,141,278 under the SERP.

(6) Represents \$892,510 awarded under the EAIP, \$637,500 awarded under the ELTIP, and a deferred compensation credit of \$325,000 provided under an incentive-based long-term deferred compensation arrangement.

(7) Reflects increases of \$23,379 under the CBBS and \$907,877 under the SERP.

(8) Represents \$805,766 awarded under the EAIP and \$1,861,620 awarded under the ELTIP.

(9) Reflects increases of \$12,066 under the CBBS and \$2,051,329 under the SERP.

(10) Represents a LTDC credit of \$300,000 made on January 1, 2013, which vested September 30, 2013, \$11,250 in 401(k) matching contributions, and a \$150,000 relocation incentive payment.

(11) Represents \$470,454 awarded under the EAIP and \$815,194 awarded under the ELTIP.

(12) Reflects a decrease of \$16,374 under the CBBS and an increase of \$177,493 under the SERP.

(13) Represents a LTDC credit of \$100,000 made on October 1, 2012, which vested September 30, 2013, a LTDC credit of \$50,000 made on May 1, 2013, vesting on April 30, 2014, \$11,250 in 401(k) matching contributions, and \$11,250 in vehicle allowance payments.

- (14) Represents \$468,000 awarded under the EAIP and \$529,277 awarded under the ELTIP.
- (15) Reflects increases of \$58,777 under the CBBS and \$434,972 under the SERP.
- (16) Represents \$382,481 awarded under the EAIP and \$325,000 awarded under the ELTIP.
- (17) Reflects increases of \$37,077 under the CBBS and \$265,942 under the SERP.
- (18) Represents \$444,020 awarded under the EAIP and \$711,988 awarded under the ELTIP.
- (19) Reflects a decrease of \$6,508 under the CBBS and an increase of \$109,648 under the SERP.
- (20) Represents a LTDC credit of \$100,000 made on October 1, 2012, which vested September 30, 2013, \$11,250 in 401(k) matching contributions, and \$11,250 in vehicle allowance payments.
- (21) Represents \$346,031 awarded under the EAIP and \$462,269 awarded under the ELTIP.
- (22) Represents increases of \$50,032 under the CBBS and \$603,288 under the SERP.
- (23) Represents \$404,570 awarded under the EAIP and \$272,500 awarded under the ELTIP.
- (24) Represents increases of \$34,027 under the CBBS and \$496,440 under the SERP.

## [Table of Contents](#)

- (25) Represents \$271,416 awarded under the EAIP and \$627,072 awarded under the ELTIP.
- (26) Represents a decrease of \$275,143 under the OBS and an increase of \$748,440 under the SERP.
- (27) Represents a LTDC credit of \$70,000 made and vested on September 30, 2013, a LTDC credit of \$60,000 made on May 1, 2013 vesting on April 30, 2014, \$3,750 in 401(k) matching contributions, and \$11,250 in vehicle allowance payments.
- (28) Represents \$270,000 awarded under the EAIP and \$407,136 awarded under the ELTIP.
- (29) Represents increases of \$371,156 under the OBS and \$963,679 under the SERP.
- (30) Represents \$297,763 awarded under the EAIP and \$487,940 awarded under the ELTIP.
- (31) Represents a decrease of \$18,824 under the CBBS and an increase of \$231,791 under the SERP.
- (32) Represents a LTDC credit of \$100,000 made on October 1, 2012, which vests on September 30, 2014, a LTDC credit of \$50,000 made on March 1, 2013 vesting on December 31, 2016, \$11,250 in 401(k) matching contributions, \$11,250 in vehicle allowance payments, and a \$25,000 lump-sum to cover estimated living expenses in lieu of standard entitlements to temporary living expenses and other benefits available under TVA's relocation policy.

The following table provides information on non-equity incentive plan awards and the possible range of payouts associated with incentives the Named Executive Officers were eligible to receive in the performance cycle ended in 2013.

**Grants of Plan-Based Awards Table**

Name	Plan	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>		
		Threshold <sup>(2)</sup> (\$)	Target <sup>(2)</sup> (\$)	Maximum <sup>(2)</sup> (\$)
William D. Johnson	EAIP <sup>(3)(4)</sup>	\$ 356,250	\$ 712,500	\$ 1,068,750
	ELTIP <sup>(5)</sup>	\$ 712,500	\$ 1,425,000	\$ 2,137,500
	PIA <sup>(6)</sup>	\$ —	\$ —	\$ 325,000
John M. Thomas, III	EAIP <sup>(4)</sup>	\$ 208,000	\$ 416,000	\$ 624,000
	ELTIP <sup>(5)</sup>	\$ 312,000	\$ 624,000	\$ 936,000
Preston D. Swafford	EAIP <sup>(4)</sup>	\$ 218,000	\$ 436,000	\$ 654,000
	ELTIP <sup>(5)</sup>	\$ 272,500	\$ 545,000	\$ 817,500
Ralph E. Rodgers	EAIP <sup>(4)</sup>	\$ 120,000	\$ 240,000	\$ 360,000
	ELTIP <sup>(5)</sup>	\$ 240,000	\$ 480,000	\$ 720,000
Michael D. Skaggs	EAIP <sup>(4)</sup>	\$ 145,250	\$ 290,500	\$ 435,750
	ELTIP <sup>(5)</sup>	\$ 186,750	\$ 373,500	\$ 560,250

**Notes**

(1) TVA does not have any equity securities and therefore has no equity-based awards.

(2) Threshold, Target, and Maximum represent amounts that could be earned by an NEO based on 2013 performance.

(3) Represents prorated amount based on the number of months he was a participant in the EAIP, which is nine out of twelve months (January-September 2013). Accordingly, Mr. Johnson's estimated possible payouts under the EAIP for 2013 are \$356,250 for threshold (\$475,000 x 9/12), \$712,500 for target (\$950,000 x 9/12), and \$1,068,750 for maximum (\$1,425,000 x 9/12).

(4) Target incentive opportunities as a percentage of salaries were as follows: Mr. Johnson, 100 percent; Mr. Thomas, 80 percent; Mr. Swafford, 80 percent; Mr. Rodgers, 60 percent; and Mr. Skaggs, 70 percent. Actual EAIP awards earned for performance in 2013 are reported for each of the Named Executive Officers under "Non-Equity Incentive Plan Compensation" in the Summary Compensation Table. See *Compensation Discussion and Analysis* for a discussion of how each award was determined.

(5) Target incentive opportunities for the three-year performance cycle ended September 30, 2013 as a percentage of salaries were as follows: Mr. Johnson, 150 percent; Mr. Thomas, 120 percent; Mr. Swafford, 100 percent; Mr. Rodgers, 120 percent; and Mr. Skaggs, 90 percent. ELTIP performance measures for the three-year cycle ended September 30, 2013, were Retail Rates, Load Not Served, and Organizational Health Index. Actual ELTIP awards earned for the performance cycle ended on September 30, 2013, are reported for each of the Named Executive Officers under "Non-Equity Incentive Plan Compensation" in the Summary Compensation Table. See *Compensation Discussion and Analysis* for a discussion of how each award was determined.

(6) Reflects the maximum award amount Mr. Johnson was eligible to receive under a performance incentive arrangement described in *Compensation Discussion and Analysis - Executive Compensation Program Components - Other Agreements*. The actual award to be paid to Mr. Johnson is reported under "Non-Equity Incentive Plan Compensation" in the Summary Compensation Table.

Awards under the EAIP, ELTIP, and PIA will be paid in cash during the first quarter of 2014.

**Long-Term Deferred Compensation Plan**

The TVA Long-Term Deferred Compensation Plan offers incentives to executives to encourage them to stay with TVA and to provide competitive levels of total direct compensation to such executives. Participating executives enter agreements in which deferred compensation credits are made to an account in the participant's name. Credits are made on an annual basis for an established period of time. Interest is credited daily to the balance reflected in the participant's deferral account. Interest is calculated based on the composite rate of all marketable U.S. Treasury issues. Alternatively, participants may choose to have their balance adjusted based on the return on certain mutual funds. Credits vest after a period fixed in the agreement and distribution is based on the election made at the time the agreement is entered. A summary of the LTDCP agreements, some of which are reflected in the Summary Compensation Table for the Named Executive Officers, is listed below. The date and amount of each credit, as well as the vesting of each award, is outlined in the table. See also the *Nonqualified Deferred Compensation Table* below, which also includes information with respect to amounts credited under these and prior LTDCP agreements.

[Table of Contents](#)

**Long-Term Deferred Compensation**

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Mr. Kilgore	12/01/2009 credit of \$300,000. Vested 11/30/2010. <sup>(1)</sup>	12/01/2010 credit of \$300,000. Vested 11/30/2011. <sup>(1)</sup>	12/01/2011 credit of \$300,000. Vested 11/30/2012. <sup>(1)</sup>	12/01/2012 credit of \$300,000. Forfeited prior to vesting. <sup>(2)</sup>			
Mr. Johnson				01/01/2013 credit of \$300,000. Vested 09/30/13. <sup>(3)</sup>	10/01/2013 credit of \$300,000. Vests 09/30/2014. <sup>(3)</sup>	10/01/2014 credit of \$300,000. Vests 09/30/2015. <sup>(3)</sup>	
Mr. Thomas		10/01/2010 credit of \$50,000. Vested 09/30/2013. <sup>(4)</sup>	10/01/2011 credit of \$100,000. Vested 09/30/2013. <sup>(4)</sup>	10/01/2012 credit of \$100,000. Vested 09/30/2013. <sup>(4)</sup>			
			01/01/2012 credit of \$50,000. Vested 12/31/2012. <sup>(4)</sup>				
				05/01/2013 credit of \$50,000. Vests 04/30/2014. <sup>(5)</sup>			
Mr. Swafford		12/01/2010 credit of \$150,000. Vested 09/30/2013. <sup>(6)</sup>	10/01/2011 credit of \$100,000. Vested 09/30/2013. <sup>(6)</sup>	10/01/2012 credit of \$100,000. Vested 09/30/2013. <sup>(6)</sup>			
			01/01/2012 credit of \$125,000. Vested 12/31/2012. <sup>(6)</sup>				
Mr. Rodgers		09/30/2011 credit of \$70,000. Vested 09/30/2013. <sup>(7)</sup>	09/30/2012 credit of \$70,000. Vested 09/30/2013. <sup>(7)</sup>	09/30/2013 credit of \$70,000. Vested 09/30/2013. <sup>(7)</sup>			
			01/01/2012 credit of \$60,000. Vested 12/31/2012. <sup>(8)</sup>				
				05/01/2013 credit of \$60,000. Vests 04/30/2014. <sup>(9)</sup>			
Mr. Skaggs				10/01/2012 credit of \$100,000. Vests 09/30/2014. <sup>(10)</sup>	10/01/2013 credit of \$100,000. Vests 09/30/2014. <sup>(10)</sup>		
				03/01/2013 credit of \$50,000. Vests 12/31/2016. <sup>(11)</sup>	01/01/2014 credit of \$50,000. Vests 12/31/2016. <sup>(11)</sup>	01/01/2015 credit of \$150,000. Vests 12/31/2016. <sup>(11)</sup>	01/01/2016 credit of \$150,000. Vests 12/31/2016. <sup>(11)</sup>

**Notes**

(1) Each credit, and earnings on such credits, were distributed to Mr. Kilgore in a lump sum at the time of vesting. The final credit, however, was forfeited.

(2) Mr. Kilgore retired on January 1, 2013, and forfeited this credit.

(3) Each credit, and earnings on such credit, were or will be distributed to Mr. Johnson in a lump sum at the time of vesting. In the event TVA terminates Mr. Johnson's employment during the term of the LTDCP agreement through no act or delinquency of his own, the agreement will be terminated as of the date of termination, no further credits will be made under it, and any credits in his account from this agreement including earnings on such credit will become vested. If Mr. Johnson voluntarily terminates his employment or TVA terminates Mr. Johnson's employment for cause prior to the expiration of the agreement, then any unvested credit, and earnings on such credit, in Mr. Johnson's account will be forfeited.

(4) The total of all credits, and earnings on such credits, were distributed to Mr. Thomas in a lump sum at the time of vesting.





## Table of Contents

- (5) Mr. Thomas will vest in this credit only if he remains employed by TVA until the expiration of the agreement on April 30, 2014. This vested credit, and earnings on such credit, will be distributed to him in a lump sum following the expiration of the agreement. In the event TVA terminates Mr. Thomas' employment during the term of the LTDCP agreement through no act or delinquency of his own, this credit and earnings on such credit in Mr. Thomas' account at the time of termination will become vested and distributed to him in a lump sum. If Mr. Thomas voluntarily terminates his employment or TVA terminates Mr. Thomas' employment for cause prior to the expiration of the agreement, this credit, and earnings on such credit, in Mr. Thomas' account will be forfeited.
- (6) All of the credits received under both agreements, and earnings on such credits, were distributed to Mr. Swafford in a lump sum at the time of vesting.
- (7) All of these credits, and earnings on such credits, vested on September 30, 2013, and will be distributed to Mr. Rodgers in five annual installments following his separation from service with TVA.
- (8) This credit, and earnings on such credit, vested on December 31, 2012, and was distributed to Mr. Rodgers in a lump sum at the time of vesting.
- (9) This credit, and earnings on such credit, vests on April 30, 2014, and will be distributed to Mr. Rodgers in a lump sum at the time of vesting.
- (10) Mr. Skaggs will vest in these credits only if he remains employed by TVA until the expiration of the LTDCP agreement on September 30, 2014. Prior credits of \$100,000 were made under this agreement on February 1, 2010, October 1, 2010 and October 1, 2011 and also vest on September 30, 2014. Credits, and earnings on such credits, will be distributed to Mr. Skaggs in ten annual installments upon separation of service.
- (11) Mr. Skaggs will vest in these credits only if he remains employed by TVA until the expiration of the LTDCP agreement on December 31, 2016. All vested credits, and earnings on such credits, will be distributed to him in ten annual installments following his separation from service with TVA. In the event TVA terminates Mr. Skaggs' employment during the term of a LTDCP agreement through no act or delinquency of his own, any credits under the agreement and earnings on such credits in Mr. Skaggs' account at the time of termination will become vested and distributed to him in ten annual installments. If Mr. Skaggs voluntarily terminates his employment or TVA terminates Mr. Skaggs' employment for cause prior to the expiration of the applicable agreement, then all credits under that agreement, and earnings on such credits, in Mr. Skaggs' account may be forfeited.

## Retirement and Pension Plans

The table below provides the actuarial present value of the Named Executive Officers' accumulated benefits, including the number of years of credited service, under TVA's retirement and pension plans as of September 30, 2013, determined using a methodology and interest rate and mortality rate assumptions consistent with those used in the financial statements in this Annual Report, set forth in Note 19.

**Pension Benefits Table**

Name	Plan Name	Number of Years of Credited Service <sup>(1)</sup> (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Year (\$)
Tom Kilgore <sup>(2)</sup>	(1) Qualified Plan – CBBS	7.827	\$ 185,022	\$ 7,602
	(2) Non-Qualified – SERP Tier 1	10.827 <sup>(3)</sup>	\$ 3,287,676	\$ 877,310
William D. Johnson	(1) Qualified Plan – CBBS	0.750	\$ 12,066	\$ —
	(2) Non-Qualified – SERP Tier 1	5.750 <sup>(4)</sup>	\$ 2,051,329	\$ —
John M. Thomas, III	(1) Qualified Plan – CBBS	7.833	\$ 169,137	\$ —
	(2) Non-Qualified – SERP Tier 1	7.833	\$ 1,066,258	\$ —
Preston D. Swafford	(1) Qualified Plan – CBBS	7.417	\$ 162,966	\$ —
	(2) Non-Qualified – SERP Tier 1	12.417 <sup>(5)</sup>	\$ 2,048,909	\$ —
Ralph E. Rodgers	(1) Qualified Plan – OBS	35.863	\$ 2,135,114	\$ —
	(2) Non-Qualified – SERP Tier 1	24.000	\$ 3,083,172	\$ —
Michael D. Skaggs	(1) Qualified Plan – CBBS	19.583	\$ 393,330	\$ —
	(2) Non-Qualified – SERP Tier 1	19.583	\$ 1,872,208	\$ —

### Notes

(1) Limited to 24 years when determining supplemental benefits available under SERP Tier 1, described below.

(2) Mr. Kilgore retired January 1, 2013.

(3) Mr. Kilgore has been granted three additional years of credited service for pre-TVA employment and the offset for prior employer pension benefits associated with the additional five years of credited service has been waived. In addition, the offset for benefits provided under TVA's defined benefit plan will be calculated based on the benefit he would be eligible to receive as a participant in the CBBS taking into account the additional years of credited service being used for SERP benefit calculation purposes.

(4) Mr. Johnson has been granted five additional years of credited service for pre-TVA employment and the offset for prior employer pension benefits associated with the additional five years of credited service has been waived. In addition, the offset for benefits provided under TVA's defined benefit plan will be calculated based on the benefit he would be eligible to receive as a participant in the CBBS taking into account the additional years of credited service being used for SERP benefit calculation purposes. As of September 30, 2013, the present value of this benefit was \$2,051,329. Without the additional years of credited service, the present value of Mr. Johnson's accumulated benefit would be \$50,790.

(5) Mr. Swafford has been granted five additional years of credited service for pre-TVA employment and the offset for prior employer pension benefits associated with the additional five years of credited service has been waived. In addition, the offset for benefits provided under TVA's defined benefit plan will be calculated based on the benefit he would be eligible to receive as a participant in the CBBS taking into account the additional years of credited service being used for SERP benefit calculation purposes. As of September 30, 2013, the present value of this benefit was \$2,048,909. Without the additional years of credited service, the present value of Mr. Swafford's accumulated benefit would be \$1,182,390.

**Qualified Defined Benefit Plan.** TVA sponsors a qualified defined benefit plan which is administered by the Tennessee Valley Authority Retirement System ("TVARS"). The plan has two structures -- the OBS and the CBBS. Participation in the OBS is limited to employees who were covered under the plan prior to January 1, 1996. All employees first hired by TVA on or after January 1, 1996, participate in the CBBS. TVARS rules and IRS regulations set limits on employee and employer contributions and compensation that can be counted in benefit calculations.

**OBS.** Mr. Rodgers is the only Named Executive Officer who participates in the OBS. The pension provided under the OBS is based on a final average pay formula that includes the member's years of creditable service (to the nearest month), highest average compensation during any three consecutive years of creditable service, and a pension factor, less a small

Social Security offset. For executives who are members of the OBS, compensation is defined as annual salary only for benefit calculation purposes and for Mr. Rodgers is shown under the "Salary" column in the Summary Compensation Table. The compensation in 2013 could not exceed \$250,000, pursuant to the IRS annual compensation limit applicable to qualified plans. Creditable service is the length of time spent as a member of TVARS and may also include certain military service, some periods of leave without pay, forfeited annual leave and unused sick leave. The pension factor, which can reach a maximum of 1.3 percent, is determined by a member's age and/or whether the member has obtained the Rule of 80, in which the sum of a member's age and creditable service at the time of termination equals at least 80 years. For example, a member who has reached age 55 and has 25 years of creditable service has obtained the Rule of 80. Mr. Rodgers has obtained the Rule of 80. The Social Security offset is equal to the product of a member's actual years of service times 1.75 times a factor based on the member's actual age at retirement. Members must have at least five years of creditable service to be eligible for a pension benefit.

Members in the OBS who are 55 with five years of creditable service are eligible to receive an immediate benefit upon retirement. Members whose age plus service, including unused sick leave and forfeited annual leave, equals 80 points or more receive the maximum pension factor of 1.3 percent. Members who reach age 60 with at least five years of creditable service receive the maximum pension factor of 1.3 percent even if they do not have 80 points. The OBS does not provide early retirement benefits to Mr. Rodgers or any other member in the OBS.

**CBBS.** All other Named Executive Officers are members of the CBBS, under which each member has a cash balance account that receives pay credits equal to six percent of compensation each pay period (every two weeks). For executives who are members of the CBBS, compensation is defined as annual salary only for benefit calculation purposes and is shown under the column titled "Salary" in the Summary Compensation Table. The compensation in 2013 could not exceed \$250,000 pursuant to the IRS annual compensation limit applicable to qualified plans. The account is credited with interest each month, and interest is compounded on an annual basis. The annual interest rate used for interest credits is determined each January 1. The interest rate is three percent greater than the percentage increase in the 12-month average of the Consumer Price Index for the period ended on the previous October 31. The minimum interest rate is six percent and the maximum interest rate is 10 percent unless the TVARS Board of Directors, with TVA's approval, selects a higher interest rate. When a member elects to begin receiving retirement benefits, the cash balance account is converted to a monthly pension payment by dividing the ending value of the cash balance account by a conversion factor set forth in the plan based on the member's actual age in years and months.

Members with at least five years of CBBS service are eligible to receive an immediate benefit. CBBS service is the length of time spent as a member of the TVA Retirement System and does not include credit for unused sick leave, forfeited annual leave or pre-TVA employment military service. The CBBS does not provide for early retirement benefits to any Named Executive Officer or any other member in the CBBS.

**Supplemental Executive Retirement Plan.** The SERP is a non-qualified defined benefit pension plan similar to those typically found in other companies in TVA's peer group and is provided to a limited number of executives, including the Named Executive Officers. TVA's SERP was created to recruit and retain key executives. The plan is designed to provide a competitive level of retirement benefits in excess of the limitations on contributions and benefits imposed by TVA's qualified defined benefit plan and IRS code section 415 limits on qualified retirement plans.

The SERP provides two distinct levels of participation, Tier 1 and Tier 2. Each participant is assigned to one of the two tiers at the time he or she is approved to participate in the SERP. The level of participation ("Tier") defines the level of retirement benefits under the SERP at the time of retirement.

Under the SERP, normal retirement eligibility is age 62 with five years of vesting service. No vested and accrued benefits are payable prior to age 55, and benefits are reduced for retirements prior to age 62. The level of reduction in benefits for retirements prior to age 62 depends on whether a participant's termination is "approved" or "unapproved." In the event of an approved termination of TVA employment, any vested and accrued benefits are reduced by 5/12 percent for each month that the date of benefit commencement precedes the participant's 62nd birthday, up to a maximum reduction of 35 percent. In the event of an unapproved termination of TVA employment, the participant's accrued benefits are first subject to a reduced percentage of vesting if the participant's years of service are between five and ten. At five years of vesting service, the vested percentage of retirement benefits is 50 percent and increases thereafter by 10 percent for each full additional year of service, reaching 100 percent vesting for ten or more years of vesting service. Thereafter, any vested and accrued benefits are reduced by 10/12 percent for each month that the date of benefit commencement precedes the participant's 62nd birthday up to a maximum reduction of 70 percent.

For purposes of the SERP, an "approved" termination means termination of employment with TVA due to (i) retirement on or after the participant's 62nd birthday, (ii) retirement on or after attainment of actual age 55, if such retirement has the approval of the TVA Board or its delegate, (iii) death in service as an employee, (iv) disability (as defined under TVA's long-term disability plan), or (v) any other circumstance approved by the TVA Board or its delegate. For purposes of the SERP, an "unapproved" termination means a termination of employment with TVA when such termination does not constitute an "approved" termination as defined in the preceding sentence.

**SERP Tier 1.** All of the Named Executive Officers are participants in Tier 1. The Tier 1 structure is designed to replace 60 percent of the amount of a participant's compensation at the time the participant reaches age 62 and has accrued 24 years of TVA service.

Tier 1 benefits are based on a participant's highest average compensation during three consecutive SERP years and a pension multiple of 2.5 percent for each year of credited service up to a maximum of 24 years. Compensation is defined as salary and EAIP for benefit calculation purposes. Tier 1 benefits are offset by Social Security benefits, benefits provided under TVA's defined benefit plan, and prior employer pension benefits when applicable.

**The TVA Sponsored 401(k) Plan.** Members of the TVA Retirement System, including the Named Executive Officers, may elect to participate in the TVA Retirement System's 401(k) plan on a before-tax, after-tax and/or Roth basis. For OBS members, TVA provides a matching contribution of \$0.25 on every dollar contributed on a before-tax, after-tax and/or Roth basis, up to 1.5 percent of the participant's annual salary. For CBBS members, TVA provides a matching contribution of \$0.75 on every dollar contributed on a before-tax, after-tax and/or Roth basis, up to 4.5 percent of the participant's annual salary.

#### *Nonqualified Deferred Compensation*

The following table provides information regarding deferred contributions, earnings and balances for each of the Named Executive Officers. The amounts reported under this table do not represent compensation in addition to the compensation that was earned in 2013 and already reported in the Summary Compensation Table, but rather the amounts of compensation earned by the Named Executive Officers in 2013 or prior years that were or have been deferred.

Nonqualified Deferred Compensation Table					
Name	Executive Contributions in Last FY (\$)	Registrant Contributions in Last FY (\$)	Aggregate Earnings in Last FY <sup>(1)</sup> (\$)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last FYE <sup>(2)</sup> (\$)
Tom Kilgore	\$ 0	\$ 300,000 <sup>(3)</sup>	\$ 57,689	\$ 4,843,725 <sup>(4)</sup>	\$ 0
William D. Johnson	\$ 0	\$ 300,000 <sup>(5)</sup>	\$ 4,642	\$ —	\$ 304,642 <sup>(6)</sup>
John M. Thomas, III	\$ 0	\$ 150,000 <sup>(7)</sup>	\$ 6,142	\$ 51,288	\$ 310,318 <sup>(8)</sup>
Preston D. Swafford	\$ 0	\$ 100,000 <sup>(9)</sup>	\$ 20,816	\$ 127,513	\$ 962,373 <sup>(10)</sup>
Ralph E. Rodgers	\$ 0	\$ 130,000 <sup>(11)</sup>	\$ 36,184	\$ 62,637	\$ 661,980 <sup>(12)</sup>
Michael D. Skaggs	\$ 0	\$ 150,000 <sup>(13)</sup>	\$ 186,906	\$ 0	\$ 3,250,369 <sup>(14)</sup>

#### Notes

- (1) Includes vested and unvested earnings. Because none of the amounts is above market earnings under SEC rules, none of these amounts is included in the Summary Compensation Table.
- (2) Includes vested and unvested contributions and earnings.
- (3) Represents an unvested annual credit in the amount of \$300,000 provided under a LTDCP agreement with Mr. Kilgore. This contribution was forfeited as Mr. Kilgore retired prior to the credit vesting on December 1, 2013.
- (4) This number represents the lump-sum distribution Mr. Kilgore received upon termination. This amount includes all deferred amounts contributed by Mr. Kilgore and reported in prior summary compensation tables throughout his career. This amount excludes the \$300,000 credit which was forfeited because Mr. Kilgore retired prior to the credit vesting.
- (5) Represents a credit of \$300,000 which vested on September 30, 2013 (reported in the "All Other Compensation" column in the Summary Compensation Table).
- (6) Includes a total of \$304,642 of contributions and earnings which were vested as of September 30, 2013.
- (7) Represents credits totaling \$150,000, \$100,000 of which vested on September 30, 2013, and \$50,000 of which vests on April 30, 2014, provided under two separate LTDCP agreements with Mr. Thomas (reported in the "All Other Compensation" column in the Summary Compensation Table).
- (8) Includes a total of \$310,318 of contributions and earnings, of which \$50,000 was not vested as of September 30, 2013. A total of \$200,000 was reported as compensation to Mr. Thomas in the Summary Compensation Tables in previous years.
- (9) Represents a credit of \$100,000 which vested on September 30, 2013 (reported in the "All Other Compensation" column in the Summary Compensation Table).
- (10) All contributions and earnings were vested as of September 30, 2013. A total of \$640,001 was reported as compensation to Mr. Swafford in the Summary Compensation Tables in previous years.
- (11) Represents credits totaling \$130,000, \$60,000 of which vests on April 30, 2014, and \$70,000 of which vested on September 30, 2013, provided under two separate LTDCP agreements with Mr. Rodgers (reported in the "All Other compensation" column in the Summary Compensation Table).
- (12) Includes a total of \$661,980 of contributions and earnings, of which \$60,000 was not vested as of September 30, 2013. A total of \$130,000 was reported as compensation to Mr. Rodgers in the Summary Compensation Table in the prior year.
- (13) Represents credits totaling \$150,000, \$100,000 of which vests on September 30, 2014, and \$50,000 of which vests on December 31, 2016, provided under two separate LTDCP agreements with Mr. Skaggs (reported in the "All Other Compensation" column in the Summary Compensation Table).
- (14) Includes a total \$3,250,369 of contributions and earnings, of which \$450,000 was not vested as of September 30, 2013.

TVA normally allows participants in the EAIP, ELTIP and LTDCP to defer all or a portion of the compensation earned under those plans and eligible for deferral under plan terms and IRS regulations. All deferrals are credited to each participant in a deferred compensation account, and the deferral amounts are then funded into a rabbi trust. Each participant may elect one or more of several notional investment options made available by TVA or allow some or all funds to accrue interest at the rate established by the beginning of each fiscal year equal to the composite rate of all Treasury issues. Participants may elect to change from either one notional investment option or the TVA interest bearing option to another at any time. Upon termination, funds are distributed pursuant to elections made in accordance with applicable IRS regulations.

Participants in the EAIP and ELTIP, including the Named Executive Officers, were not allowed to elect to defer any portion of their awards received under the plans for 2013 because not all of the conditions regarding performance based deferrals under applicable IRS regulations were met.

**Potential Payments on Account of Retirement/Resignation, Termination without Cause, Termination with Cause, or Death/Disability**

The tables below show certain potential payments that would have been made to each Named Executive Officer if his employment had been terminated on September 30, 2013, under various scenarios. All of the Named Executive Officers would also be entitled to payments from plans generally available to TVA employees under the specific circumstances of termination of employment, including the health and welfare and pension plans and amounts in the 401(k) plan.

<b>William D. Johnson</b>	Retirement/Resignation		Termination without Cause		Termination with Cause	Death/Disability	
Severance Agreement <sup>(1)</sup>	\$ 0		\$ 1,900,000		\$ 0	\$ 0	
LTDCP	\$ 0		\$ 304,642		\$ 0	\$ 304,642	
SERP	\$ 0 <sup>(2)</sup>		\$ 0 <sup>(2)</sup>		\$ 0	\$ 2,051,329 <sup>(3)</sup>	
Deferred Compensation	\$ 0		\$ 0		\$ 0	\$ 0	
Total Value of Potential Payments	\$ 0		\$ 2,204,642		\$ 0	\$ 2,355,971	
<b>Notes</b> (1) In October 2012, TVA entered into an arrangement with Mr. Johnson that provides a lump-sum payment equal to one year's annual salary and one year's executive annual incentive based on 100 percent target payout in the event TVA terminates his employment without cause. For purposes of this provision, termination without cause includes constructive termination which will be deemed to occur if Mr. Johnson terminates his employment because he is asked to take a new position with TVA with a material reduction in level of authority, duties, compensation, and benefits. This provision will not apply, and no lump-sum payment will be made, in the event Mr. Johnson voluntarily terminates his employment, voluntarily retires, or his employment is terminated "for cause" as defined in the agreement. (2) The five year vesting requirement has not been met. (3) Represents the present value of the accumulated benefit. In the event of death while employed by TVA, the beneficiary will receive a lump sum payment equal to the actuarial equivalent of the benefit that would have been paid had the participant terminated employment on the date of death and elected a joint and 50 percent survivor benefit.							

**Table of Contents**

<b>John M. Thomas, III</b>	Retirement/Resignation		Termination without Cause		Termination with Cause	Death/ Disability	
Severance Agreement <sup>(1)</sup>	\$ 0		\$ 0		\$ 0	\$ 0	
LTDCP	\$ 0		\$ 310,318		\$ 0	\$ 310,318	
SERP	\$ 1,066,258 <sup>(2)</sup>		\$ 1,066,258 <sup>(2)</sup>		\$ 0	\$ 1,066,258 <sup>(3)</sup>	
Deferred Compensation	\$ 0		\$ 0		\$ 0	\$ 0	
Total Value of Potential Payments	\$ 1,066,258		\$ 1,376,576		\$ 0	\$ 1,376,576	
<b>Notes</b> (1) Mr. Thomas does not have a severance agreement with TVA. (2) Represents the present value of the accumulated benefit. Actual benefit would be paid in five annual installments beginning at age 55. (3) Represents the present value of the accumulated benefit. In the event of death while employed by TVA, the beneficiary would receive a lump sum payment equal to the actuarial equivalent of the benefit that would have been paid had the participant terminated employment on the date of death and elected a joint and 50 percent survivor benefit							

<b>Preston D. Swafford</b>	Retirement/Resignation		Termination without Cause		Termination with Cause	Death/ Disability	
Severance Agreement <sup>(1)</sup>	\$ 0		\$ 0		\$ 0	\$ 0	
LTDCP	\$ 0		\$ 366,756		\$ 0	\$ 366,756	
SERP	\$ 2,048,909 <sup>(2)</sup>		\$ 2,048,909 <sup>(2)</sup>		\$ 0	\$ 2,048,909 <sup>(3)</sup>	
Deferred Compensation <sup>(4)</sup>	\$ 595,617		\$ 595,617		\$ 595,617	\$ 595,617	
Total Value of Potential Payments	\$ 2,644,526		\$ 3,011,282		\$ 595,617	\$ 3,011,282	
<b>Notes</b> (1) Mr. Swafford does not have a severance agreement with TVA. (2) Represents the present value of the accumulated benefit. Actual benefit would be paid in five annual installments beginning at age 55. (3) Represents the present value of the accumulated benefit. In the event of death while employed by TVA, the beneficiary would receive a lump sum payment equal to the actuarial equivalent of the benefit that would have been paid had the participant terminated employment on the date of death and elected a joint and 50 percent survivor benefit. (4) Amounts that Mr. Swafford earned in past years but elected to defer, which are payable pursuant to elections he made and applicable IRS rules.							

## Table of Contents

<b>Ralph E. Rodgers</b>	Retirement/Resignation		Termination without Cause		Termination with Cause	Death/Disability	
Severance Agreement <sup>(1)</sup>	\$ 0		\$ 0		\$ 0	\$ 0	
LTDCP	\$ 0		\$ 207,340		\$ 0	\$ 207,340	
SERP	\$ 3,083,172	<sup>(2)</sup>	\$ 3,083,172	<sup>(2)</sup>	\$ 0	\$ 3,083,172	<sup>(3)</sup>
Deferred Compensation <sup>(4)</sup>	\$ 454,640		\$ 454,640		\$ 454,640	\$ 454,640	
Total Value of Potential Payments	\$ 3,537,812		\$ 3,745,152		\$ 454,640	\$ 3,745,152	

**Notes**

(1) Mr. Rodgers does not have a severance agreement with TVA.

(2) Represents the present value of the accumulated benefit. Actual benefit would be paid in five annual installments upon separation from service.

(3) Represents the present value of the accumulated benefit. In the event of death while employed by TVA, the beneficiary would receive a lump sum payment equal to the actuarial equivalent of the benefit that would have been paid had the participant terminated employment on the date of death and elected a joint and 50 percent survivor benefit.

(4) Amounts that Mr. Rodgers earned in past years but elected to defer, which are payable pursuant to elections he made and applicable IRS rules.

Michael D. Skaggs	Retirement/Resignation		Termination without Cause		Termination with Cause	Death/Disability	
Severance Agreement <sup>(1)</sup>	\$ 0		\$ 0		\$ 0	\$ 0	
LTDCP	\$ 0		\$ 544,611		\$ 0	\$ 544,611	
SERP	\$ 1,872,208	<sup>(2)</sup>	\$ 1,872,208	<sup>(2)</sup>	\$ 0	\$ 1,872,208	<sup>(3)</sup>
Deferred Compensation <sup>(4)</sup>	\$ 2,705,757		\$ 2,705,757		\$ 2,705,757	\$ 2,705,757	
Total Value of Potential Payments	\$ 4,577,965		\$ 5,122,576		\$ 2,705,757	\$ 5,122,576	

**Notes**

(1) Mr. Skaggs does not have a severance agreement with TVA.

(2) Represents the present value of the accumulated benefit. Actual benefit would be paid in ten annual installments upon separation from service.

(3) Represents the present value of the accumulated benefit. In the event of death while employed by TVA, the beneficiary would receive a lump sum payment equal to the actuarial equivalent of the benefit that would have been paid had the participant terminated employment on the date of death and elected a joint and 50 percent survivor benefit.

(4) Amounts that Mr. Skaggs earned in past years but elected to defer, which are payable pursuant to elections he made and applicable IRS rules.





*Post-Retirement Benefits and Payments for Mr. Kilgore*

Tom Kilgore <sup>(1)</sup>	Benefit Payments and Deferred Compensation Distributions Upon Retirement During 2013	Benefit Payments and Other Payments After September 30, 2013	
Severance Payment	\$ 0	\$ 0	
Potential Payment	\$ 0	\$ 350,000	<sup>(2)</sup>
SERP	\$ 877,310	\$ 3,287,676	<sup>(4)</sup>
Deferred Compensation	\$ 4,536,892	\$ 0	<sup>(5)</sup>
Total Value	\$ 5,414,202	\$ 3,637,676	
<b>Notes</b> (1) Mr. Kilgore retired from TVA on January 1, 2013. (2) Represents the remaining amount (one-half) of the annual incentive award earned in 2012 to be paid at the time Watts Bar Unit 2 begins commercial operation provided the final cost of the project is \$4.4 billion or less and commercial operation is achieved on or before December 31, 2015. (3) Represents the first SERP benefit installment (one of five) paid immediately following retirement in 2013. (4) Represents the present value of the accumulated benefit, as of September 30, 2013, to be paid in four remaining annual installments. (5) Amounts that Mr. Kilgore earned in past years but elected to defer, which were paid pursuant to elections he made in accordance with applicable IRS regulations.			

**Other Agreements**

Except as described above and in the Compensation Discussion and Analysis, there are no other agreements between TVA and any of the Named Executive Officers.

**Director Compensation**

The TVA Act provides for up to nine directors on the TVA Board. Under the TVA Act, each director receives certain stipends that are increased annually by the same percentage increase applicable to adjustments under 5 U.S.C. § 5318, which adjusts the annual rates of pay of employees on the Executive Schedule of the United States Government. As discussed under *Compensation Discussion and Analysis — Executive Compensation Program Components — Federal Salary Freeze*, pursuant to federal legislation, a three-year freeze on these statutory pay adjustments to TVA director stipends applied to calendar years 2011, 2012 and 2013. Accordingly, as of September 30, 2013, the base stipend for TVA directors was and remains \$48,900 per year unless (1) the director chairs a TVA Board committee, in which case the stipend was and remains \$50,000 per year; or (2) the director is the Chairman of the TVA Board, in which case the stipend was and remains \$54,500 per year. Directors are also reimbursed under federal law for travel, lodging and related expenses while attending meetings and for other official TVA business.

The annual stipends provided by the TVA Act for each director and to the Chairman of the TVA Board as of November 15, 2013 are listed below:

TVA Board Annual Stipends	
Name	Annual Stipend (\$)
Marilyn A. Brown	\$48,900
V. Lynn Evans	\$48,900
Barbara S. Haskew	\$50,000
Richard C. Howorth	\$50,000
C. Peter Mahurin	\$50,000
Neil G. McBride	\$50,000
Michael R. McWherter	\$48,900
Joe H. Ritch	\$50,000
William B. Sansom	\$54,500

The following table provides information on the compensation received by TVA's directors during 2013.

Director Compensation							
Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings <sup>(1)</sup> (\$)	All Other Compensation (\$)	Total (\$)
Marilyn A. Brown	\$ 15,526	—	—	—	—	\$ 569	\$ 16,095
V. Lynn Evans	\$ 34,607	—	—	—	—	\$ 1,580	\$ 36,187
Barbara S. Haskew	\$ 50,191	—	—	—	—	\$ 2,000	\$ 52,191
Richard C. Howorth	\$ 50,191	—	—	—	—	\$ 2,500	\$ 52,691
C. Peter Mahurin	\$ 35,308	—	—	—	—	\$ 323	\$ 35,631
Neil G. McBride <sup>(2)</sup>	\$ 50,191	—	—	—	—	\$ 2,500	\$ 52,691
Michael R. McWherter	\$ 35,359	—	—	—	—	\$ 320	\$ 35,679
Joe H. Ritch	\$ 35,323	—	—	—	—	\$ 1,603	\$ 36,926
William B. Sansom	\$ 54,710	—	—	—	—	\$ 2,180	\$ 56,890

**Notes**

(1) TVA directors do not participate in the TVA Retirement System, TVA's SERP, or any non-qualified deferred compensation plan available to TVA employees. However, as appointed officers of the United States government, the directors are members of FERS. FERS is administered by the federal Office of Personnel Management, and information regarding the value of FERS pension benefits is not available to TVA.

(2) Mr. McBride's term as a director expired in May 2013, but he is entitled to remain in office until the end of the current session of Congress or until a successor takes office.

The directors are not eligible to participate in any incentive programs available to TVA employees. The directors do not participate in the TVA Retirement System and do not participate in TVA's SERP. However, as appointed officers of the United States government, the directors are members of the Federal Employees Retirement System ("FERS"). FERS is a tiered retirement plan that includes three components: (1) Social Security benefits, (2) the Basic Benefit Plan, and (3) the Thrift Savings Plan ("TSP"). As members of FERS, each director is required to make a mandatory small percentage contribution of his or her stipend to the Basic Benefit Plan in the amount of 0.8 percent for those directors appointed prior to January 1, 2013, and 3.1 percent for those directors appointed on or after January 1, 2013.

The FERS Basic Benefit Plan is a qualified defined benefit plan that provides a retirement benefit based on a final average pay formula that includes age, highest average salary during any three consecutive years of service, and years of creditable service. A director must have at least five years of creditable service to be eligible to receive retirement benefits. Directors are eligible for immediate, unreduced retirement benefits once (1) they reach age 62 and have five years of FERS creditable service, (2) they reach age 60 and have 20 years of FERS creditable service, or (3) they attain the minimum retirement age and accumulate the specified years of service as set forth in the FERS regulations. Generally, benefits are calculated by multiplying 1.0 percent of the highest average salary during any three consecutive years of service by the number

of years of creditable service. Directors who retire at age 62 or later with at least 20 years of FERS creditable service receive an enhanced benefit (a factor of 1.1 percent is used rather than 1.0 percent).

Directors may also retire with an immediate benefit under FERS if they reach their minimum retirement age based on type of retirement and years of service and have accumulated at least 10 years of FERS creditable service. For directors who reach the minimum retirement age and have at least 10 years of FERS creditable service, the annuity will be reduced by five percent for each year the director is under age 62.

Each director is also eligible to participate in the TSP. The TSP is a tax-deferred retirement savings and investment plan that offers the same type of savings and tax benefits offered under 401(k) plans. Once a director becomes eligible, TVA contributes an amount equal to one percent of the director's stipend into a TSP account for the director. These contributions are made automatically every two weeks regardless of whether the director makes a contribution of his or her own money. Directors are eligible to contribute up to the IRS elective deferral limit. Directors receive matching contributions of 100 percent of each dollar for the first three percent of the director's stipend and 50 percent of each dollar for the next two percent of the director's stipend.

TVA offers a group of health and other benefits (medical, dental, vision, life and accidental death and disability insurance, and long-term disability insurance) that are available to a broad group of employees. Directors are eligible to participate in TVA's health benefit plans and other non-retirement benefit plans on the same terms and at the same contribution rates as other TVA employees.

#### **Compensation Committee Interlocks and Insider Participation**

The People and Performance Committee of the TVA Board currently consists of the following three directors: Barbara S. Haskew, Chairwoman, V. Lynn Evans and C. Peter Mahurin.

No executive officer of TVA serves on the board of an entity that has an executive officer serving as a director of TVA.

#### **Compensation Committee Report**

The People and Performance Committee has reviewed and discussed the Compensation Discussion and Analysis with management, and based on the review and discussions, the Committee recommended to the TVA Board that the Compensation Discussion and Analysis be included in this Annual Report.

##### **PEOPLE AND PERFORMANCE COMMITTEE**

Barbara S. Haskew, Chair  
V. Lynn Evans  
C. Peter Mahurin

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Not applicable.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

### Director Independence

The composition of the TVA Board is governed by the TVA Act. The TVA Act contains certain provisions that are similar to the considerations for independence under section 10A(m)(3) of the Exchange Act, including that to be eligible for appointment to the TVA Board, an individual shall not be an employee of TVA and shall make full disclosure to Congress of any investment or other financial interest that the individual holds in the energy industry.

### Related Party Transactions

#### *Conflict of Interest Provisions*

All TVA employees, including directors and executive officers, are subject to the conflict of interest laws and regulations applicable to employees of the federal government. Accordingly, the general federal conflict of interest statute (18 U.S.C. § 208) and the Standards of Ethical Conduct for Employees of Executive Branch (5 C.F.R. part 2635) ("Standards of Ethical Conduct") form the basis of TVA's policies and procedures for the review, approval, or ratification of related party transactions. The general federal conflict of interest statute, subject to certain exceptions, prohibits each government employee, including TVA's directors and executive officers, from participating personally and substantially (by advice, decision, or otherwise) as a government employee in any contract, controversy, proceeding, request for determination, or other official particular matter in which, to his or her knowledge, he or she (or his or her spouse, minor child, general partner, organization with which he or she serves as officer, director, employee, trustee, or general partner, or any person or organization with which he or she is negotiating, or has an arrangement, for future employment) has a financial interest. Exceptions to the statutory prohibition relevant to TVA employees are (1) financial interests which have been deemed by the Office of Government Ethics, in published regulations, to be too remote or inconsequential to affect the integrity of the employee's services, or (2) interests which are determined in writing, after full disclosure and on a case by case basis, to be not so substantial as to be deemed likely to affect the integrity of the employee's services for TVA. In accordance with the statute, individual waiver determinations are made by the official responsible for the employee's appointment. In the case of TVA directors, the determination may be made by the Chairman of the TVA Board, and in the case of the Chairman of the TVA Board, the determination may be made by the Counsel to the President of the United States.

More broadly, Subpart E of the Standards of Ethical Conduct provides that where an employee (1) knows that a particular matter involving specific parties is likely to have a direct and predictable effect on the financial interests of a member of his or her household, or that a person with whom the employee has a "covered relationship" (which includes, but is not limited to, persons with whom the employee has a close family relationship and organizations in which the employee is an active participant) is or represents a party to the matter, and (2) determines that the circumstances would cause a reasonable person with knowledge of relevant facts to question his or her impartiality in the matter, the employee should not participate in the matter absent agency authorization. This authorization may be given by the employee's supervising officer, as agency designee, in consultation with the TVA Designated Agency Ethics Official, upon the determination that TVA's interest in the employee's participation in the matter outweighs the concern that a reasonable person may question the integrity of TVA's programs and operations.

The previously described restrictions are reflected in TVA's Standard Programs and Processes 11.8.1, *Business Ethics*, which requires employees, including TVA's directors and executive officers, to comply with the guidelines outlined in the Standards of Ethical Conduct and which restates the standard of the conflict of interest statute.

Additionally, the TVA Board approved a written conflict of interest policy that applies to all TVA employees, including TVA's directors and executive officers. The conflict of interest policy reaffirms the requirement that all TVA employees must comply with applicable federal conflict of interest laws, regulations, and policies. It also establishes an additional policy that is applicable to TVA's directors and Chief Executive Officer, which provides as follows:

In addition to the law and policy applicable to all TVA employees, TVA Directors and the Chief Executive Officer shall comply with the following additional policy restricting the holding of certain financial interests:

1. For purposes of this policy, "financial interest" means an interest of a person, or of a person's spouse or minor child, arising by virtue of investment or credit relationship, ownership, employment, consultancy, or fiduciary relationship such as director, trustee, or partner. However, financial interest does not include an interest in TVA or any interest:

- comprised solely of a right to payment of retirement benefits resulting from former employment or fiduciary relationship;
  - arising solely by virtue of cooperative membership or similar interest as a consumer in a distributor of TVA power; or
  - arising by virtue of ownership of publicly traded securities in any single entity with a value of \$25,000 or less, or within a diversified mutual fund investment in any amount.
2. Directors and the Chief Executive Officer shall not hold a financial interest in any distributor of TVA power.
3. Directors and the Chief Executive Officer shall not hold a financial interest in any entity engaged in the wholesale or retail generation, transmission, or sale of electricity.
4. Directors and the Chief Executive Officer shall not hold a financial interest in any entity that may reasonably be perceived as likely to be adversely affected by the success of TVA as a producer or transmitter of electric power.
5. Any action taken or interest held that creates, or may reasonably be perceived as creating, a conflict of interest restricted by this additional policy applicable to TVA Directors and the Chief Executive Officer should immediately be disclosed to the Chairman of Board of Directors and the Chairman of the Audit, Governance, and Ethics Committee [now the Audit, Risk, and Regulation Committee]. The Audit, Governance, and Ethics Committee [now the Audit, Risk, and Regulation Committee] shall be responsible for initially reviewing all such disclosures and making recommendations to the entire Board on what action, if any, should be taken. The entire Board, without the vote of any Director(s) involved, shall determine the appropriate action to be taken.
6. Any waiver of this additional policy applicable to TVA Directors and the Chief Executive Officer may be made only by the Board, and will be disclosed promptly to the public, subject to the limitations on disclosure imposed by law.

TVA also has a protocol titled the "Obtaining Things of Value from TVA Protocol" (the "Protocol"). The Protocol describes what a TVA employee or a member of the TVA Board should do if a person covered by the Protocol asks for assistance in obtaining something of value from TVA.

TVA relies on the policies, practices, laws, and regulations discussed above to regulate conflicts of interest involving employees, including directors and executive officers. TVA has no other written or unwritten policy for the approval or ratification of any transactions in which TVA was or is to be a participant and in which any director or executive officer of TVA (or any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of any director or executive officer of TVA) had or will have a direct or indirect material interest.

#### *Other Relationships*

TVA is engaged in a number of transactions with other agencies of the U.S. government, although such agencies do not fall within the definition of "related parties" for purposes of Item 404(a) of Regulation S-K. These include, among other things, supplying electricity to other federal agencies, purchasing electricity from the Southeastern Power Administration, and engaging in various arrangements involving nuclear materials with the DOE. See Item 1, Business.

TVA also has access to a financing arrangement with the U.S. Treasury. TVA and the U.S. Treasury have a memorandum of understanding under which the U.S. Treasury provides TVA with a \$150 million credit facility. There were no outstanding borrowings under the facility at September 30, 2013. This credit facility matures on September 30, 2014 and is expected to be renewed. This arrangement is pursuant to the TVA Act. Access to this credit facility or other similar financing arrangements with the U.S. Treasury has been available to TVA since the 1960s. See Note 12 — *Debt Outstanding — Credit Facility Agreements*.

In addition, TVA makes payments to the U.S. Treasury in repayment of and as a return on the government's appropriation investment in TVA's power facilities (the "Power Program Appropriation Investment"). Under the TVA Act, TVA is required to repay \$1.0 billion of the Power Program Appropriation Investment, and \$10 million of this amount remained unpaid as of September 30, 2013. Once TVA repays this \$10 million, there will still be an outstanding balance on the Power Program Appropriation Investment, and TVA is obligated under the TVA Act to pay the U.S. Treasury a return on this remaining balance indefinitely. See Note 16 — *Appropriation Investment*.

#### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table shows the fees of Ernst & Young LLP for the audit and audit-related services for the years ended September 30, 2013 and 2012.

**Principal Accountant Fees and Services**  
(in actual dollars)

Year	Principal Accountant	Audit Fees <sup>(1)</sup>	Audit-Related Fees	All Other Fees	Total
2013	Ernst & Young LLP	\$ 2,492,101	\$ —	—	\$ 2,492,101
2012	Ernst & Young LLP	\$ 2,442,327	\$ —	—	\$ 2,442,327

**Notes**

(1) Audit fees consist of payments for professional services rendered in connection with the audit of TVA's annual financial statements, including the annual attestation on internal control over financial reporting and the review of interim financial statements included in TVA's quarterly reports; audit of TVA's fuel cost adjustment; audit of TVA's special purpose financial statements for the preparation and audit of the 2013 and 2012 federal consolidated financial statements of which TVA is a component; and Bond offering and other financing comfort letters.

The TVA Board has an Audit, Risk, and Regulation Committee. Under the TVA Act, the Audit, Risk, and Regulation Committee, in consultation with the Inspector General, recommends to the TVA Board the selection of an external auditor. TVA's Audit, Risk, and Regulation Committee, in consultation with the Inspector General, recommended that the TVA Board select Ernst & Young LLP as TVA's external auditor for the 2012 and 2013 audits and other related services, and the TVA Board approved these recommendations.

TVA has a policy (the "Policy") that provides that all auditing services and permissible non-audit services shall be pre-approved by the Audit, Risk, and Regulation Committee unless:

- The aggregate amount of all such non-audit services provided to TVA does not exceed five percent of the total amount TVA pays the external auditor during the fiscal year in which the non-audit services are provided;
- Such services were not recognized by TVA at the time of the engagement to be non-audit services or non-audit related services; and
- Such services are promptly brought to the attention of the Audit, Risk, and Regulation Committee and approved at the next scheduled Audit, Risk, and Regulation Committee meeting or by one or more members of the Audit, Risk, and Regulation Committee to whom the authority to grant such approvals has been delegated.

The Policy also lists the following services as ones the external auditor is not permitted to perform. The prohibited non-audit services are:

- Bookkeeping or other services related to the accounting records or financial statements of TVA;
- Financial information system design and implementation;
- Appraisal or valuation services, fairness opinions, and contribution-in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions or human resources;
- Broker or dealer, investment adviser, or investment banking services;
- Legal services and expert services unrelated to the audit; and
- Any other services that the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

The Policy also delegates to the Chairman of the Audit, Risk, and Regulation Committee the authority to pre-approve a permissible service so long as the amount of the service does not exceed \$100,000 and the Chairman reports for informational purposes the services pre-approved at the Audit, Risk, and Regulation Committee's next meeting.

The Audit, Risk, and Regulation Committee pre-approved all audit services for 2012 and 2013.

# PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents have been filed as part of this Annual Report:

- (1) Consolidated Financial Statements. The following documents are provided in Item 8, Financial Statements and Supplementary Data herein:

Consolidated Statements of Operations  
Consolidated Statements of Comprehensive Income (Loss)  
Consolidated Balance Sheets  
Consolidated Statements of Cash Flow  
Consolidated Statements of Changes in Proprietary Capital  
Notes to Consolidated Financial Statements  
Report of Independent Registered Public Accounting Firm (Ernst and Young LLP)

- (2) Consolidated Financial Statement Schedules.

Schedules not included are omitted because they are not required or because the required information is provided in the consolidated financial statements, including the notes thereto.

### Schedule II — Valuation and Qualifying Accounts (in millions)

Description	Balance at beginning of year	Additions charged to expense	Deductions	Balance at end of year
For the year ended September 30, 2013				
Allowance for doubtful accounts				
Receivables	\$ 7	\$ —	\$ (6)	\$ 1
Loans	12	—	(2)	10
Total allowances deducted from assets	\$ 19	\$ —	\$ (8)	\$ 11
For the year ended September 30, 2012				
Allowance for doubtful accounts				
Receivables	\$ 1	\$ 6	\$ —	\$ 7
Loans	11	1	—	12
Total allowances deducted from assets	\$ 12	\$ 7	\$ —	\$ 19
For the year ended September 30, 2011				
Allowance for doubtful accounts				
Receivables	\$ 2	\$ —	\$ (1)	\$ 1
Loans	13	—	(2)	11
Total allowances deducted from assets	\$ 15	\$ —	\$ (3)	\$ 12



(3) List of Exhibits

Exhibit No.	Description
3.1	Tennessee Valley Authority Act of 1933, as <i>amended</i> , 16 U.S.C. §§ 831-831ee (Incorporated by reference to Exhibit 3.1 to TVA's Quarterly Report on Form 10-Q for the quarter ended December 31, 2007, File No. 000-52313)
3.2	Bylaws of Tennessee Valley Authority, as <i>amended</i> (Incorporated by reference to Exhibit 3.1 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, File No. 000-52313)
4.1	Basic Tennessee Valley Authority Power Bond Resolution Adopted by the TVA Board of Directors on October 6, 1960, as Amended on September 28, 1976, October 17, 1989, and March 25, 1992 (Incorporated by reference to Exhibit 4.1 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.1	\$1,000,000,000 Spring Maturity Credit Agreement Dated as of June 25, 2012, among TVA, The Bank of New York Mellon as Administrative Agent, Letter of Credit Issuer, and a Lender, Bank of America, N.A., Canadian Imperial Bank of Commerce, New York Agency, First Tennessee Bank National Association, Morgan Stanley Bank, N.A., and Toronto Dominion (New York) LLC (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on June 28, 2012, File No. 000-52313)
10.2	Amendment Dated as of December 12, 2012, to \$1,000,000,000 Spring Maturity Credit Agreement Dated as of June 25, 2012, among TVA, The Bank of New York Mellon as Administrative Agent, Letter of Credit Issuer, and a Lender, Bank of America, N.A., Canadian Imperial Bank of Commerce, New York Agency, First Tennessee Bank National Association, Morgan Stanley Bank, N.A., and Toronto Dominion (New York) LLC (Incorporated by reference to Exhibit 10.2 to TVA's Current Report on Form 8-K filed on December 17, 2012, File No. 000-52313)
10.3	\$1,000,000,000 Winter Maturity Credit Agreement Dated as of December 13, 2012, Among TVA, Royal Bank of Canada, as Administrative Agent, Letter of Credit Issuer, and a Lender, The Royal Bank of Scotland plc, UBS AG, Stamford Branch, Mizuho Corporate Bank, Ltd., Wells Fargo Bank, National Association, The Bank of Nova Scotia, and PNC Bank, National Association (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on December 17, 2012, File No. 000-52313)
10.4	\$500,000,000 April 2018 Maturity Credit Agreement Dated as of April 5, 2013, among TVA, Bank of America, N.A., as Administrative Agent, Letter of Credit Issuer, and a Lender, and the Other Lenders Party Thereto (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on April 10, 2013, File No. 000-52313)
10.5	TVA Discount Notes Selling Group Agreement (Incorporated by reference to Exhibit 10.2 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, File No. 000-52313)
10.6	Electronotes® Selling Agent Agreement Dated as of June 1, 2006, Among TVA, LaSalle Financial Services, Inc., A.G. Edwards & Sons, Inc., Citigroup Global Markets Inc., Edward D. Jones & Co., L.P., First Tennessee Bank National Association, J.J.B. Hilliard, W.L. Lyons, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, and Wachovia Securities, LLC (Incorporated by reference to Exhibit 10.4 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.7	Assumption Agreement Between TVA and Incapital LLC Dated as of February 29, 2008, Relating to the electronotes® Selling Agent Agreement Dated as of June 1, 2006, Among TVA, LaSalle Financial Services, Inc., A.G. Edwards & Sons, Inc., Citigroup Global Markets Inc., Edward D. Jones & Co., L.P., First Tennessee Bank National Association, J.J.B. Hilliard, W.L. Lyons, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, and Wachovia Securities, LLC (Incorporated by reference to Exhibit 10.1 to TVA's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, File No. 000-52313)
10.8	Commitment Agreement Among Memphis Light, Gas and Water Division, the City of Memphis, Tennessee, and TVA Dated as of November 19, 2003 (Incorporated by reference to Exhibit 10.5 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.9	Power Contract Supplement No. 95 Among Memphis Light, Gas and Water Division, the City of Memphis, Tennessee, and TVA Dated as of November 19, 2003 (Incorporated by reference to Exhibit 10.6 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.10	Void Walk Away Agreement Among Memphis Light, Gas and Water Division, the City of Memphis, Tennessee, and TVA



## [Table of Contents](#)

10.11	Power Contract Supplement No. 96 Among Memphis Light, Gas and Water Division, the City of Memphis, Tennessee, and TVA Dated as of November 20, 2003 (Incorporated by reference to Exhibit 10.8 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.12*	Joint Ownership Agreement Dated as of April 30, 2008, Between Seven States Power Corporation and TVA (Incorporated by reference to Exhibit 10.3 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, File No. 000-52313)
10.13	Supplement No. 1 Dated as of September 2, 2008, to the Joint Ownership Agreement Dated as of April 30, 2008, Between Seven States Power Corporation and TVA (Incorporated by reference to Exhibit 10.16 to TVA's Annual Report on Form 10-K for the year ended September 30, 2008, File No. 000-52313)
10.14	Supplement No. 2 Dated as of September 30, 2008, to the Joint Ownership Agreement Dated as of April 30, 2008, Between Seven States Power Corporation and TVA (Incorporated by reference to Exhibit 10.17 to TVA's Annual Report on Form 10-K for the year ended September 30, 2008, File No. 000-52313)
10.15	Supplement No. 3 Dated as of April 17, 2009, to the Joint Ownership Agreement Dated as of April 30, 2008, Between Seven States Power Corporation and TVA (Incorporated by reference to Exhibit 10.15 to TVA's Annual Report on Form 10-K for the year ended September 30, 2009, File No. 000-52313).
10.16	Supplement No. 4 Dated as of April 22, 2010, to the Joint Ownership Agreement Dated as of April 30, 2008, Between Seven States Power Corporation and TVA (Incorporated by reference to Exhibit 10.2 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, File No. 000-52313)
10.17	Supplement No. 5 Dated as of April 18, 2013, to the Joint Ownership Agreement Dated as of April 30, 2008, Between Seven States Power Corporation and TVA (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on April 23, 2013, File No. 000-52313)
10.18	Termination Agreement Dated as of August 9, 2013, Between Seven States Power Corporation and TVA, Terminating Joint Ownership Agreement Dated as of April 30, 2008, and Amended as of September 2, 2008, September 30, 2008, April 17, 2009, April 22, 2010, and April 18, 2013
10.19	Lease Agreement Dated as of September 30, 2008, Between TVA and Seven States Southaven, LLC (Incorporated by reference to Exhibit 10.18 to TVA's Annual Report on Form 10-K for the year ended September 30, 2008, File No. 000-52313)
10.20	First Amendment Dated as of April 17, 2009, to Lease Agreement Dated September 30, 2008, Between TVA and Seven States Southaven, LLC (Incorporated by reference to Exhibit 10.17 to TVA's Annual Report on Form 10-K for the year ended September 30, 2009, File No. 000-52313)
10.21	Second Amendment Dated as of April 22, 2010, to Lease Agreement Dated September 30, 2008, Between TVA and Seven States Southaven, LLC (Incorporated by reference to Exhibit 10.3 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, File No. 000-52313)
10.22	Third Amendment Dated as of April 18, 2013, to Lease Agreement Dated as of September 30, 2008, Between TVA and Seven States Southaven, LLC (Incorporated by reference to Exhibit 10.2 to TVA's Current Report on Form 8-K filed on April 23, 2013, File No. 000-52313)
10.23	Termination Agreement Dated as of August 9, 2013, Between TVA and Seven States Southaven, LLC, Terminating Lease Agreement Dated as of September 30, 2008, and Amended as of April 17, 2009, April 22, 2010, and April 18, 2013
10.24	Amended and Restated Buy-Back Arrangements Dated as of April 22, 2010, Among TVA, JPMorgan Chase Bank, National Association, as Administrative Agent and a Lender, and the Other Lenders Referred to Therein (Incorporated by reference to Exhibit 10.4 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, File No. 000-52313)
10.25	Overview of TVA's September 26, 2003, Lease and Leaseback of Control, Monitoring, and Data Analysis Network with Respect to TVA's Transmission System in Tennessee, Kentucky, Georgia, and Mississippi (Incorporated by reference to Exhibit 10.9 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)

10.26\* Participation Agreement Dated as of September 22, 2003, Among (1) TVA, (2) NVG Network I Statutory Trust, (3) Wells Fargo Delaware Trust Company, Not in Its Individual Capacity, Except to the Extent Expressly Provided in the Participation Agreement, But as Owner Trustee, (4) Wachovia Mortgage Corporation, (5) Wilmington Trust Company, Not in Its Individual Capacity, Except to the Extent Expressly Provided in the Participation Agreement, But as Lease Indenture Trustee, and (6) Wilmington Trust Company, Not in Its Individual Capacity, Except to the Extent Expressly Provided in the Participation Agreement, But as Pass Through Trustee (Incorporated by reference to Exhibit 10.10 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)

## [Table of Contents](#)

10.27*	Network Lease Agreement Dated as of September 26, 2003, Between NVG Network I Statutory Trust, as Owner Lessor, and TVA, as Lessee (Incorporated by reference to Exhibit 10.11 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.28*	Head Lease Agreement Dated as of September 26, 2003, Between TVA, as Head Lessor, and NVG Network I Statutory Trust, as Head Lessee (Incorporated by reference to Exhibit 10.12 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.29*	Leasehold Security Agreement Dated as of September 26, 2003, Made by NVG Network I Statutory Trust to TVA (Incorporated by reference to Exhibit 10.13 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.30	Facility Lease-Purchase Agreement Dated as of January 17, 2012, Between John Sevier Combined Cycle Generation LLC and TVA (Incorporated by reference to Exhibit 10.1 to TVA's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, File No. 000-52313)
10.31	Head Lease Agreement Dated as of January 17, 2012, Among the United States of America, TVA, and John Sevier Combined Cycle Generation LLC (Incorporated by reference to Exhibit 10.2 to TVA's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, File No. 000-52313)
10.32	Construction Management Agreement Dated as of January 17, 2012, Between John Sevier Combined Cycle Generation LLC and TVA (Incorporated by reference to Exhibit 10.3 to TVA's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, File No. 000-52313)
10.33*	Asset Purchase Agreement Dated as of August 6, 2013, Between TVA and Seven States Southaven, LLC
10.34	Facility Lease-Purchase Agreement Dated as of August 9, 2013, Between Southaven Combined Cycle Generation LLC and TVA
10.35	Head Lease Agreement Dated as of August 9, 2013, Among the United States of America, TVA, and Southaven Combined Cycle Generation LLC
10.36*	Federal Facilities Compliance Agreement Between the United States Environmental Protection Agency and TVA (Incorporated by reference to Exhibit 10.2 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, File No. 000-52313)
10.37*	Consent Decree among Alabama, Kentucky, North Carolina, Tennessee, the Alabama Department of Environmental Management, the National Parks Conservation Association, Inc., the Sierra Club, Our Children's Earth Foundation, and TVA (Incorporated by reference to Exhibit 10.3 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, File No. 000-52313)
10.38†	TVA Compensation Plan Approved by the TVA Board on May 31, 2007 (Incorporated by reference to Exhibit 99.3 to TVA's Current Report on Form 8-K filed on December 11, 2007, File No. 000-52313)
10.39†	TVA Vehicle Allowance Guidelines, Effective April 1, 2006 (Incorporated by reference to Exhibit 10.18 to TVA's Annual Report on Form 10-K for the year ended September 30, 2007, File No. 000-52313)
10.40†	Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on January 6, 2009, File No. 000-52313)
10.41†	Amendment Dated as of August 16, 2011, to Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on August 22, 2011, File No. 000-52313)
10.42†	Executive Annual Incentive Plan (Incorporated by reference to Exhibit 10.3 to TVA's Current Report on Form 8-K filed on January 6, 2009, File No. 000-52313)
10.43†	Executive Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.4 to TVA's Current Report on Form 8-K filed on January 6, 2009, File No. 000-52313)

10.44†	Long-Term Deferred Compensation Plan (Incorporated by reference to Exhibit 10.5 to TVA's Current Report on Form 8-K filed on January 6, 2009, File No. 000-52313)
10.45†	Deferred Compensation Plan (Incorporated by reference to Exhibit 10.2 to TVA's Current Report on Form 8-K filed on January 6, 2009, File No. 000-52313)

## [Table of Contents](#)

10.46†	Offer Letter to William D. Johnson Approved as of November 1, 2012 (Incorporated by reference to Exhibit 99.1 to TVA's Current Report on Form 8-K filed on November 7, 2012, File No. 000-52313)
10.47†	Offer Letter to Tom Kilgore Accepted as of January 19, 2005 (Incorporated by reference to Exhibit 10.19 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.48†	Offer Letter to Charles Pardee Accepted as of March 14, 2013 (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on April 5, 2013, File No. 000-52313)
10.49†	First Deferral Agreement Between TVA and Tom Kilgore Dated as of March 29, 2005 (Incorporated by reference to Exhibit 10.24 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.50†	Second Deferral Agreement Between TVA and Tom Kilgore Dated as of November 24, 2009 (Incorporated by reference to Exhibit 10.39 to TVA's Annual Report on Form 10-K for the year ended September 30, 2009, File No. 000-52313)
10.51†	First Deferral Agreement Between TVA and John M. Thomas, III, Dated as of December 4, 2009 (Incorporated by reference to Exhibit 10.7 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, File No. 000-52313)
10.52†	Second Deferral Agreement Between TVA and John M. Thomas, III, Dated as of September 27, 2010 (Incorporated by reference to Exhibit 10.40 to TVA's Annual Report on Form 10-K for the year ended September 30, 2010, File No. 000-52313)
10.53†	Third Deferral Agreement Between TVA and John M. Thomas, III, Dated as of January 4, 2012 (Incorporated by reference to Exhibit 10.45 to TVA's Annual Report on Form 10-K for the year ended September 30, 2012, File No. 000-52313)
10.54†	Fourth Deferral Agreement Between TVA and John M. Thomas, III, Dated as of April 22, 2013 (Incorporated by reference to Exhibit 10.4 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, File No. 000-52313)
10.55†	First Deferral Agreement Between TVA and Preston D. Swafford Dated as of May 10, 2006 (Incorporated by reference to Exhibit 10.44 to TVA's Annual Report on Form 10-K for the year ended September 30, 2009, File No. 000-52313)
10.56†	Second Deferral Agreement Between TVA and Preston D. Swafford Dated as of December 23, 2010 (Incorporated by reference to Exhibit 10.4 to TVA's Quarterly Report on Form 10-Q for the quarter ended December 31, 2010, File No. 000-52313)
10.57†	Third Deferral Agreement Between TVA and Preston D. Swafford Dated as of December 12, 2011 (Incorporated by reference to Exhibit 10.51 to TVA's Annual Report on Form 10-K for the year ended September 30, 2012, File No. 000-52313)
10.58†	First Deferral Agreement Between TVA and Ralph E. Rodgers Dated as of August 16, 2011 (Incorporated by reference to Exhibit 10.52 to TVA's Annual Report on Form 10-K for the year ended September 30, 2012, File No. 000-52313)
10.59†	Second Deferral Agreement Between TVA and Ralph E. Rodgers Dated as of December 20, 2011 (Incorporated by reference to Exhibit 10.53 to TVA's Annual Report on Form 10-K for the year ended September 30, 2012, File No. 000-52313)
10.60†	Third Deferral Agreement Between TVA and Ralph E. Rodgers Dated as of April 23, 2013 (Incorporated by reference to Exhibit 10.5 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, File No. 000-52313)
10.61†	First Deferral Agreement Between TVA and Michael D. Skaggs Dated as of March 1, 2010
10.62†	Second Deferral Agreement Between TVA and Michael D. Skaggs Dated as of March 20, 2013
14	Disclosure and Financial Ethics Code (Incorporated by reference to Exhibit 14 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)



31.1	Rule 13a-14(a)/15d-14(a) Certification Executed by the Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification Executed by the Chief Financial Officer
32.1	Section 1350 Certification Executed by the Chief Executive Officer

32.2	Section 1350 Certification Executed by the Chief Financial Officer
101.INS**	TVA XBRL Instance Document
101.SCH **	TVA XBRL Taxonomy Extension Schema
101.CAL **	TVA XBRL Taxonomy Extension Calculation Linkbase
101.DEF **	TVA XBRL Taxonomy Extension Definition Linkbase
101.LAB **	TVA XBRL Taxonomy Extension Label Linkbase
101.PRE **	TVA XBRL Taxonomy Extension Presentation Linkbase

† Management contract or compensatory arrangement.

\* Certain schedule(s) and/or exhibit(s) have been omitted. The Tennessee Valley Authority hereby undertakes to furnish supplementally copies of any of the omitted schedules and/or exhibits upon request by the Securities and Exchange Commission.

\*\* In accordance with Rule 406T of Regulation S-T, these XBRL (eXtensible Business Reporting Language) documents are furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under this section.

**SIGNATURES**

Pursuant to the requirements of Section 13, 15(d), or 37 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 15, 2013

TENNESSEE VALLEY AUTHORITY

(Registrant)

By: /s/ William D. Johnson

William D. Johnson

President and Chief Executive Officer

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

[Table of Contents](#)

Signature	Title	Date
<u>/s/ William D. Johnson</u> William D. Johnson	President and Chief Executive Officer (Principal Executive Officer)	November 15, 2013
<u>/s/ John M. Thomas, III</u> John M. Thomas, III	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	November 15, 2013
<u>/s/ Diane Wear</u> Diane Wear	Vice President and Controller (Principal Accounting Officer)	November 15, 2013
<u>/s/ William B. Sansom</u> William B. Sansom	Chairman	November 15, 2013
<u>/s/ Marilyn A. Brown</u> Marilyn A. Brown	Director	November 15, 2013
<u>/s/ V. Lynn Evans</u> V. Lynn Evans	Director	November 15, 2013
<u>/s/ Barbara S. Haskew</u> Barbara S. Haskew	Director	November 15, 2013
<u>/s/ Richard C. Howorth</u> Richard C. Howorth	Director	November 15, 2013
<u>/s/ C. Peter Mahurin</u> C. Peter Mahurin	Director	November 15, 2013
<u>/s/ Neil G. McBride</u> Neil G. McBride	Director	November 15, 2013
<u>/s/ Michael R. McWherter</u> Michael R. McWherter	Director	November 15, 2013
<u>/s/ Joe H. Ritch</u> Joe H. Ritch	Director	November 15, 2013



## EXHIBIT INDEX

Exhibit No.	Description
3.1	Tennessee Valley Authority Act of 1933, as <i>amended</i> , 16 U.S.C. §§ 831-831ee (Incorporated by reference to Exhibit 3.1 to TVA's Quarterly Report on Form 10-Q for the quarter ended December 31, 2007, File No. 000-52313)
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4.1	Basic Tennessee Valley Authority Power Bond Resolution Adopted by the TVA Board of Directors on October 6, 1960, as Amended on September 28, 1976, October 17, 1989, and March 25, 1992 (Incorporated by reference to Exhibit 4.1 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.1	\$1,000,000,000 Spring Maturity Credit Agreement Dated as of June 25, 2012, among TVA, The Bank of New York Mellon as Administrative Agent, Letter of Credit Issuer, and a Lender, Bank of America, N.A., Canadian Imperial Bank of Commerce, New York Agency, First Tennessee Bank National Association, Morgan Stanley Bank, N.A., and Toronto Dominion (New York) LLC (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on June 28, 2012, File No. 000-52313)
10.2	Amendment Dated as of December 12, 2012, to \$1,000,000,000 Spring Maturity Credit Agreement Dated as of June 25, 2012, among TVA, The Bank of New York Mellon as Administrative Agent, Letter of Credit Issuer, and a Lender, Bank of America, N.A., Canadian Imperial Bank of Commerce, New York Agency, First Tennessee Bank National Association, Morgan Stanley Bank, N.A., and Toronto Dominion (New York) LLC (Incorporated by reference to Exhibit 10.2 to TVA's Current Report on Form 8-K filed on December 17, 2012, File No. 000-52313)
10.3	\$1,000,000,000 Winter Maturity Credit Agreement Dated as of December 13, 2012, Among TVA, Royal Bank of Canada, as Administrative Agent, Letter of Credit Issuer, and a Lender, The Royal Bank of Scotland plc, UBS AG, Stamford Branch, Mizuho Corporate Bank, Ltd., Wells Fargo Bank, National Association, The Bank of Nova Scotia, and PNC Bank, National Association (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on December 17, 2012, File No. 000-52313)
10.4	\$500,000,000 April 2018 Maturity Credit Agreement Dated as of April 5, 2013, among TVA, Bank of America, N.A., as Administrative Agent, Letter of Credit Issuer, and a Lender, and the Other Lenders Party Thereto (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on April 10, 2013, File No. 000-52313)
10.5	TVA Discount Notes Selling Group Agreement (Incorporated by reference to Exhibit 10.2 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, File No. 000-52313)
10.6	Electronotes® Selling Agent Agreement Dated as of June 1, 2006, Among TVA, LaSalle Financial Services, Inc., A.G. Edwards & Sons, Inc., Citigroup Global Markets Inc., Edward D. Jones & Co., L.P., First Tennessee Bank National Association, J.J.B. Hilliard, W.L. Lyons, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, and Wachovia Securities, LLC (Incorporated by reference to Exhibit 10.4 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.7	Assumption Agreement Between TVA and Incapital LLC Dated as of February 29, 2008, Relating to the electronotes® Selling Agent Agreement Dated as of June 1, 2006, Among TVA, LaSalle Financial Services, Inc., A.G. Edwards & Sons, Inc., Citigroup Global Markets Inc., Edward D. Jones & Co., L.P., First Tennessee Bank National Association, J.J.B. Hilliard, W.L. Lyons, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, and Wachovia Securities, LLC (Incorporated by reference to Exhibit 10.1 to TVA's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, File No. 000-52313)
10.8	Commitment Agreement Among Memphis Light, Gas and Water Division, the City of Memphis, Tennessee, and TVA Dated as of November 19, 2003 (Incorporated by reference to Exhibit 10.5 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.9	Power Contract Supplement No. 95 Among Memphis Light, Gas and Water Division, the City of Memphis, Tennessee, and TVA Dated as of November 19, 2003 (Incorporated by reference to Exhibit 10.6 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.10	Void Walk Away Agreement Among Memphis Light, Gas and Water Division, the City of Memphis, Tennessee, and TVA Dated as of November 20, 2003 (Incorporated by reference to Exhibit 10.7 to TVA's Annual Report on Form 10-K for the



## [Table of Contents](#)

10.11	Power Contract Supplement No. 96 Among Memphis Light, Gas and Water Division, the City of Memphis, Tennessee, and TVA Dated as of November 20, 2003 (Incorporated by reference to Exhibit 10.8 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.12*	Joint Ownership Agreement Dated as of April 30, 2008, Between Seven States Power Corporation and TVA (Incorporated by reference to Exhibit 10.3 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, File No. 000-52313)
10.13	Supplement No. 1 Dated as of September 2, 2008, to the Joint Ownership Agreement Dated as of April 30, 2008, Between Seven States Power Corporation and TVA (Incorporated by reference to Exhibit 10.16 to TVA's Annual Report on Form 10-K for the year ended September 30, 2008, File No. 000-52313)
10.14	Supplement No. 2 Dated as of September 30, 2008, to the Joint Ownership Agreement Dated as of April 30, 2008, Between Seven States Power Corporation and TVA (Incorporated by reference to Exhibit 10.17 to TVA's Annual Report on Form 10-K for the year ended September 30, 2008, File No. 000-52313)
10.15	Supplement No. 3 Dated as of April 17, 2009, to the Joint Ownership Agreement Dated as of April 30, 2008, Between Seven States Power Corporation and TVA (Incorporated by reference to Exhibit 10.15 to TVA's Annual Report on Form 10-K for the year ended September 30, 2009, File No. 000-52313).
10.16	Supplement No. 4 Dated as of April 22, 2010, to the Joint Ownership Agreement Dated as of April 30, 2008, Between Seven States Power Corporation and TVA (Incorporated by reference to Exhibit 10.2 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, File No. 000-52313)
10.17	Supplement No. 5 Dated as of April 18, 2013, to the Joint Ownership Agreement Dated as of April 30, 2008, Between Seven States Power Corporation and TVA (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on April 23, 2013, File No. 000-52313)
10.18	Termination Agreement Dated as of August 9, 2013, Between Seven States Power Corporation and TVA, Terminating Joint Ownership Agreement Dated as of April 30, 2008, and Amended as of September 2, 2008, September 30, 2008, April 17, 2009, April 22, 2010, and April 18, 2013
10.19	Lease Agreement Dated as of September 30, 2008, Between TVA and Seven States Southaven, LLC (Incorporated by reference to Exhibit 10.18 to TVA's Annual Report on Form 10-K for the year ended September 30, 2008, File No. 000-52313)
10.20	First Amendment Dated as of April 17, 2009, to Lease Agreement Dated September 30, 2008, Between TVA and Seven States Southaven, LLC (Incorporated by reference to Exhibit 10.17 to TVA's Annual Report on Form 10-K for the year ended September 30, 2009, File No. 000-52313)
10.21	Second Amendment Dated as of April 22, 2010, to Lease Agreement Dated September 30, 2008, Between TVA and Seven States Southaven, LLC (Incorporated by reference to Exhibit 10.3 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, File No. 000-52313)
10.22	Third Amendment Dated as of April 18, 2013, to Lease Agreement Dated as of September 30, 2008, Between TVA and Seven States Southaven, LLC (Incorporated by reference to Exhibit 10.2 to TVA's Current Report on Form 8-K filed on April 23, 2013, File No. 000-52313)
10.23	Termination Agreement Dated as of August 9, 2013, Between TVA and Seven States Southaven, LLC, Terminating Lease Agreement Dated as of September 30, 2008, and Amended as of April 17, 2009, April 22, 2010, and April 18, 2013
10.24	Amended and Restated Buy-Back Arrangements Dated as of April 22, 2010, Among TVA, JPMorgan Chase Bank, National Association, as Administrative Agent and a Lender, and the Other Lenders Referred to Therein (Incorporated by reference to Exhibit 10.4 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, File No. 000-52313)
10.25	Overview of TVA's September 26, 2003, Lease and Leaseback of Control, Monitoring, and Data Analysis Network with Respect to TVA's Transmission System in Tennessee, Kentucky, Georgia, and Mississippi (Incorporated by reference to Exhibit 10.9 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)



10.26\* Participation Agreement Dated as of September 22, 2003, Among (1) TVA, (2) NVG Network I Statutory Trust, (3) Wells Fargo Delaware Trust Company, Not in Its Individual Capacity, Except to the Extent Expressly Provided in the Participation Agreement, But as Owner Trustee, (4) Wachovia Mortgage Corporation, (5) Wilmington Trust Company, Not in Its Individual Capacity, Except to the Extent Expressly Provided in the Participation Agreement, But as Lease Indenture Trustee, and (6) Wilmington Trust Company, Not in Its Individual Capacity, Except to the Extent Expressly Provided in the Participation Agreement, But as Pass Through Trustee (Incorporated by reference to Exhibit 10.10 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)

## [Table of Contents](#)

10.27*	Network Lease Agreement Dated as of September 26, 2003, Between NVG Network I Statutory Trust, as Owner Lessor, and TVA, as Lessee (Incorporated by reference to Exhibit 10.11 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.28*	Head Lease Agreement Dated as of September 26, 2003, Between TVA, as Head Lessor, and NVG Network I Statutory Trust, as Head Lessee (Incorporated by reference to Exhibit 10.12 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.29*	Leasehold Security Agreement Dated as of September 26, 2003, Made by NVG Network I Statutory Trust to TVA (Incorporated by reference to Exhibit 10.13 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.30	Facility Lease-Purchase Agreement Dated as of January 17, 2012, Between John Sevier Combined Cycle Generation LLC and TVA (Incorporated by reference to Exhibit 10.1 to TVA's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, File No. 000-52313)
10.31	Head Lease Agreement Dated as of January 17, 2012, Among the United States of America, TVA, and John Sevier Combined Cycle Generation LLC (Incorporated by reference to Exhibit 10.2 to TVA's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, File No. 000-52313)
10.32	Construction Management Agreement Dated as of January 17, 2012, Between John Sevier Combined Cycle Generation LLC and TVA (Incorporated by reference to Exhibit 10.3 to TVA's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, File No. 000-52313)
10.33*	Asset Purchase Agreement Dated as of August 6, 2013, Between TVA and Seven States Southaven, LLC
10.34	Facility Lease-Purchase Agreement Dated as of August 9, 2013, Between Southaven Combined Cycle Generation LLC and TVA
10.35	Head Lease Agreement Dated as of August 9, 2013, Among the United States of America, TVA, and Southaven Combined Cycle Generation LLC
10.36*	Federal Facilities Compliance Agreement Between the United States Environmental Protection Agency and TVA (Incorporated by reference to Exhibit 10.2 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, File No. 000-52313)
10.37*	Consent Decree among Alabama, Kentucky, North Carolina, Tennessee, the Alabama Department of Environmental Management, the National Parks Conservation Association, Inc., the Sierra Club, Our Children's Earth Foundation, and TVA (Incorporated by reference to Exhibit 10.3 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, File No. 000-52313)
10.38†	TVA Compensation Plan Approved by the TVA Board on May 31, 2007 (Incorporated by reference to Exhibit 99.3 to TVA's Current Report on Form 8-K filed on December 11, 2007, File No. 000-52313)
10.39†	TVA Vehicle Allowance Guidelines, Effective April 1, 2006 (Incorporated by reference to Exhibit 10.18 to TVA's Annual Report on Form 10-K for the year ended September 30, 2007, File No. 000-52313)
10.40†	Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on January 6, 2009, File No. 000-52313)
10.41†	Amendment Dated as of August 16, 2011, to Supplemental Executive Retirement Plan (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on August 22, 2011, File No. 000-52313)
10.42†	Executive Annual Incentive Plan (Incorporated by reference to Exhibit 10.3 to TVA's Current Report on Form 8-K filed on January 6, 2009, File No. 000-52313)
10.43†	Executive Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.4 to TVA's Current Report on Form 8-K filed on January 6, 2009, File No. 000-52313)

10.44† Long-Term Deferred Compensation Plan (Incorporated by reference to Exhibit 10.5 to TVA's Current Report on Form 8-K filed on January 6, 2009, File No. 000-52313)

10.45† Deferred Compensation Plan (Incorporated by reference to Exhibit 10.2 to TVA's Current Report on Form 8-K filed on January 6, 2009, File No. 000-52313)

## [Table of Contents](#)

10.46†	Offer Letter to William D. Johnson Approved as of November 1, 2012 (Incorporated by reference to Exhibit 99.1 to TVA's Current Report on Form 8-K filed on November 7, 2012, File No. 000-52313)
10.47†	Offer Letter to Tom Kilgore Accepted as of January 19, 2005 (Incorporated by reference to Exhibit 10.19 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.48†	Offer Letter to Charles Pardee Accepted as of March 14, 2013 (Incorporated by reference to Exhibit 10.1 to TVA's Current Report on Form 8-K filed on April 5, 2013, File No. 000-52313)
10.49†	First Deferral Agreement Between TVA and Tom Kilgore Dated as of March 29, 2005 (Incorporated by reference to Exhibit 10.24 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)
10.50†	Second Deferral Agreement Between TVA and Tom Kilgore Dated as of November 24, 2009 (Incorporated by reference to Exhibit 10.39 to TVA's Annual Report on Form 10-K for the year ended September 30, 2009, File No. 000-52313)
10.51†	First Deferral Agreement Between TVA and John M. Thomas, III, Dated as of December 4, 2009 (Incorporated by reference to Exhibit 10.7 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, File No. 000-52313)
10.52†	Second Deferral Agreement Between TVA and John M. Thomas, III, Dated as of September 27, 2010 (Incorporated by reference to Exhibit 10.40 to TVA's Annual Report on Form 10-K for the year ended September 30, 2010, File No. 000-52313)
10.53†	Third Deferral Agreement Between TVA and John M. Thomas, III, Dated as of January 4, 2012 (Incorporated by reference to Exhibit 10.45 to TVA's Annual Report on Form 10-K for the year ended September 30, 2012, File No. 000-52313)
10.54†	Fourth Deferral Agreement Between TVA and John M. Thomas, III, Dated as of April 22, 2013 (Incorporated by reference to Exhibit 10.4 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, File No. 000-52313)
10.55†	First Deferral Agreement Between TVA and Preston D. Swafford Dated as of May 10, 2006 (Incorporated by reference to Exhibit 10.44 to TVA's Annual Report on Form 10-K for the year ended September 30, 2009, File No. 000-52313)
10.56†	Second Deferral Agreement Between TVA and Preston D. Swafford Dated as of December 23, 2010 (Incorporated by reference to Exhibit 10.4 to TVA's Quarterly Report on Form 10-Q for the quarter ended December 31, 2010, File No. 000-52313)
10.57†	Third Deferral Agreement Between TVA and Preston D. Swafford Dated as of December 12, 2011 (Incorporated by reference to Exhibit 10.51 to TVA's Annual Report on Form 10-K for the year ended September 30, 2012, File No. 000-52313)
10.58†	First Deferral Agreement Between TVA and Ralph E. Rodgers Dated as of August 16, 2011 (Incorporated by reference to Exhibit 10.52 to TVA's Annual Report on Form 10-K for the year ended September 30, 2012, File No. 000-52313)
10.59†	Second Deferral Agreement Between TVA and Ralph E. Rodgers Dated as of December 20, 2011 (Incorporated by reference to Exhibit 10.53 to TVA's Annual Report on Form 10-K for the year ended September 30, 2012, File No. 000-52313)
10.60†	Third Deferral Agreement Between TVA and Ralph E. Rodgers Dated as of April 23, 2013 (Incorporated by reference to Exhibit 10.5 to TVA's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, File No. 000-52313)
10.61†	First Deferral Agreement Between TVA and Michael D. Skaggs Dated as of March 1, 2010
10.62†	Second Deferral Agreement Between TVA and Michael D. Skaggs Dated as of March 20, 2013
14	Disclosure and Financial Ethics Code (Incorporated by reference to Exhibit 14 to TVA's Annual Report on Form 10-K for the year ended September 30, 2006, File No. 000-52313)

31.1	Rule 13a-14(a)/15d-14(a) Certification Executed by the Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification Executed by the Chief Financial Officer
32.1	Section 1350 Certification Executed by the Chief Executive Officer

32.2 Section 1350 Certification Executed by the Chief Financial Officer

101.INS\*\* TVA XBRL Instance Document

101.SCH \*\* TVA XBRL Taxonomy Extension Schema

101.CAL \*\* TVA XBRL Taxonomy Extension Calculation Linkbase

101.DEF \*\* TVA XBRL Taxonomy Extension Definition Linkbase

101.LAB \*\* TVA XBRL Taxonomy Extension Label Linkbase

101.PRE \*\* TVA XBRL Taxonomy Extension Presentation Linkbase

† Management contract or compensatory arrangement.

\* Certain schedule(s) and/or exhibit(s) have been omitted. The Tennessee Valley Authority hereby undertakes to furnish supplementally copies of any of the omitted schedules and/or exhibits upon request by the Securities and Exchange Commission.

\*\* In accordance with Rule 406T of Regulation S-T, these XBRL (eXtensible Business Reporting Language) documents are furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under this section.

## Section 2: EX-10.18 (EXHIBIT 10.18)

### **EXHIBIT 10.18**

This Termination Agreement has been filed to provide investors with information regarding its terms. It is not intended to provide any other factual information about the Tennessee Valley Authority. The representations and warranties of the parties in this Termination Agreement were made to, and solely for the benefit of, the other parties to this Termination Agreement. The assertions embodied in the representations and warranties may be qualified by information included in schedules, exhibits, or other materials exchanged by the parties that may modify or create exceptions to the representations and warranties. Accordingly, investors should not rely on the representations and warranties as characterizations of the actual state of facts at the time they were made or otherwise.

**TVA No. 00069956, Termination**

### **TERMINATION OF JOINT OWNERSHIP AGREEMENT**

**THIS TERMINATION AGREEMENT** (the “Termination Agreement”) is made and entered into as of the 9th day of August, 2013, by and between Seven States Southaven, LLC, a Delaware limited liability company (“Southaven”) and Tennessee Valley Authority, a corporate agency and instrumentality of the United States Government created and existing under and by virtue

of the Tennessee Valley Authority Act of 1933, as amended, 16 U.S.C. Sections 831 - 831ee (2006 & Supp V 2011), and acting as to real property as agent in the name of the United States of America, as lessee ("TVA"). All capitalized terms not otherwise defined in this Termination Agreement shall have the meanings given to them in the JOA (as defined herein).

### BACKGROUND STATEMENT

**WHEREAS**, TVA and Seven States Power Corporation ("SSPC"), a Tennessee corporation and the parent of Southaven, previously entered into that certain Joint Ownership Agreement, dated April 30, 2008, numbered as TVA Contract No. 00069956, which was subsequently amended by Supplement No. 1 dated September 2, 2008, Supplement No. 2 dated September 30, 2008, Supplement No. 3 dated April 17, 2009, Supplement No. 4 dated April 22, 2010, and Supplement No. 5 dated April 18, 2013 (as so amended, the "JOA"); and

WHEREAS, on September 30, 2008, SSPC designated Southaven as the "Designated Entity" under the JOA, assigned all its rights under the JOA to Southaven, and specified the Elected Percentage under the JOA to be equal to 90%; and

WHEREAS, the JOA anticipated Long Term Arrangements to be completed on or before April 30, 2010, which date was previously extended to September 5, 2013; and

WHEREAS, TVA and Southaven have determined that the Long Term Arrangements will not be consummated as anticipated under the JOA and now desire to terminate the JOA in conjunction with the transfer of all assets currently owned by Southaven and subject to the JOA, but to preserve the indemnification provisions of the JOA for a period of three (3) years;

NOW, THEREFORE, for and in consideration of the premises, the mutual covenants and agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, TVA and Southaven agree as follows:

**1. Termination of JOA.** Subject to the conditions contained in this Termination Agreement, the JOA shall terminate, and shall be of no further force or effect, as of the close of business on August 9, 2013 (the "Termination Date").

**2. Release from Future Obligations.** Each party shall be released from all of its obligations, duties and liabilities under the JOA from and after the Termination Date, excluding each party's indemnification obligations under Section 10 of the JOA for any indemnifiable claims or losses arising prior to the Termination Date, which indemnification obligations shall survive termination thereof for a period of three (3) years after the Termination Date.

**3. Wind-down/Transition.** The effectiveness of this Termination Agreement is expressly subject to and conditioned upon the consummation of all conditions precedent set forth in that certain Asset Purchase Agreement dated August 6, 2013, between TVA and Southaven.

**4. Binding Effect.** This Termination Agreement shall be governed by and construed in accordance with the laws of the United States of America and the State of Tennessee, and shall be binding upon and inure to the benefit of the parties hereto and their respective successors, representatives and assigns. In the event of any inconsistency or conflict between the terms of this Termination Agreement and of the JOA, the terms hereof shall control. Time is of the essence of all of the terms of this Termination Agreement.



**IN WITNESS WHEREOF**, Southaven and TVA have caused this Termination Agreement to be executed by their duly authorized representatives as of the day and year first above written.

**SOUTHAVEN**

**Seven States Southaven, LLC  
a Delaware limited liability company**

By: /s/ Jack W. Simmons

Name: Jack W. Simmons

Title: President and Chief Executive Officer

**TVA:**

**Tennessee Valley Authority**

By: /s/ John M. Hoskins

Name: John M. Hoskins

Title: Senior Vice President and Treasurer and  
Interim Chief Risk Officer

[\(Back To Top\)](#)

## **Section 3: EX-10.23 (EXHIBIT 10.23)**

### **EXHIBIT 10.23**

This Termination Agreement has been filed to provide investors with information regarding its terms. It is not intended to provide any other factual information about the Tennessee Valley Authority. The representations and warranties of the parties in this Termination Agreement were made to, and solely for the benefit of, the other parties to this Termination Agreement. The assertions embodied in the representations and warranties may be qualified by information included in schedules, exhibits, or other materials exchanged by the parties that may modify or create exceptions to the representations and warranties. Accordingly, investors should not rely on the representations and warranties as characterizations of the actual state of facts at the time they were made or otherwise.

**TVA No. 00072495, Termination**

### **TERMINATION OF LEASE AGREEMENT**

**THIS TERMINATION OF LEASE AGREEMENT** (the “Termination of Lease Agreement”) is made and entered into as of the 9th day of August, 2013, by and between Seven States Southaven, LLC, a Delaware limited liability company (“Southaven”) and Tennessee Valley Authority, a corporate agency and instrumentality of the United States Government created and existing under and by virtue of the Tennessee Valley Authority Act of 1933, as amended, 16 U.S.C. Sections 831 - 831ee (2006 & Supp V 2011), and acting as to real property as agent in the name of the United States of America, as lessee (“TVA”). All capitalized terms not otherwise defined in this Termination of Lease Agreement shall have the meanings given to them in the Lease (as defined herein).

### **BACKGROUND STATEMENT**

WHEREAS, Southaven and TVA entered into that certain Lease Agreement dated September 30, 2008, numbered as TVA Contract No. 00072495, which was amended on April 17, 2009, on April 22, 2010, and on April 18, 2013 (collectively, the “Lease”), pursuant to which TVA leases from Southaven the “Leased Premises,” which consist of Southaven’s 90% undivided ownership interest in the Purchased Assets, as more particularly defined in the Lease; and

WHEREAS, the Term of the Lease was to expire on or before April 30, 2010, which date was previously extended to September

5, 2013; and

WHEREAS, TVA and Southaven have determined to terminate the Lease in conjunction with the transfer of all assets currently owned by Southaven and subject to the Lease, but to preserve the obligation of TVA to pay any remaining Administrative and General Expenses portion of the Basic Rent under Section 3.3(a) of the Lease (the “Administrative Costs”) and to preserve the indemnification provisions thereunder for a period of three (3) years;

NOW, THEREFORE, for and in consideration of the premises, the mutual covenants and agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, TVA and Southaven agree as follows:

1. **Termination of Lease.** Subject to the conditions contained in this Termination of Lease Agreement, the Lease shall terminate, and shall be of no further force or effect, as of the close of business on August 9, 2013 (the "Termination Date").

2. **Release from Future Obligations.** Each party shall be released from all of its obligations, duties and liabilities under the Lease from and after the Termination Date, excluding: (a) TVA's obligation to pay Southaven a final installment of the Administrative Costs pursuant to Section 3.3(a) (including any adjustment to Administrative Costs pursuant to clauses (i) or (ii) of Section 3.3(a) of the Lease) thereunder and (b) each party's indemnification obligations under Article 13 of the Lease for any indemnifiable claims or losses arising prior to the Termination Date, which indemnification obligations shall survive termination thereof for a period of three (3) years after the Termination Date. Southaven agrees to provide an invoice to TVA within forty-five days after the Termination Date for all costs described in item (a) above, and TVA shall pay such amounts within fifteen (15) days of receipt.

3. **Wind-down/Transition.** The effectiveness of this Termination of Lease Agreement is expressly subject to and conditioned upon the consummation of all conditions precedent set forth in that certain Asset Purchase Agreement dated August 6, 2013, between TVA and Southaven.

4. **Binding Effect.** This Termination of Lease Agreement shall be governed by and construed in accordance with the laws of the United States of America, except to the extent the laws of the State of Mississippi or Tennessee govern any portion of the Leased Premises, and shall be binding upon and inure to the benefit of the parties hereto and their respective successors, representatives and assigns. In the event of any inconsistency or conflict between the terms of this Termination of Lease Agreement and of the Lease, the terms hereof shall control. Time is of the essence of all of the terms of this Termination of Lease Agreement.

IN WITNESS WHEREOF, Southaven and TVA have caused this Termination of Lease Agreement to be executed by their duly authorized representatives as of the day and year first above written.

**SOUTHAVEN**

**Seven States Southaven, LLC**  
**a Delaware limited liability company**

By: /s/ Jack W. Simmons

Name: Jack W. Simmons

Title: President and Chief Executive Officer

**TVA:**

**Tennessee Valley Authority**

By: /s/ John M. Hoskins

Name: John M. Hoskins

Title: Senior Vice President and Treasurer and  
Interim Chief Risk Officer

[\(Back To Top\)](#)

## **Section 4: EX-10.33 (EXHIBIT 10.33)**

**EXHIBIT 10.33**

This Asset Purchase Agreement has been filed to provide investors with information regarding its terms. It is not intended to provide any other factual information about the Tennessee Valley Authority. The representations and warranties of the parties in this Asset Purchase Agreement were made to, and solely for the benefit of, the other parties to this Asset Purchase Agreement. The assertions embodied in the representations and warranties may be qualified by information included in schedules, exhibits, or other materials exchanged by the parties that may modify or create exceptions to the representations and warranties. Accordingly, investors should not rely on the representations and warranties as characterizations of the actual state of facts at the time they were made or otherwise.

**EXECUTION VERSION**

### **ASSET PURCHASE AGREEMENT**

**By and between**

**TENNESSEE VALLEY AUTHORITY,**  
**as Buyer**

**and**

**SEVEN STATES SOUTHAVEN, LLC,**  
**as Seller**

**August 6, 2013**

## ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT (the “Agreement”) is made and entered this 6 day of August, 2013, by and between Seven States Southaven, LLC, a Delaware limited liability company (“Seller”), and Tennessee Valley Authority, a corporate agency and instrumentality of the United States Government created and existing under and by virtue of the Tennessee Valley Authority Act of 1933, as amended (“Buyer”).

### RECITALS

A. Whereas, Seller is the owner of that certain specified 90% undivided interest in the Facility and the Facility Site and certain other assets and properties described herein (collectively, the Facility, the Facility Site and such other assets and properties, as more fully described herein, are referred to as the “Acquired Assets,” and Seller’s 90% undivided interest in the Facility, the Facility Site and the Acquired Assets are referred to herein as the “Undivided Interest,” the “Ground Interest” and the “Acquired Interest,” respectively);

B. Whereas, Buyer owns the remaining 10% undivided interest in the Acquired Assets;

B. Whereas, Buyer desires to purchase from Seller, and Seller desires to sell to Buyer, the Acquired Assets in exchange for the payment of the Purchase Consideration and the assumption of the Assumed Liabilities, all as consideration for such purchase (the foregoing transactions being referred to collectively herein as the “Acquisition Transaction”);

C. Whereas, it is a condition to the execution of this Agreement that Buyer, simultaneously with the execution and delivery of this Agreement, enters into the Participation Agreement, dated as of August 6, 2013, among (i) Buyer, (ii) Owner Lessor, (iii) Wilmington Trust, National Association, (iv) Equity Investor, and (v) Wilmington Trust Company (the “Participation Agreement”);

D. Whereas, simultaneously with and as a condition to the Closing, Buyer and the other transaction parties will consummate the Lease/Leaseback Transaction as contemplated by the Participation Agreement and the other transaction documents, including, among other transactions, (i) the lease of the Undivided Interest and Ground Interest (both of which are being conveyed to Buyer from Seller as part of the Acquired Interest) by Buyer to Owner Lessor pursuant to and in accordance with the terms and conditions of (a) the Head Lease Agreement, to be dated as of the Closing, between Buyer and Owner Lessor (the “Head Lease”), and (b) the Ground Lease Agreement, to be dated as of the Closing, between Buyer and Owner Lessor (the “Ground Lease”), and (ii) the formation of the Equity Investor pursuant to the Equity LLC Agreement whereby Seller will receive the Profits Interest; and

E. Whereas, on the Closing Date and subject to the satisfaction of the terms and conditions set forth in this Agreement and the simultaneous closing of the Lease/Leaseback Transaction, Buyer will purchase from Seller, and Seller will sell to Buyer, the Acquired Interest subject to Buyer’s obligations under the Participation Agreement, Head Lease, and Ground Lease to lease the Undivided Interest and the Ground

Interest (both of which are being conveyed to Buyer from Seller as part of the Acquired Interest) to Owner Lessor.

NOW, THEREFORE, in consideration of the covenants, promises, and representations set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

## ARTICLE I

### DEFINITIONS

1.1 Capitalized Terms. The following capitalized terms shall have the meanings set forth below:

**“Accumulated Amortization Costs”** shall have the meaning set forth in Section 2.1(g).

**“Acquired Assets”** shall have the meaning set forth in Section 2.1.

**“Acquired Interest”** shall have the meaning set forth in the recitals to this Agreement.

**“Acquisition Transaction”** shall have the meaning set forth in the recitals to this Agreement.

**“Actions”** shall mean all actions, suits, proceedings, arbitration, or governmental or regulatory investigations or audits.

**“Affiliate”** of any specified Person means any other Person that, directly or indirectly, controls, is controlled by, or is under common control with such Person. For purposes of this definition “control” when used with respect to any particular Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract, or otherwise, and the terms “controlling,” “controlled,” and “under common control” have meanings correlative to the foregoing; *provided, however*, that any Person owning, directly or indirectly, ten percent (10%) or more of the securities having ordinary voting power for the election of directors or other members of the governing body of a corporation, or ten percent (10%) or more of the partnership or other ownership interests of any other Person, is deemed to control such corporation or other Person; and *provided further* that any federal Governmental Entity shall not be deemed to be an Affiliate of the Tennessee Valley Authority.

**“Agreement”** shall mean this Asset Purchase Agreement between Buyer and Seller (including all Exhibits and Schedules hereto) and all amendments hereto in accordance with Section 9.13.

**“Ancillary Agreements”** shall mean (i) the Bill of Sale, (ii) the Assignment and Assumption Agreement, (iii) the Termination Agreements, (iv) the Deeds, and (v) any additional agreements and instruments of sale, transfer, conveyance, assignment and assumption that may be executed and delivered

by any party or any Affiliate thereof at or in connection with the Closing.

**“Assigned Contracts”** shall have the meaning set forth in Section 2.1(e).

**“Assigned Permits”** shall have the meaning set forth in Section 2.1(f).

**“Assignment and Assumption Agreement”** shall have the meaning set forth in Section 3.4(c)(ii).

**“Assumed Liabilities”** shall have the meaning set forth in Section 2.4.

**“Bill of Sale”** shall have the meaning set forth in Section 3.4(c)(i).

**“Business Day”** shall mean a day other than a Saturday, Sunday, or other day on which commercial banks in New York or Tennessee are authorized or required by law to close.

**“Buyer Material Adverse Effect”** shall mean an adverse change in, or a material adverse effect upon, the operations, business, properties, Liabilities (actual or contingent) or condition (financial or otherwise) of Buyer which would materially adversely affect the ability of Buyer to comply with its obligations hereunder.

**“Closing”** shall have the meaning set forth in Section 3.4.

**“Closing Date”** shall have the meaning set forth in Section 3.4.

**“Code”** shall mean the United States Internal Revenue Code of 1986, as amended.

**“Conflict”** shall mean any event or circumstance that would constitute a conflict, breach, violation or default (with or without notice or lapse of time, or both) or give rise to a right of termination, cancellation, modification or acceleration of any obligation or loss of any benefit.

**“Contract”** shall mean any written or oral contract, agreement, plan, arrangement, undertaking, commitment, warranty, representation, or understanding of any nature, including any license, sublicense, lease, sublease, commitment, sale and purchase order, invoice, franchise, note, bond, mortgage, indenture, or covenant.

**“Contract Consents and Assignments”** shall refer, with respect to any required consent, waiver, assignment, or approval set forth in Schedule 4.3 of the Seller Disclosure Schedule, to the written form thereto necessary to vest in Buyer all rights of Seller under any Assigned Contract.

**“Deed”** means one or more special warranty deeds, substantially in the form of Exhibit H, conveying Seller’s 90% undivided interest in the Real Property included in the Acquired Assets, free and clear of all Liens other than Permitted Encumbrances, with legal descriptions sufficient for conveyance of such undivided interest in the Real Property of record, to be executed and delivered by Seller at the Closing.



**“Easements”** shall have the meaning set forth in Section 2.1(c).

**“Escrow Account”** shall have the meaning set forth in Section 2.1(g).

**“Emission Allowances”** shall mean all environmental credits, offsets and allowances issued under the federal Clean Air Act (42 U.S.C. § 7401 et seq.), any applicable emission budget programs, or any other state, regional or federal emission trading program, to specifically include the definition of NO<sub>x</sub> and SO<sub>2</sub> allowances under the federal Acid Rain Program (40 C.F.R. 72); the NO<sub>x</sub> Budget Trading Program (40 C.F.R. 96); the CAIR NO<sub>x</sub> Trading Program (40 C.F.R. 96 Subpart AA); the CAIR SO<sub>2</sub> Trading Program (40 C.F.R. Subpart AAA); and any approved rules or regulations implementing these provisions adopted by the State of Mississippi or any of its Governmental Entities pursuant to any applicable Law.

**“Equity Investor”** shall mean Southaven Holdco LLC, a Delaware limited liability company.

**“Equity LLC Agreement”** shall mean the limited liability company agreement of the Equity Investor, dated as of the Closing, between GSS Holdings (Southaven), Inc., a Delaware corporation, Seller, and Wilmington Trust, National Association, a national banking association, in its capacity as the “Equity Investor”, and attached hereto as Exhibit C.

**“Exchange Act”** shall mean the United States Securities Exchange Act of 1934, as amended.

**“Excluded Assets”** shall have the meaning set forth in Section 2.2.

**“Excluded Liabilities”** shall have the meaning set forth in Section 2.3.

**“Facility”** shall mean the Southaven Combined Cycle Facility, a combined cycle generating facility with a summer net generation capacity of approximately 774 megawatts, located in the City of Southaven, DeSoto County, Mississippi, as more particularly described in Exhibit A hereto.

**“Facility Books and Records”** shall mean all books, records, papers, files, documents, or correspondence of any kind, whether in printed or electronic format, in the care, custody, or control of Seller that relate to the Facility, the Acquired Assets or the Assumed Liabilities, including copies of all Contracts, purchasing and sales records, customer and vendor lists, accounting and financial records (including records of development expenses), site control agreements, environmental reports, soils studies, engineering studies, feasibility studies, surveys, easement documents, title insurance policies, permitting documents, zoning information, invention disclosures, applications, registrations, certificates, grants, and all files and records relating to Facility Intellectual Property, and with respect to any of the foregoing, any related documentation and/or specifications.

**“Facility Intellectual Property”** shall mean any and all intellectual property that is owned by Seller, or that otherwise is, or at any prior time was, necessary for the development and exploitation of the Facility.

**“Facility Site”** shall mean all those parcels of land upon which the Facility is located, as more particularly described in Exhibit B hereto.

**“Facility Tangible Property”** shall have the meaning set forth in Section 2.1(a).

**“Governmental Entity”** shall mean any court, tribunal, judicial or arbitral body, administrative agency or commission or any similar federal, state, county, local, municipal, or foreign or supranational governmental authority, instrumentality, agency or commission.

**“Governmental Order”** shall mean any order, writ, judgment, injunction, decree, stipulation, determination, ruling or award entered by or with any Governmental Entity.

**“Governmental Permit”** shall mean any franchise, permit, license, agreement, waiver, or authorization held or used in the conduct of a Person’s business and obtained from a Governmental Entity.

**“Ground Interest”** shall have the meaning set forth in the recitals to this Agreement.

**“Ground Lease”** shall have the meaning set forth in the recitals to this Agreement.

**“Head Lease”** shall have the meaning set forth in the recitals to this Agreement.

**“Income Tax”** shall mean any Tax imposed on or measured by net income or net profits (however denominated).

**“Indebtedness”** shall mean, with respect to any Person, all Liabilities, indebtedness, or obligations of any kind or nature, contingent or otherwise, including (i) all indebtedness for borrowed money or for the deferred purchase price of property or services; (ii) any other indebtedness that is evidenced by a note, bond, debenture, letter of credit or similar instrument or facility; (iii) all obligations under financing and operating leases; and (iv) all Indebtedness referred to in clauses (i) through (iii) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property (including accounts and Contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness.

**“IRS”** shall mean the United States Internal Revenue Service.

**“Joint Ownership Agreement”** shall mean the Joint Ownership Agreement, dated as of April 30, 2008, as amended, between Seven States Power Corporation and Tennessee Valley Authority, pursuant to which Tennessee Valley Authority, through two separate transactions, conveyed a ninety percent (90%) undivided interest in all rights, title and interests in the Acquired Assets to Seller, as the “Designated Entity” (as defined in the Joint Ownership Agreement) of Seven States Power Corporation.

**“Law”** shall mean any national, federal, state, municipal, local, foreign, supranational, or other statute, law, ordinance, rule, code, Governmental Order, or other requirement or rule of law.

**“Lease”** shall mean the Lease Agreement, dated September 30, 2008, as amended, between Seller and Buyer.

**“Lease/Leaseback Transaction”** shall mean the transactions contemplated by the Participation Agreement, the Head Lease, the Ground Lease, and such other transaction documents, whereby, among other things, (i) Buyer will lease the Undivided Interest and the Ground Interest (both of which are being conveyed to Buyer from Seller as part of the Acquired Interest) to Owner Lessor under the terms and conditions of the Head Lease and the Ground Lease, and (ii) Owner Lessor, among other things, will issue bonds and use the proceeds from such bond issuance (together with other sources of funding) to pay a portion of the rent owed to Buyer under the Head Lease.

**“Liability”** shall mean any and all debts, liabilities, obligations, and Indebtedness (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, whether incurred or consequential and whether due or to become due and whether or not required to be presented on a balance sheet prepared in accordance with generally accepted accounting principles in the United States), including those arising under any Law, Actions, or Governmental Order, those arising under any Contract, and any off-balance sheet liabilities.

**“Lien”** shall mean any mortgage, pledge, lien, security interest, charge, claim, equity, encumbrance, restriction on transfer, conditional sale or other title retention device or arrangement (including a capital lease), transfer for the purpose of subjection to the payment of any Indebtedness, preferential arrangement, or restriction on the creation of any of the foregoing, whether relating to any property or right or the income or profits therefrom, including any restriction on the use, voting, transfer, receipt of income, or other exercise of any attributes of ownership.

**“Loss”** and **“Losses”** shall have the meanings set forth in Section 7.3(a).

**“Ordinary Course of Business”** shall mean the usual, regular and ordinary course of business, as presently conducted consistent with past practice (including with respect to quantity and frequency).

**“Owner Lessor”** shall mean Southaven Combined Cycle Generation LLC, a Delaware limited liability company.

**“Participation Agreement”** shall have the meaning set forth in the recitals to this Agreement.

**“Payoff Letter”** shall have the meaning set forth in Section 3.4(c)(iv).

**“Permitted Encumbrances”** shall mean (i) mechanics, materialmen’s and similar Liens and Liens for Taxes, in each case arising in the Ordinary Course of Business and securing amounts not yet due and payable, (ii) zoning, Governmental Permit and other land use Laws regulating the use or occupancy of real property or activities conducted thereon that are imposed by any Governmental Entity, (iii) easements,

covenants, conditions, restrictions, and other similar matters of record affecting title to real property, and (iv) any Liens identified in the title commitment(s) and UCC searches being obtained by Buyer that are not objected to by Buyer at least five (5) days prior to Closing. In the event Seller is unable to clear any Liens identified in such title commitment or UCC searches to which Buyer timely objects, Buyer shall have the option to terminate this Agreement or to proceed to Closing and accept such additional Liens as Permitted Encumbrances.

**“Person”** shall mean any individual, partnership, firm, corporation, limited liability company, association, trust, unincorporated organization or other entity, as well as any syndicate or group of any of the foregoing that would be deemed to be a “person” under Section 13(d)(3) of the Exchange Act.

**“Post-Closing Expenses”** has the meaning set forth in Section 2.5(b).

**“Profits Interest”** shall mean the membership interests in the Equity Investor in the form of a “profits interest”, as more fully described in Section 7(c) of the Equity LLC Agreement.

**“Purchase Consideration”** has the meaning set forth in Section 2.5(a).

**“Real Property”** shall have the meaning set forth in Section 2.1(b).

**“Seller Disclosure Schedule”** shall have the meaning set forth in the preamble to Article IV.

**“Seller Material Adverse Effect”** shall mean an adverse change in, or a material adverse effect upon, the operations, business, properties, Liabilities (actual or contingent) or condition (financial or otherwise) of Seller which would materially adversely affect the ability of Seller to comply with its obligations hereunder.

**“Southaven Credit Agreement”** shall mean the Amended and Restated Credit Agreement, dated as of April 22, 2010, as amended, by and among Seller, as borrower, Seven States Power Corporation, as guarantor, JPMorgan Chase Bank, National Association, as administrative agent and a lender, CoBank, ACB, as a lender, Wells Fargo Bank, National Association, as a lender, and the other lenders referred to therein.

**“Tangible Intellectual Property”** shall have the meaning set forth in Section 2.1(d).

**“Tax”** shall mean any and all federal, state, local or foreign taxes (including estimated taxes), assessments, and other governmental charges, duties, impositions and Liabilities, including taxes based upon or measured by gross receipts, income, profits, sales, use and occupation, and value added, *ad valorem*, transfer, franchise, withholding, payroll, recapture, employment, excise and property taxes, together with all interest, penalties and additions imposed with respect to such amounts and any obligations under any agreements or arrangements with any other Person with respect to such amounts and including any Liability for taxes of a predecessor entity.

**“Tax Return”** shall mean any return, declaration, report, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

**“Termination Agreements”** shall have the meaning set forth in Section 3.4(c)(iii).

**“Termination Date”** shall have the meaning set forth in Section 7.1.

**“Undivided Interest”** shall have the meaning set forth in the recitals to this Agreement.

## 1.2 Construction.

(a) For purposes of this Agreement, whenever the context requires, the singular number will include the plural, and vice versa; the masculine gender will include the feminine and neuter genders; the feminine gender will include the masculine and neuter genders; and the neuter gender will include the masculine and feminine genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

(b) Each of the parties hereto has participated actively in the negotiation and drafting of this Agreement, and each party has been at all times during such negotiation represented by counsel. Each party therefore waives the application of any law, regulation, holding, or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

(c) As used in this Agreement, the words “include” and “including” and variations thereof will not be deemed to be terms of limitation, but rather will be deemed to be followed by the words “without limitation.”

(d) The words “hereof,” “herein,” and “herewith” and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement.

(e) Except as otherwise indicated, all references in this Agreement to “Articles,” “Schedules,” “Sections” and “Exhibits” are intended to refer to Articles, Schedules, Sections and Exhibits to this Agreement.

(f) References in this Agreement to the “knowledge” of Seller or Buyer, will be deemed to refer to the actual and/or constructive knowledge of the officers of Seller or Buyer (as applicable), as they would reasonably be expected to have with respect to any matter if they conducted a reasonable inquiry of the employees charged with administrative or operational responsibility for such matter.

(g) All references in this Agreement to “dollars” or “\$” shall refer to the lawful currency of the United States.

(h) References in this Agreement to any document, instrument or agreement (i) shall include all exhibits, schedules and other attachments thereto, and (ii) shall mean such document, instrument or agreement as amended, modified or supplemented from time to time.

(i) The headings in this Agreement are for convenience of reference only, will not be deemed to be a part of this Agreement, and will not be referred to in connection with the construction or interpretation of this Agreement.

## ARTICLE II

### SALE AND PURCHASE OF ASSETS

2.1 Purchase and Sale of Assets. On the Closing Date and subject to the terms and conditions set forth in this Agreement (including Section 2.6) and, for the avoidance of doubt, subject to Buyer's obligations under the Participation Agreement, Head Lease, and Ground Lease to lease the Undivided Interest and the Ground Interest (both of which are being conveyed to Buyer from Seller as part of the Acquired Interest) to Owner Lessor, Seller shall sell, convey, grant, assign, transfer and deliver to Buyer, and Buyer shall purchase, acquire and accept title to and ownership from Seller, all of Seller's right, title and interest (including any undivided interests held by Seller as a tenant-in-common with any other Person) in and to the following assets, rights and properties, of every kind, nature, character and description, whether real, personal, or mixed, and whether owned (including any joint ownership interests), leased, licensed or contracted for, and wherever located, but in each case excluding all Excluded Assets, with good title, free and clear of any Liens except for Permitted Encumbrances (collectively, the "**Acquired Assets**");

(a) The Facility, and all machinery, mobile or otherwise, equipment, vehicles, pumps, fittings, tools, parts, apparatus, consumables, furniture and furnishings, meter equipment, leased personal property and other tangible movable property located at the Facility Site or purchased by Seller exclusively or principally for use or consumption at the Facility that are not tangible embodiments of Facility Intellectual Property, including the property listed or described in Schedule 2.1(a) (collectively, the "**Facility Tangible Property**");

(b) the parcels of real or immovable property (including the Facility Site), water rights and other real or immovable property rights described in Schedule 2.1(b), together with all buildings, fixtures, component parts, other constructions and other improvements thereon and thereto (collectively, the "**Real Property**");

(c) all privileges, licenses, rights-of-way, servitudes, and easements in gross, related to the Real Property held by Seller as well as the right, by way of license, right-of-way, servitude, easement or the like, to permit access to the Facility, including those described in Schedule 2.1(c) (the "**Easements**");

(d) the Facility Intellectual Property, including the Facility Intellectual Property identified on Schedule 2.1(d), and all tangible embodiments thereof (such tangible embodiments, the "**Tangible Intellectual Property**");

(e) all rights of Seller under the Contracts set forth on Schedule 2.1(e) (the "**Assigned Contracts**");

(f) all Governmental Permits held or used by Seller in connection with the use or operation of the Acquired Assets and the Facility, and all pending applications therefor or renewals thereof, including those listed on Schedule 2.1(f) (the “**Assigned Permits**”);

(g) all funds, except the Excluded Assets, held in Seller’s deposit account #2000028949756 at Wells Fargo Bank (the “**Escrow Account**”), which funds are referred to as the “**Accumulated Amortization Costs**”;

(h) all accounts, rights, or allowances involving Emissions Allowances, as listed or described on Schedule 2.1(h), and all rights to any future Emissions Allowances, if any, that will be granted or allocated to be held in accounts maintained in the name of Seller at any time after the date of this Agreement (other than those Emissions Allowances used in the ordinary course of operation of the Facility prior to the Closing);

(i) all prepaid assets and expenses related to the Facility, including the prepaid assets and expenses identified on Schedule 2.1(i) hereto, and all rights of Seller in respect of payments made under the Assigned Contracts on or prior to the Closing Date;

(j) all Facility Books and Records; all information and documentation related to the Facility, including vendor, supplier, advertiser, or other lists; all sales data; all advertising or other promotional materials, sales literature, graphics and artwork; all user manuals and similar documentation; all studies and reports, including all environmental studies and impact reports, meteorological reports, surveys, title reports and engineering studies; and all other printed, electronic, or written materials or data (including any and all documentation relating to Facility Intellectual Property, whether for use internally or externally); in the case of any of the foregoing, whether in printed or electronic format, related to the Facility; and to the extent not listed above, the items listed or described in Schedule 2.1(j);

(k) all claims, causes of action, deposits, prepayments, refunds, rights of recovery, rights of set-off, and rights of recoupment, of any kind or character, including all causes of action, past or present, and rights to damages and other remedies in connection with the Acquired Assets, but other than any Excluded Assets;

(l) all other assets held by Seller necessary or convenient for the ownership or operation of the Facility (other than any Excluded Assets);

(m) all goodwill associated with any of the foregoing and the Facility; and

(n) to the extent not described above, all assets acquired by Seller under the Joint Ownership Agreement.

2.2 Excluded Assets. Seller is reserving, and is not selling to Buyer, the following assets (all such excluded assets, the “**Excluded Assets**”) specified in Schedule 2.2.

2.3 Liabilities Not Assumed. Buyer shall not assume any Liability for payment of Income Taxes of Seller, including on the Excluded Assets and on Seller’s net income from the portion of rent received under the Lease for reimbursement of Administrative and General Expenses (as defined in the Lease) (the “**Excluded**”).

**Liabilities**”), which Seller shall retain and pay, satisfy, discharge, and perform all such Excluded Liabilities. Without limiting the generality of the foregoing, Buyer shall not assume and shall not be liable for any of the following Liabilities or obligations of Seller: (a) any Liabilities related to the Excluded Assets; (b) any Indebtedness for borrowed money or otherwise of Seller, including any Indebtedness under the Southaven Credit Agreement; and (c) all lawsuits, claims and other Liabilities of Seller arising in connection with any Actions unrelated to the Acquired Assets.

2.4 **Assumed Liabilities**. As of the Closing, Buyer hereby agrees to assume and be responsible for all Liabilities of Seller relating to Seller’s ownership of the Acquired Assets (collectively, the “**Assumed Liabilities**”), except for the Excluded Liabilities.

2.5 **Purchase Price; Profits Interest; Post Closing Expenses**.

(a) The consideration for the Acquired Interest (the “**Purchase Consideration**”) will be (a) the payment, in full and in immediately available funds, in an amount equal to all outstanding Indebtedness, as of the Closing, of Seller under the Southaven Credit Agreement; (b) the assumption of the obligations under the Assigned Contracts; and (c) the assumption of the Assumed Liabilities. In addition, simultaneously with the Closing, Buyer will enter into the Lease/Leaseback Transaction, pursuant to which Seller will receive the Profits Interest.

(b) Buyer will reimburse Seller for its reasonable, out-of-pocket expenses relating to the Acquisition Transaction and actually incurred by Seller after the Closing (the “**Post-Closing Expenses**”). Within forty-five (45) days after the Closing, Seller shall submit to Buyer an invoice documenting Seller’s Post-Closing Expenses, and Buyer shall pay all undisputed amounts of Post-Closing Expenses within thirty (30) Business Days of its receipt of Seller’s invoice. Following the resolution of any dispute relating to the withholding of any payment of Post-Closing Expenses and a determination that Buyer is obligated to pay for such disputed amounts, Buyer will make payment for such withheld Post-Closing Expenses, plus any interest accrued at the Overdue Rate (as defined in the Participation Agreement) on such withheld Post-Closing Expenses.

2.6 **Subsequent Requirements**. Buyer agrees that simultaneous with the Closing, Buyer shall consummate the Lease/Leaseback Transaction, including (a) the lease of the Undivided Interest and the Ground Interest (both of which are being conveyed to Buyer from Seller as part of the Acquired Interest) to Owner Lessor pursuant to the Head Lease and the Ground Lease; and (b) the receipt by Seller of the Profits Interest.

### **ARTICLE III**

#### **EFFECTIVENESS, CLOSING AND CLOSING DELIVERIES**

3.1 **Effectiveness**. The effectiveness of this Agreement shall be subject to the satisfaction of each of the following conditions precedent:



(a) Each of Buyer and Seller shall have delivered an executed counterpart of this Agreement.

(b) The Participation Agreement shall have been executed and delivered by the parties thereto, and Buyer shall deliver to Seller a copy of the fully executed Participation Agreement.

(c) Seller shall have delivered to Buyer the following: (i) a certificate of a duly authorized officer of Seller, dated the date of this Agreement, certifying the incumbency and specimen signatures of the officers of Seller executing this Agreement and any Ancillary Agreement to which Seller is a party and that (A) attached thereto is a true and correct copy of the resolutions duly adopted by the board of directors or other governing body of Seller authorizing the execution and delivery of this Agreement and the Ancillary Agreements to which Seller is a party and the consummation of the transactions contemplated hereby, and (B) attached thereto is a true and correct copy of the operating agreement of Seller as in effect on the date of this Agreement; (ii) a certificate of formation for Seller issued by the Secretary of State of Delaware; and (iii) a good standing certificate for Seller issued by the Secretary of State of Delaware.

(d) Buyer shall have delivered to Seller the following: a certificate of a duly authorized officer of Buyer, dated the date of this Agreement, certifying the incumbency and specimen signatures of the officers of Buyer executing this Agreement and any Ancillary Agreement to which Buyer is a party and that attached thereto is a true and correct copy of the resolutions duly adopted by the board of directors or other governing body of Buyer authorizing the execution and delivery of this Agreement and the Ancillary Agreements to which Buyer is a party and the consummation of the Acquisition Transaction.

3.2 Conditions Precedent to Buyer's Obligation to Close. Buyer's obligation to purchase the Acquired Assets and to take the other actions required to be taken by Buyer at the Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Buyer in whole or in part):

(a) All conditions precedent to the obligations of the other parties to the Participation Agreement shall have been satisfied or waived other than conditions precedent which are not in the control of Buyer or cannot be satisfied prior to the consummation of the Acquisition Transaction contemplated hereby.

(b) Each of the representations and warranties of Seller contained in Article IV hereof that are qualified as to materiality shall be true and correct in all respects on and as of the Closing Date with the same force and effect as though the same had been made on and as of the Closing Date (except that any such representations and warranties that are made as of a specific date need to be true and correct in all respects only as of such date), and each of the representations and warranties of Seller contained in Article IV hereof that are not qualified as to materiality shall be true and correct in all material respects on and as of the Closing Date with the same force and effect as though the same had been made on and as of the Closing Date (except that any such representations and warranties that are made as of a specific date need to be true and correct in all material respects only as of such date).

(c) All of the covenants and obligations that Seller is required to perform or to comply with pursuant to this Agreement at or prior to the Closing shall have been duly performed and complied with.

(d) All authorizations, consents, orders or approvals of, or declarations or filings with, or expiration of waiting periods imposed by, any Governmental Entity necessary for the consummation of the transactions contemplated by this Agreement shall have been filed, occurred or been obtained, and Seller shall have obtained, in form and substance reasonably satisfactory to Buyer, all other required consents to the transactions contemplated hereby and shall have arranged for the release on or prior to the Closing Date of all Liens (other than Permitted Encumbrances) which encumber any of the Acquired Assets.

(e) All limited liability company actions and proceedings to be taken and all documents to be executed and delivered by Seller in connection with the consummation of the transactions contemplated hereby, shall be reasonably satisfactory in form and substance to Buyer and its counsel.

(f) No order of any court or other Governmental Entity restraining, prohibiting or enjoining the consummation of the transactions contemplated hereby shall be in effect or be threatened or sought by any Governmental Entity.

(g) Buyer shall have received each of the certificates, documents, agreements and other instruments set forth in Section 3.4(c) hereof.

(h) The Closing Date shall have occurred on or prior to August 15, 2013.

3.3 Conditions Precedent to Seller's Obligations to Close. The obligation of Seller to consummate the Acquisition Transaction on the Closing Date is, at the option of Seller, subject to the satisfaction of the following conditions:

(a) Each of the representations and warranties of Buyer contained in Article V hereof shall be true and correct in all material respects as of the Closing Date with the same force and effect as though the same had been made on and as of the Closing Date.

(b) All authorizations, consents, orders or approvals of, or declarations or filings with, or expiration of waiting periods imposed by, any Governmental Entity necessary for the consummation of the transactions contemplated by this Agreement shall have been filed, occurred or been obtained.

(c) All corporate actions and proceedings to be taken and all documents to be executed and delivered by Buyer in connection with the consummation of the transactions contemplated hereby shall be reasonably satisfactory in form and substance to Seller and its counsel.

(d) No order of any court or other Governmental Entity restraining, prohibiting or enjoining the consummation of the transactions contemplated hereby shall be in effect or be threatened or sought by any Governmental Entity.

(e) Seller shall have received the executed counterparts of the Equity LLC Agreement from the parties thereto.

(f) Seller shall have received each of the certificates, documents, agreements and other instruments set forth in Section 3.4(d) hereof.

(g) All conditions precedent to the obligations of the other parties to the Participation Agreement shall have been satisfied or waived other than conditions precedent which are not in the control of Seller or cannot be satisfied prior to the consummation of the Acquisition Transaction contemplated hereby.

### 3.4 The Closing.

(a) The closing of the Acquisition Transaction (the “**Closing**”) will take place at the offices of Orrick, Herrington & Sutcliffe LLP in New York City, New York, or at such other location as shall be mutually agreeable to Buyer and Seller. As used herein, the term “**Closing Date**” shall mean the date on which each of the conditions precedent to Buyer’s and Seller’s obligations hereunder set forth in Sections 3.2 and 3.3 are satisfied (or are waived by (i) in the case of any conditions precedent to Buyer’s obligations hereunder, Buyer and (ii) in the case of any conditions precedent to Seller’s obligations hereunder, Seller).

(b) All corporate actions and proceedings taken and all documents to be executed and delivered by the parties at the Closing shall be deemed to have been taken and executed simultaneously and no proceedings shall be deemed taken nor any documents executed or delivered until all have been taken, executed and delivered.

(c) At the Closing, Seller shall deliver to Buyer the following:

(i) Such bills of sale, endorsements, assignments, and other good and sufficient instruments of transfer and conveyance to vest in Buyer good, valid and marketable title to the Acquired Interest, free and clear of all Liens (except Permitted Encumbrances), in accordance herewith, including a bill of sale in the form of Exhibit D (the “**Bill of Sale**”);

(ii) An executed counterpart of the assignment and assumption agreement in the form of Exhibit E (the “**Assignment and Assumption Agreement**”);

(iii) An executed counterpart of the termination agreements, each in the form of Exhibit F (the “**Termination Agreements**”);

(iv) A payoff letter executed by the Administrative Agent with respect to the Southaven Credit Agreement in the form of Exhibit G (the “**Payoff Letter**”);

(v) The Deeds;

(vi) A certificate of Seller, dated the Closing Date, signed by a duly authorized officer of Seller, certifying as to the matters set forth in Section 3.2(b) and (c) hereof;

(vii) To the extent not already in Buyer's possession and in Seller's possession or control, all of the Acquired Assets existing in tangible form, including the Assigned Contracts, the Assigned Permits, the Tangible Intellectual Property and the Facility Books and Records;

(viii) A legal opinion of counsel to Seller addressed to Buyer, dated the Closing, with respect to the valid existence of Seller and Seller's authority to enter into this Agreement and in form and substance reasonably satisfactory to Buyer;

(ix) Seller shall have transferred the Accumulated Amortization Costs in the Escrow Account, except for the Excluded Assets, to Buyer into such account designated by Buyer; and

(x) Such other documents and instruments as may be reasonably requested by Buyer or its counsel to effectuate the terms of this Agreement.

(d) At the Closing, Buyer shall deliver to or on behalf of Seller the following:

(i) Cash consideration in the amount of \$445,934,894.80 payable to the Administrative Agent for the benefit of the lenders under the Southaven Credit Agreement, which amount shall be equal to the amount set forth in the Payoff Letter to pay in full all outstanding Indebtedness, as of the Closing, of Seller under the Southaven Credit Agreement;

(ii) A legal opinion of counsel to Buyer addressed to Seller, dated the Closing, with respect to the valid existence of Buyer and Buyer's authority to enter into this Agreement and in form and substance reasonably satisfactory to Seller;

(iii) an executed counterpart of the Termination Agreements; and

(iv) an executed counterpart of the Assignment and Assumption Agreement.

## **ARTICLE IV**

### **REPRESENTATIONS AND WARRANTIES OF SELLER**

Seller hereby represents and warrants to Buyer as follows, as of the date of this Agreement and as of the Closing Date, subject to the exceptions specifically disclosed in the disclosure schedules prepared by Seller and attached to this Agreement (the "**Seller Disclosure Schedule**").

4.1 Organization. Seller is a limited liability company duly organized, validly existing, and in good standing under the Laws of the State of Delaware. Seller has the power and authority to own, lease, and operate its respective assets and properties and to carry on its respective businesses as now being conducted. Seller is qualified to do business in the States of Mississippi and Tennessee.

4.2 Authority.

(a) Seller has all requisite limited liability company power and authority to execute and deliver this Agreement and the Ancillary Agreements to which it is a signatory, to perform its respective obligations under this Agreement and such Ancillary Agreements, and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Ancillary Agreements to which Seller is a signatory by Seller, and the performance by Seller of its obligations under this Agreement and the Ancillary Agreements to which Seller is a signatory, and consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary limited liability company action on the part of Seller, and no further limited liability company action is required on the part of Seller to approve this Agreement, such Ancillary Agreements and the transactions contemplated hereby and thereby.

(b) This Agreement has been, and each of the Ancillary Agreements to which Seller is a signatory will be, duly executed and validly delivered by Seller. This Agreement and each of such Ancillary Agreements constitute a valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

4.3 Conflicts. The execution and delivery of this Agreement and the Ancillary Agreements to which Seller is a signatory by Seller do not, and the performance of this Agreement and such Ancillary Agreements does not and shall not, (a) Conflict with or violate any (i) provisions of the certificate of formation, limited liability company agreement, or other organizational documents of Seller, or (ii) to Seller's knowledge, any Law applicable to Seller or by which its assets (including the Acquired Assets) are bound or affected, or (b) to Seller's knowledge, except for the Southaven Credit Agreement which must be paid in full at Closing, result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or impair the rights of, or alter the rights or obligations of any third party under, or give to others any rights of termination, amendment, acceleration, or cancellation of any of the Acquired Assets pursuant to any Contract to which Seller is a party or by which any Acquired Asset is bound or affected (other than any Contract relating to the Facility to which Buyer is a party as to which no representation or warranty is made). Without limiting the foregoing, there are no existing Contracts, options, or commitments, whether written or oral, granting to any Person the right to acquire any of Seller's right, title, or interest in or to any of the Acquired Assets or any interest therein, except this Agreement (other than any Contract relating to the Facility to which Buyer is a party as to which no representation or warranty is made). To Seller's knowledge, Schedule 4.3 of the Seller Disclosure Schedule lists all consents, assignments, waivers, and approvals under any Assigned Contracts to which Seller is a party that are required to be obtained in

connection with the direct or indirect assignment of such Assigned Contracts to Buyer and consummation of the transactions contemplated hereby.

#### 4.4 Title to Properties, Absence of Liens.

(a) To the extent Seller acquired good, valid and marketable title to the Acquired Interest from Buyer pursuant to the transactions consummated under the Joint Ownership Agreement, (i) Seller has good, valid, and marketable title to the Acquired Interest, free and clear of all Liens (excluding Permitted Encumbrances and those Liens described on Schedule 4.4 of the Seller Disclosure Schedule), and (ii) as of the Closing, Buyer will have good, valid, and marketable title in the Acquired Interest, free and clear of all Liens (excluding Permitted Encumbrances). Except as set forth in Schedule 4.3 of the Seller Disclosure Schedule, Seller has the right to sell, assign, transfer, convey, and deliver the Acquired Interest to Buyer without penalty or restriction. No Lien attributable to Seller or anyone acting by or through Seller (other than Buyer as to which no representation or warranty is made) on any Acquired Interest shall exist, be created or result from the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements other than as contemplated in the Participation Agreement.

(b) The Acquired Interest constitutes all of the properties, assets, and rights that are used or held by Seller for use in connection with the Facility or the Facility Site.

4.5 Compliance with Laws. To Seller's actual knowledge, Seller is not (by virtue of any past or present action, any omission to act or any occurrence or state of facts whatsoever) in violation or in breach of any provision or term of any Law applicable to Seller or the conduct of its business, except where such violation would not reasonably be expected to have a Seller Material Adverse Effect; provided that no representation or warranty is made as to any Law applicable to the Facility or the construction, operation or maintenance thereof.

#### 4.6 Tax Matters.

(a) Seller and its Affiliates have prepared and timely filed all Income Tax Returns required to be filed by Seller or any of its Affiliates with any Governmental Entity, and have paid in full all Income Taxes due and payable by Seller and Seven States Power Corporation.

(b) Neither Seller nor Seven States Power Corporation has been delinquent in the payment of any Income Tax of Seller or Seven States Power Corporation, nor is there any Income Tax deficiency outstanding, proposed, or assessed against Seller or Seven States Power Corporation. Seller has not executed any waiver of any statute of limitations on or extended the period for the assessment or collection of any Tax, except as disclosed in Schedule 4.6 of the Seller Disclosure Schedule.

(c) No audit or other examination of any Income Tax Return of Seller or Seven States Power Corporation currently is in process, and neither Seller nor Seven States Power Corporation has been notified of any request for any such audit or other examination, except as disclosed in Schedule 4.6 of the Seller Disclosure Schedule.

(d) Neither Seller nor Seven States Power Corporation has any Liability for unpaid Income Taxes, whether asserted or unasserted, contingent or otherwise, which has not been properly accrued or reserved against.

(e) Seller has no actual knowledge of any claim for any Liabilities for overdue Taxes for which Buyer would become liable as a result of the transactions contemplated by this Agreement or the Ancillary Agreements.

(f) Other than as combined entity with Seven States Power Corporation, Seller (i) is not and has never been a part of a consolidated, combined, or affiliated group of corporations for Tax purposes and (ii) it not a party to a Tax sharing or allocation Contract, and has no Liability under any such Contract, except in each case of clause (ii), the Lease and the Joint Ownership Agreement, both of which will be terminated as of the Closing in accordance with the Termination Agreements. Seller is disregarded as an entity separate from Seven States Power Corporation for federal Income Tax purposes.

(g) To Seller's actual knowledge, all Taxes which Seller is (or was) required by Law to withhold or collect in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party have been duly withheld or collected, and have been timely paid over to the proper authorities to the extent due and payable.

4.7 Litigation. To Seller's actual knowledge, there is no Action of any nature pending, or to the knowledge of Seller, threatened, against Seller relating to the Acquired Assets or the Facility or which seeks to restrain or prohibit or otherwise challenges the execution, delivery and performance of this Agreement or the consummation, legality or validity of the transactions contemplated hereby; provided that no representation or warranty is made with regard to any Action against or involving Buyer.

4.8 Brokers' and Finders' Fees. Seller has not incurred, nor will it incur, directly or indirectly, any Liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement or any transaction contemplated hereby, other than financial advisory fees, investment banker fees and underwriter fees incurred by Seller but subject to reimbursement by Buyer pursuant to the terms of the Lease.

4.9 No Subsidiaries. Seller does not hold any stock or membership interests in any other entity. Seven States Power Corporation does not hold any stock or membership interests in any other entity, other than Seller.

## ARTICLE V

### REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer hereby represents and warrants to Seller as of the date of this Agreement and the Closing Date as follows.

5.1 Organization and Standing. Buyer is a corporate agency and instrumentality of the United States Government created and existing under and by virtue of the Tennessee Valley Authority Act of 1933, as amended.

5.2 Authority.

(a) Buyer has full power and authority to execute and deliver this Agreement and the Ancillary Agreements, to perform its obligations under this Agreement and the Ancillary Agreements, and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Ancillary Agreements by Buyer and the performance by Buyer of its obligations under this Agreement and the Ancillary Agreements and consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary official action of Buyer.

(b) This Agreement has been, and each of the Ancillary Agreements will be, duly executed and validly delivered by Buyer. This Agreement constitutes a valid and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability. The Ancillary Agreements to which Buyer is a signatory will, upon execution and delivery in accordance with the terms of this Agreement, constitute valid and binding agreements of Buyer, enforceable against Buyer in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

5.3 No Conflict. The execution and delivery of this Agreement by Buyer does not, and the execution and delivery of the Ancillary Agreements, and the performance of this Agreement and the Ancillary Agreements by Buyer will not (i) Conflict with or violate any Law applicable to Buyer or by which its properties are bound or affected, where such violation would reasonably be expected to have a Buyer Material Adverse Effect; or (ii) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or impair the rights of Buyer under, or alter the rights or obligations of any third party under, or give to others any rights of termination, amendment, acceleration, or cancellation under, or result in the creation of a Lien on any of the assets or properties of Buyer, pursuant to any Contract to which Buyer is a party, in any case where such breach, default, impairment, alteration, right of termination, or similar event described herein would reasonably be expected to have a Buyer Material Adverse Effect.

5.4 Compliance with Laws. To Buyer's actual knowledge, Buyer is not (by virtue of any past or present action, any omission to act or any occurrence or state of facts whatsoever) in violation or in breach



of any provision or term of any Law applicable to Buyer's operation of the Facility that will have any adverse effect on Seller that is not fully indemnified by Buyer.

5.5 Litigation. To Buyer's actual knowledge, there is no Action of any nature pending, or to the knowledge of Buyer, threatened, against Buyer relating to the Acquired Assets or the Facility or which seeks to restrain or prohibit or otherwise challenges the execution, delivery and performance of this Agreement or the consummation, legality or validity of the transactions contemplated hereby; provided that no representation or warranty is made with regard to any Action against or involving Seller but not Buyer.

5.6 Brokers' and Finders' Fees. Buyer has not incurred, and will not incur, directly or indirectly, any Liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement.

## ARTICLE VI

### COVENANTS

6.1 Operation of Business. Between the date of this Agreement and the Closing, Seller shall conduct its business only in the Ordinary Course of Business.

6.2 Notification of Certain Matters. Seller shall give prompt notice to Buyer of any and all of the following: (a) the occurrence or existence of any fact, circumstance or event which would result in any representation or warranty made by Seller in Article IV of this Agreement to be untrue or inaccurate in any material respect; and (b) any failure of Seller to comply in any material respect with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; *provided, however*, that the delivery of any notice pursuant to this Section 6.2 shall not (i) limit or otherwise affect any remedies available to Buyer or (ii) constitute an acknowledgment or admission of a breach of this Agreement.

6.3 Public Disclosure. Seller shall not issue any press release or make any public statement or disclosure with respect to the transactions contemplated by this Agreement, except as may be required by applicable Law.

6.4 Consents.

(a) Prior to the Closing and as necessary from time to time after the Closing, Seller shall cooperate with Buyer's efforts to obtain all consents, waivers, and approvals required under any of the Assigned Contracts so as to permit the sale and transfer of all the Acquired Assets to Buyer pursuant to this Agreement.

(b) In addition to Seller's obligations under Sections 6.4(a) and 6.5, if a Contract Consent and Assignment for any Assigned Contract is not obtained on or before the Closing, Seller shall cooperate, at no expense to Seller) with Buyer after the Closing to obtain such necessary Contract Consent and Assignment to effectuate the transfer, assignment and assumption of any Assigned Contract. Within five (5) Business Days of the receipt of the necessary Contract Consent and Assignment for any such Assigned Contract, Seller shall execute and deliver to Buyer an assignment and assumption agreement (or similar

instrument of transfer), in form and substance reasonably satisfactory to both parties, to consummate the transfer of the Assigned Contract.

(c) If after the Closing Buyer is unable to obtain such Contract Consent and Assignment for any Assigned Contract, then (i) at the request and expense of Buyer, Seller shall take such commercially reasonable actions as shall be necessary for Buyer to enjoy the full benefit of any such Assigned Contract, (ii) at the request of Seller, but at Buyer's expense, Buyer shall take such actions as shall be necessary to hold Seller harmless from any of the burdens or obligations of any such Assigned Contract, and (iii) Seller shall not take any action without the consent of Buyer that would cause a breach of such Assigned Contract or otherwise give the counterparty the right to terminate or suspend its performance under such Assigned Contract.

6.5 Additional Documents and Further Assurances. At any time or from time to time after the Closing, at the request of Buyer and without any further consideration, Seller shall (a) execute and deliver to Buyer such other instruments of sale, transfer, conveyance, assignment and confirmation; (b) provide such materials and information; and (c) take such other actions, as Buyer may reasonably deem necessary or desirable in order more effectively to transfer, convey, and assign to Buyer, to confirm Buyer's title to all of the Acquired Assets, to render effective the consummation of the transactions contemplated hereunder, and, to the fullest extent permitted by Law, to put Buyer in actual possession and operating control of each of the Acquired Assets and to assist Buyer in exercising all rights with respect thereto, and otherwise to cause Seller to fulfill its obligations under this Agreement and any Ancillary Agreements to which Seller is a signatory.

6.6 Payment of All Taxes. Seller shall pay in a timely manner all Income Taxes imposed on Seller or Seven States Power Corporation resulting from or payable in connection with the sale of the Acquired Assets pursuant to this Agreement.

6.7 Payment of Other Excluded Liabilities. Seller shall pay, or make adequate provision for the payment, in full all of the Excluded Liabilities. If any such Excluded Liabilities are not so paid or provided for, or if Buyer, acting in good faith, reasonably determines that failure to make any payments will impair Buyer's use or enjoyment of the Acquired Interest or conduct of the business previously conducted by Seller with the Acquired Interest, Buyer may, at any time after the Closing Date and upon prior notice to Seller, elect to make all such payments directly (but shall have no obligation to do so) and demand payment from Seller. If Seller does not object to Buyer's notice that Buyer intends to make such payment on behalf of Seller, Buyer may direct that the Profits Interest be paid directly to Buyer to reimburse Buyer for such payment.

6.8 Tax Treatment. Notwithstanding any other provisions herein, for federal, state and local franchise and Income Tax purposes only, Seller and Buyer acknowledge and agree that Buyer is, has been (in the case of (a), since Buyer began leasing the Acquired Interest under the Lease) and, immediately after the Closing, will be, treated as the (a) owner of the Acquired Interest, including the Undivided Interest and the Ground Interest, (b) owner of the Accumulated Amortization Costs deposited into the Escrow Account, and (c) obligor of the Indebtedness under the Southaven Credit Agreement. Consistent with the foregoing, Buyer and Seller agree not to treat (i) the transfer of the Acquired Interest to Buyer, including the transfer of

the Undivided Interest, the Ground Interest and the Accumulated Amortization Costs in the Escrow Account (exclusive of the Excluded Assets) pursuant to this Agreement, as a transfer, sale, exchange or other disposition of the Acquired Interest, including the Undivided Interest, the Ground Interest and the Accumulated Amortization Costs in the Escrow Account, or (ii) the Profits Interests as forming part of the Purchase Consideration for the Acquired Interest, in each case, solely for U.S. federal Income Tax and applicable state and local franchise and Income Tax purposes unless otherwise required by a final non-appealable judgment of a court of competent jurisdiction or advised in writing by nationally-recognized tax counsel that such treatment is inconsistent with applicable Law, provided that a copy of such opinion is delivered to the other party.

6.9 Waiver of Implied Warranties. Buyer and its agents, consultants and representatives have had a reasonable opportunity to inspect the Acquired Assets. Except for the representations and warranties of Seller set forth in this Agreement or any Ancillary Agreement to which Seller is a signatory, Buyer acknowledges that Seller is not making any other representations or warranties, written or oral, statutory, express or implied, to Buyer, and that all other express or implied warranties (including warranties of merchantability and fitness for a particular purpose) are specifically disclaimed.

Without limiting the foregoing, Buyer acknowledges, except as specifically set forth herein, that (A) the Acquired Interest IS being sold and transferred “as is, where is” and (B) none of Seller or any of its affiliates or representatives have made any representation or warranty concerning (i) the Acquired interest, or any future revenues, costs, expenditures, cash flows, results of operations, or financial condition or prospects of the Facility, (II) condition, value or quality of Acquired Assets, properties and operations of the Facility or the prospects of, and risks faced by, the Facility, or (iii) the business, assets or liabilities of Seller. Seller, on behalf of itself and its affiliates, hereby disclaims all liability and responsibility for any representation, warranty, statement or information not included in this agreement that was made, communicated or furnished (orally or in writing) to Buyer or any of its affiliates or representatives.

6.10 Satisfaction of Conditions Precedent. Each party agrees to use all commercially reasonable efforts to satisfy the conditions precedent applicable to such party in Section 3.2 or Section 3.3, as the case may be.

## **ARTICLE VII**

### **INDEMNIFICATION**

7.1 Survival of Representations and Warranties. The representations and warranties of Seller and Buyer contained in this Agreement, or in any certificate or other instrument delivered pursuant to this Agreement (including any Ancillary Agreement), shall terminate on that date that is three (3) years after the

Closing Date (the “**Termination Date**”). If a written notice of claim pursuant to this Article VII has been given prior to the Termination Date by Buyer or Seller, then the relevant representations and warranties shall continue to survive as to such claim until the claim has been finally resolved; provided that the giving of notice prior to the Termination Date will not affect, extend or in any way modify the applicable statute of limitations related to such claim.

## 7.2 Indemnification.

(a) By Buyer to Seller. If the Closing occurs, Buyer shall indemnify, defend, and hold harmless Seller, its officers, directors, agents, employees, consultants, advisers, and attorneys from any and all claims, based on any Laws whatsoever, for Losses incurred or sustained by such party, directly or indirectly, as a result of, in connection with or arising out of (i) any material inaccuracy in or material breach of any representation or warranty of Buyer contained in this Agreement, any Ancillary Agreement, or in any certificate, instrument, or other document delivered by Buyer pursuant to this Agreement or any Ancillary Agreement; (ii) any failure by Buyer to perform in any material respect or comply in any material respect with any covenant applicable to it contained in this Agreement, any Ancillary Agreement, or in any certificate, instrument, or other document delivered by Seller pursuant to this Agreement or any Ancillary Agreement; (iii) any Assumed Liabilities; or (iv) any Liabilities arising from or relating to the ownership, use, and operation of the Acquired Assets after the Closing.

(b) By Seller to Buyer. If the Closing occurs, Seller shall indemnify and hold harmless Buyer, its officers, directors, agents, employees, consultants, advisers, and attorneys from any and all claims, based on any Laws whatsoever, for Losses incurred or sustained by such party, directly or indirectly, as a result of, in connection with or arising out of (i) any material inaccuracy in or material breach of any representation or warranty of Seller contained in this Agreement, any Ancillary Agreement to which Seller is a signatory, or in any certificate, instrument, or other document delivered by Seller pursuant to this Agreement or any such Ancillary Agreement; (ii) any failure by Seller to perform in any material respect or comply in any material respect with any covenant applicable to it contained in this Agreement, in any Ancillary Agreement, or in any certificate, instrument, or other document executed and delivered by Seller pursuant to this Agreement or any Ancillary Agreement to which Seller is a signatory; or (iii) any Excluded Assets or Excluded Liabilities.

## 7.3 Losses and Limitation of Liability.

(a) For purposes of Section 7.2 of this Agreement, “**Loss**” or “**Losses**” shall mean any claims, losses, Liabilities, damages, deficiencies, diminution in value, costs, and expenses, including reasonable attorneys’ fees and the expenses of investigation and defense (whether or not involving third party claims).

(b) Buyer acknowledges and agrees that if Seller is required to indemnify Buyer for any Losses as contemplated under Section 7.2(a) of this Agreement, other than in the case of fraud, willful misconduct or intentional misrepresentation, Buyer’s sole recourse for such indemnification obligation will not exceed Seller’s Profits Interest or amounts previously paid or to be paid in respect thereof.

(c) NEITHER PARTY SHALL BE LIABLE FOR ANY LOST OR PROSPECTIVE PROFITS AND IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR ANY OTHER SPECIAL, INDIRECT, CONSEQUENTIAL OR INCIDENTAL LOSSES OR DAMAGES (IN TORT, CONTRACT OR OTHERWISE) UNDER OR WITH RESPECT TO THIS AGREEMENT.

## ARTICLE VIII

### TERMINATION

8.1 Termination. By notice given prior to or at the Closing, subject to Section 8.2, this Agreement may be terminated as follows:

(a) by Buyer if a material breach of any provision of this Agreement has been committed by Seller and such breach has not been cured within thirty (30) days or waived by Buyer;

(b) by Seller if a material breach of any provision of this Agreement has been committed by Buyer and such breach has not been cured within thirty (30) days or waived by Seller;

(c) by Buyer if any condition in Section 3.2 has not been satisfied as of August 15, 2013, or if satisfaction of such a condition by such date is or becomes impossible (other than through the failure of Buyer to comply with its obligations under this Agreement), and Buyer has not waived such condition on or before such date;

(d) by Seller if any condition in Section 3.3 has not been satisfied as of August 15, 2013, or if satisfaction of such a condition by such date is or becomes impossible (other than through the failure of Seller to comply with its obligations under this Agreement), and Seller has not waived such condition on or before such date; and

(e) by mutual consent of Buyer and Seller.

8.2 Limitation on Liability; Effect of Termination. With respect to the occurrence of any event in Section 8.1, (a) the non-breaching party may, in the case of Section 8.1(a) or (b), sue for specific performance as contemplated under Section 9.12 (*Specific Performance*) or terminate the Agreement pursuant to the provisions of Section 8.1, or (b) either party may, in the case of Section 8.1(c), (d) or (e), terminate the Agreement pursuant to the provisions of Section 8.1. If the Agreement is terminated pursuant to this Article VIII, the Agreement shall become void and have no effect, without any Liability to any Person in respect hereof or of the Acquisition Transaction contemplated hereby, unless the Agreement is terminated pursuant to Section 8.1(a) or (b) as a result of fraud, willful misconduct or intentional misrepresentation of or by the breaching party, in which case the terminating party shall have the right to pursue all legal remedies (at law or in equity) against the breaching party.

## ARTICLE IX

### GENERAL PROVISIONS

9.1 Notices. All notices, requests, demands, claims, and other communications required or permitted hereunder shall be in writing and shall be deemed given upon receipt if delivered personally or by recognized commercial delivery service, or mailed by registered or certified mail (return receipt requested), or sent via facsimile (with acknowledgment of complete transmission and confirmed in writing by mail simultaneously dispatched) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Buyer, to:

Tennessee Valley Authority  
Attention: Treasurer  
400 West Summit Hill Drive  
Knoxville, Tennessee 37902  
Telephone No.: 865-632-3366  
Fax No.: 865-632-6673  
E-mail: [leasenotices@tva.gov](mailto:leasenotices@tva.gov)

(b) if to Seller to:

Seven States Southaven, LLC  
Attention: President  
1206 Broad Street  
Chattanooga, TN 37402  
Telephone No.: 423-756-6511  
Fax No.: 423-267-9424

With a copy to:

Carlos Smith  
Miller & Martin, PLLC  
832 Georgia Avenue  
Chattanooga, TN 37402  
Telephone No.: 423-785-8359  
Fax No.: 423-785-8480

9.2 Expenses. Subject to the reimbursement and indemnification obligations of Buyer under the Joint Ownership Agreement and the Lease, all fees and expenses incurred in connection with this Agreement and the Ancillary Agreements, including all legal, accounting, financial advisory, consulting and all other fees and expenses of third parties incurred by a party hereto, in connection with the negotiation and effectuation of the terms and conditions of this Agreement, the Ancillary Agreements, and the transactions contemplated hereby, shall be the obligation of the respective party incurring such fees and expenses.

9.3 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective assigns as permitted by and in accordance with the terms hereof.

9.4 Entire Agreement. Subject to the provisions of the Termination Agreements, relative to continuing obligations of Buyer under the Joint Ownership Agreement and the Lease, this Agreement, the Exhibits and Schedules hereto, the Ancillary Agreements, the Seller Disclosure Schedule, and the documents and instruments and other agreements among the parties hereto referenced herein constitute the entire agreement among the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings both written and oral, among the parties with respect to the subject matter hereof and thereof.

9.5 Assignment.

(a) Neither Buyer nor Seller may assign this Agreement without the prior written consent of the other party. For avoidance of doubt, the foregoing shall not relieve Buyer of its obligations under the Participation Agreement, Head Lease, and Ground Lease to lease the Undivided Interest and the Ground Interest (both of which are being conveyed to Buyer from Seller as part of the Acquired Interest) to Owner Lessor.

(b) Seller may not assign its Profits Interest to any party without the prior written consent of Buyer, which consent may be withheld in Buyer's sole discretion; provided that Seller may assign its Profits Interest to its parent, Seven States Power Corporation, or a subsidiary thereof, as permitted under the Equity LLC Agreement.

9.6 Severability. In the event that any provision of this Agreement or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

9.7 Other Remedies. Any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy.

9.8 Consent to Jurisdiction; Waiver of Trial by Jury.

(a) Each Party (i) hereby irrevocably submits to the exclusive jurisdiction of the United States District Court for the Eastern District of Tennessee for the purpose of any Action arising out of this Agreement or any Ancillary Agreement that is brought by either of the Parties or their successors or assigns, (ii) hereby irrevocably agrees that all claims with respect to such Action shall be heard and determined in the above-named court, and (iii) to the extent permitted by applicable Law, hereby irrevocably waives, and agrees not to assert, by the way of motion, as a defense, or otherwise in any such Action, any claim that:

(A)

it is not personally subject to the jurisdiction of the above-named court; (B) that the Action is brought in an inconvenient forum; (C) that the venue of the Action is improper; or (D) that this Agreement or any Ancillary Agreement may not be enforced in or by the above-named court.

(b) TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES THE RIGHT TO DEMAND A TRIAL BY JURY IN ANY SUCH ACTION ARISING OUT OF THIS LEASE, THE ASSIGNMENT AND ASSUMPTION AGREEMENT OR THE SUBJECT MATTER HEREOF OR THEREOF OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY BROUGHT BY ANY OF THE PARTIES OR THEIR SUCCESSORS OR ASSIGNS.

9.9 Governing Law. In all respects, including matters of construction, validity, and performance, this Agreement shall be governed by, and construed in accordance with, the federal Laws of the United States of America; provided however, that (a) the Laws of the State of Mississippi shall govern as to matters affecting real property in the State of Mississippi where there is no such applicable federal Law or the federal Law requires adoption of a state law for a rule of decisions with respect to such matters, and (b) the Laws of the State of Tennessee shall govern where there is no such applicable federal Law or federal Law requires adoption of state Law for a rule of decision as to matters other than with respect to matters affecting real property in the State of Mississippi. To the fullest extent permitted by Law, Buyer and Seller hereby unconditionally and irrevocably waive any claim to assert that the Law of any other jurisdiction governs this Agreement, except as expressly otherwise provided above.

9.10 Restriction of Benefits. No member of or delegate to Congress or Resident Commission, or any officer, employee, special government employee, or agent of Buyer shall be admitted to any share or part of this Agreement or to any benefit that may arise from it unless the Agreement be made with a corporation for its general benefit. Seller shall not offer or give, directly or indirectly, to any officer, employee, special government employee, or agent of Buyer, any gift, gratuity, favor, entertainment, loan, or any other thing of monetary value, except as provided in 5 C.F.R. Part 2635 (as amended, supplemented, or replaced). Any breach of this Section 9.10 shall constitute a material breach of this Agreement.

9.11 No Third Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any person or entity other than the parties hereto, their respective successors and permitted assigns, and the parties entitled to indemnification under Section 7.2.

9.12 Specific Performance. Seller acknowledges that the Acquisition Transaction is unique and that Buyer will be irreparably injured should the Acquisition Transaction not be consummated in a timely fashion. Consequently, Buyer will not have an adequate remedy at law if Seller fails to sell the Acquired Interest when required to do so hereunder. In such event, Buyer shall have the right, in addition to any other remedy available in equity or law, to specific performance of such obligation by Seller, subject to (a) Buyer's performance of its obligations hereunder, and (b) the other terms and conditions hereof. Buyer acknowledges that the Acquisition Transaction is unique and that Seller will be irreparably injured should the Acquisition Transaction not be consummated in a timely fashion. Consequently, Seller will not have an adequate remedy at law if Buyer fails to purchase the Acquired Assets when required to do so hereunder. In such event, Seller shall have the right, in addition to any other remedy available in equity or law, to specific performance of



such obligation by Buyer, subject to (i) Seller's performance of its obligations hereunder, and (ii) the other terms and conditions hereof. It is accordingly agreed that the non-breaching party shall be entitled to seek an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction, this being in addition to any other remedy to which such party is entitled at law or in equity.

9.13 Amendment. This Agreement may be amended by the parties hereto at any time only by execution of an instrument in writing signed by each of the parties hereto.

9.14 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart.

9.15 Confidentiality. Seller agrees that this Agreement, the Ancillary Agreements, and the terms and conditions hereof and thereof are confidential, and Seller shall not disclose this Agreement, any Ancillary Agreement, or any term or condition hereof or thereof to any Person, except as required by applicable Law and as specified in Section 6.3.

9.16 No Fiduciary Relationships. The relationship between Buyer, on the one hand, and Seller, on the other hand, is solely that of buyer and seller. Buyer does not have (and shall not be deemed to have) any fiduciary relationship or similar duty to Seller arising out of or in connection with this Agreement or the transactions contemplated hereby, and there is no partnership, agency or joint venture relationship between Buyer, on the one hand, and Seller, on the other hand, by virtue of this Agreement or any transaction contemplated herein.

9.17 Joint Preparation of Agreement. The language used in this Agreement is the language chosen by both of the parties to express their mutual intent. The parties do not intend that any rule of strict construction or interpretation shall be applied against either party on the grounds that such party drafted this Agreement nor do they intend that any such principle of interpretation shall be used to resolve any alleged ambiguity.

*[Signature Page Follows]*

IN WITNESS WHEREOF, Buyer and Seller have caused this Asset Purchase Agreement to be signed as of the date first written above.

**"SELLER"**

**Seven States Southaven, LLC.**

a Delaware limited liability company

By: /s/ Jack W. Simmons

Name: Jack W. Simmons

Title: President

**"BUYER"**

**Tennessee Valley Authority,**

a corporate agency and instrumentality of the United States of America

By: /s/ John M. Hoskins

Name: John M. Hoskins

Title: Senior Vice President and Treasurer and  
Interim Chief Risk Officer

## EXHIBIT A

### DESCRIPTION OF THE FACILITY

The Facility consists of the Units, Common Facilities, and any other equipment, material or property owned or leased by TVA associated with the Units and Common Facilities, all of which are located on, under, or over the Facility Site, which Facility Site is the real property located in the City of Southaven, Mississippi and is described in greater detail in Attachment B hereto.

Each Unit consists of one General Electric Frame 7FA.03 combustion turbine ("CTG"), one Aalborg Pioneer GT8 heat recovery steam generator ("HRSG") with supplementary duct firing and one GE A10 steam turbine ("STG") in a 1x1x1 configuration and all ancillary equipment relating thereto, except for the equipment which constitutes Common Facilities.

The units are sometimes referred to as SCC 01, SCC 02 and SCC 03. The serial numbers for each CTG-HRSG-STG group are as follows (CTG and STG serial numbers are turbine / generator):

TVA Tag Number	CTG Serial Number	HRSG Serial Number	ST Serial Number
SCC 01	298002 / 338X339	102142	270T568 / 290T568
SCC 02	298003 / 338X340	102143	270T569 / 290T569
SCC 03	298004 / 338X341	102144	270T570 / 290T570

The Components for each Unit includes the following:

- GE Mark V Gas Turbine Control System
- GE Mark V Steam Turbine Control System
- Forney -401550 low-NO<sub>x</sub> Duct Burner
- Fuel Gas Heater
- Main Step-up Transformer
- Inlet Fogging System (not in use)
- Inlet Filter System
- CO2 Fire Protection System
- MCC Room (EB Room) with DGP
- EX2000 Gas Turbine Generator System
- EX2000 Steam Turbine Generator System (brushless)
- Fuel Gas Module
- Gas Turbine Lube Oil Module
- Steam Turbine Lube Oil Module
- Emissions Monitoring System
- Feed Water System
- Steam System

SCR Catalyst  
Steam Turbine Hydraulic Module  
Condensate System  
Compressed Air System  
Chemical Feed System  
Steam and Water Sample System  
Generator Hydrogen System  
Cooling Tower and Circ Water System including Cooling Tower Transformers, MCC,  
and Auxiliary Cooling System  
Condenser  
Station Service Transformers  
Electric Steam Super Heater  
Gas Turbine Generator Breaker  
Steam Turbine Generator Breaker

The Common Facilities are property and facilities that are used for the operation of the Units at the Facility. These shared facilities support the Units. The Common Facilities are as follows:

Two LCI Starting Systems, including Transformers  
Unit Auxiliary Transformer on Unit 1 and Unit 3 Common to Unit 2  
Plant Water Treatment System  
Demineralized Water Tank  
Service Water / Fire Water Tanks  
Potable Water System  
Eye Wash System  
Storm Water System  
Process Water System  
Compressor Wash System  
Oil-Water Separation and Discharge System  
Auxiliary Steam System and Auxiliary Boiler  
Gas Supply Piping and Gas Yard  
Fire Protection System  
DeltaV DCS  
Switchyard  
Electrical transmission facilities and related equipment

## **EXHIBIT B**

### **Description of Facility Site**

#### Parcel 1

A parcel of land lying in the SW1/4 of Section 15 Township 1 South Range 8 West in DeSoto County, State of Mississippi, being on the Southaven Combustion Turbine Site and at the intersection of Tulane Road and Stateline Road, as shown on US-TVA Drawing No. 112 MS 421 B 99(D) R.1 (formerly US-TVA Drawing No. 112 MS 422 B 100(D) R.0) and being more particularly described as follows:

Commencing at a concrete monument (found) (Coordinates: N. 275,703.11, E. 750,567.00), being NGS MON 153; thence S42° 05'16"E, 13,353.72 feet to an angle iron (set) on the accepted Mississippi-Tennessee state line being corner No. SCBTS-1 and the Point of Beginning;

Thence leaving the point of beginning and said Mississippi-Tennessee state line S02°11'31"W, 1,100.72 feet to a rebar (found) in the northern right of way of Stateline Road, being corner No. SCBTS-2; thence continuing with said right of way for the following two calls; N87°47'07"W, 304.06 feet to a rebar (found), being corner No. SCBTS-3; thence N87°47'41" W, 104.99 feet to a (3/8") rebar (found), being corner No. SCBTS-6; thence leaving said right of way N02°12'24"E, 206.98 feet to a (3/8") rebar (found), being corner No. SCBTS-5; thence parallel with north right of way of Stateline Road N87°48'27"W, 1,260.36 feet to rebar with cap (found) and stamped "THY INC. #888" in the eastern right of way of Tulane Road, being corner No. SCBTS-7; thence with said right of way N02°15'03"E, 899.31 feet to a rebar with cap (found) on the accepted Mississippi-Tennessee state line, being corner No. SCBTS-8; thence leaving said right of way and with said state line S87°36'39"E, 1,668.44 feet to the point of beginning.

Located on VTM Quad Horn Lake, MS.

Positions of corners and directions of lines are referred to the Tennessee Lambert State Coordinate System and NAD 83 (2007) Horizontal Datum.

## **EXHIBIT C**

### **Form of Equity LLC Agreement**

## LIMITED LIABILITY COMPANY AGREEMENT

### OF

## SOUTHAVEN HOLDCO LLC

**THIS LIMITED LIABILITY COMPANY AGREEMENT** (this “**Agreement**”) is entered into as of this 6<sup>th</sup> day of August, 2013 by GSS Holdings (Southaven), Inc., a Delaware corporation, as the holder of the sole capital interest in the Company (“**GSS Holdings**”), Seven States Southaven, LLC, a Delaware limited liability company, as the holder of a profits interest in the Company (“**Seven States**” or the “**Non-Capital Member**”, and together with GSS Holdings, the “**Members**” and each individually, a “**Member**”) and Wilmington Trust, National Association, not in its individual capacity, but solely as manager of the Company (the “**Manager**”), in order to form a limited liability company.

**Section 1. Name.** The name of the limited liability company formed hereby is SOUTHAVEN HOLDCO LLC (the “**Company**”).

**Section 2. Definitions.** Capitalized terms not defined herein shall have the meanings set forth in the Note Purchase Agreement, dated as of August 6, 2013, among the Company and the Purchasers party thereto (the “**Note Purchase Agreement**”).

**Section 3. Purpose.** The Company is formed solely for the object and purpose of, and the nature of the business to be conducted and promoted by the Company is limited to, (i) acting as member of and acquiring and holding a limited liability company interest in, Southaven Combined Cycle Generation LLC, a Delaware limited liability company, and (ii) engaging in any and all activities necessary, convenient or incidental to the foregoing, including, without limitation, entering into, and performing its obligations under, the Transaction Documents to which it is a party.

**Section 4. Formation.** Prior to the date hereof, the Certificate of Formation of the Company was executed and filed by an authorized person with the Secretary of State of the State of Delaware and such filing is hereby ratified. The Manager shall execute and file any required amendments to the Certificate of Formation and shall do all other acts requisite for the constitution of the Company as a limited liability company under the laws of the State of Delaware or any other applicable law. The existence of the Company as a separate legal entity shall continue until the cancellation of the Certificate of Formation of the Company as provided in the Limited Liability Company Act of the State of Delaware (the “**Act**”).

**Section 5. Registered Office.** The address of the registered office of the Company in the State of Delaware is Wilmington Trust, National Association, 1100 North Market Street, Wilmington, Delaware 19890-1600, attention: Corporate Trust Administration. Under no circumstances shall the Company conduct any of its business in the State of Mississippi without the consent of GSS Holdings.

**Section 6. Registered Agent.** The name and address of the registered agent of the Company for service of process on the Company in the State of Delaware is Wilmington Trust, National

Association, 1100 North Market Street, Wilmington, Delaware 19890-1600, attention: Corporate Trust Administration.

**Section 7. Members; Limited Liability Company Interests; Limitations on Non-Capital Member's Interest.**

(a) On the date hereof, there shall be two (2) Members, GSS Holdings and Seven States. Seven States shall hold a separate class of limited liability company interest and shall be the sole Non-Capital Member.

(b) The limited liability company interest of GSS Holdings in the Company shall include the rights provided herein and all other rights of a "member" under the Act and shall constitute securities within the meaning of Article 8 of the Uniform Commercial Code (including, without limitation, Section 8-102(a)(15) thereof) as in effect from time to time in the State of Delaware and shall be governed by Article 8 of the Uniform Commercial Code (including, without limitation, Article 8-103(c) thereof) as in effect from time to time in the State of Delaware. GSS Holdings may withdraw as a Member (i) pursuant to a termination of the Agreement in accordance with Section 11 below and (ii) prior to a termination of the Agreement, upon thirty (30) days' prior written notice to the Manager, Seven States, the Purchasers and TVA; provided that such withdrawal shall be effective upon the (x) admission of a substitute member appointed pursuant to the following sentence and (y) designation of such substitute member as tax matters partner pursuant to Section 4.1 of the Allocation and Tax Matters Agreement. If GSS Holdings withdraws as a Member pursuant to clause (ii), GSS Holdings shall appoint as its successor a substitute member, which substitute member shall be a corporate services organization such as Corporation Services Company, CT Corporation, National Registered Agents, Inc., Wilmington Trust Company, Stewart Management Company, Lord Securities Corporation, AMACAR Group or another company of recognized standing providing similar services, subject to the prior written consent of TVA, such consent not to be unreasonably withheld, delayed or conditioned. This Agreement shall be amended to reflect the admission of such substitute member.

(c) The limited liability company interest of the Non-Capital Member shall be non-voting and shall not include any rights other than the right to receive payment of the Seven States Return as provided herein, the right to review the books and records of the Company solely with respect to the Seven States Return or the calculation or payment thereof, and such other rights as are expressly provided to the Non-Capital Member herein. The Non-Capital Member may withdraw as a Member by providing five (5) Business Days' written notice to GSS Holdings and TVA, whereupon the limited liability company interest of the Non-Capital Member shall terminate without further action by any party and the Non-Capital Member shall have no further rights hereunder.

**Section 8. Manager and Officers.** Wilmington Trust, National Association is hereby appointed, and upon execution of this Agreement shall be, the Manager of the Company. The Manager shall be deemed to be a "Manager" of the Company within the meaning of the Act. The Company shall have such officers with such authority as the Manager shall determine.



**Section 9. Powers.** The business and affairs of the Company shall be managed solely by the Manager, who shall have the authority to bind the Company and to do any and all acts necessary or convenient for the furtherance of the purpose of the Company, including, without limitation, the authority to execute and deliver, and to perform its obligations under, the Note Purchase Agreement, the Notes, the Company Pledge Agreement, the Participation Agreement and each other Transaction Document to which the Company is a party on behalf of the Company and to execute and deliver powers of attorney granting authority to execute and deliver the Note Purchase Agreement, the Notes, the Company Pledge Agreement, the Participation Agreement and each other Transaction Document to which the Company is a party and other documents, instruments or agreements on behalf of the Company. Each of the Members hereby transfers to the Manager its voting rights, if any, relating to the Company, such transfer to be irrevocable for so long as the Notes remain outstanding and the other Transaction Documents remain in effect. The Manager shall not be liable to the Company or the Members in connection with its management of the business and affairs of the Company or in connection with its exercise of such voting rights, other than as a result of its gross negligence or willful misconduct. No Member shall have any authority to bind, influence, direct and control the Company.

**Section 10. Dissolution.** The Company shall dissolve, and its affairs shall be wound up, upon the first to occur of the following: (a) final payment in full of all obligations of the Company, whether or not then due, under the Transaction Documents, and release and termination of the lien created pursuant to the Company Pledge Agreement in accordance with its terms, (b) the written consent of the Manager, approved in writing by TVA, and so long as the lien of the Indenture has not been terminated or discharged, the Lease Indenture Trustee, (c) the entry of a decree of judicial dissolution under Section 18-802 of the Act or (d) the termination of the legal existence of GSS Holdings or the occurrence of any other event which terminates the continued membership of GSS Holdings in the Company unless the business of the Company is continued in a manner permitted by this Agreement or the Act. Upon the occurrence of any event that causes GSS Holdings to cease to be a Member of the Company, to the fullest extent permitted by law, the personal representative of GSS Holdings is hereby authorized to, within thirty (30) days after the occurrence of the event that terminated the continued membership of GSS Holdings, agree in writing (i) to continue the Company and (ii) to the admission of the personal representative or its nominee or designee, as the case may be, as a substitute member of the Company, effective as of the occurrence of the event that terminated the continued membership of GSS Holdings in the Company. In accordance with Section 18-801 of the Act, the Company shall not be dissolved, and shall continue to exist, upon the resignation, "Bankruptcy" (as defined in this Section 10) or dissolution of a Member, including without limitation a resignation of the Manager in accordance with Section 11 hereof. Notwithstanding any other provision of this Agreement, (x) the Bankruptcy of GSS Holdings shall not cause GSS Holdings to cease to be a Member and (y) neither the Bankruptcy of either GSS Holdings or the Non-Capital Member, nor the termination of the legal existence of the Non-Capital Member, nor the occurrence of any event which terminates the limited liability interest of the Non-Capital Member, shall cause the Company to dissolve, and upon the occurrence of any such event under either of clauses (x) or (y), the business of the Company shall continue without dissolution.

For purposes of this Agreement, "**Bankruptcy**" shall mean, with respect to a Person, (a) if such Person (i) makes a general assignment for the benefit of creditors, (ii) files a voluntary petition in

bankruptcy, (iii) is adjudged bankrupt or insolvent, or has entered against it an order for relief, in any bankruptcy or insolvency proceeding, (iv) files a petition or answer seeking for itself any reorganization, arrangement, composition, readjustment, liquidation or similar relief under any statute, law or regulation, (v) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against it in any bankruptcy or similar proceeding, or (vi) seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of the Person or of all or any substantial part of its properties, or (b) (i) if sixty (60) days after the commencement of any proceeding against such Person seeking reorganization, arrangement, composition, readjustment, liquidation or similar relief under any statute, law or regulation, the proceeding has not been dismissed, or (ii) appointment without such Person's consent or acquiescence of a trustee, receiver or liquidator of such Person or of all or any substantial part of its properties. The foregoing definition of "Bankruptcy" is intended to replace and shall supersede and replace the definition of "Bankruptcy" set forth in Sections 18-101(1) and 18-304 of the Act.

**Section 11. Resignation of Manager.** Upon the final payment in full of all obligations of the Company, whether or not then due, under the Transaction Documents and the release and termination of the Company Pledge Agreement in accordance with its terms, the Manager shall be deemed automatically to have resigned as the manager of the Company and shall automatically cease to be the manager of the Company and all of its authority and power as manager of the Company shall be deemed transferred to GSS Holdings without any further act, vote or pre-approval of any Person. In the event of such resignation of the Manager and transfer of the Manager's authority and power to act as manager of the Company to GSS Holdings, GSS Holdings will be entitled to compensation for acting as manager of the Company in accordance with prevailing market rates for such services in effect at such time, to be further agreed among the parties at the time of such resignation and transfer.

**Section 12. Capital Contribution.** The amount listed on Schedule I has been contributed on behalf of GSS Holdings to the Company.

**Section 13. Additional Capital Contribution.** No Member is required to make any additional capital contribution to the Company.

**Section 14. Distributions to Members.**

(a) All cash received by the Company, less all expenses and capital expenditures of the Company and any amounts required to be withheld by the Company, in each case in accordance with this Agreement and the Services Agreement, dated as of August 6, 2013, by and between the Company and Global Securitization Services, LLC, shall be distributed to the Purchasers in accordance with the Note Purchase Agreement and the Notes and, thereafter, to Non-Capital Member pursuant to clause (b) below. Subject to the Act and clause (b) below, no distributions shall be made to any Member by the Company until the final payment and satisfaction in full of all of the obligations of the Company under the Note Purchase Agreement, the Notes, the Company Pledge Agreement and the other Transaction Documents.

(b) On each Note Payment Date, the Manager shall cause the Company to distribute to the Non-Capital Member, to the extent available from Distributable Net Income (and not used to pay the Notes), an amount equal to the Seven States Return.

**Section 15. Capital Accounts and Allocations.**

(a) The Manager shall maintain a separate capital account (“**Capital Account**”) for each Tax Member in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv). This Section 15 is intended to comply with the provisions of Treasury Regulations Section 1.704-1(b)(2) and shall be interpreted and applied in a manner consistent with such Treasury Regulations.

(b) After giving effect to any allocations required by Section 15(c), items of income, gain, loss and deduction of the Company for each fiscal year will be allocated among the Tax Members by the Manager in whatever ratios are necessary to cause the Capital Account balance of each Tax Member to be equal to (A) the amount it would be entitled to receive (i) pursuant to Section 14, in the case of GSS Holdings and the Non-Capital Member, and (ii) pursuant to the Notes, in the case of any Purchaser, if the Company were to sell all of its assets for an amount equal to their respective book values and all Company liabilities were satisfied (limited with respect to each liability for which no Tax Member is liable (a “non-recourse liability”) to the book value of the asset securing such non-recourse liability) and the Company were to distribute the proceeds in liquidation minus (B) such Tax Member’s share of “partnership minimum gain” (as such term is defined in U.S. Treasury Regulations Sections 1.704-2(b)(2) and 1.704-2(d)) and “partner nonrecourse debt minimum gain” (as such term is defined in U.S. Treasury Regulations Section 1.704-2(i)(2)).

(c) For each fiscal year, items of income, deduction, gain, loss or credit as determined for U.S. federal income tax purposes shall be allocated among the Tax Members in such manner as equitably reflects amounts allocated to the Capital Accounts of the Tax Members under this Agreement. Such allocations shall be made pursuant to the principles of Sections 704(b) and 704(c) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), and U.S. Treasury Regulations Sections 1.704-1(b)(2)(iv)(f), 1.704-1(b)(2)(iv)(g), 1.704-1(b)(4)(i), 1.704-2(f), 1.704-2(i)(4) and 1.704-3 (e), or the successor provisions to such Code Sections and U.S. Treasury Regulations. Notwithstanding anything to the contrary in this Agreement, there shall be allocated to the Tax Members such gains or income as shall be necessary to satisfy the “qualified income offset” requirements of Treasury Regulations § 1.704-1 (b)(2)(ii)(d).

**Section 16. Transfers; Assignments.**

(a) The Non-Capital Member may not transfer or assign in whole or in part its interest in the Company without the consent of TVA, other than a transfer in whole to (i) Seven States Power Corporation (“**Seven States Parent**”) in connection with a merger with or consolidation into Seven States Parent, a liquidation of Seven States or otherwise, or (ii) an entity

if, but only if, Seven States Parent owns, directly or indirectly 100% of the stock, membership interest and other equity of such entity (a “**Seven States Subsidiary**”) in connection with a merger with or consolidation into a Seven States Subsidiary, a liquidation of Seven States or otherwise; provided that, no transfer or assignment to Seven States Parent or a Seven States Subsidiary under this Section 16(a) shall be permitted unless such transferee assumes all obligations of Seven States under the Purchase Agreement, including any indemnification obligations of Seven States under Section 7.2(b) of the Purchase Agreement.

(b) Except as provided in Section 7(b) and the Company Pledge Agreement, GSS Holdings may not transfer or assign in whole or in part its interest in the Company without the consent of the Purchasers and TVA.

(c) Any attempted transfer or assignment in violation of this Section 16 shall be void ab initio.

**Section 17. Termination of Non-Capital Interest; Removal of the Non-Capital Member.** Notwithstanding any other provision of this Agreement, if the Facility Lease is terminated or otherwise expires or the Non-Capital Member (i) liquidates, dissolves or otherwise winds up (including by reason of “Bankruptcy” (as defined in Section 10)), merges into or consolidates with any Person (other than, in accordance with Section 16 hereof, Seven States Parent or a Seven States Subsidiary), (ii) is transferred directly or indirectly in whole or in part by Seven States Parent or a Seven States Subsidiary without the consent of TVA (including by transfer of an upstream ownership interest in a Seven States Subsidiary or by merger of Seven States into another entity not wholly owned by Seven States Parent), (iii) transfers or assigns, or attempts to transfer or assign, its interest hereunder in violation of Section 16, or (iv) withdraws as a Member or otherwise consents to the termination of its interest in the Company, the limited liability company interest of the Non-Capital Member in the Company shall terminate immediately without further action by any party, the Non-Capital Member shall cease to be a member of the Company and shall have no further rights hereunder, the business of the Company shall continue without dissolution with GSS Holdings as the sole Member of the Company and at the request of either GSS Holdings or the Non-Capital Member, this Agreement shall be amended to reflect such termination of such interest.

**Section 18. Admission of Additional Members.** No additional members may be admitted to the Company, except as provided in Section 7(b); provided that, in the event of a transfer by Seven States of its interest in the Company to Seven States Parent, a Seven States Subsidiary or any other transferee in accordance with Section 16, such transferee shall become the Non-Capital Member and this Agreement shall, at the request of either GSS Holdings or such transferee, be amended to reflect such transfer.

**Section 19. Exculpation and Indemnification.** Neither the Manager nor the Members, nor any employee, representative, agent or Affiliate of the Manager or the Members (collectively, the “**Covered Persons**”), shall be liable to the Company or any other Person who is bound by this Agreement for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Covered Person in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of the authority conferred on such Covered Person by this Agreement, except that a Covered Person shall be liable for any such loss, damage or claim incurred by reason of such Covered Person’s (x) gross

negligence or willful misconduct or (y) breach of its express obligations under this Agreement or any other Transaction Document. The foregoing provisions shall survive the termination of this Agreement.

**Section 20. Indemnification.** The Company shall assume liability for, and shall indemnify, protect, save and hold harmless the Manager and GSS Holdings (and any other Person acting as a successor of either) and the respective officers, directors, partners, employees, servants and agents of each of the Manager and GSS Holdings (each such Person being referred to as an “**Indemnified Person**”) against and from any and all Claims and Taxes that may be imposed on, incurred by or asserted at any time against any Indemnified Person in any way relating to or arising out of the execution, delivery and performance of this Agreement or any other document contemplated hereby, the creation, acceptance, operation or administration of the Company, the Company assets, any of the properties included therein, the administration of the Company’s assets or any action or inaction of the Manager or GSS Holdings hereunder (including the reasonable costs and expenses of defending itself against any Claim in connection with the exercise or performance of any of its powers or duties hereunder), except only that the Company shall not be required to indemnify (x) any Indemnified Person for any Claims resulting from acts that would constitute the willful misconduct or gross negligence of such Indemnified Person or (y) GSS Holdings for any Taxes based on net income or net profits, or any franchise taxes, with respect to its interest in the Company.

**Section 21. Limited Liability of Members and Manager.** Except as otherwise expressly provided by the Act and Section 19 of this Agreement, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be the debts, obligations and liabilities solely of the Company, and neither the Members nor the Manager shall be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a member or a manager of the Company. The failure of the Company to observe any formalities or requirements relating to the exercise of its power or management of its business affairs under the Act, this Agreement or any other Transaction Document shall not be grounds for imposing personal liability on the Members, the Manager or any member stockholder, director, partner, officer, agent or employee of the Members or the Manager for the liabilities of the Company.

**Section 22. Acceptance of Appointment of Manager.** By its execution hereof, Wilmington Trust, National Association accepts its appointment as Manager of the Company. By accepting the appointment of Manager of the Company, Wilmington Trust, National Association shall not be liable for any claim, cost, fee, tax, expense or penalty to third-parties, the Company, any Member or any other Manager except to the extent that any such claim, cost, fee, tax, expense or penalty is attributable to the gross negligence or willful misconduct of Wilmington Trust, National Association or breach of its express obligations under this Agreement or any other Transaction Document.

**Section 23. Co-Manager.** At any time or times, for the purpose of meeting the legal requirements of any jurisdiction in which any part of the property of the Company may at the time be located, the Manager shall have the power to appoint one or more Persons (who may be officers of the Manager) or institutions to act as co-Manager, jointly with the Manager or separately from the Manager at

the direct written instruction of the Members, in either case as required by state law, of all or any part of the property of the Company, in either case with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons in the capacity as aforesaid, any property, title, right or power deemed necessary or desirable. All provisions of this Agreement that are for the benefit of the Manager shall extend to and apply to each co-Manager appointed pursuant to this Section 23.

**Section 24. Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to principles of conflict of laws. Each of the parties hereto agrees that this Agreement has been entered into by the parties hereto in express reliance upon 6 Del. C. § 2708.

**Section 25. Special Provisions.**

(a) The Company shall be operated in such a manner that it would not be substantively consolidated in the bankruptcy estate of either Member, any Affiliate of a Member or any other Person such that its separate existence from the Members or such other Person would be disregarded in the event of bankruptcy or insolvency of a Member or such other Person and in such regard, the Manager shall cause the Company to:

- i. maintain its bank accounts, books, accounting records, financial statements (to the extent any are prepared), payroll and other company documents and records separate from those of any Affiliate or any other Person;
- ii. maintain its books, records and agreements separate from those of any Affiliate or any other Person;
- iii. not commingle its funds and other assets with those of any Affiliate or any other Person and hold its assets in its own name and maintain such assets in a manner that it would not be costly or difficult to segregate, ascertain or identify the assets from those of each Member, any Affiliate, the Purchasers or any other Person;
- iv. act and conduct its business solely in its own name and through its own authorized officers and agents, and in all respects hold itself out as a legal entity separate and distinct from any Affiliate or any other Person;
- v. observe all limited liability company formalities and comply with all applicable laws, ordinances or governmental rules or regulations to which it is subject and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of its properties or to the conduct of its business;
- vi. conduct its business in its own name or under any trade name as will not be reasonably likely to cause confusion as to identity or separate existence;

- vii. pay all its liabilities, obligations and Indebtedness, including all administrative expenses and compensation to employees, consultants or agents, if any, and all operating expenses, out of its own funds;
- viii. maintain a sufficient number of employees, if any, in light of its contemplated business operations;
- ix. separately manage its liabilities from those of any Affiliate or any other Person, and not identify itself or any Affiliate or any other Person as a division or part of the other;
- x. not pledge its assets for the benefit of any other Person or guarantee or become obligated for the debts of any Affiliate or any other Person or hold out its credit as being available to satisfy the obligations of others, except as contemplated by the Transaction Documents;
- xi. not acquire obligations or securities of any Affiliate or any other Person;
- xii. not make loans to any Affiliate or any other Person, except as contemplated by the Transaction Documents;
- xiii. not engage in transactions with any Affiliate or any other Person, except as contemplated by the Transaction Documents;
- xiv. allocate fairly and reasonably any overhead for shared office space and any other common expenses for facilities, goods or services provided to multiple entities;
- xv. prepare and file its own tax returns, if any, as may be required under applicable law, to the extent (1) not part of a consolidated group filing a consolidated return or returns or (2) not treated as a division for tax purposes of another taxpayer, and pay any taxes so required to be paid under applicable law;
- xvi. prepare and maintain separate financial statements (except that the Company may be included in the consolidated financial statements of another Person where required by GAAP, provided that such financial statements contain a footnote to the effect that the Company is a separate legal entity, the assets of which are not available to satisfy the debts of such Person), which may be prepared by one or more independent accountants;
- xvii. except as provided in the Transaction Documents, maintain an arm's-length relationship with its Affiliates and each Member, each Affiliate of the Members, the Purchasers and any parties furnishing goods and services to the Company;

- xviii. maintain adequate capital in light of its contemplated business purpose, transactions and liabilities;
- xix. not acquire any obligations or securities of the Members or any Affiliate;
- xx. use stationery, invoices and checks separate from any Affiliate or any other Person;
- xxi. hold itself out as a separate legal entity and correct any known misunderstanding regarding its separate identity; and
- xxii. except as otherwise provided in the Transaction Documents, deposit all of its funds in checking or savings accounts, time deposits or certificates of deposit in its own name or invest such funds in its own name.

Failure of the Company, GSS Holdings or the Manager on behalf of the Company, to comply with any of the foregoing covenants or any other covenants contained in this Agreement shall not affect the status of the Company as a separate legal entity or the limited liability of the Members or the Manager.

(b) The Company shall not:

- i. incur, create, guarantee or assume any Indebtedness other than as provided for in the Transaction Documents; or
- ii. except as permitted by the Transaction Documents, invest in, make or permit to remain outstanding any loan or advance to or any deposit with, or acquire any stock or securities of any Person; or
- iii. without the prior written consent of the Manager (acting in the best interests of the Company), voluntarily file, or consent to the filing of, a petition for bankruptcy, reorganization, assignment for the benefit of creditors or similar proceeding; or
- iv. initiate any proceedings for its dissolution, liquidation, consolidation, merger or sale of all or substantially all of its assets; or
- v. form, acquire or hold any subsidiary (whether corporate, partnership, limited liability company or otherwise); or
- vi. elect to be treated as a corporation for U.S. federal income tax purposes.

(c) Each Purchaser shall be treated as a partner in the Company for U.S. federal income tax purposes and each such Purchaser's Note shall represent, for U.S. federal income tax purposes, such Purchaser's direct ownership of a "capital interest" in the Company within the meaning of Rev. Proc. 93-27, 1993-2 C.B. 343. The interest in the Company held by the Non-



Capital Member shall be treated as a “profits interest” within the meaning of Rev. Proc. 93-27, 1993-2 C.B. 343. The Company agrees not to elect to treat itself as other than a partnership for U.S. federal income tax purposes and agrees not to make any claims or file any returns for U.S. federal income tax purposes in any manner inconsistent with the foregoing treatment unless otherwise required by law.

**Section 26. Definitions.** For the purposes of this Agreement, the following terms shall have the meanings set forth below:

- i. **“Affiliate”** means any Person (i) which owns beneficially, directly or indirectly, any of the limited liability company interests of the Company, or which is otherwise in control of the Company, whether directly or indirectly through one or more intermediaries, (ii) of which more than ten percent (10%) of the outstanding equity interest is owned beneficially, directly or indirectly, by any Person described in clause (i) above, or (iii) which is controlled by or under common control of any Person described in clause (i) above; provided that for the purpose of this definition, the terms “control” and “controlled by” shall have the meanings assigned to them in Rule 405 under the Securities Act of 1933, as amended.
- ii. **“Distributable Net Income”** shall mean the excess of (i) the sum of cash receipts of all kinds of the Company over (ii) the sum of cash disbursements for the expenses of the Company, or amounts reserved against liabilities (contingent or otherwise) of the Company (which shall include principal payments on the Notes, together with any other payments required to be made thereunder or under any Note Purchase Document.
- iii. **“Person”** means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization, or government or any agency or political subdivision thereof or any other entity.
- iv. **“Seven States Return”** means, for each Note Payment Date, an amount equal to 2.05/7ths of Distributable Net Income, which amount shall in no event exceed the amount set forth on Schedule II corresponding to such Note Payment Date; and
- v. **“Tax Member”** means GSS Holdings, the Non-Capital Member and any Purchaser.

**Section 27. Guidance and Interpretation of this Agreement.**

(a) The Manager shall not be required to take or refrain from taking any action hereunder or contemplated hereby if it shall have determined, or shall have been advised by counsel, that such performance is likely to involve the Manager in personal liability, is contrary to the terms of this Agreement, of the Transaction Documents to which the Company or the Manager is a party, or of any document contemplated hereby to which the Company or the Manager is a

party or is otherwise contrary to law. If at any time the Manager determines that it requires or desires guidance regarding the application of any provision of this Agreement, any Transaction Document to which the Manager or the Company is a party, or any other document to which the Manager or the Company is a party, or regarding compliance with any direction it receives hereunder, then the Manager may deliver a notice to GSS Holdings (or, if related to the reduction of, extension of the time for, or elimination of payment of the Seven States Return, the Members) requesting written instructions as to such application or compliance, and such instructions by GSS Holdings on behalf of the relevant Members shall constitute full and complete authorization and protection for actions taken and other performance by the Manager in reliance thereon. Until the Manager has received such instructions from GSS Holdings after delivering such notice, it may refrain from taking any action with respect to the matters described in such notice.

(b) In the event that the Manager is uncertain as to the application, intent or meaning of any provision of this Agreement, any Transaction Document to which the Manager or the Company is a party or any other document to which the Manager or the Company is a party, or such provision is ambiguous as to its application or is, or appears to be, in conflict with any other applicable provision hereof, or in the event that this Agreement permits any determination by the Manager or is silent or incomplete as to the course of action that the Manager is required to take with respect to a particular set of facts, the Manager may seek instructions from GSS Holdings (or, if related to the reduction of, extension of the time for, or elimination of payment of the Seven States Return, the Members) and shall not be liable to any Person to the extent that it acts in good faith in accordance with the instructions of GSS Holdings on behalf of the relevant Members; provided that if the Manager shall not have received instructions from GSS Holdings on behalf of the relevant Members pursuant to its request within 20 days after the date of such request, until instructed otherwise by GSS Holdings on behalf of the relevant Members, the Manager may, but shall be under no duty to, take or refrain from taking such action as it shall deem consistent with the terms of this Agreement or any Transaction Document, and the Manager shall have no liability to any person for any such action or inaction. GSS Holdings, on behalf of the relevant Members, shall seek consent under the Note Purchase Documents before providing any instructions to the Manager.

(c) Notwithstanding that a termination of the Facility Lease or other exercise of remedies under the Transaction Documents may reduce, eliminate or delay the payment of the Seven States Return and without limiting the application of the last sentence of Section 9, the Non-Capital Member shall have no authority to bind, influence, direct or control the Company or the Manager, including without limitation any decision or other action regarding the declaration or waiver of a Lease Event of Default, the exercise of remedies under the Transaction Documents or to take any other action under or with respect to the Transaction Documents, and any rights of the Company under the Transaction Documents may be exercised without regard to the Non-Capital Member's limited liability company interest in the Company or the Seven States Return.

**Section 28. Amendments.** This Agreement may not be amended without the consent of GSS Holdings, the Purchasers, TVA and, so long as the lien of the Lease Indenture has not been terminated or discharged, the Lease Indenture Trustee; provided that, subject to the terms of the Transaction Documents, no amendment may reduce, extend the time of or eliminate payment of the Seven States Return without the consent of the Non-Capital Member; and provided, further that the consent of the Purchasers or the Lease Indenture Trustee shall not be required to amend the Agreement to reduce, extend the time of or eliminate payment of the Seven States Return, to eliminate the interest of the Non-Capital Member in accordance with Section 17 or to admit Seven States Parent as the Non-Capital Member pursuant to Section 18. TVA and the Lease Indenture Trustee are intended beneficiaries of the provisions of this Agreement applicable to it and shall have the right to enforce such provisions hereof.

**Section 29. Financial Records and Tax Filings.** The Manager is authorized to, and shall, hire, at the expense of the Company, a certified public accountant to (a) determine capital allocations as set forth in Section 15 hereof, (b) prepare and file tax returns for the Company as set forth in Section 25(a)(xv) hereof and (c) prepare the financial statements of the Company as set forth in Section 25(a)(xvi) hereof.

\* \* \*

**IN WITNESS WHEREOF**, the undersigned, intending to be legally bound hereby, have duly executed this Agreement as of the date first above written.

**GSS HOLDINGS (SOUTHAVEN), INC.**

By: \_\_\_\_\_

Name:

Title:

**SEVEN STATES SOUTHAVEN, LLC**

By: \_\_\_\_\_

Name:

Title:

**WILMINGTON TRUST, NATIONAL  
ASSOCIATION**, not in its individual capacity, but  
solely as Manager

By: \_\_\_\_\_

Name:

Title:

CAPITAL CONTRIBUTION

GSS Holdings (Southaven), Inc.	\$100
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Schedule II

**MAXIMUM AMOUNT OF SEVEN STATES RETURN**

<u>Note Payment Dates</u>	<u>Maximum Amount of Seven States Return</u>
February 15, 2014	410,000.00
August 15, 2014	401,613.67
February 15, 2015	392,933.82
August 15, 2015	383,950.18
February 15, 2016	374,652.11
August 15, 2016	365,028.60
February 15, 2017	355,068.27
August 15, 2017	344,759.33
February 15, 2018	334,089.58
August 15, 2018	323,046.39
February 15, 2019	311,616.69
August 15, 2019	299,786.94
February 15, 2020	287,543.16
August 15, 2020	274,870.84
February 15, 2021	261,754.99
August 15, 2021	248,180.08
February 15, 2022	234,130.06
August 15, 2022	219,588.28
February 15, 2023	204,537.54
August 15, 2023	188,960.03
February 15, 2024	183,728.00
August 15, 2024	178,312.86
February 15, 2025	172,708.18
August 15, 2025	166,907.34
February 15, 2026	160,903.47
August 15, 2026	154,689.46
February 15, 2027	148,257.97
August 15, 2027	141,601.37
February 15, 2028	134,711.79
August 15, 2028	127,581.08
February 15, 2029	120,200.79
August 15, 2029	112,562.19
February 15, 2030	104,656.24
August 15, 2030	96,473.58
February 15, 2031	88,004.53
August 15, 2031	79,239.06
February 15, 2032	70,166.80
August 15, 2032	60,777.01
February 15, 2033	51,058.58
August 15, 2033	41,000.00



**EXHIBIT D**

**Form of Bill of Sale**



## **BILL OF SALE**

Seven States Southaven, LLC, a Delaware limited liability company ("**Seller**"), in accordance with the Asset Purchase Agreement (the "**APA**"), dated as of August 6, 2013, by and between Seller and Tennessee Valley Authority ("**Buyer**"), a corporate agency and instrumentality of the United States of America created by and existing under and by virtue of the Tennessee Valley Authority Act of 1933, as amended, and acting as to Real Property as agent and in the name of the United States of America, and in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration (the sufficiency and receipt of which are hereby acknowledged), does hereby sell, deliver, assign, transfer and convey unto Buyer all of Seller's undivided ninety percent (90%) interest that constitute personal property, including the Facility Tangible Property, the Tangible Intellectual Property and the other Acquired Assets set forth in Section 2.1 of the APA, in each case as described and limited by the terms and provisions of the APA (collectively, "**Conveyed Assets**"). The Conveyed Assets do not include and specifically exclude the Excluded Assets.

**All capitalized terms in this Bill of Sale used but not defined herein have the meanings set forth in the APA.**

TO HAVE AND TO HOLD the Conveyed Assets unto Buyer and Buyer's heirs, legal representatives, successors and assigns forever.

THE CONVEYED ASSETS ARE CONVEYED **AS IS, WHERE IS, AND WITH ALL FAULTS** AS OF THE DATE OF THIS BILL OF SALE, WITHOUT ANY REPRESENTATION OR WARRANTY WHATSOEVER AS TO ITS CONDITION, FITNESS FOR ANY PARTICULAR PURPOSE, MERCHANTABILITY OR ANY OTHER WARRANTY, EXPRESS OR IMPLIED AND SELLER SPECIFICALLY DISCLAIMS ANY SUCH WARRANTY, GUARANTY OR REPRESENTATION, ORAL OR WRITTEN, PAST OR PRESENT, EXPRESS OR IMPLIED, CONCERNING THE CONVEYED ASSETS.

The Conveyed Assets are further conveyed subject to the right of Southaven Combined Cycle Generation LLC, a Delaware limited liability company ("**Owner Lessor**") to lease (simultaneous with the acquisition of the Conveyed Assets) from Buyer the Undivided Interest (which is being conveyed to Buyer from Seller as part of the Conveyed Assets) acquired under the APA and hereunder. The lease of the Undivided Interest shall be subject to and in accordance with all of the terms, conditions, restrictions and requirements with respect thereto contained herein and in that certain (i) Participation Agreement, dated August 6, 2013, among Buyer, Owner Lessor, Wilmington Trust, National Association, Southaven Holdco LLC, a Delaware limited liability company, and Wilmington Trust Company; and (ii) Head Lease Agreement, dated August 9, 2013, between Buyer and Owner Lessor.

Nothing in this Bill of Sale, express or implied, is intended to or shall confer upon any other person or persons (including, without limitation, any employee or collective bargaining representatives thereof) any rights, benefits or remedies of any nature whatsoever under or by reason of this Bill of Sale.

This Bill of Sale shall be binding upon and inure solely to the benefit of the parties hereto and their respective successors (whether by operation of law or otherwise), legal representatives, heirs and permitted assigns.

This Bill of Sale, including all matters of construction, validity and performance, shall be governed and construed in the same manner as set forth in Section 9.9 of the APA.

This Bill of Sale is delivered pursuant to and is subject to the APA. In the event of any conflict between the terms of the APA and the terms of this Bill of Sale, the terms of the APA shall prevail.

**[SIGNATURE PAGE FOLLOWS]**

IN WITNESS WHEREOF, Seller and Purchaser have signed and delivered this Bill of Sale as of the \_\_\_\_ day of August, 2013.

**SELLER:**

SEVEN STATES SOUTHAVEN, LLC,  
a Delaware limited liability company

-

By: \_\_\_\_\_

Name:

Title:

**BUYER:**

**TENNESSEE VALLEY AUTHORITY,**

a corporate agency and instrumentality of the United  
States of America

-

By: \_\_\_\_\_

Name:

Title:

Bill of Sale

-

## **EXHIBIT E**

### **Form of Assignment and Assumption**

-

## **SEVEN STATES ASSIGNMENT AND ASSUMPTION AGREEMENT**

THIS Seven States ASSIGNMENT AND ASSUMPTION AGREEMENT, dated as of August 9, 2013, by and between Seven States Southaven, LLC, a Delaware limited liability company ("**Assignor**"), and Tennessee Valley Authority, a corporate agency and instrumentality of the United States of America created by and existing under and by virtue of the Tennessee Valley Authority Act of 1933, as amended, and acting as to Real Property as agent and in the name of the United States of America ("**Assignee**").

WHEREAS, in accordance with and pursuant to that certain Asset Purchase Agreement (the "**APA**"), dated August 6, 2013, by and between Assignor and Assignee, Assignor desires to assign to Assignee all of Assignor's right title and interest in the Acquired Assets, and Assignee desires to assume from Assignor, all of the Assumed Liabilities.

**All capitalized terms in this Seven States Assignment and Assumption Agreement used but not defined herein have the meanings set forth in the APA.**

NOW, THEREFORE, in accordance with the APA, the parties do hereby covenant and agree as follows and take the following actions:

1. Assignor does hereby transfer, assign, and convey unto Assignee all of Assignor's right, title, and interest (comprising a ninety percent (90%) undivided ownership share) in and to the Acquired Assets previously acquired by Assignor from Assignee under and pursuant to that certain TVA Assignment and Assumption Agreement, dated September 30, 2008, and that certain TVA Assignment and Assumption Agreement, dated as of April 17, 2009, together with any replacements or additions thereto as of the date hereof, to the full extent of Assignor's current interest in such Acquired Assets and to the extent the same are transferable by Assignor, but excluding the Excluded Assets, comprising the following:

- (a) the Facility Tangible Property;
- (b) the Easements;
- (b) the Tangible Intellectual Property;
- (c) the Assigned Contracts set forth on Exhibit A attached hereto;
- (d) the Assigned Permits;
- (e) the Accumulated Amortization Costs;
- (f) the Facility Books and Records, and other Acquired Assets set forth in Section 2.1(j) of the APA;
- (g) all right, title, and interest of Assignor, if any, in and to the names Southaven Power and Southaven Power Plant; and
- (h) the Acquired Assets set forth in Sections 2.1(h), (i), (k), (l), (m), and (n) of the APA

2. THE ACQUIRED ASSETS DESCRIBED IN SECTION 1 OF THIS SEVEN STATES ASSIGNMENT AND ASSUMPTION AGREEMENT ARE CONVEYED “**AS IS,**” “**WHERE IS,**” AND “**WITH ALL FAULTS**” AS OF THE DATE OF THIS SEVEN STATES ASSIGNMENT AND ASSUMPTION AGREEMENT, WITHOUT ANY REPRESENTATION OR WARRANTY WHATSOEVER AS TO THEIR CONDITION, FITNESS FOR ANY PARTICULAR PURPOSE, MERCHANTABILITY, OR ANY OTHER WARRANTY, EXPRESS OR IMPLIED, AND ASSIGNOR SPECIFICALLY DISCLAIMS ANY SUCH WARRANTY, GUARANTY, OR REPRESENTATION, ORAL OR WRITTEN, PAST OR PRESENT, EXPRESS OR IMPLIED, CONCERNING THE ACQUIRED ASSETS.

3. The Acquired Assets described in Section 1 of this Seven States Assignment and Assumption Agreement are conveyed to Assignor, and Assignor accepts the Acquired Assets subject to all of the terms, conditions, restrictions, and obligations of and under the APA and any other agreements or provisions in agreements between Assignor and Assignee required or contemplated thereby or executed in connection therewith. The respective ownership interests conveyed to Assignee as provided for in this Seven States Assignment and Assumption Agreement shall be undivided and shall not be subject to partition.

4. Prior to the date hereof and as necessary from time to time after the Closing, Assignor shall (i) cooperate with Assignee’s efforts to obtain all consents, waivers, and approvals required under any of the Assigned Contracts so as to permit the sale and transfer of all the Acquired Assets to Assignee pursuant to the APA and this Seven States Assignment and Assumption Agreement and (ii) perform its obligations under Section 6.4 and Section 6.5 of the APA to effectuate the transactions contemplated hereunder and under the APA, subject to Assignee’s obligations to reimburse Assignor for its costs pursuant to Section 6.4 of the APA.

5. This Seven States Assignment and Assumption Agreement shall be binding upon, and inure solely to the benefit of, the parties to this Seven States Assignment and Assumption Agreement and their respective successors (whether by operation of law or otherwise), legal representatives, and permitted assigns.

6. This Seven States Assignment and Assumption Agreement, including all matters of construction, validity, and performance, shall be governed and construed in the same manner as set forth in the APA.

7. This Seven States Assignment and Assumption Agreement is delivered pursuant to and is subject to the APA. In the event of any conflict between the terms of the APA and the terms of this Seven States Assignment and Assumption Agreement, the terms of the APA shall prevail.

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

IN WITNESS WHEREOF, this Seven States Assignment and Assumption Agreement has been signed and delivered by the parties to be effective as of the date first above written.

ASSIGNOR:

SEVEN STATES SOUTHAVEN, LLC,  
a Delaware limited liability company

-

By: \_\_\_\_\_

Name: Jack W. Simmons

Title: President and Chief Executive Officer

ASSIGNEE:

TENNESSEE VALLEY AUTHORITY,  
a corporate agency and instrumentality of the United  
States of America

By: \_\_\_\_\_

Name: John M. Hoskins

Title: Senior Vice President and Treasurer and Interim  
Chief Risk Officer

-



**EXHIBIT A**  
**ASSIGNED CONTRACTS**

1. Master Power Purchase and Sale Agreement (Tolling Agreement) between Southaven Power, LLC and Tennessee Valley Authority, dated as of August 22, 2006
2. Conversion Services Confirmation of Master Power Purchase and Sale Agreement (Tolling Agreement) between Southaven Power, LLC and Tennessee Valley Authority, dated as of August 22, 2006
3. Agreement Extending Conversion Services Confirmation and Master Power Purchase and Sale Agreement (Tolling Agreement) between Southaven Power, LLC and Tennessee Valley Authority, dated as of August 31, 2007
4. Amendment No. 2 to Conversion Services Confirmation between Southaven Power, LLC and Tennessee Valley Authority, dated as of September 6, 2007
5. Facility Letter Agreement, by and between Texas Gas Transmission Corporation and Southaven Power, LLC, dated as of October 23, 2000
6. Amendment to Facility Letter Agreement, by and between Texas Gas Transmission Corporation and Cogentrix Energy, LLC, dated as of January 31, 2001
7. License and Indemnity Agreement, by and between Texas Gas Transmission Corporation and Southaven Power, LLC, dated as of March 27, 2002
8. Gas Metering Agreement, between Texas Gas Transmission Corporation and Southaven Power, LLC, dated as of June 1, 2000
9. Interconnection Agreement OOPAP-263655, between Tennessee Valley Authority and Southaven Power, LLC, dated as of October 10, 2000
10. Amended and Restated Interconnection and Operating Agreement, by and between Southaven Power, LLC and Entergy Mississippi, Inc., dated as of October 20, 2000
11. Long Term Service Agreement, by and between Southaven Power, LLC and General Electric International, Inc., dated as of October 1, 2001, effective October 21, 2002, as amended by Amendment No. 1, effective as of April 22, 2009, and Amendment No. 2, effective as of November 21, 2009
12. Parts Sharing Agreement, by and between Cogentrix Parts Company, Inc. and Various Project Affiliates, dated as of October 1, 2001, as amended by Amendment No. 1, dated as of April 26, 2012

13. Amended and Restated Sewer Agreement, between the City of Southaven and Southaven Power, LLC, dated as of August 23, 2000

Software License Agreements

Software license agreements relating to the following software, and any updates thereto or replacements thereof:

- (a) CeDARs Breeze 75x
- (b) DeltaV
- (c) GE MarkV with HMI

## **EXHIBIT F**

### **Form of Termination Agreement**

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**TERMINATION OF LEASE AGREEMENT**

**THIS TERMINATION OF LEASE AGREEMENT** (the "Termination of Lease Agreement") is made and entered into as of the 9th day of August, 2013, by and between Seven States Southaven, LLC, a Delaware limited liability company ("Southaven") and Tennessee Valley Authority, a corporate agency and instrumentality of the United States Government created and existing under and by virtue of the Tennessee Valley Authority Act of 1933, as amended, 16 U.S.C. Sections 831 - 831ee (2006 & Supp V 2011), and acting as to real property as agent in the name of the United States of America, as lessee ("TVA"). All capitalized terms not otherwise defined in this Termination of Lease Agreement shall have the meanings given to them in the Lease (as defined herein).

**BACKGROUND STATEMENT**

WHEREAS, Southaven and TVA entered into that certain Lease Agreement dated September 30, 2008, numbered as TVA Contract No. 00072495, which was amended on April 17, 2009, on April 22, 2010, and on April 18, 2013 (collectively, the "Lease"), pursuant to which TVA leases from Southaven the "Leased Premises," which consist of Southaven's 90% undivided ownership interest in the Purchased Assets, as more particularly defined in the Lease; and

WHEREAS, the Term of the Lease was to expire on or before April 30, 2010, which date was previously extended to September 5, 2013; and

WHEREAS, TVA and Southaven have determined to terminate the Lease in conjunction with the transfer of all assets currently owned by Southaven and subject to the Lease, but to preserve the obligation of TVA to pay any remaining Administrative and General Expenses portion of the Basic Rent under Section 3.3(a) of the Lease (the "Administrative Costs") and to preserve the indemnification provisions thereunder for a period of three (3) years;

NOW, THEREFORE, for and in consideration of the premises, the mutual covenants and agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, TVA and Southaven agree as follows:

**1. Termination of Lease.** Subject to the conditions contained in this Termination of Lease Agreement, the Lease shall terminate, and shall be of no further force or effect, as of the close of business on August 9, 2013 (the "Termination Date").

**2. Release from Future Obligations.** Each party shall be released from all of its obligations, duties and liabilities under the Lease from and after the Termination Date, excluding: (a) TVA's obligation to pay Southaven a final installment of the Administrative Costs pursuant to Section 3.3(a) (including any adjustment to Administrative Costs pursuant to clauses (i) or (ii) of Section 3.3(a) of the Lease) thereunder and (b) each party's indemnification obligations under Article 13 of the Lease for any indemnifiable claims

or losses arising prior to the Termination Date, which indemnification obligations shall survive termination thereof for a period of three (3) years after the Termination Date. Southaven agrees to provide an invoice to TVA within forty-five days after the Termination Date for all costs described in item (a) above, and TVA shall pay such amounts within fifteen (15) days of receipt.

**3. Wind-down/Transition.** The effectiveness of this Termination of Lease Agreement is expressly subject to and conditioned upon the consummation of all conditions precedent set forth in that certain Asset Purchase Agreement dated August 6, 2013, between TVA and Southaven.

**4. Binding Effect.** This Termination of Lease Agreement shall be governed by and construed in accordance with the laws of the United States of America, except to the extent the laws of the State of Mississippi or Tennessee govern any portion of the Leased Premises, and shall be binding upon and inure to the benefit of the parties hereto and their respective successors, representatives and assigns. In the event of any inconsistency or conflict between the terms of this Termination of Lease Agreement and of the Lease, the terms hereof shall control. Time is of the essence of all of the terms of this Termination of Lease Agreement.

**IN WITNESS WHEREOF**, Southaven and TVA have caused this Termination of Lease Agreement to be executed by their duly authorized representatives as of the day and year first above written.

**SOUTHAVEN**

**Seven States Southaven, LLC**  
**a Delaware limited liability company**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**TVA:**

**Tennessee Valley Authority**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**TERMINATION OF JOINT OWNERSHIP AGREEMENT**

**THIS TERMINATION AGREEMENT** (the "Termination Agreement") is made and entered into as of the 9th day of August, 2013, by and between Seven States Southaven, LLC, a Delaware limited liability company ("Southaven") and Tennessee Valley Authority, a corporate agency and instrumentality of the United States Government created and existing under and by virtue of the Tennessee Valley Authority Act of 1933, as amended, 16 U.S.C. Sections 831 - 831ee (2006 & Supp V 2011), and acting as to real property as agent in the name of the United States of America, as lessee ("TVA"). All capitalized terms not otherwise defined in this Termination Agreement shall have the meanings given to them in the JOA (as defined herein).

**BACKGROUND STATEMENT**

**WHEREAS**, TVA and Seven States Power Corporation ("SSPC"), a Tennessee corporation and the parent of Southaven, previously entered into that certain Joint Ownership Agreement, dated April 30, 2008, numbered as TVA Contract No. 00069956, which was subsequently amended by Supplement No. 1 dated September 2, 2008, Supplement No. 2 dated September 30, 2008, Supplement No. 3 dated April 17, 2009, Supplement No. 4 dated April 22, 2010, and Supplement No. 5 dated April 18, 2013 (as so amended, the "JOA"); and

**WHEREAS**, on September 30, 2008, SSPC designated Southaven as the "Designated Entity" under the JOA, assigned all its rights under the JOA to Southaven, and specified the Elected Percentage under the JOA to be equal to 90%; and

**WHEREAS**, the JOA anticipated Long Term Arrangements to be completed on or before April 30, 2010, which date was previously extended to September 5, 2013; and

**WHEREAS**, TVA and Southaven have determined that the Long Term Arrangements will not be consummated as anticipated under the JOA and now desire to terminate the JOA in conjunction with the transfer of all assets currently owned by Southaven and subject to the JOA, but to preserve the indemnification provisions of the JOA for a period of three (3) years;

**NOW, THEREFORE**, for and in consideration of the premises, the mutual covenants and agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, TVA and Southaven agree as follows:

**1. Termination of JOA.** Subject to the conditions contained in this Termination Agreement, the JOA shall terminate, and shall be of no further force or effect, as of the close of business on August 9, 2013 (the "Termination Date").

**2. Release from Future Obligations.** Each party shall be released from all of its obligations, duties and liabilities under the JOA from and after the Termination Date, excluding each party's indemnification obligations under Section 10 of the JOA for any indemnifiable claims or losses arising prior to the Termination Date, which indemnification obligations shall survive termination thereof for a period of three (3) years after the Termination Date.

**3. Wind-down/Transition.** The effectiveness of this Termination Agreement is expressly subject to and conditioned upon the consummation of all conditions precedent set forth in that certain Asset Purchase Agreement dated August 6, 2013, between TVA and Southaven.

**4. Binding Effect.** This Termination Agreement shall be governed by and construed in accordance with the laws of the United States of America and the State of Tennessee, and shall be binding upon and inure to the benefit of the parties hereto and their respective successors, representatives and assigns. In the event of any inconsistency or conflict between the terms of this Termination Agreement and of the JOA, the terms hereof shall control. Time is of the essence of all of the terms of this Termination Agreement.



**IN WITNESS WHEREOF**, Southaven and TVA have caused this Termination Agreement to be executed by their duly authorized representatives as of the day and year first above written.

**SOUTHAVEN**

**Seven States Southaven, LLC**  
**a Delaware limited liability company**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**TVA:**

**Tennessee Valley Authority**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT H**

**Form of Deed**

-

-----Space Above Line for Official Use Only-----

<b>Prepared by[ and return to]:</b> [____], Attorney [Tennessee Valley Authority] [1101 Market Street, SP 3L] [Chattanooga, Tennessee 37402-2801] [Telephone: (423) 751-6317]	<b>Co-Prepared by for purposes of complying with Mississippi Law[ and return to]:</b> Butler, Snow, O'Mara, Stevens & Cannada, PLLC Attn: Ronald G. Taylor, MS Bar No. 7992 Post Office Box 6010 Ridgeland, Mississippi 39158-6010 Telephone: (601) 948-5711
<b>Grantor:</b> Seven States Southaven, LLC Attn: John I. Cooke 1206 South Broad Street Chattanooga, Tennessee 37402 Telephone: (423) 756-6511	<b>Grantee:</b> United States of America Tennessee Valley Authority Attn: James E. Norris 400 West Summit Hill Drive Knoxville, Tennessee 37902 Telephone: (865) 632-4464
<b>Indexing Instructions:</b>  <b>To the Chancery Clerk of DeSoto County, Mississippi:</b> <b>The real property described herein is situated in the Southwest Quarter of Section 15, Township 1 South, Range 8 West and the Southeast Quarter of Section 16, Township 1 South, Range 8 West, all in DeSoto County, Mississippi.</b>	

TVA TRACT NO. XSCBTS-1 S.1X

SPECIAL WARRANTY DEED

THIS INDENTURE, made and entered into as of the 9th day of August, 2013, by and between SEVEN STATES SOUTHAVEN, LLC, a Delaware limited liability company (hereinafter sometimes referred to as "GRANTOR"), and the UNITED STATES OF AMERICA (hereinafter sometimes referred to as "GRANTEE"), acting herein by and through its legal agent, the TENNESSEE VALLEY AUTHORITY (hereinafter sometimes referred to as "TVA"), a corporation created and existing under an Act of Congress known as the Tennessee Valley Authority Act of 1933, as amended.

W I T N E S S E T H

WHEREAS, GRANTOR, by virtue of Special Warranty Deed from TVA dated September 26, 2008, of record in Deed Book 594, page 475, in the office of the Chancery Court Clerk of DeSoto County, Mississippi, and virtue of Special Warranty Deed from TVA dated April 17, 2009, of record in Deed Book 606, page 527, in the office of the Chancery Court Clerk of DeSoto County, Mississippi, acquired an undivided ninety percent (90%) interest (the "Acquired Interest") in and to Parcels 1 and 2, and certain easement rights over, under, and across Parcel 3, which parcels are more particularly described in Exhibit A, which is attached hereto and made a part hereof (Parcels 1, 2, and 3 collectively referred to herein as the "Property"); and

WHEREAS, GRANTOR and TVA have entered into that certain Asset Purchase Agreement dated August 6, 2013 (the "APA"), pursuant to which TVA has purchased all of the GRANTOR'S right, title, and interest in and to the Acquired Interest in the Property;

WHEREAS, simultaneous with the execution and delivery of the APA, TVA entered into the Participation Agreement, dated August 6, 2013 ("Participation Agreement"), among TVA; Southaven Combined Cycle Generation LLC, a Delaware limited liability company ("Owner Lessor"); Wilmington Trust, National Association; Southaven Holdco LLC, a Delaware limited liability company; and Wilmington Trust Company;

WHEREAS, TVA is acquiring the Acquired Interest in the Property under the APA subject to the right of Owner Lessor to lease (simultaneous with the acquisition of the Acquired Interest) from TVA the undivided ninety percent (90%) interest in Parcel 1 as described in Exhibit A conveyed hereunder pursuant to the terms and conditions of the Ground Lease Agreement, dated August 9, 2013 ("Ground Lease"), between TVA and Owner Lessor; and

NOW THEREFORE, for and in consideration of the covenants, promises and obligations set forth in the APA, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, GRANTOR does hereby grant, bargain, sell, transfer, specially warrant and convey to GRANTEE, subject to the provisions of the APA, and any revisions or supplements thereto, the Acquired Interest in the Property, as described in said Exhibit A.

This conveyance and its special warranty is subject to any and all prior reservations and/or exceptions to oil, gas, and other minerals and rights incidental thereto and any and all restrictions, covenants, easements, dedications, rights-of-way, and other matters of record affecting the Property, and Owner Lessor's right to lease from TVA the undivided ninety percent (90%) interest in Parcel 1 as described in Exhibit A conveyed hereunder pursuant to the terms of the Ground Lease.

GRANTOR shall not be responsible for any ad valorem taxes or special assessments which may be imposed upon the Property.

TO HAVE AND TO HOLD the Acquired Interest in the Property together with all rights and appurtenances thereto belonging unto GRANTEE, its successors, and assigns forever.

And GRANTOR does hereby covenant that it is seized and possessed of the Property; that said land is free and clear of liens and encumbrances except as set forth herein; and that, subject to the conditions, reservations, restrictions, exceptions, and/or limitations contained herein, it will warrant and defend the title thereto against the lawful demands of all persons claiming by, through, or under the GRANTOR, but not further or otherwise.

IN WITNESS WHEREOF, GRANTOR has caused this instrument to be executed as of the \_\_\_\_ day of \_\_\_\_\_, 2013, by its duly authorized officer.

SEVEN STATES SOUTHAVEN, LLC,  
a Delaware limited liability company

By: \_\_\_\_\_  
Name:  
Title:

STATE OF TENNESSEE            )  
  ) SS  
COUNTY OF HAMILTON        )

Personally appeared before me, the undersigned authority in and for the said county and state, on this \_\_\_\_\_ day of \_\_\_\_\_, 2013, within my jurisdiction, the within named \_\_\_\_\_, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed in the above and foregoing Special Warranty Deed and acknowledged that he/she executed the same in his/her representative capacity, and that by his/her signature on the instrument, and as the act and deed of the person or entity upon behalf of which he/she acted, executed the above and foregoing Special Warranty Deed, after first having been duly authorized so to do.

\_\_\_\_\_  
Notary Public

My Commission Expires:  
[Affix official seal, if applicable]

EXHIBIT A  
SOUTHAVEN COMBUSTION TURBINE SITE

Parcel 1 (Acquisition Tract SCBTS-1)

A parcel of land lying in the SW1/4 of Section 15 Township 1 South Range 8 West in DeSoto County, State of Mississippi, being on the Southaven Combustion Turbine Site and at the intersection of Tulane Road and Stateline Road, as shown on US-TVA Drawing No. 112 MS 421 B 99(D) R.1 (formerly US-TVA Drawing No. 112 MS 422 B 100(D) R.0) and being more particularly described as follows:

Commencing at a concrete monument (found) (Coordinates: N. 275,703.11, E. 750,567.00), being NGS MON 153; thence S42°05'16"E, 13,353.72 feet to an angle iron (set) on the accepted Mississippi-Tennessee state line being corner No. SCBTS-1 and the Point of Beginning:

Thence leaving the point of beginning and said Mississippi-Tennessee state line S02°11'31"W, 1,100.72 feet to a rebar (found) in the northern right of way of Stateline Road, being corner No. SCBTS-2; thence continuing with said right of way for the following two calls; N87°47'07"W, 304.06 feet to a rebar (found), being corner No. SCBTS-3; thence N87°47'41" W, 104.99 feet to a (3/8") rebar (found), being corner No. SCBTS-6; thence leaving said right of way N02°12'24"E, 206.98 feet to a (3/8") rebar (found), being corner No. SCBTS-5; thence parallel with north right of way of Stateline Road N87°48'27"W, 1,260.36 feet to rebar with cap (found) and stamped "THY INC. #888" in the eastern right of way of Tulane Road, being corner No. SCBTS-7; thence with said right of way N02°15'03"E, 899.31 feet to a rebar with cap (found) on the accepted Mississippi-Tennessee state line, being corner No. SCBTS-8; thence leaving said right of way and with said state line S87°36'39"E, 1,668.44 feet to the point of beginning.

Located on VTM Quad Horn Lake, MS.

Positions of corners and directions of lines are referred to the Tennessee Lambert State Coordinate System and NAD 83 (2007) Horizontal Datum.

Parcel 2 (Acquisition Tract SCBTS-2)

A parcel of land lying in the SE1/4 of Section 16 Township 1 South Range 8 West in Desoto County, State of Mississippi, being on the Southaven Combustion Turbine Site and at the intersection of Tulane Road and Stateline Road, as shown on US-TVA Drawing No. 112 MS 421 B 99(D) R.1 (formerly US-TVA Drawing No. 112 MS 422 B 100(D) R.0) and being more particularly described as follows:

Commencing at a concrete monument (found) (Coordinates: N. 275,703.11, E. 750,567.00), being NGS MON 153; thence S33°33'03"E, 12,943.26 feet to a rebar (found) in the west right of way of Tulane Road, being corner No. SCBTS-9 and the Point of Beginning:

Thence leaving the point of beginning and said right of way N87°55'13"W, 225.69 feet to a nail (60d) (found), being corner No. SCBTS-10; thence N87°42'13"W, 420.76 feet to a rebar without cap (found), being corner No. SCBTS-11; thence N02°36'46"E, 209.28 feet to a rebar without cap (found), being corner No. SCBTS-12; thence N87°28'38"W, 210.14 feet to an iron pipe (1.5") (found), being corner No. SCBTS-13; thence S02°13'39"W, 209.42 feet to a pin (found), being corner No. SCBTS-14; thence S02°43'42"W, 155.47 feet to a rebar with cap (found) in the north right of way of Stateline Road, being corner No. SCBTS-15; thence with road said right of way N87°43'40"W, 415.16 feet to a rebar (found), being corner No. SCBTS-16; thence N02°24'39"E, 673.73 feet to an iron pipe (1.5") (found), being corner No. SCBTS-17; thence S87°35'36"E, 434.83 feet to a rebar (found), being corner No. SCBTS-18; thence N02°19'08" E, 435.00 feet to a rebar (found) on the accepted Mississippi-Tennessee state line, being corner No. SCBTS-19; thence with said state line for the following calls:  
S87°35'34"E, 311.41 feet to an angle iron (set), being corner No. SCBTS-26;  
thence S87°35'28"E, 523.19 feet to an iron pipe (found) in the west right of way of Tulane Road, being Corner No. SCBTS-20;  
thence leaving said state line and with said road right of way S02°15'57"W, 206.15 feet to a rebar (found), being corner No. SCBTS-21;  
thence leaving said right of way N87°38'49"W, 158.80 feet to a rebar (found), being corner No. SCBTS-22;  
thence S02°07'35"W, 209.14 feet to an iron pipe (found), being corner No. SCBTS-23;  
thence S87°29'48"E, 158.20 feet to a rebar (found) in the western right of way of Tulane Road, being corner No. SCBTS-24;  
thence with said road right of way S02°15'14"W, 534.74 feet to the point of beginning and containing 23.14 acres.

Located on VTM Quad Horn Lake, MS.

Positions of corners and directions of lines are referred to the Tennessee Lambert State Coordinate System and NAD 83 (2007) Horizontal Datum.

This description was prepared from an ALTA survey dated May 1, 2000 and a survey dated December 18, 2007 by:

Tennessee Valley Authority  
MR 4B-C  
Chattanooga, TN 37402-2801

Parcel 3 - Transmission Line Easement (Acquisition Tract SCBTS-4-TL)

An easement for transmission line purposes as described in that certain Transmission Line Easement dated November 21, 2000, between Entergy Mississippi, Inc. and Southaven Power, LLC, recorded December 8, 2000 in Deed Book 384, page 81 over, under and across a parcel of land lying in the SE1/4 of Section 16 Township 1 South Range 8 West in Desoto County, State of Mississippi, being on the Southaven Combustion Turbine Site, as shown on US-TVA Drawing No. 112 MS 421 B 99(D) R.1 (formerly US-TVA Drawing No. 112 MS 422 B 100(D) R.0) and being more particularly described as follows:

Commencing at a concrete monument (found) (Coordinates: N. 275,703.11, E. 750,567.00), being NGS MON 153; thence S29°12'19"E, 12,075.19 feet to a point in the western line of tract SCBTS-2, being corner SCBTS-33 and the Point of Beginning:

Thence leaving the point of beginning and said western line of tract SCBTS-2 N89°54'39"W, 417.53 feet to a point, being corner No. SCBTS-34;  
thence N44°04'03"W, 81.72 feet to a point, being corner No. SCBTS-35;  
thence N45°55'57"E, 150.00 feet to a point, being corner No. SCBTS-36;  
thence S44°04'03"E, 18.29 to a point, being Corner No. SCBTS-37;  
thence S89°54'39"E, 360.18 to a point, being Corner No. SCBTS-38;  
thence S02°24'35"W, 150.12 feet to the point of beginning and containing 1.51 acres.

Located on VTM Quad Horn Lake, MS.

Positions of corners and directions of lines are referred to the Tennessee Lambert State Coordinate System and NAD 83 (2007) Horizontal Datum.

This description was prepared from an ALTA survey dated May 1, 2000 and a survey dated December 18, 2007 by:

Tennessee Valley Authority  
MR 4B-C  
Chattanooga, TN 37402-2801



Prepared by:

---

[\_\_\_\_\_] , Attorney  
[Tennessee Valley Authority]  
[1101 Market Street, SP 3L]  
[Chattanooga, Tennessee 37402-2801]  
[Telephone: (423) 751-6317]

TVA TRACT NO. XSCBTS-2 S. 1X

### SPECIAL WARRANTY DEED

THIS INDENTURE, made and entered into as of the 9th day of August, 2013, by and between the SEVEN STATES SOUTHAVEN, LLC, a Delaware limited liability company (hereinafter sometimes referred to as "GRANTOR"), and the UNITED STATES OF AMERICA (hereinafter sometimes referred to as "GRANTEE"), acting herein by and through its legal agent, the TENNESSEE VALLEY AUTHORITY (hereinafter sometimes referred to as "TVA"), a corporation created and existing under an Act of Congress known as the Tennessee Valley Authority Act of 1933, as amended.

### W I T N E S S E T H

WHEREAS, GRANTOR, by virtue of Special Warranty Deed from TVA dated September 26, 2008, of record as Instrument No. 08130042 in the office of the Register of Shelby County, Tennessee, and virtue of Special Warranty Deed from TVA dated April 17, 2009, of record as Instrument No. 09044949 in the office of the Register of Shelby County, Tennessee, acquired an undivided ninety percent (90%) interest (the "Acquired Interest") in and to Parcel 1 and the benefits of a Transmission Line Corridor in, on, over, and across the Transmission Line Corridor Parcel, which parcels are more particularly described in Exhibit A, which is attached hereto and made a part hereof (Parcel 1 and the Transmission Line Corridor Parcel collectively referred to herein as the "Property"); and

WHEREAS, GRANTOR and TVA have entered into that certain Asset Purchase Agreement dated August 6, 2013 (the "APA"), pursuant to which TVA has purchased all of the GRANTOR'S right, title, and interest in and to the Acquired Interest in the Property; and

NOW THEREFORE, for and in consideration of the covenants, promises and obligations set forth in the APA, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, GRANTOR does hereby grant, bargain, sell, transfer, and convey to GRANTEE, subject to the provisions of the APA, and any revisions or supplements thereto, the Acquired Interest in the Property, as described in said Exhibit A.

This conveyance and its warranty is subject to any and all prior reservations and/or exceptions to oil, gas, and other minerals and rights incidental thereto and any and all restrictions, covenants, easements, dedications, rights-of-way, and other matters of record affecting the Property.

GRANTOR shall not be responsible for any ad valorem taxes or special assessments that may be imposed upon the Property.

TO HAVE AND TO HOLD the Acquired Interest in the Property together with all rights and appurtenances thereto belonging unto GRANTEE, its successors, and assigns forever.

And GRANTOR does hereby covenant that it is seized and possessed of the Property; that said land is free and clear of liens and encumbrances except as set forth herein; and that, subject to the conditions, reservations, restrictions, exceptions, and/or limitations contained herein, it will warrant and defend the title thereto against the lawful demands of all persons claiming by, through, or under the GRANTOR, but not further or otherwise.

IN WITNESS WHEREOF, GRANTOR has caused this instrument to be executed as of the \_\_\_\_ day of August, 2013, by its duly authorized officer.

SEVEN STATES SOUTHAVEN, LLC,  
a Delaware limited liability company

By: \_\_\_\_\_  
Name:  
Title:

STATE OF TENNESSEE            )  
  )  
COUNTY OF HAMILTON        )

On the \_\_\_\_ day of \_\_\_\_\_, 2013, before me appeared [\_\_\_\_], to me personally known, who, being by me duly sworn, did say that [\_\_\_] is the [\_\_\_\_], of SEVEN STATES SOUTHAVEN, LLC, the within named GRANTOR, a Delaware limited liability company, and that such person, as the duly authorized officer of GRANTOR, executed the foregoing instrument for the purpose therein contained.

WITNESS my hand and official seal of office in Chattanooga, Tennessee, the day and year aforesaid.

\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_

Name and address of Grantor:  
**Seven States Southaven, LLC**  
1206 South Broad Street  
Chattanooga, Tennessee 37402  
Telephone: (423) 756-6511

Address of Grantee:  
United States of America  
**Tennessee Valley Authority**  
400 West Summit Hill Drive  
Knoxville, Tennessee 37902  
Telephone: (865) 632-3366

Tax Parcel Number: 076-1440-0-00021-0

AFFIDAVIT OF EXEMPTION FROM TRANSFER TAX

STATE OF TENNESSEE            )  
  )  
COUNTY OF SHELBY            )

The undersigned hereby offers this instrument for recording within the meaning of the statutes of the State of Tennessee, and hereby swears and affirms that the transfer hereunder to the UNITED STATES OF AMERICA is exempt from transfer tax.

\_\_\_\_\_  
Affiant

Sworn to and subscribed before me this \_\_\_\_\_ day of \_\_\_\_\_, 2013.

\_\_\_\_\_

Title: \_\_\_\_\_

My Commission Expires: \_\_\_\_\_

EXHIBIT A  
SOUTHAVEN COMBUSTION TURBINE SITE

Parcel 1 (Acquisition Tract SCBTS-3)

A parcel of land lying in the in the Third Civil District of Shelby County, State of Tennessee, being on the Southaven Combustion Turbine Site and at the intersection of Tulane Road and Windsor Road, as shown on US-TVA Drawing No. 112 MS 421 B 99(D) R.1 (formerly US-TVA Drawing No. 112 MS 422 B 100(D) R.0) and being more particularly described as follows:

Commencing at a concrete monument (found) (Coordinates: N. 275,703.11, E. 750,567.00), being NGS MON 153; thence S41°31'41"E, 10,982.12 feet to an iron pipe with cap (found) in the west right of way of Tulane Road being corner No. SCBTS-32 and the Point of Beginning:

Thence leaving the point of beginning and with said right of way S02°12'12"W, 1,617.62 feet to a rebar (found), being corner No. SCBTS-25;

thence N88°17'26"W, 27.82 feet to an iron pipe (found), being corner No. SCBTS-20

thence N87°35'28"W, 523.19 feet to an angle iron (set), being Corner No. SCBTS-26;

thence N02°21'10"E, 126.18 feet to an angle iron (set), being Corner No. SCBTS-27;

thence N02°21'15"E, 238.59 feet to an angle iron (set), being Corner No. SCBTS-30;

thence N02°20'30"E, 1,271.29 feet to an iron pipe (2") (found) in the south line of Windsor Road, being corner No. SCBTS-31;

thence with said south line S85°41'42"E, 547.38 feet to the point of beginning and containing 20.51 acres.

Located on VTM Quad Horn Lake, MS.

Positions of corners and directions of lines are referred to the Tennessee Lambert State Coordinate System and NAD 83 (2007) Horizontal Datum.

This description was prepared from an ALTA survey dated May 1, 2000 and a survey dated December 18, 2007 by:

Tennessee Valley Authority  
MR 4B-C  
Chattanooga, TN 37402-2801

Transmission Line Corridor

A parcel of land lying in the in the Third Civil District of Shelby County, State of Tennessee, being on the Southaven Combustion Turbine Site and at the intersection of Tulane Road and Windsor Road, as shown on US-TVA Drawing No. 112 MS 421 B 99(D) R.1 (formerly US-TVA Drawing No. 112 MS 422 B 100(D) R.0) and being more particularly described as follows:

Commencing at a concrete monument (found) (Coordinates: N. 275,703.11, E. 750,567.00), being NGS MON 153; thence S34°33'26"E, 11,764.90 feet to an angle iron (set) being corner No. SCBTS-27 and the Point of Beginning:

Thence leaving the point of beginning N54°36'16"W, 480.01 feet to an angle iron (set), being Corner No. SCBTS-28;  
thence N35°24'01"E, 200.01 feet to an angle iron (set), being Corner No. SCBTS-29  
thence S54°36'16"E, 349.90 feet to an angle iron (set), being Corner No. SCBTS-30;  
thence S02°21'15"W, 238.59 feet to the point of beginning and containing 1.91 acres.  
Located on VTM Quad Horn Lake, MS.

Positions of corners and directions of lines are referred to the Tennessee Lambert State Coordinate System and NAD 83 (2007) Horizontal Datum.

This description was prepared from an ALTA survey dated May 1, 2000 and a survey dated December 18, 2007 by:

Tennessee Valley Authority  
MR 4B-C  
Chattanooga, TN 37402-2801

**DISCLOSURE SCHEDULES**  
**to the**  
**ASSET PURCHASE AGREEMENT**

**by and between**

**Tennessee Valley Authority,**

**as Buyer,**

**and**

**Seven States Southaven, LLC,**

**as Seller**

**Dated as of August 6, 2013**

## SCHEDULES

<b><u>Item</u></b>	<b><u>Description</u></b>
Schedule 2.1(a)	Facility Tangible Property
Schedule 2.1(b)	Real Property
Schedule 2.1(c)	Easements
Schedule 2.1(d)	Tangible Intellectual Property
Schedule 2.1(e)	Assigned Contracts
Schedule 2.1(f)	Assigned Permits
Schedule 2.1(h)	Emissions Allowances
Schedule 2.1(i)	Prepaid Assets and Expenses
Schedule 2.1(j)	Facility Books and Records
Schedule 2.2	Excluded Assets
Schedule 4.3	Seller's Consents and Approvals
Schedule 4.4	Liens
Schedule 4.6	Tax Matters



## **General Terms**

1. Any terms used in these Disclosure Schedules but not defined herein shall have the same meanings ascribed thereto in the Asset Purchase Agreement (the "Agreement"), dated as of August 6, 2013, by and among Seven States Southaven, LLC ("Seller"), and Tennessee Valley Authority ("Buyer"), of which these Disclosure Schedules are a part.
2. Any disclosures contained in these Disclosure Schedules that refer to a document are qualified in their entirety by reference to the text of such document.
3. No disclosure of any matter contained in these Disclosure Schedules shall create an implication that such matter, or any matter like it, is required to be disclosed on any Disclosure Schedule, is material, constitutes a Seller Material Adverse Effect or would meet any criterion or legal standard specified in the Agreement.
4. The headings contained in these Disclosure Schedules are for reference only and shall not affect in any way the meaning or interpretation of these Disclosure Schedules.
5. Each exception and other response to the Agreement set forth in this Disclosure Schedule is identified by reference to, or has been grouped under a heading referring to, a specific individual section or subsection of the Agreement, and, except as otherwise specifically stated or as is reasonably apparent with respect to such exception, relates only to such section or subsection.
6. Seller may, from time to time prior to the Closing, notify Buyer of any changes or additions to any of Seller's Disclosure Schedules to the Agreement by delivering amendments or supplements thereto, if any, as of a reasonably current date prior to the Closing. Such notification, change, addition, amendment or supplement by Seller shall have no effect for purposes of determining whether Buyer's conditions to Closing set forth in Section 3.2 of the Agreement have been fulfilled. If the Closing occurs, all matters disclosed by Seller pursuant to any such notification, change, addition, amendment or supplement made prior to the Closing shall be deemed to be included in the Disclosure Schedules as of the Closing and shall be deemed to have cured any breach or inaccuracy of any representation or warranty in this Agreement (it being understood that the consummation of the Closing will be deemed to constitute a waiver of such breach).

**SCHEDULE 2.1(a)**  
**FACILITY TANGIBLE PROPERTY**

1. The Facility, as more fully described in Exhibit A of the Agreement.

**SCHEDULE 2.1(b)**  
**REAL PROPERTY**

**Real Property Located in Mississippi**

**Parcel 1: The Facility Site (Acquisition Tract SCBTS-1)**

A parcel of land lying in the SW1/4 of Section 15 Township 1 South Range 8 West in DeSoto County, State of Mississippi, being on the Southaven Combustion Turbine Site and at the intersection of Tulane Road and Stateline Road, as shown on US-TVA Drawing No. 112 MS 421 B 99(D) R.1 (formerly US-TVA Drawing No. 112 MS 422 B 100(D) R.0) and being more particularly described as follows:

Commencing at a concrete monument (found) (Coordinates: N. 275,703.11, E. 750,567.00), being NGS MON 153; thence S42° 05'16"E, 13,353.72 feet to an angle iron (set) on the accepted Mississippi-Tennessee state line being corner No. SCBTS-1 and the Point of Beginning:

Thence leaving the point of beginning and said Mississippi-Tennessee state line S02°11'31"W, 1,100.72 feet to a rebar (found) in the northern right of way of Stateline Road, being corner No. SCBTS-2; thence continuing with said right of way for the following two calls; N87°47'07"W, 304.06 feet to a rebar (found), being corner No. SCBTS-3; thence N87°47'41" W, 104.99 feet to a (3/8") rebar (found), being corner No. SCBTS-6; thence leaving said right of way N02°12'24"E, 206.98 feet to a (3/8") rebar (found), being corner No. SCBTS-5; thence parallel with north right of way of Stateline Road N87°48'27"W, 1,260.36 feet to rebar with cap (found) and stamped "THY INC. #888" in the eastern right of way of Tulane Road, being corner No. SCBTS-7; thence with said right of way N02°15'03"E, 899.31 feet to a rebar with cap (found) on the accepted Mississippi-Tennessee state line, being corner No. SCBTS-8; thence leaving said right of way and with said state line S87°36'39"E, 1,668.44 feet to the point of beginning.

Located on VTM Quad Horn Lake, MS.

Positions of corners and directions of lines are referred to the Tennessee Lambert State Coordinate System and NAD 83 (2007) Horizontal Datum.

**Parcel 2 (Acquisition Tract SCBTS-2)**

A parcel of land lying in the SE1/4 of Section 16 Township 1 South Range 8 West in Desoto County, State of Mississippi, being on the Southaven Combustion Turbine Site and at the intersection of Tulane Road and Stateline Road, as shown on US-TVA Drawing No. 112 MS 422 B 100(D) R.0 and being more particularly described as follows:

Commencing at a concrete monument (found) (Coordinates: N. 275,703.11, E. 750,567.00), being NGS MON 153; thence S33° 33'03"E, 12,943.26 feet to a rebar (found) in the west right of way of Tulane Road, being corner No. SCBTS-9 and the Point of Beginning;

Thence leaving the point of beginning and said right of way N87°55'13"W, 225.69 feet to a nail (60d) (found), being corner No. SCBTS-10;

thence N87°42'13"W, 420.76 feet to a rebar without cap (found), being corner No. SCBTS-11; thence N02°36'46"E, 209.28 feet to a rebar without cap (found), being corner No. SCBTS-12; thence N87°28'38"W, 210.14 feet to an iron pipe (1.5") (found), being corner No. SCBTS-13; thence S02°13'39"W, 209.42 feet to a pin (found), being corner No. SCBTS-14; thence S02°43'42"W, 155.47 feet to a rebar with cap (found) in the north right of way of Stateline Road, being corner No. SCBTS-15;

thence with road said right of way N87°43'40"W, 415.16 feet to a rebar (found), being corner No. SCBTS-16; thence N02°24'39"E, 673.73 feet to an iron pipe (1.5") (found), being corner No. SCBTS-17; thence S87°35'36"E, 434.83 feet to a rebar (found), being corner No. SCBTS-18;

thence N02°19'08" E, 435.00 feet to a rebar (found) on the accepted Mississippi-Tennessee state line, being corner No. SCBTS-19;

thence with said state line for the following calls:

S87°35'34"E, 311.41 feet to an angle iron (set), being corner No. SCBTS-26;

thence S87°35'28"E, 523.19 feet to an iron pipe (found) in the west right of way of Tulane Road, being Corner No. SCBTS-20;

thence leaving said state line and with said road right of way S02°15'57"W, 206.15 feet to a rebar (found), being corner No. SCBTS-21;

thence leaving said right of way N87°38'49"W, 158.80 feet to a rebar (found), being corner No. SCBTS-22;

thence S02°07'35"W, 209.14 feet to an iron pipe (found), being corner No. SCBTS-23;

thence S87°29'48"E, 158.20 feet to a rebar (found) in the western right of way of Tulane Road, being corner No. SCBTS-24;

thence with said road right of way S02°15'14"W, 534.74 feet to the point of beginning and containing 23.14 acres.

Located on VTM Quad Horn Lake, MS.

Positions of corners and directions of lines are referred to the Tennessee Lambert State Coordinate System and NAD 83 (2007) Horizontal Datum.

This description was prepared from an ALTA survey dated May 1, 2000 and a survey dated December 18, 2007 by:

Tennessee Valley Authority  
MR 4B-C  
Chattanooga, TN 37402-2801

Parcel 3 - Transmission Line Easement (Acquisition Tract SCBTS-4-TL)

An easement for transmission line purposes as described in that certain Transmission Line Easement dated November 21, 2000, between Entergy Mississippi, Inc. and Southaven Power, LLC, recorded December 8, 2000 in Deed Book 384, page 81 over, under and across a parcel of land lying in the SE1/4 of Section 16 Township 1 South Range 8 West in Desoto County, State of Mississippi, being on the Southaven Combustion Turbine Site, as shown on US-TVA Drawing No. 112 MS 422 B 100(D) R.0 and being more particularly described as follows:

Commencing at a concrete monument (found) (Coordinates: N. 275,703.11, E. 750,567.00), being NGS MON 153; thence S29° 12' 19"E, 12,075.19 feet to a point in the western line of tract SCBTS-2, being corner SCBTS-33 and the Point of Beginning:

Thence leaving the point of beginning and said western line of tract SCBTS-2 N89°54'39"W,  
417.53 feet to a point, being corner No. SCBTS-34;  
thence N44°04'03"W, 81.72 feet to a point, being corner No. SCBTS-35;  
thence N45°55'57"E, 150.00 feet to a point, being corner No. SCBTS-36;  
thence S44°04'03"E, 18.29 to a point, being Corner No. SCBTS-37;  
thence S89°54'39"E, 360.18 to a point, being Corner No. SCBTS-38;  
thence S02°24'35"W, 150.12 feet to the point of beginning and containing 1.51 acres.

Located on VTM Quad Horn Lake, MS.

Positions of corners and directions of lines are referred to the Tennessee Lambert State Coordinate System and NAD 83 (2007) Horizontal Datum.

This description was prepared from an ALTA survey dated May 1, 2000 and a survey dated December 18, 2007 by:

Tennessee Valley Authority  
MR 4B-C  
Chattanooga, TN 37402-2801

## **Real Property Located in Tennessee**

### **Parcel 1 (Acquisition Tract SCBTS-3)**

A parcel of land lying in the in the Third Civil District of Shelby County, State of Tennessee, being on the Southaven Combustion Turbine Site and at the intersection of Tulane Road and Windsor Road, as shown on US-TVA Drawing No. 112 MS 422 B 100 (D) R.0 and being more particularly described as follows:

Commencing at a concrete monument (found) (Coordinates: N. 275,703.11, E. 750,567.00), being NGS MON 153; thence S41° 31'41"E, 10,982.12 feet to an iron pipe with cap (found) in the west right of way of Tulane Road being corner No. SCBTS-32 and the Point of Beginning:

Thence leaving the point of beginning and with said right of way S02°12'12"W, 1,617.62 feet to a rebar (found), being corner No. SCBTS-25;

thence N88°17'26"W, 27.82 feet to an iron pipe (found), being corner No. SCBTS-20

thence N87°35'28"W, 523.19 feet to an angle iron (set), being Corner No. SCBTS-26;

thence N02°21'10"E, 126.18 feet to an angle iron (set), being Corner No. SCBTS-27;

thence N02°21'15"E, 238.59 feet to an angle iron (set), being Corner No. SCBTS-30;

thence N02°20'30"E, 1,271.29 feet to an iron pipe (2") (found) in the south line of Windsor Road, being corner No. SCBTS-31;

thence with said south line S85°41'42"E, 547.38 feet to the point of beginning and containing 20.51 acres.

Located on VTM Quad Horn Lake, MS.

Positions of corners and directions of lines are referred to the Tennessee Lambert State Coordinate System and NAD 83 (2007) Horizontal Datum.

This description was prepared from an ALTA survey dated May 1, 2000 and a survey dated December 18, 2007 by:

Tennessee Valley Authority  
MR 4B-C  
Chattanooga, TN 37402-2801

Transmission Line Corridor

A parcel of land lying in the in the Third Civil District of Shelby County, State of Tennessee, being on the Southaven Combustion Turbine Site and at the intersection of Tulane Road and Windsor Road, as shown on US-TVA Drawing No. 112 MS 421 B 99 (D) R.0 and being more particularly described as follows:

Commencing at a concrete monument (found) (Coordinates: N. 275,703.11, E. 750,567.00), being NGS MON 153; thence S34° 33'26"E, 11,764.90 feet to an angle iron (set) being corner No. SCBTS-27 and the Point of Beginning:

Thence leaving the point of beginning N54°36'16"W, 480.01 feet to an angle iron (set), being Corner No. SCBTS-28;  
thence N35°24'01"E, 200.01 feet to an angle iron (set), being Corner No. SCBTS-29;  
thence S54°36'16"E, 349.90 feet to an angle iron (set), being Corner No. SCBTS-30;  
thence S02°21'15"W, 238.59 feet to the point of beginning and containing 1.91 acres.

Located on VTM Quad Horn Lake, MS.

Positions of corners and directions of lines are referred to the Tennessee Lambert State Coordinate System and NAD 83 (2007) Horizontal Datum.

This description was prepared from an ALTA survey dated May 1, 2000 and a survey dated December 18, 2007 by:

Tennessee Valley Authority  
MR 4B-C  
Chattanooga, TN 37402-2801

**SCHEDULE 2.1(c)**  
**EASEMENTS**

1. Transmission Line Easement, dated November 21, 2000, by and between Entergy Mississippi, Inc. and Southaven Power, LLC
2. Transmission Line Easement, dated December 12, 2000, by and between Cogentrix Southaven Properties, LLC and Southaven Power, LLC
3. Transmission Line Easement, dated May 24, 2001, by and between Cogentrix Southaven Properties, LLC and Southaven Power, LLC
4. Transmission Line Corridor Rights, granted pursuant to Interconnection Agreement, dated October 10, 2000, by and between Tennessee Valley Authority and Southaven Power, LLC, for the tract defined by Instrument KS 6360, dated December 4, 2000



**SCHEDULE 2.1(d)**  
**TANGIBLE INTELLECTUAL PROPERTY**

Any software license agreements identified as Assigned Contracts, including all updates thereto and replacements thereof.

**SCHEDULE 2.1(e)**  
**ASSIGNED CONTRACTS**

1. Master Power Purchase and Sale Agreement (Tolling Agreement) between Southaven Power, LLC and Tennessee Valley Authority, dated as of August 22, 2006
2. Conversion Services Confirmation of Master Power Purchase and Sale Agreement (Tolling Agreement) between Southaven Power, LLC and Tennessee Valley Authority, dated as of August 22, 2006
3. Agreement Extending Conversion Services Confirmation and Master Power Purchase and Sale Agreement (Tolling Agreement) between Southaven Power, LLC and Tennessee Valley Authority, dated as of August 31, 2007
4. Amendment No. 2 to Conversion Services Confirmation between Southaven Power, LLC and Tennessee Valley Authority, dated as of September 6, 2007
5. Facility Letter Agreement, by and between Texas Gas Transmission Corporation and Southaven Power, LLC, dated as of October 23, 2000
6. Amendment to Facility Letter Agreement, by and between Texas Gas Transmission Corporation and Cogentrix Energy, LLC, dated as of January 31, 2001
7. License and Indemnity Agreement, by and between Texas Gas Transmission Corporation and Southaven Power, LLC, dated as of March 27, 2002
8. Gas Metering Agreement, between Texas Gas Transmission Corporation and Southaven Power, LLC, dated as of June 1, 2000
9. Interconnection Agreement OOPAP-263655, between Tennessee Valley Authority and Southaven Power, LLC, dated as of October 10, 2000
10. Amended and Restated Interconnection and Operating Agreement, by and between Southaven Power, LLC and Entergy Mississippi, Inc., dated as of October 20, 2000
11. Long Term Service Agreement, by and between Southaven Power, LLC and General Electric International, Inc., dated as of October 1, 2001, effective October 21, 2002, as amended by Amendment No. 1, effective as of April 22, 2009, and Amendment No. 2, effective as of November 21, 2009
12. Parts Sharing Agreement, by and between Cogentrix Parts Company, Inc. and Various Project Affiliates, dated as of October 1, 2001, as amended by Amendment No. 1, dated as of April 26, 2012

13. Amended and Restated Sewer Agreement, between the City of Southaven and Southaven Power, LLC, dated as of August 23, 2000

#### Software License Agreements

Software license agreements relating to the following software, and any updates thereto or replacements thereof:

- (a) CeDARs Breeze 75x
- (b) DeltaV
- (c) GE MarkV with HMI

**SCHEDULE 2.1(f)**  
**ASSIGNED PERMITS**

1. Southaven NPDES Water Control Permit, DeSoto County, Permit Number MSP091679, dated as of December 8, 2005
2. Permit to Divert or Withdraw for Beneficial Use the Public Waters MS-GW-15453, dated as of October 26, 1999
3. Well Permit To Divert or Withdraw for Beneficial Use the Public Waters MS-GW- 15555, dated as of October 10, 2000
4. Well Permit to Divert or Withdraw for Beneficial Use the Public Waters MS-GW-15556, dated as of October 10, 2000
5. Well Permit To Divert or Withdraw for Beneficial Use the Public Waters MS-GW- 15557, dated as of October 10, 2000
6. Well Permit To Divert or Withdraw for Beneficial Use the Public Waters MS-GW- 15558, dated as of October 10, 2000
7. Well Permit To Divert or Withdraw for Beneficial Use the Public Waters MS-GW- 15559, dated as of October 10, 2000
8. Well Permit To Divert or Withdraw for Beneficial Use the Public Waters MS-GW- 15560, dated as of October 10, 2000
9. Storm Water Baseline General Permit For Industrial Activities, Permit Number MSR001420, dated as of October 8, 2005
10. Department of the Army, Wetlands Permit, Coverage Number 000190060, dated as of November 11, 2000
11. Amended and Restated Sewer Agreement, between the City of Southaven and Southaven Power, LLC, dated as of August 23, 2000
12. Municipal Development Agreement, by and between the City of Southaven, Mississippi and Cogentrix Energy, LLC, dated as of June 7, 1999
13. Southaven Power, LLC, State of Mississippi Air Pollution Control Title V Permit No. 0680-00095 issued May 24, 2005

14. Southaven Power, LLC, Southaven Power Project, State Line and Tulane Road Southaven, Mississippi, State of Mississippi Air Pollution Control Permit No. 0680-00095 issued April 25, 2000
15. FAA Determination of No Hazard to Air Navigation No. 00-ASO-0941-OE, dated as of March 16, 2000
16. Southaven Power, LLC, DeSoto County, Acid Rain Certificate of Representation, dated as of October 11, 2007
17. FCC Radio License, WQFJ225 held by Southaven Power, LLC

**SCHEDULE 2.1(h)**  
**EMISSIONS ALLOWANCES**

All Emissions Allowances held in the name of Seven States Southaven, LLC (Facility ID 55269) as of the Closing Date.

**SCHEDULE 2.1(i)**  
**PREPAID ASSETS AND EXPENSES**

1. None.

**SCHEDULE 2.1(j)**  
**FACILITY BOOKS AND RECORDS**

1. None



**SCHEDULE 2.2**  
**EXCLUDED ASSETS**

1. All accumulated interest earned on the Accumulated Amortization Costs in the Escrow Account shall remain with Seller.
2. Seller's right to indemnification by Buyer pursuant to Section 2 of the Termination of Joint Ownership Agreement, dated August 9, 2013.
3. Seller's rights (i) to any payments from Buyer under Section 3.3(a) of the Lease Agreement, and (ii) to indemnification by Buyer, in each case pursuant to Section 2 of the Termination of Lease Agreement, dated August 9, 2013.

**SCHEDULE 4.3**  
**CONSENTS AND APPROVALS**

1. Consent Agreement to Assignment of Parts Sharing Agreement, dated June 20, 2013, by and among CGX Parts Company, Inc. (f/k/a Cogentrix Parts Company, Inc.); Seven States Southaven, LLC; Tennessee Valley Authority; and Green Country Energy, LLC.
2. Consent to Assignment of Contract, dated June 3, 2013, between Tennessee Valley Authority and General Electric International, Inc. (countersigned on June 11, 2013) relating to the Long Term Service Agreement, dated October 21, 2002, as amended as of April 22, 2009 and November 21, 2009, between General Electric International, Inc. Seven States Southaven, LLC and Tennessee Valley Authority.
3. Consent to Assignment of Contracts, dated May 17, 2013, between Tennessee Valley Authority and Texas Gas Transmission, LLC, f/k/a Texas Gas Transmission Corporation ("Texas Gas") (countersigned on June 4, 2013) relating to (i) the Facility Letter Agreement between Texas Gas and Southaven Power, LLC ("Southaven"), dated October 23, 2000, and the Amendment to Facility Letter Agreement between Texas Gas and Cogentrix Energy, LLC, dated January 31, 2001, (ii) License and Indemnity Agreement between Texas Gas and Southaven, dated March 27, 2002, and (iii) the Gas Metering Agreement between Texas Gas and Southaven, dated June 1, 2000.
4. Notification of and Consent to Assignment of Contract, dated July 31, 2013, by Seven States Southaven, LLC, Tennessee Valley Authority, and Entergy Services, Inc. (countersigned on August 5, 2013) relating to the Amended and Restated Interconnection and Operating Agreement, dated October 20, 2000, between Southaven Power, LLC and Entergy Mississippi, Inc. - TVA Contract No. 00072832.

**SCHEDULE 4.4**  
**LIENS**

1. None.

**SCHEDULE 4.6  
TAX MATTERS**

1. None.

[\(Back To Top\)](#)

**Section 5: EX-10.34 (EXHIBIT 10.34)**

**EXHIBIT 10.34**

This Facility Lease-Purchase Agreement has been filed to provide investors with information regarding its terms. It is not intended to provide any other factual information about the Tennessee Valley Authority. The representations and warranties of the parties in this Facility Lease-Purchase Agreement were made to, and solely for the benefit of, the other parties to this Facility Lease-Purchase Agreement. The assertions embodied in the representations and warranties may be qualified by information included in schedules, exhibits, or other materials exchanged by the parties that may modify or create exceptions to the representations and warranties. Accordingly, investors should not rely on the representations and warranties as characterizations of the actual state of facts at the time they were made or otherwise.

**EXECUTION VERSION**

This instrument prepared by: Christopher J. Moore, Esq., Orrick, Herrington & Sutcliffe LLP, 51 West 52nd Street, New York, New York, 10019, telephone (212) 506-5000, and co-prepared for purposes of complying with Mississippi law by Ronald G. Taylor, MS Bar No. 7992, Butler, Snow, O'Mara, Stevens & Cannada, PLLC, 1020 Highland Colony Parkway, Suite 1400, Ridgeland, MS 39157, telephone (601) 948-5711.

After recording return to: Christopher J. Moore, Esq., Orrick, Herrington & Sutcliffe LLP, 51 West 52nd Street, New York, New York, 10019.

Owner Lessor: Southaven Combined Cycle Generation LLC, Wilmington Trust, National Association, 1100 North Market Street, Wilmington, DE, 19890, telephone (302) 636-6191.

Facility Lessee: Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, TN 37902, telephone (865) 632-3366.

Indexing instructions: SW ¼ of Section 15, Township 1 South, Range 8 West, DeSoto County, Mississippi

**Facility Lease-Purchase Agreement**

Dated as of August 9, 2013

between

**Southaven Combined Cycle Generation LLC,**

as Owner Lessor

and

**Tennessee Valley Authority,**

as Facility Lessee

**Southaven Combined Cycle Facility**

located in the City of Southaven, Mississippi

CERTAIN OF THE RIGHT, TITLE AND INTEREST OF THE OWNER LESSOR IN AND TO THIS FACILITY LEASE AND THE RENT DUE AND TO BECOME DUE HEREUNDER HAVE BEEN ASSIGNED AS COLLATERAL SECURITY TO, AND ARE SUBJECT TO A SECURITY INTEREST IN FAVOR OF, WILMINGTON TRUST COMPANY, NOT IN ITS INDIVIDUAL CAPACITY BUT SOLELY AS LEASE INDENTURE TRUSTEE UNDER A LEASE INDENTURE OF TRUST, DEED OF TRUST AND SECURITY AGREEMENT, DATED AS OF AUGUST 9, 2013, BETWEEN SAID LEASE INDENTURE TRUSTEE, AS SECURED PARTY, AND THE OWNER LESSOR, AS DEBTOR. SEE SECTION 22 HEREOF FOR INFORMATION CONCERNING THE RIGHTS OF THE ORIGINAL HOLDER AND THE HOLDERS OF THE VARIOUS COUNTERPARTS HEREOF.



## TABLE OF CONTENTS

	Page
SECTION 1.	1
SECTION 2.	2
Section 2.1.	2
Section 2.2.	2
SECTION 3.	2
Section 3.1.	2
Section 3.2.	2
Section 3.3.	3
Section 3.4.	3
Section 3.5.	5
SECTION 4.	5
Section 4.1.	5
Section 4.2.	7
SECTION 5.	7
Section 5.1.	7
Section 5.2.	8
Section 5.3.	9
Section 5.4.	9
SECTION 6.	9
SECTION 7.	9
Section 7.1.	9
Section 7.2.	10
SECTION 8.	10
Section 8.1.	10
Section 8.2.	11
Section 8.3.	11
SECTION 9.	11
SECTION 10.	12
Section 10.1.	13

# TABLE OF CONTENTS

(continued)

	<b>Page</b>
Section 10.2.	Condemnation Payments..... 27
Section 10.3.	Rebuild or Replace..... 28
Section 10.4.	Application of Payments Not Relating to an Event of Loss..... 28
SECTION 11.	INSURANCE..... 29
Section 11.1.	Insurance by Owner Lessor..... 29
Section 11.2.	Insurance by the Facility Lessee..... 29
SECTION 12.	INSPECTION..... 30
SECTION 13.	REGULATORY EVENT OF LOSS..... 30
Section 13.1.	Occurrence of a Regulatory Event of Loss..... 31
Section 13.2.	Procedure for Termination With Respect to a Regulatory Event of Loss..... 31
SECTION 14.	[RESERVED]..... 31
SECTION 15.	EARLY BUY OUT..... 31
Section 15.1.	Election of Early Buy Out..... 31
Section 15.2.	Procedure for Exercise of an Early Buy Out..... 31
Section 15.3.	Replacement and Exchange of the Lessor Notes..... 31
SECTION 16.	TRANSFER UPON THE EXPIRATION DATE..... 31
SECTION 17.	EVENTS OF DEFAULT..... 32
SECTION 18.	REMEDIES..... 32
Section 18.1.	Remedies for Lease Event of Default..... 32
Section 18.2.	Additional Remedies for Specified Lease Events of Default..... 32
Section 18.3.	Application of Funds Held as Security; Liability for Basic Lease Rent, Costs and Expenses..... 32
Section 18.4.	Payment of FMV Net Termination Value or Sale Net Termination Value..... 32
Section 18.5.	Cumulative Remedies..... 33
Section 18.6.	No Delay or Omission to Be Construed as Waiver..... 33
SECTION 19.	SECURITY INTEREST AND INVESTMENT OF SECURITY FUNDS..... 27
SECTION 20.	FACILITY LESSEE'S RIGHT TO SUBLEASE; AGREEMENT..... 27
Section 20.1.	Assignment and Sublease..... 27

## TABLE OF CONTENTS

(continued)

	Page
Section 20.2.	Right to Sublease..... 27
SECTION 21.	OWNER LESSOR'S RIGHT TO PERFORM..... 28
SECTION 22.	SECURITY FOR OWNER LESSOR'S OBLIGATION TO THE LEASE INDENTURE TRUSTEE..... 28
SECTION 23.	MISCELLANEOUS..... 29
Section 23.1.	Amendments and Waivers..... 29
Section 23.2.	Notices..... 29
Section 23.3.	Survival..... 30
Section 23.4.	Successors and Assigns..... 30
Section 23.5.	Intended Tax Treatment..... 31
Section 23.6.	Business Day..... 31
Section 23.7.	Governing Law..... 31
Section 23.8.	Severability..... 31
Section 23.9.	Counterparts..... 31
Section 23.10.	Headings and Table of Contents..... 31
Section 23.11.	Further Assurances..... 31
Section 23.12.	Effectiveness..... 31
Section 23.13.	Measuring Life..... 32
Section 23.14.	Owner Lessor Covenant..... 32
Section 23.15.	Limitation on Liability..... 32
Section 23.16.	Separate Tax Parcels..... 32
Section 23.17.	Waiver of Abatement..... 32
Section 23.18.	Co-tenancy..... 32
Section 23.19.	Waiver of Partition..... 33
Section 23.20.	Nonmerger..... 33
APPENDICES:	
Appendix A Definitions	
SCHEDULES:	
Schedule 1 Basic Lease Rent	
Schedule 2 Termination Values	



**TABLE OF CONTENTS**  
(continued)

**Page**

EXHIBITS:

Exhibit A Description of the Facility

Exhibit B Description of the Facility Site

## **FACILITY LEASE-PURCHASE AGREEMENT**

This **FACILITY LEASE-PURCHASE AGREEMENT**, dated as of August 9, 2013 (this "Facility Lease"), between **SOUTHAVEN COMBINED CYCLE GENERATION LLC**, a Delaware limited liability company (the "Owner Lessor"), and **TENNESSEE VALLEY AUTHORITY**, a wholly owned corporate agency and instrumentality of the United States (the "Facility Lessee" or "TVA").

### **WITNESSETH:**

**WHEREAS**, TVA is the owner of the Southaven Combined Cycle Facility located in the City of Southaven, Mississippi, a combined cycle generating facility with a summer net generation capacity of approximately 774 megawatts (as more particularly described on Exhibit A to this Facility Lease, the "Facility"), which is located on the Facility Site (as more particularly described on Exhibit B to this Facility Lease);

**WHEREAS**, the Facility Lessee holds title to the Facility, and, pursuant to the Head Lease, the Owner Lessor has leased the Undivided Interest from the Facility Lessee as of the Closing Date for the Head Lease Term;

**WHEREAS**, the Facility Lessee and the Owner Lessor desire to enter into this Facility Lease, which provides, among other terms, that the Facility Lease Term will commence upon the Closing Date;

**WHEREAS**, pursuant to and subject to the terms and conditions of this Facility Lease, the Owner Lessor will sublease the Undivided Interest to the Facility Lessee for the Facility Lease Term;

**WHEREAS**, pursuant to the Ground Lease, the Owner Lessor is leasing from the Ground Lessor the Ground Interest for the Ground Lease Term; and

**WHEREAS**, pursuant to the Ground Sublease, the Owner Lessor will sublease the Ground Interest to the Facility Lessee, as Ground Sublessee, for the term provided therein.

**NOW, THEREFORE**, in consideration of the foregoing premises, the mutual agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

### **SECTION 1. DEFINITIONS**

Unless the context hereof otherwise requires, capitalized terms used in this Facility Lease, including those in the recitals, and not otherwise defined herein shall have the respective meanings set forth in Appendix A hereto. The general provisions of such Appendix A shall apply to the terms used in this Facility Lease and specifically defined herein.

## SECTION 2. SUBLEASE OF THE UNDIVIDED INTEREST

*Section 2.1. Sublease of the Undivided Interest.* The Owner Lessor hereby subleases the Undivided Interest to the Facility Lessee for the Facility Lease Term, and the Facility Lessee hereby subleases the Undivided Interest from the Owner Lessor for the Facility Lease Term, subject in each case to the terms set forth herein.

*Section 2.2 Title; Modifications; Replacements.* The Facility Lessee and the Owner Lessor understand and agree that (a) the Head Lessee is leasing a 90% undivided interest in the Facility and all rights in respect thereof from the Head Lessor in accordance with the terms of the Head Lease, (b) this Facility Lease is a sublease and is subject to the Head Lease and the interest of the Head Lessor under the Head Lease, (c) the Head Lessor is retaining a 10% undivided interest in the Facility and all rights in respect thereof, (d) 100% of the legal title to the Facility is vested in the Head Lessor, (e) each of the Owner Lessor (and any permitted successor, assignee or lessee of its 90% undivided interest) and the Facility Lessee (and any successor, assignee or lessee of its 10% undivided interest) shall have a right to nonexclusive possession of the Facility and collectively the Owner Lessor, the Facility Lessee and their respective successors, assignees and lessees shall have the right to exclusive possession of the Facility subject to Permitted Liens, including the Permitted Closing Date Liens, and (f) this Facility Lease is intended to be a lease of personal property under Mississippi law. The Facility Lessee and the Owner Lessor further understand and agree that the Owner Lessor's Interest shall also include a leasehold interest in the Owner Lessor's Percentage Interest in (A) all Modifications which are incorporated in the Facility and which pursuant to Section 8.3 hereof become subject to this Facility Lease, and (B) all Replacement Components which become part of the Facility pursuant to Section 7.2 hereof, and that any such Modifications and Replacement Components shall, immediately upon such incorporation or replacement, become subject to this Facility Lease and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lien of the Lease Indenture.

## SECTION 3. FACILITY LEASE TERM AND RENT

*Section 3.1. Facility Lease Term.* The term of this Facility Lease (the "Facility Lease Term") shall commence on the Closing Date and shall terminate at 11:59 p.m., New York City time, on the Expiration Date, subject to earlier termination (a) in whole pursuant to Sections 15 or 18 hereof, or (b) in part with respect to a Relevant Portion of the Undivided Interest pursuant to Section 15 hereof; *provided, however*, that if a Significant Lease Default shall have occurred prior to the then scheduled expiration of the Facility Lease Term and is continuing on such date, the Facility Lease Term shall be extended until such time as either (i) such Significant Lease Default has been cured and all relevant amounts due and payable by TVA hereunder and under the other Transaction Documents have been paid, or (ii) the Facility Lessee has delivered possession of the Undivided Interest to the Owner Lessor in accordance with the terms hereof, including as a result of the exercise of the dispossessory remedies set forth in Section 18.2 hereof.

*Section 3.2. Rent.* The Facility Lessee hereby agrees to pay to the Owner Lessor basic lease rent ("Basic Lease Rent") for the lease of the Undivided Interest during the Facility Lease Term in installments payable on each Rent Payment Date in the amount set forth opposite such Rent Payment Date under the

columns entitled “Basic Lease Rent (Debt Portion)” and “Basic Lease Rent (Equity Portion)” on Schedule 1 hereto, subject to adjustment in accordance with Section 3.4 hereof. In the event this Facility Lease shall have been terminated in part pursuant to Section 15 with respect to a Relevant Portion of the Undivided Interest, Basic Lease Rent payable on any Rent Payment Date thereafter shall be determined by multiplying the amount calculated pursuant to the immediately preceding sentence by a fraction, the numerator of which is the number of Units that continue to be subject to this Facility Lease and the Head Lease after giving effect to such termination and the denominator of which is the number of Units subject to this Facility Lease immediately prior to such partial termination, and Basic Lease Rent and Termination Value shall be adjusted downward by such amount in accordance with Section 3.4. All Basic Lease Rent to be paid pursuant to this Section 3.2 shall be payable in the manner set forth in Section 3.5.

*Section 3.3. Supplemental Lease Rent.* The Facility Lessee also agrees to pay to the Owner Lessor, or to any other Person entitled thereto as expressly provided herein or in any other Transaction Document, as appropriate, any and all Supplemental Lease Rent, promptly as the same shall become due and owing, or where no due date is specified, promptly after demand by the Person entitled thereto, and on an After-Tax Basis to the extent such Supplemental Lease Rent is paid in order to pay, or reimburse the Owner Lessor or the Lease Indenture Trustee for, costs or expenses of the Owner Lessor or the Lease Indenture Trustee under any Transaction Document and in the event of any failure on the part of the Facility Lessee to pay any Supplemental Lease Rent, the Owner Lessor shall have all rights, powers and remedies provided for herein. The Facility Lessee will also pay as Supplemental Lease Rent, to the extent permitted by Applicable Law, an amount equal to interest at the Overdue Rate on any part of any payment of Basic Lease Rent not paid when due for any period for which the same shall be overdue and on any Supplemental Lease Rent not paid when due (whether on demand or otherwise) for the period from such due date until the same shall be paid. All Supplemental Lease Rent to be paid pursuant to this Section 3.3 shall be payable in the manner set forth in Section 3.5.

*Section 3.4. Adjustment of Lease Schedules.*

(a) The Facility Lessee and the Owner Lessor agree that Basic Lease Rent shall be adjusted after the Closing Date, either upwards or downwards, to reflect (i) a reduction in Basic Lease Rent in connection with a partial termination of the Facility Lease pursuant to Section 15 calculated in accordance with the second sentence of Section 3.2, (ii) a reduction in Basic Lease Rent in connection with the prepayment of one or more Southaven Holdco Notes in connection with a Regulatory Event of Loss calculated in accordance with Section 13.2(c), (iii) either a reduction or an increase in Basic Lease Rent to reflect the principal amount, amortization and interest rate on any Additional Lessor Notes issued pursuant to Section 2.12 of the Lease Indenture in connection with (A) a refinancing of the Lessor Notes pursuant to Section 11.1 of the Participation Agreement or (B) a Supplemental Financing pursuant to Section 11.2 of the Participation Agreement, and (iv) a reduction in Basic Lease Rent (Equity Portion) in connection with a termination of the Seven States Profits Interest, calculated pursuant to Section 11.4 of the Participation Agreement. Any adjustments pursuant to this Section 3.4 shall be calculated in a manner to ensure that Basic Lease Rent payable hereunder is in an amount sufficient to (1) enable the Owner Lessor to pay the principal of and interest on the Lessor Notes (after taking into account such Additional Lessor Notes issued pursuant

to Section 11.2 of the Participation Agreement and refinancing of Lessor Notes in accordance with Section 11.1 of the Participation Agreement, as applicable) due and payable on each scheduled payment date in respect of such Lessor Note, and (2) preserve the return on and of the Equity Investment and, in the case of a Supplemental Financing, any Additional Equity Investment made pursuant to Section 11.2 of the Participation Agreement, as contemplated at the time the Equity Investment or Additional Equity Investment, if any, was made through the end of the Facility Lease Term calculated in a manner consistent with the initial calculation of the return on and of the Equity Investment of the Owner Lessor and the Equity Investor, including as to the U.S. federal, state and local income tax consequences of the return on and of such investment and of the receipt of Basic Lease Rent and Supplemental Lease Rent by the Owner Lessor for the payment of amounts due and payable by the Owner Lessor under or with respect to the Lessor Notes or the Lease Indenture; *provided that*, in connection with any adjustments of Basic Lease Rent (Equity Portion) made pursuant to Section 3.4(a)(iv), or any other adjustment of Basic Lease Rent thereafter, the amount sufficient to preserve the return on and of the Equity Investment under clause (2) above shall be the amount necessary to make principal and interest payments on the Southaven Holdco Notes. The adjustments contemplated by this Section 3.4 will result in corresponding adjustments to the Termination Values. Any adjustment pursuant to this Section 3.4(a) shall be made subject to and in compliance with Section 3.4(b) hereof.

(b) Anything herein or in any other Transaction Document to the contrary notwithstanding, Basic Lease Rent payable on any Rent Payment Date, whether or not adjusted in accordance with this Section 3.4, shall, in the aggregate, be in an amount at least sufficient to pay in full the scheduled principal of and interest payments on the Lessor Notes on such Rent Payment Date. Anything herein or in any other Transaction Document to the contrary notwithstanding, Termination Values on any date under this Facility Lease, whether or not adjusted in accordance with this Section 3.4, shall, together with Basic Lease Rent due and owing on such date, be in an amount at least sufficient to pay in full the principal of, and accrued interest on, the Lessor Notes payable on such date.

(c) Any adjustment pursuant to this Section 3.4 shall initially be computed by the Facility Lessee, subject to the verification procedure described in this Section 3.4(c). Once computed, the results of such computation shall promptly be delivered by the Facility Lessee to the Owner Lessor. Within 20 days after the receipt of the results of any such adjustment, the Owner Lessor may request that a nationally recognized firm of independent public accountants (which firm shall not be the primary accountants for the Facility Lessee, the Owner Lessor, the Equity Investor or the Lease Indenture Trustee) jointly selected by the Owner Lessor and the Facility Lessee (the “Verifier”) verify, after consultation with the Owner Lessor and the Facility Lessee, the accuracy of such adjustment in accordance with this Section 3.4. The Owner Lessor and the Facility Lessee hereby agree, subject to the execution by the Verifier of an appropriate confidentiality agreement, to provide the Verifier with all information and materials (other than income tax returns) as shall be necessary in connection therewith. If the Verifier confirms that such adjustment is in accordance with this Section 3.4, it shall so certify to the Facility Lessee and the Owner Lessor and such certification shall be final, binding and conclusive on the Facility Lessee, the Owner Lessor and the Equity Investor. If the Verifier concludes that such adjustment is not in accordance with this Section 3.4, and the adjustments to Basic Lease Rent or Termination Value calculated by the Verifier are different from those

calculated by the Facility Lessee, then it shall so certify to the Facility Lessee and the Owner Lessor and the Verifier's calculation shall be final, binding and conclusive on the Facility Lessee, the Owner Lessor and the Equity Investor. If the Owner Lessor does not request verification of any adjustment within the period specified above, the computation provided by the Facility Lessee shall be final, binding and conclusive on the Facility Lessee, the Owner Lessor and the Equity Investor. The final determination of any adjustment hereunder shall be set forth in an amendment to this Facility Lease, executed and delivered by the Owner Lessor and the Facility Lessee; *provided, however*, that any omission to execute and deliver such amendment shall not affect the validity and effectiveness of any such adjustment. The reasonable fees, costs and expenses of the Verifier in verifying an adjustment pursuant to this Section 3.4 shall be paid by the Facility Lessee. Notwithstanding anything herein to the contrary, the sole responsibility of the Verifier shall be to verify the calculations hereunder and matters of interpretation of this Facility Lease or any other Transaction Document shall not be within the scope of the Verifier's responsibilities.

*Section 3.5. Manner of Payments.* All Rent (whether Basic Lease Rent or Supplemental Lease Rent) shall be paid by the Facility Lessee in lawful currency of the United States of America in immediately available funds to the recipient not later than 12:00 p.m. (New York City time) on the date due. All Rent payable to the Owner Lessor (other than Excepted Payments) shall be paid by the Facility Lessee to the Owner Lessor by payment to the Owner Lessor's Account, or to such other place as the Owner Lessor shall notify the Facility Lessee in writing; *provided, however*, that so long as the Lien of the Lease Indenture has not been discharged, the Owner Lessor hereby irrevocably directs (it being agreed and understood that such direction shall be deemed to have been revoked after the Lien of the Lease Indenture shall have been fully discharged in accordance with its terms), and the Facility Lessee agrees, that all payments of Rent (other than Excepted Payments) payable to the Owner Lessor shall be paid by wire transfer directly to the Lease Indenture Trustee's Account or to such other place as the Lease Indenture Trustee shall notify the Facility Lessee in writing pursuant to the Lease Indenture. Payments constituting Excepted Payments shall be made to the Person entitled thereto at the address for such Person set forth in the Participation Agreement, or to such other place as such Person shall notify the Facility Lessee in writing.

#### SECTION 4. DISCLAIMER OF WARRANTIES; RIGHT OF QUIET ENJOYMENT

##### *Section 4.1. Disclaimer of Warranties.*

(a) Without waiving any claim the Facility Lessee may have against any manufacturer, vendor or contractor, THE FACILITY LESSEE ACKNOWLEDGES AND AGREES SOLELY FOR THE BENEFIT OF THE OWNER LESSOR, THE LESSOR MANAGER, THE EQUITY INVESTOR AND THE LEASE INDENTURE TRUSTEE THAT (i) THE FACILITY AND EACH COMPONENT THEREOF IS OF A SIZE, DESIGN, CAPACITY AND MANUFACTURE ACCEPTABLE TO THE FACILITY LESSEE, (ii) THE FACILITY LESSEE IS SATISFIED THAT THE FACILITY AND EACH COMPONENT THEREOF IS SUITABLE FOR THEIR RESPECTIVE PURPOSES, (iii) NONE OF THE OWNER LESSOR, THE LESSOR MANAGER, THE EQUITY INVESTOR OR THE LEASE INDENTURE TRUSTEE IS A MANUFACTURER OR A DEALER IN PROPERTY OF SUCH KIND, (iv) THE UNDIVIDED INTEREST IS LEASED HEREUNDER TO THE EXTENT PROVIDED HEREBY FOR THE FACILITY LEASE TERM SPECIFIED HEREIN SUBJECT TO ALL APPLICABLE LAWS NOW

IN EFFECT OR HEREAFTER ADOPTED, INCLUDING (A) ZONING REGULATIONS, (B) ENVIRONMENTAL LAWS AND (C) BUILDING RESTRICTIONS, AND IN THE STATE AND CONDITION OF EVERY PART THEREOF WHEN THE SAME FIRST BECAME SUBJECT TO THIS FACILITY LEASE, WITHOUT REPRESENTATION OR WARRANTY OF ANY KIND BY THE OWNER LESSOR, THE LESSOR MANAGER, THE EQUITY INVESTOR OR THE LEASE INDENTURE TRUSTEE AND (v) THE OWNER LESSOR LEASES FOR THE FACILITY LEASE TERM SPECIFIED HEREIN AND THE FACILITY LESSEE TAKES THE UNDIVIDED INTEREST UNDER THIS FACILITY LEASE “AS-IS”, “WHERE-IS” AND “WITH ALL FAULTS”, AND THE FACILITY LESSEE ACKNOWLEDGES THAT NONE OF THE OWNER LESSOR, THE LESSOR MANAGER, THE EQUITY INVESTOR OR THE LEASE INDENTURE TRUSTEE MAKES NOR SHALL BE DEEMED TO HAVE MADE, AND EACH EXPRESSLY DISCLAIMS, ANY AND ALL RIGHTS, CLAIMS, WARRANTIES OR REPRESENTATIONS, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, CONDITION, FITNESS FOR ANY PARTICULAR PURPOSE, DESIGN, OPERATION, MERCHANTABILITY OF THE UNDIVIDED INTEREST OR AS TO THE TITLE TO THE UNDIVIDED INTEREST, THE QUALITY OF THE MATERIAL OR WORKMANSHIP OF THE FACILITY OR CONFORMITY THEREOF TO SPECIFICATIONS, FREEDOM FROM PATENT, COPYRIGHT OR TRADEMARK INFRINGEMENT, THE ABSENCE OF ANY LATENT OR OTHER DEFECT, WHETHER OR NOT DISCOVERABLE, OR AS TO THE ABSENCE OF ANY OBLIGATIONS BASED ON STRICT LIABILITY IN TORT OR ANY OTHER EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY WHATSOEVER WITH RESPECT THERETO, except that the Owner Lessor represents and warrants that on the Closing Date, the Undivided Interest will be free of Owner Lessor’s Liens. It is agreed that all such risks, as between the Owner Lessor, the Lessor Manager, the Equity Investor and the Lease Indenture Trustee on the one hand and the Facility Lessee on the other hand are to be borne by the Facility Lessee with respect to acts, occurrences or omissions prior to or during the Facility Lease Term. None of the Owner Lessor, the Lessor Manager, the Equity Investor or the Lease Indenture Trustee shall have any responsibility or liability to the Facility Lessee or any other Person with respect to any of the following: (1) any liability, loss or damage caused or alleged to be caused directly or indirectly by the Facility or any Component or by any inadequacy thereof or deficiency or defect therein or by any other circumstances in connection therewith; (2) the use, operation or performance of the Facility, any Unit or any Component thereof or any risks relating thereto; or (3) the construction, delivery, operation, servicing, maintenance, repair, improvement, replacement or decommissioning of the Facility, any Unit or any Component thereof. The provisions of this Section 4.1(a) have been negotiated, and, except to the extent otherwise expressly stated, the foregoing provisions are intended to be a complete exclusion and negation of any representations or warranties of the Owner Lessor, the Lessor Manager, the Equity Investor and the Lease Indenture Trustee, express or implied, with respect to the Undivided Interest, the Facility, any Unit or any Components thereof that may arise pursuant to any Applicable Law now or hereafter in effect, or otherwise.

(b) From and after the Effective Date, the Owner Lessor hereby appoints irrevocably and constitutes the Facility Lessee its agent and attorney-in-fact for the duration of the Facility Lease Term, coupled with an interest, to assert and enforce, from time to time so long as the Owner Lessor does not have the right to exercise remedies pursuant to Section 18.2, in the name and for the account of the Owner Lessor and the Facility Lessee, as their interests may appear, but in all cases at the sole cost and expense of the

Facility Lessee, whatever claims and rights the Owner Lessor may have in respect of the Undivided Interest, the Facility, any Unit or any Component thereof, against any manufacturer, vendor or contractor, or under any express or implied warranties relating to the Undivided Interest, the Facility, any Unit or any Component thereof; *provided, however*, that, the Owner Lessor may revoke such appointment, by written notice to the Facility Lessee, if (i) a Lease Event of Default shall have occurred and be continuing, (ii) any manufacturer, vendor or contractor is in default or otherwise not in compliance with its obligations or warranties relating to the Facility, the Unit or any Component thereof and (iii) the Facility Lessee has failed to diligently pursue the enforcement of rights under the respective warranties against such manufacturer, vendor or contractor, and such failure could reasonably be expected to result in a material adverse effect on the operation and maintenance of the Facility or the Facility Site.

*Section 4.2. Quiet Enjoyment.* The Owner Lessor expressly agrees that, notwithstanding any provision of any other Transaction Document, but without limiting the rights and remedies which may be available to the Owner Lessor (and the Lease Indenture Trustee as its assignee) under and in accordance with Section 18, neither it, the Lessor Manager, the Equity Investor, the Equity Manager nor any other party acting by, through or under the Owner Lessor, the Lessor Manager, the Equity Investor or the Equity Manager shall interfere with or interrupt the quiet enjoyment of the use, operation and possession by the Facility Lessee of the Undivided Interest prior to the expiration or early termination of this Facility Lease in accordance with the terms hereof.

## SECTION 5. RETURN OF UNDIVIDED INTEREST

*Section 5.1. Return.* Upon the early termination of this Facility Lease pursuant to Section 18.2 or, if the Facility Lessee shall fail to satisfy the requirements set forth in Section 16, the exercise of dispossession remedies under Section 18.2 on or after the Expiration Date, the Facility Lessee, at its own expense, shall deliver possession of the Undivided Interest (together with the Owner Lessor's Percentage Interest in all Modifications to the Facility that shall have become subject to the Head Lease pursuant to Section 9 of the Head Lease and this Facility Lease pursuant to Section 8.3 hereof), subject to the terms and conditions of the Support Agreement, to the Owner Lessor or any permitted transferee or assignee of the Owner Lessor. The Facility Lessee shall effect delivery of the Undivided Interest at its own cost and expense by surrendering the Undivided Interest into the possession of the Owner Lessor or such transferee or assignee and by executing and delivering to the Owner Lessor or such transferee or assignee an instrument or instruments in form and substance reasonably acceptable to the Owner Lessor evidencing surrender by the Facility Lessee of the Facility Lessee's right to the Undivided Interest under this Facility Lease and to the possession thereof. In connection with such return, the Facility Lessee shall, subject to the terms and conditions of the Support Agreement, (a) assign, to the extent permitted by Applicable Law, and shall cooperate with all reasonable requests of the Owner Lessor for purposes of obtaining, or enabling the Equity Investor, the Owner Lessor or such transferees or assignees to obtain, any and all licenses, permits, approvals and consents of any Governmental Entities or other Persons that are or will be required to be obtained by the Equity Investor, the Owner Lessor or such transferee or assignee in connection with the use, operation or maintenance of the Facility and the Undivided Interest on or after such return in compliance with Applicable Law; and (b) provide



the Owner Lessor or a permitted transferee or assignee of the Owner Lessor, subject to any equipment manufacturer-imposed conditions of confidentiality, copies of all documents, instruments, plans, maps, specifications, manuals, drawings and other documentary materials relating to the installation, maintenance, operation, construction, design, modification or repair of the Undivided Interest, the Facility or any portion thereof, as shall be in the Facility Lessee's possession and shall be reasonably appropriate or necessary for the ownership, possession, operation or maintenance of the Undivided Interest or the Facility.

*Section 5.2. Condition Upon Delivery of Possession to Owner Lessor.* In connection with the delivery of possession of the Undivided Interest by the Facility Lessee to the Owner Lessor pursuant to Section 5.1, the Facility Lessee shall ensure, at the Facility Lessee's sole cost and expense, that the Undivided Interest or the Facility, as applicable, complies with each of the following conditions:

(a) the Facility (including all Required Modifications and Nonseverable Modifications) will be in at least as good condition as if it had been maintained, repaired and operated during the Facility Lease Term in compliance with the provisions of this Facility Lease, ordinary wear and tear and degradation excepted;

(b) the Undivided Interest shall be free and clear of all Liens other than Permitted Post Facility Lease Term Liens;

(c) the Facility control capability will be operational such that the Facility can be operated independently of any other power generation facility owned or operated by the Facility Lessee;

(d) the Facility shall have at least the capability and functional ability to perform, substantially at the ratings for which it was designed in normal commercial operation, all functions for which it was designed (normal wear and tear and degradation excepted);

(e) no Component shall be a temporary Component and any Replacement Component shall comply with Prudent Industry Practice; and

(f) the Facility Lessee, at the request of the Owner Lessor, shall lease (subject to all existing encumbrances) to the Owner Lessor (or its designee) at the then Fair Market Rental Value thereof under the Head Lease, determined by agreement between the Facility Lessee and the Owner Lessor or, absent agreement, by an appraisal conducted according to the Appraisal Procedures, the Owner Lessor's Percentage Interest in any or all Optional Modifications that are Removable Modifications and which have been made to the Facility during the Facility Lease Term and have not been removed prior to termination of this Facility Lease or the exercise of dispossessory remedies under Section 18.2. The Facility Lessee shall enter into any amendments or modifications to the Head Lease necessary to cause such Optional Modifications or Removable Modifications to be subject thereto; *provided* that, title to such Optional Modifications or Removable Modifications will remain vested in the Head Lessor. The appraiser's fees and expenses incurred pursuant to this clause (f) shall be paid by the Owner Lessor.

*Section 5.3. Environmental Assessment.* In connection with the delivery of possession of the Undivided Interest by the Facility Lessee to the Owner Lessor pursuant to Section 5.1, the Facility Lessee shall, at the reasonable request of the Owner Lessor, arrange for the preparation and delivery as promptly as practicable, but in no event later than ninety (90) days following such request, which request may be given at any time during the continuance of a Significant Lease Default (provided that in the case of a Significant Lease Default of the type described in clause (i) or (ii) of the definition thereof, only if such Significant Lease Default has been continuing for at least forty-five (45) days), of a Phase I or comparable environmental assessment prepared by a licensed environmental consulting firm (selected by the Facility Lessee and reasonably acceptable to the Lease Indenture Trustee, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, and the Owner Lessor) identifying any Environmental Condition on, under or relating to the Facility and the Facility Site, including the compliance or non-compliance thereof with Environmental Law. In the event the Phase I discloses an Environmental Condition that requires a response action pursuant to any applicable Environmental Law or discloses non-compliance with applicable Environmental Laws, the Facility Lessee shall, at its own cost and expense, make arrangements for the prompt and diligent correction or remediation, in compliance with applicable Environmental Law, of such Environmental Condition or non-compliance and shall promptly reimburse the Owner Lessor for all reasonable costs and expenses, if any, incurred by the Owner Lessor associated with such corrective measures.

*Section 5.4. Deferred Maintenance on the Facility.* In connection with the delivery of possession of the Undivided Interest by the Facility Lessee to the Owner Lessor pursuant to Section 5.1, the Facility Lessee will, at the cost and expense of the Facility Lessee, perform such maintenance on the Facility that is required to satisfy the conditions described in Section 5.2. If the Facility Lessee is unable to perform such requested maintenance, it will use reasonable efforts to arrange on behalf of the Owner Lessor and with no liability to the Owner Lessor to have such maintenance performed by a Person acceptable to the Owner Lessor. The Facility Lessee shall promptly pay such rates charged by any Person in connection with such requested maintenance.

## SECTION 6. LIENS

The Facility Lessee will not directly or indirectly create, incur, assume or suffer to exist any Lien on or with respect to the Undivided Interest or any interest therein or in, to or on its interest in this Facility Lease or its interest in any other Transaction Document, except Permitted Liens, and the Facility Lessee shall promptly notify the Owner Lessor of the imposition of any such Lien of which the Facility Lessee is aware and shall promptly, at its own expense, take such action as may be necessary to fully discharge or release any such Lien.

## SECTION 7. MAINTENANCE; REPLACEMENTS OF COMPONENTS

*Section 7.1. Maintenance.* The Facility Lessee, at its own cost and expense, will (a) cause the Facility to be maintained in accordance with Prudent Industry Practice, and will not operate the Facility other than in compliance with all Applicable Laws of any Governmental Entity having jurisdiction (provided that the Facility Lessee may contest, in good faith and by appropriate proceedings, the validity or applicability of any such Applicable Law), and (b) make, or cause to be made, all necessary repairs, renewals and

replacements thereof in accordance with Prudent Industry Practice. Nothing in this Facility Lease or in the other Transaction Documents will require TVA to operate the Facility; *provided* that, if and when TVA does operate the Facility, the Facility shall be operated in accordance with Prudent Industry Practice.

*Section 7.2. Replacement of Components.* In the ordinary course of maintenance, service, repair or testing, the Facility Lessee, at its own cost and expense, may remove or cause or permit to be removed from the Facility any Component; *provided, however,* that the Facility Lessee shall cause such Component to be replaced by a replacement Component which shall be free and clear of all Liens (except Liens on TVA's Percentage Interest therein and other Permitted Liens) and in as good operating condition as the Component replaced, assuming that the Component replaced was maintained in accordance with this Facility Lease (each such replacement Component being herein referred to as a "Replacement Component"). If any Component that is subject to the Head Lease and this Facility Lease is at any time removed from the Facility, such Component shall remain subject to the Head Lease and this Facility Lease, wherever located, until such time as such Component shall be replaced by a Replacement Component that has been incorporated in the Facility and that meets the requirements for Replacement Components specified above. Immediately upon any Replacement Component becoming incorporated in the Facility, without further act (and at no cost to the Owner Lessor and with no adjustment to Basic Lease Rent or Termination Value), (a) the removed Component shall no longer be subject to the Head Lease, this Facility Lease or the Lien of the Lease Indenture, and shall be free and clear of all rights of the Owner Lessor and the Lease Indenture Trustee, and (b) the Owner Lessor's Percentage Interest in the Replacement Component shall automatically (i) become subject to the Head Lease, this Facility Lease and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lien of the Lease Indenture and (ii) be deemed a part of the Undivided Interest for all purposes of the Head Lease and this Facility Lease. Notwithstanding anything in this Section 7.2 or elsewhere in this Facility Lease to the contrary, if the Facility Lessee has determined that a Component is surplus or obsolete and not necessary for the operation of the Facility in accordance with this Facility Lease, the Facility Lessee shall have the right to remove such Component without replacing such Component, and upon such removal, the removed Component shall no longer be subject to the Head Lease, this Facility Lease or the Lien of the Lease Indenture.

## SECTION 8. MODIFICATIONS

*Section 8.1. Required Modifications.* The Facility Lessee, at its own cost and expense, shall make or cause or permit to be made all Modifications to the Facility as are required by Applicable Law or any Governmental Entity having jurisdiction (each, a "Required Modification"); *provided, however,* that the Facility Lessee may, in good faith and by appropriate proceedings, diligently contest the validity or application of any Applicable Law in any reasonable manner which does not involve any material risk of (a) foreclosure, sale, forfeiture or loss of, or imposition of a material Lien on the Undivided Interest or any impairment of the use, operation or maintenance of the Facility in any material respect, or (b) any criminal or material civil liability being imposed on the Lessor Manager, the Equity Investor, the Equity Manager, any Southaven Holdco Note Purchaser, the Owner Lessor, the Lease Indenture Trustee or any Noteholder.

*Section 8.2. Optional Modifications.* The Facility Lessee at any time may, at its own cost and expense and without the consent of any other Person, make or cause or permit to be made any Modification to the Facility as the Facility Lessee considers desirable in the proper conduct of its business (any such Modification which is not a Required Modification being referred to as an “Optional Modification”).

*Section 8.3. Title to Modifications.* Title to all Modifications shall be with the Head Lessor. The Owner Lessor's Percentage Interest in all Required Modifications, all Nonseverable Modifications and all Modifications financed by the Owner Lessor by an Additional Equity Investment or a Supplemental Financing pursuant to Section 11.2 of the Participation Agreement shall (at no cost to the Owner Lessor and with no adjustment to Head Lease Rent, or except in the case of a Supplemental Financing and Additional Equity Investment, Basic Lease Rent or Termination Value) automatically upon being affixed to or incorporated into the Facility (a) become subject to the Head Lease and this Facility Lease and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lien of the Lease Indenture and (b) be deemed part of the Undivided Interest for all purposes of the Head Lease and this Facility Lease. The Facility Lessee, at its own cost and expense, shall take such steps as either the Owner Lessor or, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lease Indenture Trustee may reasonably require from time to time to confirm that the Owner Lessor's Percentage Interest in the Modifications set forth in the preceding sentence are subject to the Head Lease and this Facility Lease and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lien of the Lease Indenture. No Optional Modification which is a Severable Modification (other than such Optional Modifications which are financed by the Owner Lessor by an Additional Equity Investment or a Supplemental Financing pursuant to Section 11.2 of the Participation Agreement, any such Optional Modification that is a Severable Modification that has not been so financed is referred to as a “Removable Modification”) shall become subject to the Head Lease and this Facility Lease or the Lien of the Lease Indenture unless the Owner Lessor shall have elected to lease, in accordance with Section 5.2, such Removable Modification. Removable Modifications may be removed by the Facility Lessee at any time prior to the exercise by the Owner Lessor of its remedies under Section 18.2 at the Facility Lessee's cost and expense. The Facility Lessee will repair, at its own cost and expense, any damage caused by its removal of any Removable Modifications.

## SECTION 9. NET LEASE

This Facility Lease is a “net lease” and the Facility Lessee's obligation to pay all Basic Lease Rent payable hereunder, as well as any Termination Value (or amount computed by reference thereto) in lieu of Basic Lease Rent following termination of this Facility Lease, shall be absolute and unconditional under any and all circumstances and shall not be terminated, extinguished, diminished, lost or otherwise impaired by any circumstance of any character, including by (a) any setoff, counterclaim, recoupment, defense or other right which the Facility Lessee may have against the Owner Lessor, the Lessor Manager, the Equity Investor, the Equity Manager, any Southaven Holdco Note Purchaser, or the Lease Indenture Trustee, the Noteholders or any other Person, including any claim as a result of any breach by any of said parties of any covenant or provision in this Facility Lease or any other Transaction Document, (b) any lack or invalidity of title or other

interest or any defect in the title or other interest, condition, design, operation, merchantability or fitness for use of the Facility or any Component or any portion thereof, or any eviction by paramount title or otherwise, or any unavailability of the Facility, the Facility Site, any Component or any portion thereof, (c) any loss or destruction of, or damage to, the Facility, the Facility Site or any Component or any portion thereof or interruption or cessation in the use or possession thereof or any part thereof by the Facility Lessee for any reason whatsoever and of whatever duration, (d) the condemnation, requisitioning, expropriation, seizure or other taking of title to or use of the Facility, the Undivided Interest, the Facility Site, the Ground Interest, any Component, or any part of the foregoing, by any Governmental Entity or otherwise, (e) the invalidity or unenforceability or lack of due authorization or other infirmity of this Facility Lease or any other Transaction Document, (f) the lack of right, power or authority of the Owner Lessor to enter into this Facility Lease or any other Transaction Document, (g) any ineligibility of the Facility, the Facility Site or any Component or any portion thereof for any particular use, whether or not due to any failure of the Facility Lessee to comply with any Applicable Law, (h) any event of "force majeure", (i) any legal requirement similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding, (j) any insolvency, bankruptcy, reorganization or similar proceeding by or against the Facility Lessee or any other Person, (k) any Lien of any Person with respect to the Undivided Interest, the Facility, the Ground Interest or the Facility Site or any Component or any portion thereof, or (l) any other cause, whether similar or dissimilar to the foregoing, any present or future law notwithstanding, except as expressly set forth herein or in any other Transaction Document, it being the intention of the parties hereto that all Basic Lease Rent (and all amounts, including Termination Value (or amounts computed by reference thereto), in lieu of Basic Lease Rent following termination of this Facility Lease in whole or in part) payable by the Facility Lessee hereunder shall continue to be payable in all events in the manner and at times provided for herein. All Rent, including Basic Lease Rent (and all amounts, including Termination Value (or amounts computed by reference thereto), in lieu of Basic Lease Rent following termination of this Facility Lease in whole or in part), shall not be subject to any abatement and the payments thereof shall not be subject to any setoff or reduction for any reason whatsoever, including any present or future claims of the Facility Lessee or any other Person against the Owner Lessor or any other Person under this Facility Lease or otherwise. To the extent permitted by Applicable Law, the Facility Lessee hereby waives any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate, cancel, quit or surrender this Facility Lease except in accordance with Sections 10, 13 or 15 hereof. If for any reason whatsoever this Facility Lease shall be terminated in whole or in part by operation of law or otherwise, except as specifically provided herein, the Facility Lessee nonetheless agrees, to the extent permitted by Applicable Law, to pay to the Owner Lessor an amount equal to each installment of Basic Lease Rent and all Supplemental Lease Rent due and owing, at the time such payment would have become due and payable in accordance with the terms hereof had this Facility Lease not been so terminated. Nothing contained herein shall be construed to waive any claim which the Facility Lessee might have under any of the Transaction Documents or otherwise or to limit the right of the Facility Lessee separately to make any claim it might have against the Owner Lessor or any other Person or to separately pursue such claim in such manner as the Facility Lessee shall deem appropriate.

## SECTION 10. EVENTS OF LOSS

*Section 10.1. Occurrence of Events of Loss.* The Facility Lessee will promptly notify the Owner Lessor and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lease Indenture Trustee of any damage to, or other event with respect to, any portion of the Facility which the Facility Lessee reasonably anticipates will cause an Event of Loss. If an Event of Loss shall occur, then no later than eighteen (18) months following such occurrence, the Facility Lessee shall notify the Owner Lessor and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lease Indenture Trustee, in writing of its election to either (a) subject to the satisfaction of the conditions set forth in Section 10.3(a), rebuild or replace the Facility or a Relevant Portion of the Facility or (b) terminate this Facility Lease, in whole or in part with respect to a Relevant Portion of the Undivided Interest, as the case may be, by electing to effect an Early Buy Out pursuant to Section 15.1 hereof; *provided, however*, that the Facility Lessee may only elect to terminate the Facility Lease in part with respect to a Relevant Portion of the Undivided Interest to the extent that the Unit or Units not suffering an Event of Loss continue to be (or will be, after repairing in accordance with this Facility Lease any damage to such remaining Units which may have occurred as a result of the Event of Loss to a Relevant Portion of the Facility to which such partial termination relates) commercially viable in accordance with Prudent Industry Practice. Subject to the last sentence of Section 15.1, the Facility Lessee may elect the option provided in clause (b) of the preceding sentence regardless of whether a Relevant Portion of the Facility is to be rebuilt or replaced. If the Facility Lessee fails to make an election as provided above, an Event of Loss shall be deemed to occur with respect to the Facility or, if the Event of Loss relates to less than all of the Units, a Relevant Portion of the Facility, as of the end of the eighteen- (18-) month period referred to in the second sentence of this Section 10.1 and the Facility Lessee will be deemed to have made the election to terminate this Facility Lease, in whole or in part, as the case may be, by exercising its Early Buy Out pursuant to Section 15.2 and will be deemed to have delivered an Early Buy Out Notice pursuant to Section 15.2 as of the end of such eighteen- (18-) month period.

*Section 10.2. Condemnation Payments.* Any payments received at any time by the Owner Lessor, the Lease Indenture Trustee or the Facility Lessee from any Governmental Entity as a result of the occurrence of an Event of Loss described in clause (c) of the definition of Event of Loss shall be promptly paid to the Owner Lessor or, if the Lien of the Lease Indenture shall not have been discharged or terminated, to the Lease Indenture Trustee, to be held as security for the Facility Lessee's obligations hereunder and under the other Transaction Documents, and shall be promptly applied, first, to satisfy the Facility Lessee's obligation to pay Termination Value and other amounts required to be paid by it under Section 15.2(a), if any, and, so long as no Significant Lease Default shall then have occurred and be continuing, the balance shall be paid to or retained by, as applicable, the Facility Lessee.

*Section 10.3. Rebuild or Replace.* The Facility Lessee's right to rebuild or replace the Facility or any Relevant Portion of the Facility pursuant to Section 10.1(a) shall be subject to the fulfillment, at the Facility Lessee's sole cost and expense, in addition to the conditions contained in said clause (a), of the following conditions:

(a) the Facility Lessee shall cause the rebuilding or replacement of the Facility or any Relevant Portion of the Facility to commence as soon as reasonably practicable after notifying the Owner Lessor and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lease Indenture Trustee pursuant to Section 10.1(a) of its election to rebuild or replace the Facility or any Relevant Portion of the Facility, and in all events within thirty-six (36) months of the occurrence of the event that caused such Event of Loss, and will cause work on such rebuilding or replacement to proceed diligently thereafter. As the rebuilding or replacement of the Facility or any Relevant Portion of the Facility progresses and title to the rebuilt or replacement Facility or Relevant Portion of the Facility vests in the Head Lessor, an undivided interest equal to the Owner Lessor's Percentage Interest in the rebuilt or replacement facilities shall become subject to the Head Lease, this Facility Lease and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lien of the Lease Indenture and be deemed a part of the Undivided Interest for all purposes of the Head Lease and this Facility Lease, automatically without any further act by any Person; and

(b) within thirty (30) days after the date of the completion of such rebuilding or replacement (the "Rebuilding Closing Date") the following documents shall be duly authorized, executed and delivered and, if appropriate, filed for recordation by the respective party or parties thereto and shall be in full force and effect, and an executed counterpart of each thereof shall be delivered to the Owner Lessor, the Lessor Manager and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lease Indenture Trustee: (i) supplements to the Head Lease and this Facility Lease subjecting the Owner Lessor's Percentage Interest in the rebuilt or replacement facilities to the Head Lease and this Facility Lease (with no change in Head Lease Rent or in Basic Lease Rent as a result of such rebuilding or replacement), (ii) so long as the Lien of the Lease Indenture shall not have been terminated or discharged, supplements to the Lease Indenture subjecting the Owner Lessor's Percentage Interest in the rebuilt or replacement facilities to the Lien of the Lease Indenture, (iii) such recordings and filings as may be reasonably requested by the Owner Lessor or the Lease Indenture Trustee to be made or filed, (iv) an opinion of counsel of the Facility Lessee, such counsel and such opinion to be reasonably satisfactory to the Owner Lessor and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lease Indenture Trustee to the effect that (A) the supplements to the Head Lease and this Facility Lease required by clause (i) above constitute effective instruments for subjecting the Owner Lessor's Percentage Interest in the rebuilt or replacement facilities to the Head Lease and this Facility Lease, (B) the supplements to the Lease Indenture required by clause (ii) above, if any, constitute effective instruments for subjecting the Owner Lessor's Percentage Interest in the rebuilt or replacement facilities to the Lien of the Lease Indenture, and (C) all filings and other action necessary to perfect and protect the Owner Lessor's and, if applicable, the Lease Indenture Trustee's interest in the rebuilt or replacement facilities have been accomplished, (v) a report by an independent engineer certifying that the rebuilt or replacement facilities are in a state of repair and condition required by this Facility Lease, and (vi) an Officer's Certificate of the Facility Lessee as to compliance with this Section 10.3 and that no Lease Event of Default shall have occurred and be continuing as a result of the rebuilding or replacement.

Whether or not the transactions contemplated by this Section 10.3 are consummated, the Facility Lessee agrees to pay or reimburse, on an After-Tax Basis, any costs or expenses (including reasonable and documented legal fees and expenses) incurred by the Owner Lessor, the Lessor Manager and the Lease

Indenture Trustee in connection with the transactions contemplated by this Section 10.3.

*Section 10.4. Application of Payments Not Relating to an Event of Loss.* In the event that during the Facility Lease Term the use of all or any portion of the Facility is requisitioned or taken by or pursuant to a request of any Governmental Entity under the power of eminent domain or otherwise for a period which does not constitute an Event of Loss, the Facility Lessee's obligation to pay all installments of Basic Lease Rent shall continue for the duration of such requisitioning or taking. The Facility Lessee shall be entitled to receive and retain for its own account all sums payable for any such period by such Governmental Entity as compensation for such requisition or taking of possession; *provided, however*, that if at the time of such payment a Significant Lease Default shall have occurred and be continuing, all such sums shall be paid to and held by the Lease Indenture Trustee, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, or thereafter, the Owner Lessor as security for the obligations of the Facility Lessee under this Facility Lease, and such amount shall be paid to the Facility Lessee only at such time as no Significant Lease Default shall be continuing.

## SECTION 11. INSURANCE

*Section 11.1. Insurance by Owner Lessor.* At any time, the Owner Lessor (either directly or in the name of the Equity Investor), the Equity Investor or the Lease Indenture Trustee may at its own expense and for its own account carry insurance with respect to its interest in the Undivided Interest or the Ground Interest. Any insurance payments received from policies maintained by the Owner Lessor, the Equity Investor or the Lease Indenture Trustee pursuant to the previous sentence shall be retained by the Owner Lessor, the Equity Investor or the Lease Indenture Trustee, as the case may be.

### *Section 11.2. Insurance by the Facility Lessee.*

(a) If and for so long as the Facility Lessee is rated less than BBB+ by S&P or Baa1 by Moody's, the Facility Lessee shall maintain (or cause to be maintained) property and commercial general liability insurance with respect to the Facility customarily carried by other operators of similar facilities of comparable size as the Facility and against such loss, damage or liability and with such deductibles as are customarily insured against. Any such liability insurance required to be maintained pursuant to this Section 11.2(a) shall name the Owner Lessor, the Equity Investor, the Southaven Holdco Note Purchasers and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Indenture Trustee as additional insureds. Any such property insurance required to be maintained pursuant to this Section 11.2(a) shall, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, name the Lease Indenture Trustee (or the Owner Lessor if the Lien of the Lease Indenture has been discharged) as loss payee with respect to any claim in excess of \$20 million and such amounts shall be paid to the Facility Lessee as and when needed to pay or reimburse the Facility Lessee for any costs to repair the damage to which such claim relates, with the balance, if any paid to the Facility Lessee upon completion of such repairs, or applied at the direction of the Facility Lessee to pay Termination Value or any other amounts payable by the Facility Lessee under Section 15 in connection with an Event of Loss. During the period the Facility Lessee is required to maintain insurance pursuant to this Section 11.2(a), the Facility Lessee shall no less frequently



than annually provide the Owner Lessor, the Equity Investor and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lease Indenture Trustee, a description of the insurance it is maintaining pursuant to this Section 11.2 and evidence which may at the Facility Lessee's option, be in the form of an Officer's Certificate, that all premiums in respect of such policies are current and that such insurance is in effect.

(b) Notwithstanding Section 11.2(a), the Facility Lessee agrees that if and to the extent the Facility Lessee is insuring other gas-fired, combined cycle generating facilities similar to the Facility which are owned or leased by the Facility Lessee or self-insures for third party liability for the Facility Lessee's operation of such other facilities owned or leased by the Facility Lessee, the Facility Lessee shall maintain (or cause to be maintained) insurance for property damage or third party liability, as the case may be, with respect to the Facility in comparable amounts, with comparable deductibles and on other terms substantially comparable to the insurance maintained with respect to such other facilities.

## SECTION 12. INSPECTION

During the Facility Lease Term, the Owner Lessor, and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lease Indenture Trustee and their representatives may, during normal business hours, on reasonable notice to the Facility Lessee and at their own risk and expense (except, at the expense but not risk, of the Facility Lessee when a Significant Lease Default or a Lease Event of Default has occurred and is continuing), inspect the Facility and the records with respect to the operations and maintenance thereof, in the Facility Lessee's custody; *provided, however*, that so long as no Significant Lease Default or Lease Event of Default shall have occurred and be continuing, each such Person (together with their representatives) shall only be entitled to make one inspection in any twelve- (12-) month period; *provided, further*, that the limitations on the number of inspections included in the preceding proviso shall not apply with respect to any such inspection made in connection with the occurrence of (a) a catastrophic failure of any Component or system which causes a forced outage in excess of sixty (60) days, (b) failure or malfunction of any equipment resulting in serious injury or death, (c) a significant curtailment of operations due to a final, nonappealable order of a Governmental Entity having jurisdiction over Environmental Laws or safety, or (d) cessation of operations of the Facility for more than one-hundred and eighty (180) days. Any such inspection will not unreasonably interfere with the operation or maintenance of the Facility or the conduct by the Facility Lessee of its business and will be in accordance with Applicable Law and the Facility Lessee's safety and security precautions and confidentiality undertakings, as applicable. In no event shall the Owner Lessor, the Lessor Manager, the Equity Investor or the Lease Indenture Trustee have any duty or obligation to make any such inspection and such Persons shall not incur any liability or obligation by reason of not making any such inspection.

## SECTION 13. REGULATORY EVENT OF LOSS

*Section 13.1. Occurrence of a Regulatory Event of Loss.* The Owner Lessor and the Equity Investor shall promptly notify the Facility Lessee and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lease Indenture Trustee, of an event or occurrence of which it has Actual Knowledge that it reasonably believes constitutes a Regulatory Event of Loss with respect to it. Such notice

shall specify in reasonable detail the event or occurrence giving rise to such Regulatory Event of Loss and the materially burdensome rate of return regulation or other applicable public utility law or regulation of a Governmental Entity. The Owner Lessor, the Equity Investor and the Facility Lessee shall reasonably cooperate and take reasonable measures to alleviate such Regulatory Event of Loss at the cost and expense of the party requesting such cooperation. The Owner Lessor or the Equity Investor may elect to declare a Regulatory Event of Loss by giving notice to the Facility Lessee within twelve (12) months of obtaining Actual Knowledge of an event or circumstance which upon the giving of such notice would be a Regulatory Event of Loss (the "Election Notice").

*Section 13.2. Procedure for Termination With Respect to a Regulatory Event of Loss.* If a Regulatory Event of Loss occurs, then, within sixty (60) days of receiving the Election Notice from the Owner Lessor or the Equity Investor, the Facility Lessee shall elect one of the following:

(a) If the event or occurrence giving rise to such Regulatory Event of Loss would be alleviated by transferring one or more Southaven Holdco Notes to the Facility Lessee, the Facility Lessee may purchase such Southaven Holdco Notes from the applicable Southaven Holdco Note Purchaser on the next succeeding Termination Date, for an amount equal to the Regulatory Event of Loss Termination Payment, in which case each such Southaven Holdco Note Purchaser shall transfer all of its right, title and interest in its Southaven Holdco Note by appropriate instruments of transfer without representations (other than that such Southaven Holdco Note is free and clear of any Liens) to the Facility Lessee or such other Person as the Facility Lessee shall designate;

(b) If the event or occurrence giving rise to such Regulatory Event of Loss would be alleviated by transferring one or more Southaven Holdco Notes to another Person, the Facility Lessee may pay each Southaven Holdco Note Purchaser that holds such Southaven Holdco Notes on the next succeeding Termination Date the amount, if any, by which (i) the Regulatory Event of Loss Termination Payment, *exceeds* (ii) the net proceeds of the sale of such Southaven Holdco Note Purchaser's Southaven Holdco Note pursuant to this clause (b) received by such Southaven Holdco Note Purchaser; *provided* that, if the Facility Lessee elects to make the payment pursuant to this clause (b), then such Southaven Holdco Note Purchaser shall sell its Southaven Holdco Note in such manner, to such Person and at such price as directed by the Facility Lessee, at the cost and expense of the Facility Lessee; *provided, however*, that if such sale does not occur on or before the Termination Date referred to in clause (a) above, then the Facility Lessee shall be deemed to have elected to purchase such Southaven Holdco Note Purchaser's Southaven Holdco Note under clause (a) and shall make the payment required to be made thereunder to such Southaven Holdco Note Purchaser pursuant thereto on such Termination Date;

(c) If the event or occurrence giving rise to such Regulatory Event of Loss would be alleviated by causing the Equity Investor to prepay one or more Southaven Holdco Notes, the Facility Lessee may cause the Equity Investor to prepay such Southaven Holdco Notes by paying to the Owner Lessor for distribution to the Equity Investor for prepayment of such Southaven Holdco Notes pursuant to the Southaven Holdco Note Purchase Agreement on the next succeeding Termination Date an amount equal to the Regulatory Event of Loss Termination Payment, whereupon Basic Lease Rent (Equity Portion) and Termination Value

(Equity Portion) shall be reduced in accordance with Section 3.4 hereof in an amount equal to the product of (i) Basic Lease Rent (Equity Portion) or Termination Value (Equity Portion), as applicable, *multiplied* by (ii) the Southaven Holdco Note Purchaser's Percentage Interest of the Notes; *provided* that, the Facility Lessee may only make an election under this clause (c) with respect to a Southaven Holdco Note if the Southaven Holdco Notes held by such Southaven Holdco Note Purchasers are less than a majority of the aggregate outstanding amount of Southaven Holdco Notes of the Equity Investor; or

(d) If the event or occurrence giving rise to such Regulatory Event of Loss would be alleviated by transferring the Equity Investor's Membership Interests in whole or in part to another Person, the Facility Lessee may pay the Equity Investor on the next succeeding Termination Date the amount, if any, by which (i) the Termination Value (Equity Portion), *exceeds* (ii) the net proceeds of the sale of Membership Interests pursuant to this clause (d) received by the Equity Investor; *provided* that, if the Facility Lessee elects to make the payment pursuant to this clause (d), then the Equity Investor shall sell such Membership Interests in such manner, to such Person (which, subject to Applicable Law, may be the Facility Lessee) and at such price as directed by the Facility Lessee, at the cost and expense of the Facility Lessee; *provided, however*, that if such sale does not occur on or before the Termination Date referred to in clause (a) above, then the Facility Lessee shall be deemed to have elected to purchase such Membership Interests and shall pay the Equity Investor an amount equal to the Termination Value (Equity Portion), in which case the Equity Investor shall transfer all of its right, title and interest in such Membership Interests by appropriate instruments of transfer without representations to the Facility Lessee or such other Person as the Facility Lessee shall designate.

(e) The Facility Lessee may terminate the Facility Lease (in whole but not in part) by electing an Early Buy Out in accordance with Section 15.1 hereof.

Simultaneously with the payment of any amounts contemplated under clauses (a), (b), (c) or (d) of this Section 13.2 and as a condition to the sale, transfer or prepayment of the applicable Southaven Holdco Notes or Equity Investor's Membership Interests, as applicable, the Facility Lessee shall pay all Basic Lease Rent (Equity Portion) and Supplement Lease Rent due and payable on the applicable Termination Date (including all costs and expenses of the Equity Investor, the Owner Lessor or any Southaven Holdco Note Purchaser incurred in connection therewith and all sales, use, value added and other Taxes required to be paid by the Facility Lessee to the Equity Investor or applicable Southaven Holdco Note Purchaser associated with the sale, transfer or retirement of the Southaven Holdco Note Purchaser's Southaven Holdco Notes or Equity Investor's Membership Interests, as applicable) whereupon the Facility Lessee shall cease to have any liability with respect to the Transaction Documents to such Southaven Holdco Note Purchaser in the case of the payment of amounts pursuant to clauses (a), (b) and (c) and to all Southaven Holdco Note Purchasers and the Equity Investor in the case of the payment of amounts pursuant to clause (d), except for obligations (including those under Sections 9.1 and 9.2 of the Participation Agreement) surviving pursuant to the express terms of any Transaction Document or which have otherwise accrued but not been paid as of the applicable Termination Date. If necessary, the parties shall reasonably cooperate to cause the provisions of the Owner Lessor LLC Agreement to be amended to reflect the existence of more than one Equity Investor with a Membership Interest in the Owner Lessor.

## SECTION 14. [RESERVED]

## SECTION 15. EARLY BUY OUT

*Section 15.1. Election of Early Buy Out.* The Facility Lessee shall have the right, at its option and at any time (including (a) during the occurrence and continuance of a Significant Lease Default or Lease Event of Default so long as the Facility Lease shall not have been terminated by the Owner Lessor pursuant to Section 18.2, (b) following an Event of Loss pursuant to Section 10.1, and (c) following a Regulatory Event of Loss for which the Facility Lessee has made the election described in Section 13.2(e)), by giving written notice (the “Early Buy Out Notice”) to the Owner Lessor, the Lessor Manager, and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lease Indenture Trustee, to purchase the Owner Lessor’s Interest and terminate this Facility Lease, either in whole with respect to the entire Undivided Interest or in part with respect to a Relevant Portion of the Undivided Interest (an “Early Buy Out”). In the case of an Early Buy Out other than in connection with an Event of Loss or a Regulatory Event of Loss, the Facility Lessee will specify a Termination Date in the Early Buy Out Notice upon which date such purchase and termination will occur (the “Early Buy Out Date”), which Early Buy Out Date shall occur on a date occurring at least thirty (30) days after the delivery of the Early Buy Out Notice. In the case of an Early Buy Out in connection with an Event of Loss, the Early Buy Out Date shall occur on (i) the next Termination Date occurring at least one month after the Facility Lessee’s delivery of the Early Buy Out Notice, or (ii) if the Event of Loss shall be deemed to have occurred pursuant to the last sentence of Section 10.1, the Termination Date occurring next following thirty (30) days after the date as of which an Event of Loss shall have been so deemed to have occurred. In the case of an Early Buy Out in connection with a Regulatory Event of Loss, the Early Buy Out Date shall be the Termination Date next succeeding the date of delivery of the Early Buy Out Notice pursuant to Section 13.2(d) with respect to such Regulatory Event of Loss. The Facility Lessee may only purchase the Owner Lessor’s Interest in part or terminate the Facility Lease in part with respect to a Relevant Portion of the Undivided Interest to the extent that the Unit or Units not suffering an Event of Loss continue to be commercially viable in accordance with Prudent Industry Practice. If the Facility Lessee exercises the Early Buy Out in connection with an Event of Loss or Regulatory Event of Loss and the Facility Lessee certifies either that (A) such Early Buy Out is in connection with an Event of Loss described in clause (c) of the definition thereof or a Regulatory Event of Loss, or (B) such Early Buy Out is in connection with an Event of Loss described in clauses (a) or (b) of the definition thereof and the Facility Lessee has no current intention to rebuild or replace the Facility or a Relevant Portion of the Facility, then such Early Buy Out shall constitute an Early Buy Out in connection with an Event of Loss or a Regulatory Event of Loss, as applicable, and no Make Whole Premium or Equity Breakage shall be due in connection with such Early Buy Out.

### *Section 15.2. Procedure for Exercise of an Early Buy Out.*

(a) If the Facility Lessee shall have exercised its option under Section 15.1, then, on the Early Buy Out Date the Facility Lessee shall pay to the Owner Lessor (i) the Termination Value with respect to the Termination Date that coincides with the Early Buy Out Date, (ii) all amounts of Supplemental Lease Rent (including all reasonable and documented out-of-pocket costs and expenses of the Owner Lessor, the Lessor Manager, the Equity Investor, any Southaven Holdco Note Purchaser and the Lease Indenture Trustee,

and all sales, use, value added and other Taxes associated with the exercise of the Early Buy Out pursuant to this Section 15 and required to be indemnified by the Facility Lessee pursuant to Section 9.2 of the Participation Agreement) on an After-Tax Basis due and payable on or prior to such Early Buy Out Date, (iii) any unpaid Basic Lease Rent due on or before such Early Buy Out Date, and (iv) other than in the case of an Early Buy Out exercised in connection with an Event of Loss or a Regulatory Event of Loss so long as the Facility Lessee has delivered the certificate referred to in the last sentence of Section 15.1, the Make Whole Premium, if any, due on the Lessor Notes being prepaid pursuant to this Section 15 and the Equity Breakage in respect of the Equity Investment.

(b) Upon receipt by the Lease Indenture Trustee, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, or thereafter, the Owner Lessor, of the payments required to be made pursuant to Section 15.2(a), (i) Basic Lease Rent shall cease to accrue, in whole, in the case of an exercise of the Early Buy Out with respect to the entire Undivided Interest or in part, with respect to a Relevant Portion of the Undivided Interest, in the case of an exercise of the Early Buy Out with respect to a Relevant Portion of the Undivided Interest, calculated pursuant to Section 3.2, (ii) the Facility Lessee's obligations hereunder shall terminate, in whole, in the case of an exercise of the Early Buy Out with respect to the entire Undivided Interest or in part, with respect to a Relevant Portion of the Undivided Interest, in the case of an exercise of the Early Buy Out with respect to a Relevant Portion of the Undivided Interest, except for Supplemental Lease Rent and other obligations (including those under Sections 9.1 and 9.2 of the Participation Agreement) surviving pursuant to the express provisions of any Transaction Document, (iii) this Facility Lease and the Head Lease shall terminate, in whole, in the case of an exercise of the Early Buy Out with respect to the entire Undivided Interest or in part, with respect to a Relevant Portion of the Undivided Interest, in the case of an exercise of the Early Buy Out with respect to a Relevant Portion of the Undivided Interest, (iv) the Owner Lessor shall, at the Facility Lessee's cost and expense, execute and deliver to the Facility Lessee a release or termination of this Facility Lease, in whole, in the case of an exercise of the Early Buy Out with respect to the entire Undivided Interest, or in part, with respect to a Relevant Portion of the Undivided Interest, in the case of an exercise of the Early Buy Out with respect to a Relevant Portion of the Undivided Interest, (v) the Owner Lessor shall transfer (by an appropriate instrument of transfer in form and substance reasonably satisfactory to the Owner Lessor and prepared and recorded by and at the expense of the Facility Lessee) all of its right, title and interest in and to the Owner Lessor's Interest, in whole, in the case of an exercise of the Early Buy Out with respect to the entire Undivided Interest, or in part, with respect to a Relevant Portion of the Undivided Interest, in the case of an exercise of the Early Buy Out with respect to a Relevant Portion of the Undivided Interest, to the Facility Lessee pursuant to this Section 15.2 and Section 6.2 of the Head Lease on an "as is," "where is" and "with all faults" basis, without representations or warranties other than a warranty as to the absence of Owner Lessor's Liens and a warranty of the Equity Investor as to the absence of Equity Investor's Liens, and (vi) the Owner Lessor shall discharge the Lien of the Lease Indenture, in whole, in the case of an exercise of the Early Buy Out with respect to the entire Undivided Interest, or in part, with respect to a Relevant Portion of the Undivided Interest, in the case of an exercise of the Early Buy Out with respect to a Relevant Portion of the Undivided Interest, and execute and deliver appropriate releases and other documents or instruments necessary or desirable to effect the foregoing, all

to be prepared, filed and recorded (as appropriate) by and at the cost and expense of the Facility Lessee.

*Section 15.3. Replacement and Exchange of the Lessor Notes.* In connection with any proper exercise of the Early Buy Out under this Section 15 with respect to the entire Undivided Interest, the Facility Lessee may, at its option, elect to replace and exchange in full all the Lessor Notes for Replacement Power Bonds and if (a) the Facility Lessee shall have replaced and exchanged the Lessor Notes for Replacement Power Bonds in accordance with Section 2.10(c) of the Lease Indenture, (b) all other conditions contained in such Section 2.10(c) thereof shall have been satisfied, and (c) no Significant Lease Default or Lease Event of Default shall have occurred and be continuing after giving effect to such replacement and exchange, then the obligation of the Facility Lessee to pay the Termination Value pursuant to Section 15.2 shall be reduced by the outstanding principal amount of and accrued interest on the Lessor Notes so replaced and exchanged by the Facility Lessee.

## SECTION 16. TRANSFER UPON THE EXPIRATION DATE

On or after the Expiration Date, so long as no Significant Lease Default shall then have occurred and be continuing and the Owner Lessor has not exercised dispossession remedies under Section 18.2 in connection therewith, then upon payment of all amounts of Basic Lease Rent and all amounts of Supplemental Lease Rent then due and payable (including all reasonable out of pocket costs and expenses of the Owner Lessor, the Equity Investor and the Lease Indenture Trustee, all sales, use, value added and other Taxes required to be indemnified by the Facility Lessee pursuant to Section 9.2 of the Participation Agreement associated with the transfer to be effected pursuant to this Section 16 and any Basic Lease Rent due on or before the Expiration Date), (i) the Facility Lessee shall cease to have any liability to the Owner Lessor hereunder or under the other Transaction Documents, except for Supplemental Lease Rent and other obligations (including those under Sections 9.1 and 9.2 of the Participation Agreement) surviving pursuant to the express terms of any Transaction Document, (ii) subject to clause (i) above, this Facility Lease shall terminate, (iii) the Owner Lessor shall transfer to the Facility Lessee, at the Facility Lessee's cost and expense, by an appropriate instrument of transfer (in form and substance reasonably satisfactory to the Owner Lessor and prepared by and at the expense of the Facility Lessee), all of its right, title and interest in and to the Owner Lessor's Interest pursuant to this Section 16 and Section 6.2 of the Head Lease on an "as is," "where is" and "with all faults" basis, without representations or warranties other than a warranty as to the absence of Owner Lessor's Liens and a warranty of the Equity Investor as to the absence of Equity Investor's Liens, and (iv) the Owner Lessor shall discharge the Lien of the Lease Indenture, and the Owner Lessor and the Equity Investor shall execute and deliver appropriate releases and other documents or instruments necessary or desirable to effect the foregoing, all to be prepared, filed and recorded (as appropriate) by and at the cost and expense of the Facility Lessee. In connection with the transfer described in clause (iii) of the preceding sentence, the Owner Lessor (at the Facility Lessee's cost and expense) shall (a) assign, to the extent permitted by Applicable Law, and shall cooperate with all reasonable requests of the Facility Lessee for purposes of obtaining, or enabling the Facility Lessee to obtain, any and all licenses, permits, approvals and consents of any Governmental Entities or other Persons that are held in the name of the Owner Lessor or the Lessor

Manager and are or will be required to be obtained by the Facility Lessee in connection with the Facility Lessee's ownership, use, operation and maintenance of the Facility on or after such transfer in compliance with Applicable Law. Except for amounts expressly set forth in this Section 16 (including Supplemental Lease Rent and other obligations (including those under Sections 9.1 and 9.2 of the Participation Agreement) surviving pursuant to the express terms of any Transaction Document), the Facility Lessee shall not be obligated to pay any additional amounts or compensation to the Owner Lessor, the Lessor Manager, the Equity Investor, and the Equity Manager in connection with the transfer to the Facility Lessee of the Owner Lessor's Interest pursuant to this Section 16.

## SECTION 17. EVENTS OF DEFAULT

The following events shall constitute a "Lease Event of Default" hereunder (whether any such event shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any Governmental Entity):

(a) the Facility Lessee shall fail to make any payment of Basic Lease Rent or Termination Value after the same shall have become due and such failure shall have continued for five (5) Business Days after the same shall become due; or

(b) the Facility Lessee shall fail to make any payment of Supplemental Lease Rent (other than Excepted Payments, unless the Equity Investor shall have declared a default with respect thereto, and Termination Value described in clause (a)), after the same shall have become due and such failure shall have continued for a period of thirty (30) days after receipt by the Facility Lessee of written notice of such default from the Lessor Manager, the Owner Lessor, or the Lease Indenture Trustee; or

(c) the Facility Lessee shall fail to perform or observe in any material respect any covenant, obligation or agreement to be performed or observed by it under this Facility Lease, the Participation Agreement, the Head Lease, the Ground Lease or the Ground Sublease (other than any covenant, obligation or agreement referred to in clauses (a) or (b) of this Section 17), which shall continue unremedied for sixty (60) days after receipt by the Facility Lessee of written notice thereof from the Lessor Manager (acting at the direction of the Equity Investor) or the Lease Indenture Trustee; *provided, however*, that if such condition cannot be remedied within such sixty (60)-day period, then the period within which to remedy such condition shall be extended up to an additional two-hundred and seventy (270) days, so long as the Facility Lessee diligently pursues such remedy and such condition is capable of being remedied within such additional two-hundred and seventy (270)-day period; *provided, further*, that, in the case of the Facility Lessee's obligation set forth in clause (a) of Section 7.1, if, to the extent and for so long as a test, challenge, appeal or proceeding shall be prosecuted in good faith by the Facility Lessee, the failure by the Facility Lessee to comply with such requirement shall not constitute a Lease Event of Default if such test, challenge, appeal or proceeding shall not involve any material risk of (i) foreclosure, sale, forfeiture or loss of, or imposition of a lien on, the Undivided Interest, (ii) the impairment of the use, operation or maintenance of the Facility in any material respect, or (iii) any criminal liability being incurred by, or any material adverse effect on the interests of, the Lessor Manager, the Equity Investor, any Southaven Holdco Note Purchaser, the Equity Manager, the Owner

Lessor, any Noteholder or the Lease Indenture Trustee, including subjecting the Equity Investor, any Southaven Holdco Note Purchaser or the Owner Lessor to regulation as a public utility or similar entity under Applicable Law; and *provided, further*, that in the case of the Facility Lessee's obligation set forth in clause (a) of Section 7.1, if the noncompliance is not a type that can be immediately remedied, the failure to comply shall not be a Lease Event of Default if the Facility Lessee is taking all reasonable action to remedy such noncompliance and if, but only if, such noncompliance shall not involve any material risk described in clause (i), (ii) or (iii) of the preceding *proviso*; or

(d) any representation or warranty made by the Facility Lessee in the Operative Documents shall prove to have been incorrect in any material respect when made and continues to be material and unremedied for a period of sixty (60) days after receipt by the Facility Lessee of written notice thereof from the Equity Investor or the Lease Indenture Trustee; *provided, however*, that if such condition cannot be remedied within such sixty (60)-day period, then the period within which to remedy such condition shall be extended up to an additional two-hundred and seventy (270) days, so long as the Facility Lessee diligently pursues such remedy and such condition is reasonably capable of being remedied within such additional two-hundred and seventy (270)-day period; or

(e) the Facility Lessee shall (i) commence a voluntary case or other proceeding seeking relief under Title 11 of the Bankruptcy Code or liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect, or apply for or consent to the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or (ii) consent to, or fail to controvert in a timely manner, any such relief or the appointment of or taking possession by any such official in any voluntary case or other insolvency proceeding commenced against it, or (iii) file an answer admitting the material allegations of a petition filed against it in any such proceeding, or (iv) make a general assignment for the benefit of creditors; or

(f) an involuntary case or other proceeding shall be commenced against the Facility Lessee seeking (i) liquidation, reorganization or other relief with respect to it or its debts under Title 11 of the Bankruptcy Code or any bankruptcy, insolvency or other similar law now or hereafter in effect, or (ii) the appointment of a trustee, receiver, liquidator, custodian or other similar official with respect to it or any substantial part of its property, or (iii) the winding-up or liquidation of the Facility Lessee; and such involuntary case or other insolvency proceeding shall remain undismissed and unstayed for a period of ninety (90) days (unless, in lieu of dismissal or stay of such proceeding, the Facility Lessee shall deliver to the Owner Lessor and the Lease Indenture Trustee an opinion of counsel reasonably satisfactory to each of them to the effect that the Facility Lessee is not an entity which can become a "debtor" under Section 101 of Title 11 of the Bankruptcy Code); or

(g) the Facility Lessee shall repudiate or disaffirm the validity or enforceability of this Facility Lease, the Head Lease or the Ground Lease.

## SECTION 18. REMEDIES

*Section 18.1. Remedies for Lease Event of Default.* Upon the occurrence of any Lease Event of Default and at any time thereafter so long as the same shall be continuing, the Owner Lessor may, at its



option, declare this Facility Lease to be in default by written notice to the Facility Lessee; *provided*, that upon the occurrence of a Lease Event of Default described in Sections 17(e) or (f), this Facility Lease shall automatically be deemed to be in default without the need for giving any notice; and at any time thereafter, so long as the Facility Lessee shall not have remedied all outstanding Lease Events of Default, the Owner Lessor may proceed by appropriate court action or actions, either at law or in equity, to enforce performance by the Facility Lessee, at the Facility Lessee's sole cost and expense, of the applicable covenants and terms of this Facility Lease or to recover damages for breach thereof, including recovery of any payment of Rent then due and unpaid, *provided, further*, that in connection with such action or actions, the Owner Lessor may not, except as permitted under Section 18.2, seek (i) termination of this Facility Lease or any other Transaction Document, (ii) dispossession of the Facility Lessee, or (iii) acceleration or early payment of amounts not yet due and payable under this Facility Lease or any other Transaction Document.

*Section 18.2. Additional Remedies for Specified Lease Events of Default.* On a date no earlier than one-hundred and eighty (180) days after the occurrence of a Lease Event of Default specified in Sections 17(a) or (b), or immediately upon the occurrence of a Lease Event of Default specified in Sections 17(e), (f) or (g), but, in each case, only to the extent the applicable Lease Event of Default is then continuing, and at any time thereafter so long as the same shall be continuing, the Owner Lessor, in its sole discretion, may elect, and to the extent permitted by, and subject to compliance with any mandatory requirements of, Applicable Law then in effect:

(a) by notice in writing to the Facility Lessee, to terminate this Facility Lease whereupon all right of the Facility Lessee to the possession and use under this Facility Lease of the Undivided Interest shall absolutely cease and terminate but the Facility Lessee shall remain liable as hereinafter provided; and thereupon, the Owner Lessor may demand that the Facility Lessee, and the Facility Lessee shall, upon written demand of the Owner Lessor and at the Facility Lessee's expense, forthwith deliver possession of the Undivided Interest to the Owner Lessor in the manner and condition required by, and otherwise in accordance with all of the provisions of, Section 5, except those provisions relating to periods of notice; and the Owner Lessor may thenceforth hold, possess and enjoy the same, free from any right of the Facility Lessee under this Facility Lease, or its successor or assigns, to use the Undivided Interest for any purpose whatever;

(b) to sell the Owner Lessor's Interest at public or private sale, as the Owner Lessor may determine, free and clear of any rights of the Facility Lessee under this Facility Lease and without any duty to account to the Facility Lessee with respect to such sale or for the proceeds thereof (except to the extent required (i) by paragraph (e) below if the Owner Lessor elects to exercise its rights under such paragraph, and (ii) by Applicable Law), in which event the Facility Lessee's obligation to pay Basic Lease Rent hereunder due for any periods subsequent to the date of such sale shall terminate (except to the extent that Basic Lease Rent is to be included in computations under paragraph (d) or (e) below if the Owner Lessor elects to exercise its rights under said paragraphs);

(c) to hold, keep idle or lease to others the Undivided Interest as the Owner Lessor in its sole discretion may determine, free and clear of any rights of the Facility Lessee under this Facility Lease and without any duty to account to the Facility Lessee with respect to such action or inaction or for any

proceeds with respect thereto, except that the Facility Lessee's obligation to pay Basic Lease Rent due for any periods subsequent to the date upon which the Facility Lessee shall have been deprived of possession and use of the Undivided Interest pursuant to this Section 18.2 shall be reduced by the net proceeds, if any, received by the Owner Lessor from subleasing the Undivided Interest to any Person other than the Facility Lessee;

(d) whether or not the Owner Lessor shall have exercised, or shall thereafter at any time exercise, any of its rights under paragraph (a) above with respect to the Undivided Interest, to specify, by written notice to the Facility Lessee, a Termination Date that shall not be earlier than thirty (30) days after the date of such notice, and to demand that the Facility Lessee pay to the Owner Lessor, and the Facility Lessee shall pay to the Owner Lessor, on the Termination Date specified in such notice, any unpaid Basic Lease Rent due on or before such Termination Date, any Supplemental Lease Rent due and payable as of the Termination Date specified in such notice, plus, as liquidated damages for loss of a bargain and not as a penalty (in lieu of the Basic Lease Rent due after the Termination Date specified in such notice), an amount equal to the excess, if any, of the Termination Value computed as of the Termination Date specified in such notice over the Fair Market Sales Value of the Owner Lessor's Interest as of the Termination Date specified in such notice (such amount, the "FMV Net Termination Value"), and upon payment of such excess amount, this Facility Lease and the Facility Lessee's obligation to pay Basic Lease Rent hereunder due for any periods subsequent to the date of such payments shall terminate; or

(e) if the Owner Lessor shall have sold the Owner Lessor's Interest pursuant to paragraph (b) above, to demand that the Facility Lessee pay to the Owner Lessor, and the Facility Lessee shall pay to the Owner Lessor, as liquidated damages for loss of a bargain and not as a penalty (in lieu of the Basic Lease Rent due after the date of such sale), an amount equal to (i) any unpaid Basic Lease Rent and Supplemental Lease Rent due on or before the date of such sale, (ii) if that date is not a Termination Date, the daily equivalent of Basic Lease Rent for the period from the preceding Termination Date to the date of such sale, and (iii) the amount, if any, by which the Termination Value for the Undivided Interest computed as of the Termination Date next preceding the date of such sale or, if such sale occurs on a Rent Payment Date or a Termination Date then computed as of such date, exceeds the proceeds of such sale net of all costs and expenses incurred by or on behalf of the Owner Lessor or the Lease Indenture Trustee in connection with or otherwise attributable to such sale (such amount set forth in subclause (iii), the "Sale Net Termination Value"), and, upon payment of such amount, this Facility Lease and the Facility Lessee's obligation to pay Basic Lease Rent for any periods subsequent to the date of such payment shall terminate.

*Section 18.3. Application of Funds Held as Security; Liability for Basic Lease Rent, Costs and Expenses.* In connection with the exercise of remedies under Sections 18.1 or 18.2, the Owner Lessor may apply any amounts which are held by the Owner Lessor or the Lease Indenture Trustee under Section 10.2 or 11.2 as security for the Facility Lessee's obligations hereunder and under any other Transaction Documents against any amounts owed by the Facility Lessee hereunder or under any other Transaction Document. In addition, the Facility Lessee shall be liable, except as otherwise provided in Sections 18.2(d) and (e), for (i) any and all unpaid Basic Lease Rent due hereunder before or during the exercise of any of the foregoing remedies, and (ii) on an After-Tax Basis for all legal fees and other documented costs and expenses incurred

by the Owner Lessor, the Equity Investor and the Lease Indenture Trustee by reason of the occurrence of any Lease Event of Default or the exercise of the Owner Lessor's remedies with respect thereto (whether those remedies are exercised by the Owner Lessor, the Lease Indenture Trustee or a designee of either), including the repayment in full of any documented costs and expenses necessary to be expended in connection with the return of the Undivided Interest in accordance with Section 5, and any costs and expenses incurred by the Owner Lessor, the Equity Investor and the Lease Indenture Trustee in connection with retaking constructive possession of, or in repairing, such Undivided Interest in accordance with Section 18.2, in order to cause it to be in compliance with the maintenance standards imposed by Section 7.1.

*Section 18.4. Payment of FMV Net Termination Value or Sale Net Termination Value.* If the Owner Lessor elects to exercise its rights set forth in Sections 18.2(d) or (e) and the Facility Lessee is obligated to pay FMV Net Termination Value or Sale Net Termination Value, as applicable, subject to payment of all other amounts due and owing by the Facility Lessee pursuant to Sections 18.2(d) or (e), as applicable, the Facility Lessee may, subject to the conditions set forth in this Section 18.4 below, elect to pay the Owner Lessor such FMV Net Termination Value or such Sale Net Termination Value, as applicable, in three equal installments payable on the first, second and third anniversaries of the Term-Out Notice Date (the "Term-Out Payment Dates"), together with interest (a) on the Net TV Amount (Debt Portion) of such FMV Net Termination Value or such Sale Net Termination Value, as applicable, at the Net TV Amount (Debt Portion) Rate, and (b) on the Net TV Amount (Equity Portion) of such FMV Net Termination Value or such Sale Net Termination Value, as applicable, at the Net TV Amount (Equity Portion) Rate. The Facility Lessee shall only be permitted to make such election by written notice given to the Owner Lessor, the Lessor Manager, and the Lease Indenture Trustee within thirty (30) days of delivery of the written notice from the Owner Lessor pursuant to Section 18.2 with respect to the Owner Lessor's election to exercise remedies set forth in Sections 18.2(d) or (e), as applicable, certifying that the issuance of Evidences of Indebtedness under the Bond Resolution is legally impossible or commercially unreasonable at such time in an amount sufficient to pay FMV Net Termination Value or Sale Net Termination Value when due under Sections 18.2(d) or (e), as applicable (the date of such notice pursuant to this Section 18.4, the "Term-Out Notice Date"). Upon the Facility Lessee's delivery of the notice described in the previous sentence, the Facility Lessee shall become obligated to pay FMV Net Termination Value or Sale Net Termination Value, as applicable, as provided above, and this Facility Lease and the Facility Lessee's obligation to pay Basic Lease Rent for any periods subsequent to the date of the delivery of such notice shall terminate. If the Facility Lessee (i) fails to deliver the notice described in the second preceding sentence with respect to any unpaid Net TV Amount, (ii) fails to certify by written notice given the Owner Lessor, the Lessor Manager and the Lease Indenture Trustee concurrently with its payment of an installment then due and payable on any Term-Out Payment Date that the issuance of Evidences of Indebtedness under the Bond Resolution is still legally impossible or commercially unreasonable, or (iii) fails to pay any installment of the Net TV Amount then due and payable within ten (10) Business Days of the applicable Term-Out Payment Date, then in each case any unpaid Net TV Amount shall immediately become due and payable and the Owner Lessor may exercise any remedies available to it in accordance with Applicable Law. The Facility Lessee's obligation to make payment of FMV Net Termination Value or Sale Net Termination Value, as applicable, shall survive the termination of this Facility Lease.

*Section 18.5. Cumulative Remedies.* Except as otherwise provided in this Section 18, the remedies in this Facility Lease provided in favor of the Owner Lessor shall not be deemed exclusive, but shall be cumulative and shall be in addition to all other remedies in its favor existing at law or in equity; and the exercise or beginning of exercise by the Owner Lessor of any one or more of such remedies shall not, except as otherwise provided in this Section 18, preclude the simultaneous or later exercise by the Owner Lessor of any or all of such other remedies.

*Section 18.6. No Delay or Omission to Be Construed as Waiver.* No delay or omission to exercise any right, power or remedy accruing to the Owner Lessor upon any breach or default by the Facility Lessee under this Facility Lease shall impair any such right, power or remedy of the Owner Lessor, nor shall any such delay or omission be construed as a waiver of any breach or default, or of any similar breach or default hereafter occurring; nor shall any waiver of a single breach or default be deemed a waiver of any subsequent breach or default. To the extent permitted by Applicable Law, but subject to Section 18.2, the Facility Lessee hereby waives any rights now or hereafter conferred by statute or otherwise which may require the Owner Lessor to sell, lease or otherwise use the Undivided Interest in mitigation of the Owner Lessor's damages as set forth in this Section 18 or which otherwise may limit or modify any of the Owner Lessor's rights and remedies under this Section 18.

## SECTION 19. SECURITY INTEREST AND INVESTMENT OF SECURITY FUNDS.

Any moneys received by the Owner Lessor or the Lease Indenture Trustee pursuant to Sections 10.2 or 11.2, until paid to the Facility Lessee in accordance with such Section, shall be held by the Owner Lessor or the Lease Indenture Trustee, as the case may be, as security for the Facility Lessee's obligations under this Facility Lease and be invested in Permitted Instruments by the Owner Lessor or the Lease Indenture Trustee, as the case may be, at the sole risk of the Facility Lessee, from time to time as directed in writing by the Facility Lessee if such instruments are reasonably available for purchase. So long as no Significant Lease Default has occurred and is continuing, any gain (including interest received) realized as the result of any such Permitted Instrument (net of any fees, commissions, Taxes and other expenses, if any, incurred in connection with such Permitted Instrument) shall be applied or remitted to the Facility Lessee in the same manner as the principal invested.

## SECTION 20. FACILITY LESSEE'S RIGHT TO SUBLEASE; ASSIGNMENT

*Section 20.1. Assignment and Sublease.* Except as provided in Section 20.2, the Facility Lessee shall not have the right to assign or sublease the Facility Lessee's Interest and shall not be released from its obligations under this Facility Lease and the Transaction Documents without the consent of the Owner Lessor, and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, the Lease Indenture Trustee.

*Section 20.2 Right to Sublease.* The Facility Lessee may sublease the Undivided Interest without the consent of the Owner Lessor, the Lessor Manager, the Equity Investor, the Equity Manager, Southaven Holdco Note Purchasers and the Lease Indenture Trustee under the following conditions:

(a) the sublessee is a solvent corporation, partnership, business trust, limited liability company or other person or entity not then involved in a bankruptcy proceeding and that is, or has engaged a third party that is, experienced in the operation of similar facilities;

(b) the sublease is expressly subject and subordinated to the Head Lease, this Facility Lease, the Ground Lease and the Ground Sublease;

(c) all terms and conditions of this Facility Lease and the other Transaction Documents remain in effect and the Facility Lessee remains fully and primarily liable for its obligations under this Facility Lease and the other Transaction Documents;

(d) no Significant Lease Default or Lease Event of Default shall have occurred and be continuing at the time of the entering into of such sublease;

(e) the sublease prohibits further assignment or subletting; and

(f) the Lien of the Lease Indenture is not impaired by the sublease.

The Facility Lessee shall pay all reasonable, documented out-of-pocket expenses of the Owner Lessor, the Equity Investor, the Equity Manager, the Lessor Manager and the Lease Indenture Trustee in connection with such sublease.

#### SECTION 21. OWNER LESSOR'S RIGHT TO PERFORM

If the Facility Lessee fails to make any payment required to be made by it hereunder or fails to perform or comply with any of its other agreements contained herein after notice to the Facility Lessee and failure of the Facility Lessee to so perform or comply within ten (10) days thereafter, the Owner Lessor or the Equity Investor may make such payment or perform or comply with such agreement in a reasonable manner, but shall not be obligated hereunder to do so, and the amount of such payment and of the reasonable documented expenses of the Owner Lessor or the Equity Investor incurred in connection with such payment or the performance of or compliance with such agreement, as the case may be, together with interest thereon at the Overdue Rate, to the extent permitted by Applicable Law, shall be deemed to be Supplemental Lease Rent, payable by the Facility Lessee to the Owner Lessor on demand.

#### SECTION 22. SECURITY FOR OWNER LESSOR'S OBLIGATION TO THE LEASE INDENTURE TRUSTEE

In order to secure the Lessor Notes, the Owner Lessor will assign and grant a Lien to the Lease Indenture Trustee in and to all of the Owner Lessor's right, title and interest in, to and under this Facility Lease, and grant a security interest in favor of the Lease Indenture Trustee in all of the Owner Lessor's right, title and interest in and to the Owner Lessor's Interest (other than Excepted Payments and subject to Excepted Rights) pursuant to the Lease Indenture. The Facility Lessee hereby consents to such assignment and to the creation of such Lien and security interest and acknowledges receipt of copies of the Lease Indenture, it being understood that such consent shall not affect any requirement or the absence of any requirement for any consent of the Facility Lessee under any other circumstances. Unless and until the Facility Lessee shall

have received written notice from the Lease Indenture Trustee that the Lien of the Lease Indenture has been fully terminated, the Lease Indenture Trustee shall have the right to exercise the rights of the Owner Lessor under this Facility Lease to the extent set forth in and subject in each case to the exceptions set forth in the Lease Indenture. TO THE EXTENT, IF ANY, THAT THIS FACILITY LEASE CONSTITUTES CHATTEL PAPER (AS SUCH TERM IS DEFINED IN THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN ANY APPLICABLE JURISDICTION), NO SECURITY INTEREST IN THIS FACILITY LEASE MAY BE CREATED THROUGH THE TRANSFER OR POSSESSION OF ANY COUNTERPART HEREOF OTHER THAN THE ORIGINAL COUNTERPART, WHICH SHALL BE IDENTIFIED AS THE COUNTERPART CONTAINING THE RECEIPT THEREFOR EXECUTED BY THE LEASE INDENTURE TRUSTEE ON THE SIGNATURE PAGE THEREOF.

## SECTION 23. MISCELLANEOUS

*Section 23.1. Amendments and Waivers.* No term, covenant, agreement or condition of this Facility Lease may be terminated, amended or compliance therewith waived (either generally or in a particular instance, retroactively or prospectively) except by an instrument or instruments in writing executed by each party hereto.

*Section 23.2. Notices.* Unless otherwise expressly specified or permitted by the terms hereof, all communications and notices provided for herein to a party hereto shall be in writing or by a telecommunications or electronic device capable of creating a written record, and any such notice shall become effective (a) upon personal delivery thereof, including by overnight mail or courier service, (b) in the case of notice by United States mail, certified or registered, postage prepaid, return receipt requested, upon receipt thereof, or (c) in the case of notice by such a telecommunications or electronic device, upon transmission thereof, provided such transmission is promptly confirmed by either of the methods set forth in clauses (a) and (b) above, in each case addressed to such party and copy party at its address set forth below or at such other address as such party or copy party may from time to time designate by written notice to the other party:

If to the Owner Lessor:

Southaven Combined Cycle Generation LLC  
c/o Wilmington Trust, National Association  
1100 North Market Street  
Wilmington, Delaware 19890-1600  
Telephone No.: (302) 636-6191  
Facsimile No.: (302) 636-4140  
E-mail: [jparedes@wilmingtontrust.com](mailto:jparedes@wilmingtontrust.com)  
Attention: Corporate Trust Administration

with a copy to the Equity Investor:

Southaven Holdco LLC  
c/o Global Securitization Services, LLC  
68 South Service Road, Suite 120

Melville, NY 11747  
Telephone No.: (631) 930-7202  
Facsimile No.: (212) 302-8767  
E-Mail: jrangelo@gssnyc.com  
Attention: Bernard J. Angelo

and to the Lease Indenture Trustee:

Wilmington Trust Company  
Rodney Square North  
1100 North Market Street  
Wilmington, Delaware 19890-0001  
Telephone No.: (302) 636-6191  
Facsimile No.: (302) 636-4140  
E-mail: jparedes@wilmingtontrust.com  
Attention: Corporate Trust Administration

If to the Facility Lessee:

Tennessee Valley Authority  
400 West Summit Hill Drive  
Knoxville, Tennessee 37902  
Telephone No.: (865) 632-3366  
Facsimile No.: (865) 632-6673  
E-mail: leasenotices@tva.gov  
Attention: Treasurer

*Section 23.3. Survival.* Except for the provisions of Sections 3.3, 3.5, 5, 9, 18 and 23, which shall survive, the warranties and covenants made by each party hereto shall not survive the expiration or termination of this Facility Lease in accordance with its terms.

*Section 23.4. Successors and Assigns.*

(a) This Facility Lease shall be binding upon and shall inure to the benefit of, and shall be enforceable by, the parties hereto and their respective successors and assigns as permitted by and in accordance with the terms hereof.

(b) Except as expressly provided herein or in the other Transaction Documents, neither party hereto may assign its interests or transfer its obligations herein without the consent of the other party hereto.

(c) This Facility Lease is a registered instrument. A manually signed copy of this Facility Lease shall be evidence only of the Owner Lessor's rights and is not a bearer instrument. The Owner Lessor and the Facility Lessee hereby agree that the Facility Lessee shall keep books of registry in which it will register by book entry any transfer of all or a portion of the Owner Lessor's interest in the leasehold interest in the Undivided Interest, in this Facility Lease and in the rights to receive any payment hereunder. No

transfer by the Owner Lessor of any interest in this Facility Lease or in the right to receive any payments hereunder shall be permitted unless a book entry of such transfer is made upon such registry and such transfer is effected in compliance with this Section 23.4(c). Prior to the registration of any transfer by the Owner Lessor (or any successor of the Owner Lessor) as provided in this paragraph, the Facility Lessee may deem and treat the registered owner of this Facility Lease as the owner hereof for all purposes.

*Section 23.5. Intended Tax Treatment.* The Facility Lessee and the Owner Lessor hereby agree that for United States federal, state and local income tax purposes, the Facility Lessee will be the tax owner of the Undivided Interest and the issuer of a debt obligation in the form of this Facility Lease (providing for the payment or accrual of principal and interest as set forth on Schedule 1), and neither party will take any inconsistent position in any U.S. federal, state or local income tax filing, unless otherwise required by a change of law after the date hereof or a non-appealable judgment of a court of competent jurisdiction.

*Section 23.6. Business Day.* Notwithstanding anything herein to the contrary, if the date on which any payment or performance is to be made pursuant to this Facility Lease is not a Business Day, the payment otherwise payable on such date shall be payable on the next succeeding Business Day with the same force and effect as if made on such scheduled date and (provided that such payment is made on such succeeding Business Day) no interest shall accrue on the amount of such payment from and after such scheduled date to the time of such payment on such next succeeding Business Day.

*Section 23.7. Governing Law.* This Facility Lease shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York (without regard to conflicts of laws principles other than as provided in Section 5-1401 of the NY General Obligations Law), except to the extent that Mississippi law or U.S. federal law shall apply.

*Section 23.8. Severability.* Any provision of this Facility Lease that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

*Section 23.9. Counterparts.* This Facility Lease may be executed by the parties hereto in separate counterparts, each of which, subject to Section 22, when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

*Section 23.10. Headings and Table of Contents.* The headings of the sections of this Facility Lease and the Table of Contents are inserted for purposes of convenience only and shall not be construed to affect the meaning or construction of any of the provisions hereof.

*Section 23.11. Further Assurances.* Each party hereto will promptly and duly execute and deliver such further documents and assurances for and take such further action reasonably requested by the other party, all as may be reasonably necessary to carry out more effectively the intent and purpose of this Facility Lease.



*Section 23.12. Effectiveness.* This Facility Lease has been dated as of the date first above written for convenience only. This Facility Lease shall become effective on the Effective Date.

*Section 23.13. Measuring Life.* If and to the extent that any of the rights and privileges granted under this Facility Lease would, in the absence of the limitation imposed by this sentence, be invalid or unenforceable as being in violation of the rule against perpetuities or any other rule or law relating to the vesting of interests in property or the suspension of the power of alienation of property, then it is agreed that, notwithstanding any other provision of this Facility Lease, such options, rights and privileges, subject to the respective conditions hereof governing the exercise of such options, rights and privileges, will be exercisable only during (a) the longer of (i) a period which will end twenty-one (21) years after the death of the last survivor of the descendants living on the date of the execution of this Facility Lease of the following Presidents of the United States: Franklin D. Roosevelt, Harry S. Truman, Dwight D. Eisenhower, John F. Kennedy, Lyndon B. Johnson, Richard M. Nixon, Gerald R. Ford, James E. Carter, Ronald W. Reagan, George H.W. Bush, William J. Clinton, George W. Bush and Barack H. Obama, or (ii) the period provided under the Uniform Statutory Rule Against Perpetuities, or (b) the specific applicable period of time expressed in this Facility Lease, whichever of (a) and (b) is shorter.

*Section 23.14. Owner Lessor Covenant.* So long as this Facility Lease shall remain in effect, the Owner Lessor (or any successor thereto) hereby agrees and covenants to comply with the applicable provisions of 41 C.F.R. section 60-1.4, 41 C.F.R. section 60-250.4 and 41 C.F.R. section 60-741.4.

*Section 23.15. Limitation on Liability.* It is expressly understood and agreed by the parties hereto that (a) this Facility Lease is executed and delivered by Wilmington Trust, National Association ("Wilmington"), not individually or personally but solely as in its capacity as Lessor Manager of the Owner Lessor under the Owner Lessor LLC Agreement, in the exercise of the powers and authority conferred and vested in it pursuant thereto, (b) each of the representations, undertakings and agreements herein made on the part of the Owner Lessor is made and intended not as personal representations, undertakings and agreements by Wilmington, but is made and intended for the purpose for binding only the Owner Lessor, (c) nothing herein contained shall be construed as creating any liability on Wilmington, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto or by any Person claiming by, through or under the parties hereto, and (d) under no circumstances shall Wilmington be personally liable for the payment of any indebtedness or expenses of the Owner Lessor or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Owner Lessor under this Facility Lease.

*Section 23.16. Separate Tax Parcels.* Neither the Owner Lessor nor the Facility Lessee will seek to have, or assist or cooperate in having, the Undivided Interest separately assessed as a tax parcel for *ad valorem* tax purposes. The Owner Lessor and the Facility Lessee agree to cooperate in opposing such separate assessment of the Undivided Interest.

*Section 23.17. Waiver of Abatement.* The Facility Lessee hereby waives any right under Section 89-7-3 of the Mississippi Code Annotated, as the same may be amended from time to time, to abate rent because of damage to the Facility Site or the Facility.

*Section 23.18 Co-tenancy.* The Owner Lessor and the Facility Lessee intend for their respective rights as tenants-in-common in the Facility under Applicable Law to be modified and supplemented by the terms of this Facility Lease. Without limiting the foregoing, to the extent inconsistent with this Facility Lease, and to the extent permitted by law, the Owner Lessor and the Facility Lessee, on its own behalf and on behalf of its successors and assigns, disclaim the application of fiduciary duties imposed on co-tenants, any right for reimbursement for repairs and improvements made by a co-tenant, and any right to a share of rents or profits generated by a co-tenant.

*Section 23.19 Waiver of Partition.* Each of the Owner Lessor and the Facility Lessee, on its own behalf and on behalf of its successors and assigns, hereby waives any right, whether pursuant to statute including Section 11-21-3 of the Mississippi Code of 1972, as amended, or common law, to partition the Facility or any interest or portion thereof, and such waiver will continue in effect until the termination of this Facility Lease in accordance with its terms. Until termination of this Facility Lease, each of the Owner Lessor and the Facility Lessee agrees not to commence any action of any kind seeking any form of partition with respect thereto.

*Section 23.20. Nonmerger.* The Owner Lessor and the Facility Lessee agree that the sublease of the Undivided Interest created hereby shall not merge into the Facility Lessee's ownership of the Facility.

*[Signature page follows.]*

IN WITNESS WHEREOF, the Owner Lessor and the Facility Lessee have caused this Facility Lease to be duly executed and delivered by their respective officers thereunto duly authorized on the date of their respective acknowledgments and effective as of the Effective Date.

**SOUTHAVEN COMBINED CYCLE GENERATION  
LLC**

By: Wilmington Trust, National Association, not in its individual capacity, but solely as Lessor Manager under the Owner Lessor LLC Agreement

By: /s/ Rita Marie Ritrovato

Name: Rita Marie Ritrovato

Title: Assistant Vice President

Date: August 1, 2013

STATE OF Delaware )

) ss.:  
COUNTY OF New Castle )

Personally appeared before me, the undersigned authority in and for the said county and state, on this 1 day of August, 2013, within my jurisdiction, the within named Rita Marie Ritrovato , who acknowledged to me that she is Assistant Vice President of Wilmington Trust, National Association, a national banking association and Lessor Manager of Southaven Combined Cycle Generation LLC, a Delaware limited liability company (the "Owner Lessor"), and that for and on behalf of Wilmington Trust, National Association solely as Lessor Manager of the Owner Lessor, and as the act and deed of Wilmington Trust, National Association solely as Lessor Manager of the Owner Lessor, and as the act and deed of the Owner Lessor, he executed the above and foregoing instrument, after first having been duly authorized by Wilmington Trust, National Association and the Owner Lessor so to do.

/s/ Mark H. Brzoska

Notary Public

My Commission expires:  
January 6, 2014

TENNESSEE VALLEY AUTHORITY

By: /s/ John M. Hoskins

Name: John M. Hoskins

Title: Senior Vice President and Treasurer and Interim  
Chief Risk Officer

Date: August 1, 2013

STATE OF Tennessee )

) ss.:

COUNTY OF Knox )

Personally appeared before me, the undersigned authority in and for the said county and state, on this 1st day of August, 2013, within my jurisdiction, the within named John M. Hoskins, who acknowledged to me that he is Senior Vice President, Treasurer and Interim Chief Risk Officer of Tennessee Valley Authority, a wholly owned corporate agency and instrumentality of the United States of America, and that for and on behalf of the Tennessee Valley Authority, and as its act and deed, he executed the above and foregoing instrument, after first having been duly authorized so to do.

/s/ Stephanie L. Raley

Notary Public

My Commission expires:

May 1, 2016

The name and address of the Owner Lessor are:

OWNER LESSOR: Southaven Combined Cycle Generation LLC  
Wilmington Trust, National Association  
1100 North Market Street  
Wilmington, Delaware 19890-1600  
Telephone No.: (302) 636-6191  
Facsimile No.: (302) 636-4140  
E-mail: [jparedes@wilmingtontrust.com](mailto:jparedes@wilmingtontrust.com)  
Attention: Corporate Trust Administration

The name and address of the Facility Lessee are:

FACILITY LESSEE: Tennessee Valley Authority  
400 West Summit Hill Drive  
Knoxville, Tennessee 37902  
Telephone No.: (865) 632-3366  
Facsimile No.: (865) 632-6673

\*Receipt of the original counterpart of the foregoing Facility Lease is hereby acknowledged on this 9th day of August, 2013.

**WILMINGTON TRUST COMPANY,**

not in its individual capacity, but solely as Lease Indenture  
Trustee under the Lease Indenture

By: /s/ Jose L. Paredes

Name: Jose L. Paredes

Title: Assistant Vice President

STATE OF Delaware )

) ss.:

COUNTY OF New Castle )

Personally appeared before me, the undersigned authority in and for the said county and state, on this 5 day of August, 2013, within my jurisdiction, the within named Jose L. Paredes, who acknowledged to me that he is Assistant Vice President of Wilmington Trust Company, and that for and on behalf of Wilmington Trust Company, and as the act and deed of Wilmington Trust Company solely as Lease Indenture Trustee, he executed the above and foregoing instrument, after first having been duly authorized by Wilmington Trust Company so to do.

/s/ Patrick A. Kanar

Notary Public

My Commission expires:  
March 8, 2014

**APPENDIX A**  
**to**  
**Facility Lease**

**Definitions**

## **Appendix A**

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### **Definitions**

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#### **Southaven Combined Cycle Facility**



## **Appendix A - Definitions**

### **GENERAL PROVISIONS**

In this Appendix A and each Transaction Document (as hereinafter defined), unless otherwise provided herein or therein:

(a) the terms set forth in this Appendix A or in any such Transaction Document shall have the meanings herein provided for and any term used in a Transaction Document and not defined therein or in this Appendix A but in another Transaction Document shall have the meaning herein or therein provided for in such other Transaction Document;

(b) any term defined in this Appendix A by reference to another document, instrument or agreement shall continue to have the meaning ascribed thereto whether or not such other document, instrument or agreement remains in effect;

(c) words importing the singular include the plural and vice versa;

(d) words importing a gender include either gender;

(e) a reference to a part, clause, section, paragraph, article, party, annex, appendix, exhibit, schedule or other attachment to or in respect of a Transaction Document is a reference to a part, clause, section, paragraph, or article of, or a part, annex, appendix, exhibit, schedule or other attachment to, such Transaction Document unless, in any such case, otherwise expressly provided in any such Transaction Document;

(f) a reference to any statute, regulation, proclamation, ordinance or law includes all statutes, regulations, proclamations, ordinances or laws varying, consolidating or replacing the same from time to time, and a reference to a statute includes all regulations, policies, protocols, codes, proclamations and ordinances issued or otherwise applicable under that statute unless, in any such case, otherwise expressly provided in any such statute or in such Transaction Document;

(g) a definition of or reference to any document, instrument or agreement includes an amendment or supplement to, or restatement, replacement, modification or renovation of, any such document, instrument or agreement unless otherwise specified in such definition or in the context in which such reference is used;

(h) a reference to a particular section, paragraph or other part of a particular statute shall be deemed to be a reference to any other section, paragraph or other part substituted therefor from time to time;

(i) if a capitalized term describes, or shall be defined by reference to, a document, instrument or agreement that has not as of any particular date been executed and delivered and such document, instrument or agreement is attached as an exhibit to the Participation Agreement (as hereinafter defined),

such reference shall be deemed to be to such form and, following such execution and delivery and subject to paragraph (h) above, to the document, instrument or agreement as so executed and delivered;

(j) a reference to any Person (as hereinafter defined) includes such Person's successors and permitted assigns;

(k) any reference to "days" shall mean calendar days unless "Business Days" (as hereinafter defined) are expressly specified;

(l) if the date as of which any right, option or election is exercisable, or the date upon which any amount is due and payable, is stated to be on a date or day that is not a Business Day, such right, option or election may be exercised, and such amount shall be deemed due and payable, on the next succeeding Business Day with the same effect as if the same was exercised or made on such date or day (without, in the case of any such payment, the payment or accrual of any interest or other late payment or charge, provided such payment is made on such next succeeding Business Day);

(m) words such as "hereunder", "hereto", "hereof" and "herein" and other words of similar import shall, unless the context requires otherwise, refer to the whole of the applicable document and not to any particular article, section, subsection, paragraph or clause thereof;

(n) a reference to "including" shall mean including without limiting the generality of any description preceding such term, and for purposes hereof and of each Transaction Document the rule of *ejusdem generis* shall not be applicable to limit a general statement, followed by or referable to an enumeration of specific matters, to matters similar to those specifically mentioned;

(o) all accounting terms not specifically defined herein or in any Transaction Document shall be construed in accordance with GAAP;

(p) the word "or" need not be exclusive; and

(q) unless the context or the specific provision otherwise requires, whenever in the Transaction Documents a provision requires that the rating of a Person or the Lessor Notes be confirmed, such provisions shall be deemed to mean that each Rating Agency shall have confirmed the rating of the senior long term unsecured debt of such Person or the Lessor Notes, if then rated by such Rating Agency, a copy of which confirmation shall be delivered by TVA to the Equity Investor, the Owner Lessor and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, to the Lease Indenture Trustee and shall be without indication that such Person or the Lessor Notes, as the case may be, has been placed on credit watch, credit review, or any similar status with negative implications or which does not indicate the direction of the potential ratings change.

## DEFINED TERMS

**“2013 Lessor Notes”** shall mean the 3.846% Series 2013 Bonds due August 15, 2033 issued on the Closing Date by the Owner Lessor and any Lessor Notes issued in replacement therefor pursuant to Section 2.9 of the Lease Indenture.

**“Actual Knowledge”** shall mean, with respect to any Transaction Party, actual knowledge of, or receipt of written notice by, an officer (or other employee whose responsibilities include the administration of the Transaction) of such Transaction Party; *provided* that neither the Lease Indenture Trustee nor the Lessor Manager shall be deemed to have Actual Knowledge of any fact solely by virtue of an officer of the Lease Indenture Trustee or the Lessor Manager, as the case may be, having actual knowledge of such fact unless such officer is an officer in the Corporate Trust Administration Department of the Lease Indenture Trustee or the Lessor Manager, as the case may be, responsible for the administration of this transaction.

**“Additional Equity Investment”** shall mean the amount, if any, provided by the Equity Investor to finance all or a portion of the cost of any Modification financed pursuant to Section 11.2(a) of the Participation Agreement.

**“Additional Facility”** shall have the meaning specified in Section 4.4 of the Ground Lease.

**“Additional Lessor Notes”** shall have the meaning specified in Section 2.12 of the Lease Indenture.

**“Additional Owner”** shall have the meaning specified in Section 4.4 of the Ground Lease.

**“Affiliate”** of a particular Person shall mean any Person directly or indirectly controlling, controlled by or under common control with such particular Person. For purposes of this definition, “control” when used with respect to any particular Person shall mean the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing; *provided, however*, that under no circumstances shall the Trust Company be considered an Affiliate of any of the Owner Lessor, the Equity Investor, any Equity Investor Member or any Southaven Holdco Note Purchaser, nor the Owner Lessor, any Equity Investor, any Equity Investor Member or any Southaven Holdco Note Purchaser be considered an Affiliate of the Trust Company; *provided, further*, that no Federal Governmental Entity shall be considered to be an Affiliate of TVA.

**“After-Tax Basis”** shall mean, with respect to any payment to be received by any Person, the amount of such payment (the base payment) supplemented by a further payment (the additional payment) to that Person so that the sum of the base payment plus the additional payment shall, after deduction of the amount of all Federal, state and local income Taxes required to be paid by such Person in respect of the receipt or accrual of the base payment and the additional payment (taking into account any reduction in such income Taxes resulting from tax benefits realized or to be realized by the recipient as a result of the payment or the event giving rise to the payment), be equal to the amount required to be received. Such calculations shall be made on the basis of the highest generally applicable Federal, state and local income tax rates applicable to the

Person for whom the calculation is being made for all relevant periods, and shall take into account the deductibility of state and local income Taxes for Federal income tax purposes.

**“Applicable Law”** shall mean, without limitation, all applicable laws, including all Environmental Laws, and treaties, judgments, decrees, injunctions, writs and orders of any court, arbitration board or Governmental Entity and rules, regulations, orders, ordinances, licenses and permits of any Governmental Entity.

**“Applicable Percentage”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Applicable Rate”** shall mean 4.95% per annum.

**“Appraisal Procedure”** shall mean (except with respect to the Closing Appraisal and any appraisal to determine Fair Market Sales Value after a Lease Event of Default shall have occurred and be continuing) an appraisal conducted by an appraiser or appraisers in accordance with the procedures set forth in this definition of “Appraisal Procedure.” The Equity Investor and TVA will consult with the intent of selecting a mutually acceptable Independent Appraiser. If a mutually acceptable Independent Appraiser is selected, the Fair Market Sales Value shall be determined by such Independent Appraiser. If the Equity Investor and TVA are unable to agree upon a single Independent Appraiser within a 15-day period, one shall be appointed by the Equity Investor, and one shall be appointed by TVA (or its designee), which Independent Appraisers shall attempt to agree upon the value, period, amount or other determination that is the subject of the appraisal. If either the Equity Investor or TVA does not appoint its appraiser, the determination of the other appraiser shall be conclusive and binding on the Equity Investor and TVA. If the appraisers appointed by the Equity Investor and TVA are unable to agree upon the value, period, amount or other determination in question, such appraisers shall jointly appoint a third Independent Appraiser or, if such appraisers do not appoint a third Independent Appraiser, the Equity Investor and TVA shall jointly appoint the third Independent Appraiser. In such case, the average of the determinations of the three appraisers shall be conclusive and binding on the Equity Investor and TVA, unless the determination of one appraiser differs from the middle determination by more than twice the amount by which the third determination differs from the middle determination, in which case the determination of the most disparate appraiser shall be excluded, and the average of the remaining two determinations shall be conclusive and binding on the Equity Investor and TVA.

**“Appraiser”** shall mean DAI Management Consultants, Inc.

**“Appropriations Act Paragraph”** shall have the meaning specified in Section 3.1(v) of the Participation Agreement.

**“Arbitration Proceeding”** shall mean a procedure whereby the party seeking to arbitrate a dispute concerning an amount payable under the Support Agreement shall provide written notice of its intention to arbitrate at the time and to the other party of the Support Agreement. Such notice (i) shall specify the section or sections of the Support Agreement which authorizes or authorize an Arbitration Proceeding, (ii) provide reasonable detail of the item or items in dispute, and (iii) set forth the name and address of the person designated to act as the arbitrator on behalf of the party providing such notice. Within 20 Business

Days after such notice is given, the party to which such notice was given shall give notice to the first party, specifying the name and address of the person designated to act as arbitrator on its behalf. If the second party fails to notify the first party of the appointment of its arbitrator within such 20 Business Day period, then the appointment of the second arbitrator shall be made in the same manner as hereinafter provided for the appointment of a third arbitrator. The arbitrators so chosen shall meet within 10 Business Days after the second arbitrator is appointed and within 20 Business Days thereafter shall decide the dispute. If within such period they cannot agree upon their decision, they shall within 10 Business Days thereafter appoint a third arbitrator and, if they cannot agree upon such appointment, the third arbitrator shall be appointed upon their application or upon the application of either party, by the American Arbitration Association, or any organization which is a successor thereto from a panel of arbitrators having expertise in the business of operating simple cycle combustion turbines. The three arbitrators shall meet and decide the dispute within 20 Business Days of the appointment of the third arbitrator. Any decision or determination in which two of the three arbitrators shall concur or, if no two of the three arbitrators shall concur, the decision or determination of the arbitrator last selected shall be final and binding upon the parties. In designating arbitrators and in deciding the dispute, the arbitrators shall act in accordance with the rules of the American Arbitration Association then in force, *subject, however*, to express provisions to the contrary, if any, contained in the Support Agreement. In the event that the American Arbitration Association or a nationally recognized successor shall not then be in existence, the arbitration shall proceed under comparable laws or statutes then in effect. The parties to the arbitration shall be entitled to present evidence and argument to the arbitrators. Each party shall pay (i) the fees and expenses of the arbitrator appointed by or on its behalf, and (ii) equal shares of (a) the other expenses of the arbitration properly incurred and (b) the fees and expenses of the third arbitrator, if any. For purposes of this definition, the Facility User shall be deemed to be one party and TVA shall be deemed to be the other party.

**“Assigned Documents”** shall have the meaning specified in clause (2) of the Granting Clause of the Lease Indenture.

**“Assignment and Assumption Agreement”** shall mean an assignment and assumption agreement in form and substance substantially in the form of Exhibit F to the Participation Agreement.

**“Bankruptcy Code”** shall mean the United States Bankruptcy Code of 1978, as amended from time to time, 11 U.S.C. §101 *et seq.*

**“Base Rate”** shall mean the rate of interest publicly announced from time to time by Citibank, N.A. at its New York office as its base rate for domestic commercial loans, such rate to change as and when such base rate changes. For purpose of this definition, “base rate” shall mean that rate announced by Citibank, N.A. from time to time as its base rate as that rate may change from time to time with changes to occur on the date Citibank, N.A.’s base rate changes.

**“Basic Lease Rent”** shall have the meaning specified in Section 3.2 of the Facility Lease.

**“Basic Lease Rent (Debt Portion)”** for any Rent Payment Date shall mean the amount set forth under the heading “Basic Lease Rent (Debt Portion)” on Schedule 1 of the Facility Lease for such Rent Payment Date.

**“Basic Lease Rent (Equity Portion)”** for any Rent Payment Date shall mean the amount set forth under the heading “Basic Lease Rent (Equity Portion)” on Schedule 1 of the Facility Lease for such Rent Payment Date.

**“Benefit Plan”** shall mean an employee benefit plan as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, a plan as defined in Section 4975(e) of the Code that is subject to Section 4975 of the Code or any entity that is deemed to hold the assets of any such employee benefit plan or plan by virtue of such employee benefit plan’s or plan’s investment in such entity.

**“Bond Resolution”** shall mean the Basic Tennessee Valley Authority Power Bond Resolution adopted October 6, 1960, as amended.

**“Business Day”** shall mean any day other than a Saturday, a Sunday, or a day on which commercial banking institutions are authorized or required by law, regulation or executive order to be closed in Wilmington, Delaware, Knoxville, Tennessee, or the city and the state in which the Corporate Trust Office of the Lease Indenture Trustee, the Lessor Manager or the Equity Manager is located.

**“Called Amount”** shall mean the amount of the Equity Investment that is being repaid, determined by reference to the Termination Value (Equity Portion) with respect to the applicable Termination Date.

**“Capability”** shall mean the amount of Energy, expressed in megawatt hours, that can be generated by the Facility.

**“Capacity”** shall mean megawatts of electric energy generating capacity.

**“Capital Expenditure Budget”** shall have the meaning set forth in Section 3.4(a) of the Support Agreement.

**“Claim”** shall mean any liability (including in respect of negligence (whether passive or active or other torts), strict or absolute liability in tort or otherwise, warranty, latent or other defects (regardless of whether or not discoverable), statutory liability, property damage, bodily injury or death), obligation, loss, settlement, damage, penalty, claim, action, suit, proceeding (whether civil or criminal), judgment, penalty, fine and other legal or administrative sanction, judicial or administrative proceeding, cost, expense or disbursement, including reasonable legal, investigation and expert fees, expenses and reasonable related charges, of whatsoever kind and nature, but excluding Taxes.

**“Closing”** shall have the meaning specified in Section 2.2(a) of the Participation Agreement.

**“Closing Appraisal”** shall mean the appraisal, dated the Closing Date, prepared by the Appraiser for the use of TVA.

**“Closing Date”** shall have the meaning specified in Section 2.2(a) of the Participation Agreement.

**“Code”** shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

**“Co-Equity Manager”** shall mean a co-Manager appointed pursuant to Section 23 of the Equity Investor LLC Agreement.

**“Co-Lessor Manager”** shall mean a co-Independent Manager appointed pursuant to Section 16.6 of the Owner Lessor LLC Agreement.

**“Collateral”** shall have the meaning specified in the Granting Clause of the Owner Lessor Mortgage.

**“Common Facilities”** shall mean all property and facilities intended for common use in the operation of the Units, as more particularly described on Exhibit A to the Facility Lease, and shall include any Modifications to such facilities which become subject to the Head Lease during the Facility Lease Term and any Modifications to the Common Facilities made in accordance with the Support Agreement.

**“Competitor”** shall have the meaning specified in Section 7.1(b) of the Participation Agreement.

**“Component”** shall mean any appliance, part, instrument, appurtenance, accessory, furnishing, equipment or other property of whatever nature that may from time to time be incorporated in any Unit or the Facility, except to the extent constituting Modifications.

**“Confidential Information”** shall have the meaning specified in Section 13.2 of the Participation Agreement.

**“Construction Cost”** shall mean, with respect to any Modification, the actual cost or purchase price (after deducting amounts realized as the salvage value of any component or item of equipment which is being replaced by the Modification, determined in accordance with Prudent Industry Practice), including, without limitation, (i) all costs of architectural and engineering services, labor, materials, equipment, supplies, personnel training, testing, permits and licenses, and legal services, (ii) payroll, including related fringe benefits and payroll Taxes, of direct full time employees of TVA allocable on an actual time basis to such acquisition or construction and not included in costs described in clause (vi) below, (iii) reasonable and allocable traveling expenses including use of TVA’s transportation equipment, (iv) all costs relating to injury or damage claims and claims by contractors or suppliers arising under construction contracts and arising out of such acquisition or construction, (v) all Taxes legally required to be paid with respect to such acquisition or construction if paid by TVA, and (vi) administrative and other overhead costs of TVA as apportioned by TVA to such Modification in accordance with the Uniform System of Accounts, applicable to such acquisition or construction of such Modification, all in accordance with the Capital Expenditure Budget in effect from time to time.

**“Contract Year”** shall mean the 12-month period commencing at 12:01 a.m. on January 1 of each year and ending at 12:01 a.m. on the following January 1, except that the first Contract Year shall begin on the

Service Commencement Date and the last Contract Year shall end on the Final Shutdown Date.

“**CTG**” shall have the meaning specified in Attachment A to the Head Lease.

“**Debt Portion**” shall mean the separate portions of the Net TV Amount (Debt Portion), which portions correspond to the 2013 Lessor Notes and each series of Additional Lessor Notes that may have been issued from time to time and are determined by multiplying (a) the Net TV Amount (Debt Portion), by (b) the fraction (i) the numerator of which is the outstanding principal amount of the applicable 2013 Lessor Notes or such series of Additional Lessor Notes and (ii) the denominator of which is the aggregate outstanding principal amount of the 2013 Lessor Notes and the Additional Lessor Notes.

“**Deed of Trust Trustee**” shall mean W. Rodney Clement, Jr., Esq.

“**Defaulting Facility User**” shall have the meaning specified in Section 2.7(a) of the Support Agreement.

“**Discounted Value**” shall mean, with respect to the Called Amount of any Equity Investment, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Amount from their respective scheduled due dates to the Settlement Date with respect to such Called Amount, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which return on the Equity Investment is payable) equal to the Reinvestment Yield with respect to such Called Amount.

“**Dollars**” or the sign “\$” shall mean United States dollars or other lawful currency of the United States.

“**DTC**” shall mean The Depository Trust Company, a New York corporation.

“**Early Buy Out**” shall have the meaning specified in Section 15.1 of the Facility Lease.

“**Early Buy Out Date**” shall have the meaning specified in Section 15.1 of the Facility Lease.

“**Early Buy Out Notice**” shall have the meaning specified in Section 15.1 of the Facility Lease.

“**Effective Date**” shall mean the Closing Date.

“**Election Notice**” shall have the meaning specified in Section 13.1 of the Facility Lease.

“**Eligible Customer**” shall have the meaning specified in the Transmission Services Guidelines.

“**Energy**” shall mean megawatt hours of electric energy.

“**Enforcement Notice**” shall have the meaning specified in Section 5.1 of the Lease Indenture.

“**Engineering Consultant**” shall mean Sargent & Lundy LLC.



**“Engineering Report”** shall mean the report of the Engineering Consultant, dated April 15, 2013.

**“Entergy”** shall mean Entergy Mississippi, Inc. or its successor entity.

**“Entergy Point of Interconnection”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Entergy Substation”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Entergy Transmission System”** shall mean the facilities owned and controlled by Entergy or a successor entity that are used to provide transmission service under Entergy’s or such successor entity’s open access transmission tariff.

**“Environmental Condition”** shall mean any action, omission, event, condition or circumstance, including the presence of any Hazardous Substance, that does or is reasonably likely to (i) require assessment, investigation, abatement, correction, removal or remediation by order of an applicable Governmental Entity pursuant to any Environmental Law, (ii) give rise to any obligation or liability of any nature (whether civil or criminal, arising under a theory of negligence or strict liability, or otherwise) under any Environmental Law, or (iii) constitute a violation of or non-compliance with any Environmental Law.

**“Environmental Laws”** shall mean any federal, state or local laws, common law, ordinances, rules, orders, statutes, decrees, judgments, injunctions, directives, permits, licenses, approvals, codes and regulations relating to the environment, human health, natural resources or Hazardous Substances, now or hereafter in effect and as each may from time to time be amended, supplemented or supplanted.

**“Equity Breakage”** shall mean, with respect to a Called Amount, an amount equal to the excess, if any, of the Discounted Value with respect to the Called Amount of such Equity Investment over the amount of such Called Amount, *provided* that the Equity Breakage may in no event be less than zero.

**“Equity Collateral Agent”** shall mean Wilmington Trust, National Association, or any successor thereto, as collateral agent appointed pursuant to the Southaven Holdco Note Purchase Documents.

**“Equity Guarantor”** shall have the meaning specified in Section 7.1 of the Participation Agreement.

**“Equity Guaranty”** shall mean any guaranty agreement guaranteeing the obligations of the Equity Investor or entered into pursuant to Section 7.1 of the Participation Agreement in form and substance substantially in the form of Exhibit G to the Participation Agreement.

**“Equity Investment”** shall mean the amount specified under the heading “Equity Investment” in Schedule 4 to the Participation Agreement.

**“Equity Investor”** shall have the meaning set forth in the introductory paragraph to the Participation Agreement; *provided* that if the Membership Interests are transferred pursuant to Section 7.1 of the Participation Agreement such that more than one person is a holder thereof, the term “Equity Investor” shall be deemed to include each holder of the Membership Interests.

**“Equity Investor LLC Agreement”** shall mean the limited liability company agreement, dated on or about the Execution Date, between the Owner Participant, Seven States and the Equity Manager.

**“Equity Investor Members”** shall mean any member of the Equity Investor, including a profits member for purposes of the Code.

**“Equity Investor’s Lien”** shall mean, with respect to the Equity Investor, any Southaven Holdco Note Purchaser, the Trust Company or the Equity Manager, any Lien on the Facility, the Facility Site, the Lessor Estate or any part thereof arising as a result of (i) Claims against or any act or omission of the Equity Investor, a Southaven Holdco Note Purchaser, the Trust Company or the Equity Manager or any Affiliate of any thereof that are not related to, or that are in violation of, any Transaction Document or the transactions contemplated thereby or that are in breach of any covenant or agreement of the Equity Investor, the Trust Company or the Equity Manager set forth therein, (ii) Taxes against the Equity Investor, any Southaven Holdco Note Purchaser, the Trust Company, the Equity Manager or any respective Affiliate thereof that are not indemnified against by TVA pursuant to any Transaction Document, or (iii) Claims against or affecting the Equity Investor, any Southaven Holdco Note Purchaser, the Trust Company, the Equity Manager or any respective Affiliate thereof arising out of the voluntary or involuntary transfer by the Trust Company, the Equity Manager or the Equity Investor (except as contemplated or permitted by the Transaction Documents) of any portion of the Equity Investor’s Membership Interests.

**“Equity Manager”** shall have the meaning set forth in the introductory paragraph of the Participation Agreement.

**“Equity Placement Agent”** shall mean Merrill Lynch, Pierce, Fenner & Smith Incorporated.

**“Equity Pledge Agreement”** shall mean the Pledge Agreement, dated on or about the Closing Date, between the Equity Investor and the Equity Collateral Agent.

**“Equity Portion”** shall mean the separate portions of the Net TV Amount (Equity Portion), which portions correspond to the Equity Investment and each series of Additional Equity Investment that may have been issued from time to time and are determined by multiplying (a) the Net TV Amount (Equity Portion), by (b) the fraction (i) the numerator of which is the outstanding principal amount of the applicable Equity Investment or such series of Additional Equity Investment and (ii) the denominator of which is the aggregate outstanding principal amount of the Equity Investment and the Additional Equity Investments.

**“ERISA”** shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

**“Event of Loss”** shall mean, with respect to any Unit or Units, any of the following events:

(a) loss of such Unit or Units or use thereof due to destruction or damage to such Unit or Units or the Common Facilities that is beyond economic repair or that renders such Unit or Units permanently unfit for normal use;

(b) damage to such Unit or Units or the Common Facilities that results in an insurance settlement with respect to such Unit or Units on the basis of a total loss or an agreed constructive or a compromised total loss of such Unit or Units; and

(c) seizure, condemnation, confiscation or taking of, or requisition of title to or use of, all or substantially all of a Unit or Units or the Common Facilities by any Governmental Entity, which in the case of a requisition of use prevents the Facility Lessee from operating and maintaining all or substantially all of the Facility, such Unit or Units or the Facility Site for a period of 365 days or more, in each case following any contest thereof and exhaustion of all permitted appeals or an election by TVA not to pursue such appeals.

**“Evidences of Indebtedness”** shall have the meaning specified in the Bond Resolution.

**“Excepted Payments”** shall mean and include (a)(i) any indemnity or other payment (whether or not constituting Supplemental Lease Rent and whether or not a Lease Event of Default exists) payable to the Trust Company, the Equity Investor, the Equity Manager, any Equity Investor Member, any Southaven Holdco Note Purchaser, the Lessor Manager or to their respective successors and permitted assigns (other than the Lease Indenture Trustee) pursuant to Section 2.4, 9.1 or 9.2 of the Participation Agreement and Section 11.1 of the Owner Lessor LLC Agreement, or (ii) any amount payable by TVA to the Owner Lessor, the Equity Investor, the Lessor Manager, the Equity Manager, any Equity Investor Member or any Southaven Holdco Note Purchaser to reimburse any such Person for its costs and expenses in exercising its rights under the Transaction Documents; (b) insurance proceeds, if any, payable to the Owner Lessor or the Equity Investor under insurance separately maintained by the Owner Lessor or the Equity Investor with respect to the Facility as permitted by Section 11.1 of the Facility Lease; (c) any amount payable to the Equity Investor as the purchase price of the Equity Investor’s Membership Interests in connection with any permitted sale or transfer thereof pursuant to Section 7.1 of the Participation Agreement or Section 13 of the Facility Lease; (d) any amounts payable to the Equity Investor upon exercise by TVA of the Special Lessee Transfer pursuant to Section 12 of the Participation Agreement; (e) all other fees expressly payable to the Owner Lessor, the Equity Investor, the Lessor Manager, the Equity Manager or any Southaven Holdco Note Purchaser under the Transaction Documents; (f) any amounts payable by TVA to the Owner Lessor pursuant to Section 13.2 of the Facility Lease; and (g) any payments in respect of interest to the extent attributable to payments referred to above that constitute Excepted Payments.

**“Excepted Rights”** shall mean the rights specified in Section 5.6 of the Lease Indenture.

**“Excess Amount”** shall have the meaning specified in Section 15.3 of the Participation Agreement or Section 9.12 of the Lease Indenture, as applicable.

**“Exchange Act”** shall mean the Securities Exchange Act of 1934, as amended.

**“Exchange Date”** shall mean, when used with respect to any Lessor Notes being replaced and exchanged for Replacement Power Bonds, the date fixed for such replacement and exchange by or pursuant to the Lease Indenture or the respective Lessor Notes, which date shall be a Termination Date.

**“Excluded Assets”** shall mean have the meaning specified in Attachment A to the Head Lease.

**“Excluded Taxes”** shall have the meaning specified in Section 9.2(b) of the Participation Agreement.

**“Execution Date”** shall mean August 6, 2013.

**“Existing Southaven Credit Agreement”** shall mean the Amended and Restated Credit Agreement, dated as of April 22, 2010, by and among Seven States, Seven States Parent, JPMorgan Chase Bank, National Association, CoBank, ACB and Wells Fargo Bank, National Association, as amended.

**“Existing Southaven Lease Documents”** shall mean the Joint Ownership Agreement, dated as of April 30, 2008, between Seven States Parent and TVA, as amended, modified and supplemented from time to time, and the Lease Agreement, dated September 30, 2008, between Seven States and TVA, as amended, modified and supplemented from time to time.

**“Existing Southaven Loan Documents”** shall have the meaning specified in the Existing Southaven Credit Agreement.

**“Expiration Date”** shall mean August 15, 2033, the scheduled expiration date of the Facility Lease Term.

**“Facility”** shall have the meaning specified in the first recital of the Participation Agreement.

**“Facility Lease”** shall mean the Facility Lease-Purchase Agreement, dated as of the Closing Date, between the Owner Lessor and TVA, substantially in the form of Exhibit C to the Participation Agreement.

**“Facility Lease Term”** shall have the meaning specified in Section 3.1 of the Facility Lease.

**“Facility Lessee”** shall mean TVA as lessee under the Facility Lease.

**“Facility Lessee’s Interest”** shall mean the Facility Lessee’s interest in and to the Undivided Interest under the Facility Lease and the Ground Interest under the Ground Sublease.

**“Facility Operating Fee”** shall have the meaning specified in Section 2.5 of the Support Agreement.

**“Facility Operation and Maintenance Expense”** shall mean all payments made, costs incurred, and obligations and liabilities incurred, by TVA for or in connection with engineering, contract preparation, purchasing, repairing, insuring, supervising, recruiting, training, expediting, inspecting, accounting, providing legal services, testing, protecting, operating, insuring, using, decommissioning, retiring, and

maintaining the Facility, *including* Station Service Requirements and all such payments made, and obligations incurred, during an operating emergency, and with respect to the purchase of materials, supplies and spare parts, *but excluding* the Construction Cost of Modifications and any other cost included in a Capital Expenditure Budget. Facility Operation and Maintenance Expenses shall include the properly allocable direct overheads of TVA in the operation and maintenance of the Facility. Facility Operation and Maintenance Expenses shall be determined under and in accordance with the Uniform System of Accounts and shall be in accordance with the Operation and Maintenance Expense Budget in effect from time to time. There shall be credited against Facility Operation and Maintenance Expenses for such Month the proceeds of the sale by TVA of any surplus materials or supplies constituting part of, or used in connection with, the Facility. Facility Operation and Maintenance Expense shall not include any payments made by the Ground Lessee for Taxes pursuant to Section 3.2 of the Ground Lease and payments made, or costs incurred, for commodities, equipment or services supplied by TVA to the Facility User under separate contract, including transmission services supplied under contracts negotiated pursuant to Section 4.2 of the Support Agreement.

**“Facility Site”** shall mean the land on which the Facility is situated, as more particularly described in Exhibit 1 to the Ground Lease.

**“Facility User”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Fair Market Rental Value”** or **“Fair Market Sales Value”** shall mean with respect to any property or service as of any date, the cash rent or cash price obtainable in an arm’s length lease, sale or supply, respectively, between an informed and willing lessee or purchaser under no compulsion to lease or purchase and an informed and willing lessor or seller or supplier under no compulsion to lease or sell or supply the property or service in question, and shall, in the case of an Owner Lessor’s Interest, be determined (except as otherwise provided below or in the Transaction Documents) on the basis that (a) the Facility is located on the Facility Site and the conditions contained in Sections 7 and 8 of the Facility Lease shall have been complied with in all respects, (b) the lessee or buyer shall have rights in, or an assignment of, the Transaction Documents to which the Owner Lessor is a party and the obligations relating thereto and (c) the Owner Lessor’s Interest is free and clear of all Liens (other than Owner Lessor’s Liens, Equity Investor’s Liens and Lease Indenture Trustee’s Liens) and taking into account (i) the remaining term of the Ground Lease and the Ground Sublease, and (ii) in the case of the Fair Market Rental Value, the terms of the Facility Lease and the Transaction Documents. If the Fair Market Sales Value of the Owner Lessor’s Interest is to be determined during the continuance of a Lease Event of Default or in connection with the exercise of remedies by the Owner Lessor pursuant to Section 18 of the Facility Lease, such value shall be determined by an appraiser appointed by the Owner Lessor on an “as-is,” “where-is” and “with all faults” basis and shall take into account all Liens (other than Owner Lessor’s Liens, Equity Investor’s Liens and Lease Indenture Trustee’s Liens); *provided, however*, in any such case where the Owner Lessor shall be unable to obtain constructive possession sufficient to realize the economic benefit of the Owner Lessor’s Interest, Fair Market Sales Value of the Owner Lessor’s Interest shall be deemed equal to \$0. If in any case other than in the preceding sentence the parties are unable to agree upon a Fair Market Sales Value of the Owner Lessor’s Interest within 30 days after a request therefor has been made, the Fair Market Sales Value of the Owner Lessor’s Interest shall be determined by appraisal pursuant to the Appraisal Procedures. Any fair market value determination of a Severable Modification shall

take into consideration any liens or encumbrances to which the Severable Modification being appraised is subject and which are being assumed by the transferee.

**“Federal Power Act”** shall mean the Federal Power Act, as amended.

**“FERC”** shall mean the Federal Energy Regulatory Commission.

**“Final Determination”** shall mean (i) a decision, judgment, decree or other order by any court of competent jurisdiction, which decision, judgment, decree or other order has become final after all allowable appeals or rehearings by either party to the action have been exhausted or the time for filing such appeal has expired, or in any case where judicial review shall at the time be unavailable because the proposed adjustment involves a decrease in net operating loss carryforward or a business credit carryforward, a decision, judgment, decree or other order of an administrative official or agency of competent jurisdiction, which decision, judgment, decree or other order has become final (*i.e.*, where all administrative appeals have been exhausted by all parties thereto), (ii) a closing agreement entered into under section 7121 of the Code, or any other settlement agreement entered into in connection with an administrative or judicial proceeding, or (iii) the expiration of the time for instituting a claim for refund, or if such a claim was filed, the expiration of the time for instituting suit with respect thereto.

**“Final Shutdown”** shall mean the permanent removal from operation and commercial service of the Facility.

**“Final Shutdown Date”** shall mean the date on which Final Shutdown occurs.

**“Fitch”** shall mean Fitch, Inc. and any successor thereto.

**“FMV Net Termination Value”** shall have the meaning set forth in Section 18.2(d) of the Facility Lease.

**“GAAP”** shall mean generally accepted accounting principles used in the United States consistently applied.

**“Government”** shall mean the United States of America.

**“Governmental Entity”** shall mean and include the Government, any national government, any political subdivision of a national government or of any state, county or local jurisdiction therein or any board, commission, department, division, organ, instrumentality, court or agency of any thereof, but shall not include TVA.

**“Ground Interest”** shall mean a 90% undivided interest in the Facility Site together with (i) all rights under Applicable Law as a tenant-in-common of the Facility Site with the Ground Lessor as owner/holder of the remaining 10% undivided interest (or any successor, assignee or lessee of Ground Lessor’s 10% undivided interest) in the Facility Site, as such rights of a tenant-in-common are modified by the Ground Lease (including Sections 12.19 and 12.20 thereof) and, following termination of the Ground Sublease, the Support Agreement, and (ii) the right to nonexclusive possession with the Ground Lessor as owner/holder of the remaining 10%

undivided interest (or any successor, assignee or lessee of Ground Lessor's 10% undivided interest) in the Facility Site.

**"Ground Lease"** shall mean the Ground Lease Agreement, dated as of the Closing Date, among the Ground Lessor and the Ground Lessee, substantially in the form of Exhibit B to the Participation Agreement.

**"Ground Lease Term"** shall have the meaning specified in Section 2.2 of the Ground Lease.

**"Ground Lessee"** shall mean the Owner Lessor as lessee of the Ground Interest under the Ground Lease.

**"Ground Lessor"** shall mean TVA and the Government (solely for purposes of Section 2.1 of the Ground Lease), as lessor of the Ground Interest under the Ground Lease.

**"Ground Lessor's Release Rights"** shall have the meaning specified in Section 4.2 of the Ground Lease.

**"Ground Sublease"** shall mean the Ground Sublease Agreement, dated as of the Closing Date, among the Ground Sublessor and the Ground Sublessee, substantially in the form of Exhibit D to the Participation Agreement.

**"Ground Sublease Term"** shall have the meaning specified in Section 2.2 of the Ground Sublease.

**"Ground Sublessee"** shall mean TVA and the Government (solely for purposes of Section 2.1 of the Ground Sublease) as sublessee of the Ground Interest under the Ground Sublease.

**"Ground Sublessor"** shall mean the Owner Lessor as sublessor of the Ground Interest under the Ground Sublease.

**"Hazardous Substance"** shall mean any pollutant, contaminant, hazardous substance, hazardous waste, toxic substance, chemical substance, extremely hazardous substance, petroleum or petroleum derived substance, waste, or additive, asbestos, PCBs, radioactive material, corrosive, explosive, flammable or infectious material, lead, radon or other compound, element, material or substance in any form whatsoever (including products) defined, regulated, restricted or controlled by or under any Environmental Law.

**"Head Lease"** shall mean the Head Lease Agreement, dated as of the Closing Date, among the Head Lessor and the Head Lessee, substantially in the form of Exhibit A to the Participation Agreement.

**"Head Lease Rent"** shall have the meaning specified in Section 3.2(a) of the Head Lease.

**"Head Lease Term"** shall have the meaning specified in Section 3.1 of the Head Lease.

**"Head Lessee"** shall mean the Owner Lessor as lessee of the Undivided Interest under the Head Lease.

**“Head Lessor”** shall mean TVA and the Government (solely for purposes of Section 2 of the Head Lease) as lessor of the Undivided Interest under the Head Lease.

**“HRSG”** shall have the meaning specified in Attachment A to the Head Lease.

**“Indemnitee”** shall have the meaning specified in Section 9.1(a) of the Participation Agreement.

**“Indemnity Period”** shall have the meaning specified in Section 11 of the Ground Lease.

**“Independent Appraiser”** shall mean a disinterested, licensed industrial property appraiser who is a member of the Appraisal Institute having experience in the business of evaluating facilities similar to the Facility.

**“Investment Banker”** shall have the meaning specified in Section 2.10(b) of the Lease Indenture.

**“Lease Default”** shall mean any event or circumstance that, with the passage of time or the giving of notice, or both, would become a Lease Event of Default.

**“Lease Event of Default”** shall have the meaning specified in Section 17 of the Facility Lease.

**“Lease Indenture”** shall mean the Indenture of Trust, Deed of Trust and Security Agreement, dated as of the Closing Date, among the Owner Lessor, the Lease Indenture Trustee and the Deed of Trust Trustee, substantially in the form of Exhibit E to the Participation Agreement.

**“Lease Indenture Estate”** shall have the meaning specified in the Granting Clause of the Lease Indenture.

**“Lease Indenture Event of Default”** shall have the meaning specified in Section 4.2 of the Lease Indenture.

**“Lease Indenture Payment Default”** shall mean any event or occurrence, which, with the passage of time or the giving of notice or both, would become a Lease Indenture Event of Default under Section 4.2(b) of the Lease Indenture.

**“Lease Indenture Trustee”** shall mean Wilmington Trust Company, not in its individual capacity, but solely as Lease Indenture Trustee under the Lease Indenture, and each other Person who may from time to time be acting as Lease Indenture Trustee in accordance with the provisions of the Lease Indenture.

**“Lease Indenture Trustee Office”** shall mean the office to be used for notices to the Lease Indenture Trustee from time to time pursuant to Section 9.5 of the Lease Indenture.

**“Lease Indenture Trustee’s Account”** shall mean the account identified as the Lease Indenture Trustee’s Account on Schedule 4 of the Participation Agreement.

**“Lease Indenture Trustee’s Liens”** shall mean any Lien on the Facility, the Facility Site, the Lessor Estate or any part thereof arising as a result of (i) Taxes against or affecting the Lease Indenture Trustee, or any



Affiliate thereof, in its individual capacity that is not related to, or that is in violation of, any Transaction Document or the transactions contemplated thereby, (ii) Claims against or any act or omission of the Lease Indenture Trustee, or Affiliate thereof, in its individual capacity that is not related to, or that is in violation of, any Transaction Document or the transactions contemplated thereby or that is in breach of any covenant or agreement of the Lease Indenture Trustee specified therein, (iii) Taxes imposed upon the Lease Indenture Trustee, or any Affiliate thereof, in its individual capacity that are not indemnified against by TVA pursuant to any Transaction Document, or (iv) Claims against or affecting the Lease Indenture Trustee, or any Affiliate thereof, in its individual capacity arising out of the voluntary or involuntary transfer by the Lease Indenture Trustee of any portion of the interest of the Trust Company or the Lease Indenture Trustee in the Lessor Estate, other than pursuant to the Transaction Documents.

**“Leasehold Deed of Trust Trustee”** shall mean W. Rodney Clement, Jr., Esq.

**“Lessee Person”** shall mean the Facility Lessee, any sublessee of the Facility Lessee or any other Person using or having possession of the Undivided Interest during the Facility Lease Term or any portion thereof and any Affiliate, successor, assignee, transferee, agent or employee of any of the foregoing or any Person claiming through any of the foregoing, except that none of the Owner Lessor, the Equity Investor, the Equity Manager, any Southaven Holdco Note Purchaser nor the Lease Indenture Trustee, nor any Affiliate, successor, assignee, transferee, agent or employee of any of the foregoing, nor any Person claiming through any of the foregoing, shall be a Lessee Person.

**“Lessor Estate”** shall mean all the estate, right, title and interest of the Owner Lessor in, to and under the Undivided Interest, the Ground Interest and the Transaction Documents, including all funds advanced to the Owner Lessor by the Equity Investor, all installments and other payments of Basic Lease Rent, Supplemental Lease Rent, Termination Value, condemnation awards, purchase price, sale proceeds and all other proceeds, rights and interests of any kind for or with respect to the estate, right, title and interest of the Owner Lessor in, to and under the Undivided Interest, the Ground Interest, the Transaction Documents, and any of the foregoing.

**“Lessor Manager”** shall have the meaning set forth in the introductory paragraph of the Participation Agreement.

**“Lessor Notes”** shall mean the 2013 Lessor Notes and any Additional Lessor Notes.

**“LGIP”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Lien”** shall mean any mortgage, security deed, security title, pledge, lien, charge, encumbrance, lease, or security interest or title retention arrangement.

**“List of Competitors”** shall mean the initial list attached to the Participation Agreement as Schedule 2, as amended from time to time pursuant to Section 7.1(b) of the Participation Agreement.

**“Majority in Interest of Noteholders”** as of any date of determination, shall mean Noteholders holding in aggregate more than 50% of the total outstanding principal amount of Lessor Notes; *provided, however*, that

any Lessor Notes held by TVA and/or any Affiliate of TVA shall not be considered outstanding for purposes of this definition unless TVA and/or such Affiliate shall hold title to all the Lessor Notes outstanding.

**“Majority of Facility Users”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Make Whole Premium”** shall mean, with respect to the Lessor Notes subject to redemption pursuant to the Lease Indenture, an amount equal to the Discounted Present Value of the Lessor Notes *less* the unpaid principal amount of such Lessor Notes; *provided* that the Make Whole Premium shall not be less than zero. For purposes of this definition, the “Discounted Present Value” of any Lessor Notes subject to redemption pursuant to the Lease Indenture shall be equal to the discounted present value of all principal and interest payments scheduled to become due after the date of such redemption in respect of the Lessor Notes, calculated using a discount rate equal to the sum of (i) the yield to maturity on the U.S. Treasury security having a life equal to the remaining average life of the Lessor Notes and (ii) 20 basis points; *provided, however*, that if there is no U.S. Treasury security having a life equal to the remaining average life of the Lessor Notes, such discount rate shall be calculated using a yield to maturity interpolated or extrapolated on a straight-line basis (rounding to the nearest calendar month, if necessary) from the yields to maturity for two U.S. Treasury securities having lives most closely corresponding to the remaining average life of the Lessor Notes.

**“Material Adverse Effect”** shall mean with respect to any Person a materially adverse effect on (i) the business, assets, revenues, results of operations, or financial condition of such Person, (ii) the ability of such Person to perform its obligations under the Transaction Documents, or (iii) the validity or enforceability of the Transaction Documents, the Liens granted thereunder, or the rights and remedies thereto.

**“Maximum Net Generating Capacity”** shall mean the maximum net Capability of the Facility to produce Energy under conditions existing from time to time.

**“Member”** shall have the meaning specified in Section 3.7(a) of the Support Agreement.

**“Membership Interests”** shall mean the membership interests of the Equity Investor in the Owner Lessor.

**“Mississippi Real Property”** shall have the meaning specified in Section 4.7 of the Indenture.

**“Modification”** shall mean a modification, alteration, improvement, addition, betterment or enlargement of the Facility, including any Required Modifications and Optional Modifications, but not Components.

**“Month”** shall mean a calendar month.

**“Moody’s”** shall mean Moody’s Investors Service, Inc. and any successor thereto.

**“Net TV Amount”** shall mean the FMV Net Termination Value or the Sale Net Termination Value, as applicable.

**“Net TV Amount (Debt Portion)”** shall be the amount equal to the product of (a) the applicable Net TV Amount as of the applicable Termination Date, *multiplied by* (b) a fraction (i) the numerator of which is the Termination Value (Debt Portion) as of such Termination Date and (ii) the denominator of which is the Termination Value as of such Termination Date.

**“Net TV Amount (Debt Portion) Rate”** shall mean, with respect to the applicable Debt Portion, a rate per annum equal to (a) 5.846% per annum with respect to the Debt Portion that corresponds to the 2013 Lessor Notes; or (b) the interest rate on the applicable Additional Lessor Notes *plus* two percent (2%) per annum with respect to the Debt Portion that corresponds to such Additional Lessor Notes.

**“Net TV Amount (Equity Portion)”** shall be the amount equal to the product of (a) the applicable Net TV Amount as of the applicable Termination Date, *multiplied by* (b) a fraction (i) the numerator of which is the Termination Value (Equity Portion) as of such Termination Date and (ii) the denominator of which is the Termination Value as of such Termination Date.

**“Net TV Amount (Equity Portion) Rate”** shall mean, with respect to the applicable Equity Portion, a rate per annum equal to (a) 6.95% per annum with respect to the Equity Portion that corresponds to the Equity Investment; and (b) the interest rate on the applicable Additional Equity Investment *plus* two percent (2%) per annum with respect to the Equity Portion that corresponds to such Additional Equity Investment.

**“Nonseverable Modifications”** shall mean any Modification that is not a Severable Modification.

**“Non-Defaulting Facility User”** shall have the meaning specified in Section 2.7(a) of the Support Agreement.

**“Note Register”** shall have the meaning specified in Section 2.8 of the Lease Indenture.

**“Noteholder”** shall mean any holder from time to time of outstanding Lessor Notes, and each such holder’s successors and permitted assigns.

**“Offering Circular”** shall mean the Offering Circular, dated August 6, 2013 with respect to the 2013 Lessor Notes.

**“Officer’s Certificate”** shall mean with respect to any Person a certificate signed by the Responsible Officer of such Person.

**“Operation and Maintenance Agreement”** shall have the meaning specified in Section 3.6(a) of the Support Agreement.

**“Operating Committee”** shall have the meaning specified in Section 3.7(a) of the Support Agreement.

**“Operation and Maintenance Expense Budget”** shall have the meaning set forth in Section 3.4(c) of the Support Agreement.

**“Operative Documents”** shall mean the Participation Agreement, the Head Lease, the Facility Lease, the Ground Lease, the Ground Sublease, any Equity Guaranty, the Owner Lessor Mortgage, the Lease Indenture, the Lessor Notes, the Owner Lessor LLC Agreement and the Support Agreement.

**“Optional Modification”** shall have the meaning specified in Section 8.2 of the Facility Lease.

**“Other Exchange Date Payment Amounts”** shall mean the following amounts (without duplication) to be paid by the Facility Lessee on the Exchange Date: (a) if the Exchange Date is also a Rent Payment Date, Basic Lease Rent payable on such Exchange Date; *plus* (b) all reasonable documented out-of-pocket costs and expenses incurred by the Owner Lessor, the Equity Investor, the Southaven Holdco Note Purchasers and the Lease Indenture Trustee in connection with the exercise of the Early Buy Out (without duplication of any such costs and expenses payable pursuant to the Facility Lease); *plus* (c) any other Supplemental Lease Rent payments due and unpaid on the Exchange Date under any other Transaction Document.

**“Other Redemption Date Payment Amounts”** shall mean the following amounts (without duplication) to be paid by the Facility Lessee on the Redemption Date: (a) if the Redemption Date is also a Rent Payment Date, Basic Lease Rent payable on such Redemption Date; *plus* (b) all reasonable documented out-of-pocket costs and expenses incurred by the Owner Lessor, the Equity Investor, the Southaven Holdco Note Purchasers and the Lease Indenture Trustee in connection with the exercise of the Early Buy Out (without duplication of any such costs and expenses payable pursuant to the Facility Lease); *plus* (c) any other Supplemental Lease Rent payments due and unpaid on the Redemption Date under any other Transaction Document.

**“Overdue Rate”** (a) when used with reference to the Lessor Notes, Basic Lease Rent (Debt Portion) or Termination Value (Debt Portion) shall mean two percent (2%) per annum over the greater of (i) the Base Rate and (ii) the stated interest rate on the Lessor Notes, (b) when used with reference to the Basic Lease Rent (Equity Portion) or Termination Value (Equity Portion), shall mean two percent (2%) over the greater of (A) the Base Rate and (B) 4.95% per annum or (c) when used with reference to any amount which is due and owing and not referenced in clause (a) or (b) of this definition, the Base Rate *plus* two percent (2%) per annum.

**“Owner Lessor”** shall have the meaning set forth in the introductory paragraph to the Participation Agreement.

**“Owner Lessor LLC Agreement”** shall mean the limited liability company agreement of the Owner Lessor, dated on or about the Execution Date, between the Equity Investor, and the Lessor Manager.

**“Owner Lessor Mortgage”** shall mean the Leasehold Deed of Trust and Security Agreement, dated as of the Closing Date, made by the Owner Lessor to the Leasehold Deed of Trust Trustee and TVA, substantially in the form of Exhibit I to the Participation Agreement.

**“Owner Lessor’s Account”** shall mean the account identified as the Owner Lessor’s Account on Schedule 4 to the Participation Agreement.

**“Owner Lessor’s Interest”** shall mean the Owner Lessor’s right, title and interest in and to (i) the Undivided Interest under the Head Lease, (ii) the Ground Interest under the Ground Lease, and (iii) the Support Agreement.

**“Owner Lessor’s Lien”** shall mean any Lien on the Facility, the Undivided Interest, the Facility Site, the Ground Interest, the Lessor Estate or any part thereof arising as a result of (i) Taxes against or affecting the Trust Company, the Lessor Manager or the Owner Lessor, or any respective Affiliate thereof that is not related to, or that is in violation of, any Transaction Document or the transactions contemplated thereby, (ii) Claims against, or any act or omission of, the Trust Company, the Lessor Manager or the Owner Lessor, or any respective Affiliate thereof, that is not related to, or that is in violation of, any Transaction Document or the transactions contemplated thereby or that is in breach of any covenant or agreement of the Trust Company, the Lessor Manager or the Owner Lessor specified therein, (iii) Taxes imposed upon the Trust Company, the Lessor Manager or the Owner Lessor, or any respective Affiliate thereof that are not indemnified against by TVA pursuant to any Transaction Document, or (iv) Claims against or affecting the Trust Company, the Lessor Manager or the Owner Lessor, or any respective Affiliate thereof arising out of the voluntary or involuntary transfer by the Trust Company, the Lessor Manager or the Owner Lessor of any portion of the interest of the Trust Company, the Lessor Manager or the Owner Lessor in the Owner Lessor’s Interest, other than pursuant to the Transaction Documents.

**“Owner Lessor’s Percentage Interest”** shall mean an undivided interest equal to 90%.

**“Owner Participant”** shall mean GSS Holdings (Southaven), Inc. until such time, if any, that it has transferred its membership interests in the Equity Investor in accordance with the Equity Investor LLC Agreement, and, thereafter shall mean such transferee or its permitted successor or assign.

**“Partial Early Buy Out”** shall mean TVA’s exercise of the Early Buy Out with respect to less than all Units.

**“Partial Event of Loss”** shall mean an Event of Loss with respect to less than all Units.

**“Participation Agreement”** shall mean the Participation Agreement, dated as of the Execution Date, among TVA, the Owner Lessor, the Lessor Manager, the Equity Manager, the Equity Investor and the Lease Indenture Trustee.

**“Paying Agent”** shall have the meaning specified in Section 2.6 of the Lease Indenture.

**“Permitted Closing Date Liens”** shall mean those matters listed on Exhibit 2 to the Ground Lease.

**“Permitted Instruments”** shall mean (a) Permitted Securities, (b) overnight loans to or other customary overnight investments in commercial banks of the type referred to in paragraph (d) below, (c) open market commercial paper of any corporation (other than TVA or any Affiliate thereof) incorporated under the laws of the United States or any state thereof which is rated not less than “prime 1” or its equivalent by Moody’s and “A 1” or its equivalent by S&P maturing within one year after such investment, or such other comparable rating by a nationally recognized rating agency, (d) certificates of deposit issued by commercial banks

organized under the laws of the United States or any state thereof or a domestic branch of a foreign bank (i) having a combined capital and surplus in excess of \$500,000,000 and (ii) which are rated “AA” or better by S&P and “Aa2” or better by Moody’s, or such other comparable rating by a nationally recognized rating agency; *provided* that no more than \$20,000,000 may be invested in such deposits at any one such bank, and (e) a money market fund registered under the Investment Company Act of 1940, as amended, the portfolio of which is limited to Permitted Securities.

“**Permitted Liens**” shall mean (i) the interests of TVA, the Equity Investor, the Owner Lessor and the Lease Indenture Trustee under any of the Transaction Documents; (ii) all Owner Lessor’s Liens, Equity Investor’s Liens and Lease Indenture Trustee’s Liens; (iii) the interests of TVA in the Facility and the Facility Site; (iv) Permitted Closing Date Liens; (v) Liens for Taxes either not delinquent or being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of TVA if required by generally accepted accounting principles, so long as such proceedings shall not involve any danger of the sale, forfeiture or loss of any part of the Undivided Interest or the Ground Interest; (vi) materialmen’s, mechanics’, workers’, repairmen’s, employees’ or other like liens arising in the ordinary course of business for amounts either not delinquent or being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of TVA if required by generally accepted accounting principles, so long as such proceedings shall not involve any danger of the sale, forfeiture or loss of any part of the Undivided Interest or the Ground Interest; (vii) liens arising out of judgments or awards against TVA with respect to which at the time an appeal or proceeding for review is being prosecuted in good faith by TVA, so long as such judgment, award or appeal shall not involve any danger of the sale, forfeiture or loss of any part of the Undivided Interest or the Ground Interest; (viii) utility rights of way and easements; and (ix) Liens permitted pursuant to Section 4.2 or 4.3 of the Ground Lease.

“**Permitted Post Facility Lease Term Liens**” shall mean the Permitted Liens referred to in clauses (ii), (iii) and (ix) of the definition thereof.

“**Permitted Securities**” shall mean securities (and security entitlements with respect thereto) that (a) are (i) direct obligations of the United States of America or obligations guaranteed as to principal and interest by the full faith and credit of the United States of America, and (ii) securities issued by agencies of the U.S. Federal government whether or not backed by the full faith and credit of the United States rated “AA” and “Aa2” by S&P and Moody’s, respectively, which, in either case under clauses (i) or (ii) are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government obligation or a specific payment of interest on or principal of any such U.S. Government obligation held by such custodian for the account of the holder of a depository receipt, *provided* that (except as required by law) such custodian is not authorized to make any deduction in the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government obligation or the specific payment of interest on or principal of the U.S. Government obligation evidenced by such depository receipt, and (b) have a stated maturity no later than the date of the expected use of the funds.

**“Person”** shall mean any individual, corporation, cooperative, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof.

**“Personalty”** shall have the meaning specified in the Granting Clause of the Owner Lessor Mortgage.

**“Phase I”** shall mean the Phase I environmental site assessment required by Section 4(u) of the Participation Agreement or Section 5.3 of the Facility Lease.

**“Plan”** shall mean any “employee benefit plan” (as defined in Section 3(3) of ERISA) that is subject to ERISA, any “plan” (as defined in Section 4975(e)(1) of the Code) that is subject to Section 4975 of the Code, any trust created under any such plan or any “governmental plan” (as defined in Section 3(32) of ERISA or Section 414(d) of the Code) that is organized in a jurisdiction having prohibitions on transactions with government plans similar to those contained in Section 406 of ERISA or Section 4975 of the Code.

**“Points of Interconnection”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Power”** shall mean megawatts of Capacity and associated Energy.

**“Proceeds”** shall mean the proceeds from the sale of the 2013 Lessor Notes by the Owner Lessor to the Noteholders on the Closing Date.

**“Prohibited Transaction Class Exemption”** shall mean a class exemption from the applicable restrictions of Section 406 of ERISA and Section 4975 of the Code issued by the Department of Labor.

**“Prudent Industry Practice”** shall mean, at a particular time, either (a) any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry with respect to facilities similar in nature to the Facility, or (b) any of the practices, methods and acts which, in the exercise of reasonable judgment at the time the decision was made, could have been expected to accomplish the desired result at the lowest reasonable cost consistent with good business practices, reliability, safety and expedition. “Prudent Industry Practice” is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts.

**“Purchase Agreement”** shall mean the Asset Purchase Agreement, dated as of August 6, 2013, by and between TVA, as purchaser, and Seven States, as seller, of all right, title and interest of Seven States in and to the Facility, the Facility Site and certain related personal property and real property as set forth therein.

**“Quarter”** means a calendar three-month period, ending on March 31, June 30, September 30 or December 31.

**“Rates”** shall have the meaning specified in Section 5.4 of the Participation Agreement.

**“Rating Agencies”** shall mean S&P, Moody’s and Fitch and any other comparable nationally recognized rating agency.

**“Real Property”** shall have the meaning specified in the Granting Clause of the Owner Lessor Mortgage.

**“Reasonable Basis”** for a position shall exist if tax counsel may properly advise reporting such position on a tax return in accordance with Formal Opinion 85-352 issued by the Standing Committee on Ethics and Professional Responsibility of the American Bar Association (or any successor to such opinion).

**“Rebuilding Closing Date”** shall have the meaning specified in Section 10.3(b) of the Facility Lease.

**“Redemption Date”** shall mean, when used with respect to any Lessor Notes to be redeemed, the date fixed for such redemption by or pursuant to the Lease Indenture or the respective Lessor Notes, which date shall be a Termination Date.

**“Registrar”** shall have the meaning specified in Section 2.8 of the Lease Indenture.

**“Regulatory Event of Loss”** shall mean a condition or circumstance where, if elected by the Owner Lessor, the Equity Investor or one or more affected Southaven Holdco Note Purchasers (by notice to the Facility Lessee) within 12 months of obtaining knowledge of the event or circumstance causing a “Regulatory Event of Loss,” the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers become subject to rate of return regulation or other applicable public utility law or regulation of a Governmental Entity that, in the reasonable opinion of the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers, is materially burdensome to the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers and cannot be remedied by cooperation among the parties and the taking of reasonable measures to alleviate the source or consequence of any such regulation or law, *provided* that: (i) such regulation or law is applicable solely as a result of the participation of the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers in the transactions contemplated by the Transaction Documents and not as a result of (A) any other investments, loans, or other business activities of the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers or their Affiliates or the nature of properties or assets owned, held or otherwise available to the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers or their Affiliates, or (B) a failure of the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers or their Affiliates to perform routine, administrative or ministerial actions which would not have a material adverse consequence on the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers or their Affiliates; and (ii) the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers would no longer be subject to such law or regulation if the Owner Lessor terminated the Head Lease and the Facility Lease and transferred the Undivided Interest to the Head Lessor, the Equity Investor disposed of its Membership Interests, or such affected Southaven Holdco Note Purchaser or Purchasers disposed of its or their Southaven Holdco Notes as the case may be.



**“Regulatory Event of Loss Termination Payment”** shall mean, with respect to any Termination Date, an amount equal to the product of (a) the Termination Value (Equity Portion) with respect to such Termination Date, *multiplied* by (b) the applicable Southaven Holdco Note Purchaser’s Percentage Interest of the Notes.

**“Reinvestment Yield”** shall mean, with respect to the Called Amount of any Equity Investment, 0.50% over the yield to maturity implied by the yield(s) reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Amount, on the display designated as “Page PX1” (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on-the-run U.S. Treasury securities (**“Reported”**) having a maturity equal to the Remaining Average Life of such Remaining Scheduled Payments as of such Settlement Date. If there are no such U.S. Treasury securities Reported having a maturity equal to such Remaining Average Life, then such implied yield to maturity will be determined by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between the yields Reported for the applicable most recently issued actively traded on-the-run U.S. Treasury securities with the maturities (1) closest to and greater than such Remaining Average Life and (2) closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Equity Investment. If such yields are not Reported or the yields Reported as of such time are not ascertainable (including by way of interpolation), then **“Reinvestment Yield”** shall mean, with respect to the Called Amount of any Equity Investment, 0.50% over the yield to maturity implied by the U.S. Treasury constant maturity yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Amount, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for the U.S. Treasury constant maturity having a term equal to the Remaining Average Life of such Called Amount as of such Settlement Date. If there is no such U.S. Treasury constant maturity having a term equal to such Remaining Average Life, such implied yield to maturity will be determined by interpolating linearly between (1) the U.S. Treasury constant maturity so reported with the term closest to and greater than such Remaining Average Life and (2) the U.S. Treasury constant maturity so reported with the term closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Equity Investment.

**“Related Party”** shall mean, with respect to any Person or its successors and assigns, an Affiliate of such Person or its successors and assigns and any director, officer, servant, employee or agent of that Person or any such Affiliate or their respective successors and assigns; *provided* that the Lessor Manager and the Owner Lessor shall not be treated as Related Parties to each other and neither the Owner Lessor nor the Lessor Manager shall be treated as a Related Party to the Equity Investor except that, for purposes of Section 9 of the Participation Agreement, the Owner Lessor will be treated as a Related Party to the Equity Investor to the extent that the Owner Lessor acts on the express direction or with the express consent of the Equity Investor.

**“Released Property”** shall have the meaning specified in Section 4.2 of the Ground Lease.

**“Relevant Portion of the Facility”** shall mean the Unit or Units suffering an Event of Loss.

**“Relevant Portion of the Undivided Interest”** shall mean the Owner Lessor’s Percentage Interest in the Relevant Portion of the Facility.

**“Remaining Average Life”** shall mean, with respect to any Called Amount, the number of years obtained by dividing (i) such Called Amount into (ii) the sum of the products obtained by multiplying (a) the return of equity component of each Remaining Scheduled Payment with respect to such Called Amount by (b) the number of years, computed on the basis of a 360-day year composed of twelve 30-day months, that will elapse between the Settlement Date with respect to such Called Amount and the scheduled due date of such Remaining Scheduled Payment.

**“Remaining Scheduled Payments”** shall mean, with respect to the Called Amount of any Equity Investment, all payments of Basic Lease Rent (Equity Portion) that would be due after the Settlement Date if no payment of such Called Amount were made prior to its scheduled due date.

**“Removable Modification”** shall have the meaning specified in Section 8.3 of the Facility Lease.

**“Rent”** shall mean Basic Lease Rent and Supplemental Lease Rent.

**“Rent Payment Date”** shall mean each August 15 and February 15, commencing February 15, 2014, to and including August 15, 2033.

**“Replacement Component”** shall have the meaning specified in Section 7.2 of the Facility Lease.

**“Replacement Power Bond”** shall have the meaning specified in Section 2.10(c) of the Lease Indenture.

**“Reported”** shall have the meaning specified in the definition of Reinvestment Yield in this Appendix A.

**“Required Modification”** shall have the meaning specified in Section 8.1 of the Facility Lease.

**“Responsible Officer”** shall mean (a) with respect to a corporation or limited liability company, its Chairman of the Board, its President, any Senior Vice President, the Chief Financial Officer, any Vice President, the Treasurer, its Independent Manager or any other management employee (i) that has the power to take the action in question and has been authorized, directly or indirectly, by the Board of Directors (or equivalent body) of such Person, (ii) working under the direct supervision of such Chairman of the Board, President, Senior Vice President, Chief Financial Officer, Vice President or Treasurer, and (iii) whose responsibilities include the administration of the transactions and agreements contemplated by the Transaction Documents, (b) with respect to the Lease Indenture Trustee, an officer in its corporate trust administration department, (c) with respect to TVA, its Chairman of the Board, its President, any Senior Vice President, the Chief Financial Officer, any Vice President, the Treasurer or any other management employee, (d) with respect to the Owner Lessor, the Lessor Manager, and (e) with respect to the Equity Investor, the Equity Manager.

**“Revenues”** shall have the meaning specified in the Granting Clause of the Lease Indenture.

**“S&P”** shall mean Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. or any successor thereto.

**“Sale Net Termination Value”** shall have the meaning set forth in Section 18.2(e) of the Facility Lease.

**“Scheduled Closing Date”** shall mean August 9, 2013 or any date set for the Closing in a notice of postponement pursuant to Section 2.3(a) of the Participation Agreement.

**“SEC”** shall mean the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934.

**“Secured Indebtedness”** shall have the meaning specified in Section 1 of the Lease Indenture.

**“Securities Act”** shall mean the Securities Act of 1933, as amended.

**“Service Commencement Date”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Settlement Date”** shall mean, with respect to the Called Amount of any Equity Investment, the date, which shall be a Termination Date, on which such Called Amount is to be repaid pursuant to Section 15 of the Facility Lease.

**“Seven States”** shall have the meaning specified in the recitals to the Participation Agreement.

**“Seven States Parent”** shall mean Seven States Power Corporation, a not-for-profit mutual benefit corporation created and existing under the laws of the State of Tennessee.

**“Seven States Profits Interest”** shall mean the membership interest in the Equity Investor held by Seven States.

**“Seven States Transfer”** shall mean the purchase by TVA of all right, title and interest of Seven States in and to the Facility and the Facility Site pursuant to the terms and conditions of the Purchase Agreement.

**“Severable Modification”** shall mean any Modification that is removable without causing material damage to the Facility that cannot readily be repaired.

**“Significant Lease Default”** shall mean any of: (i) TVA shall fail to make any payment of Basic Lease Rent or Termination Value on the relevant payment date or after the same shall have become due and payable, (ii) TVA shall fail to make any payment of Supplemental Lease Rent in excess of \$250,000 (other than Excepted Payments, or Termination Value or any amount determined by reference thereto) on the relevant payment date after the same shall have become due and payable, except to the extent such amounts are the subject of a good faith dispute and have not been established to be due and payable, or (iii) an event which is or, with the passage of time would be, a Lease Event of Default under Section 17(e) or (f) of the Facility Lease.

**“Similar Law”** shall mean any federal, state or local law that is substantially similar to Title I of ERISA or Section 4975 of the Code.

**“Southaven Holdco Notes”** shall mean, with respect to any Southaven Holdco Note Purchaser, the Southaven Holdco Note issued by the Equity Investor as of the Closing Date to such Southaven Holdco Note Purchaser substantially in the form attached as Exhibit 1 to the Southaven Holdco Note Purchase Agreement.

**“Southaven Holdco Note Purchase Agreement”** shall mean the Note Purchase Agreement, dated as of the Execution Date, between the Equity Investor and the Southaven Holdco Note Purchasers.

**“Southaven Holdco Note Purchase Documents”** shall mean the Southaven Holdco Note Purchase Agreement, the Southaven Holdco Notes, the Equity Pledge Agreement and the Equity Investor LLC Agreement.

**“Southaven Holdco Note Purchaser”** or **“Southaven Holdco Note Purchasers”** shall mean the Persons set forth under the caption “Southaven Holdco Note Purchaser” on Schedule 4 to the Participation Agreement.

**“Southaven Holdco Note Purchaser’s Percentage Interest of the Notes”** shall mean, as of any date of determination, the percentage of the outstanding principal amount of Southaven Holdco Notes held by the applicable Southaven Holdco Note Purchaser.

**“Special Lessee Transfer”** shall have the meaning specified in Section 12 of the Participation Agreement.

**“Special Lessee Transfer Amount”** shall mean for any Termination Date, the amount determined as follows: (i) the Termination Value (Equity Portion) under the Facility Lease on such Termination Date; *plus* (ii) any unpaid Basic Lease Rent (Equity Portion) due on or before such Termination Date; *plus* (iii) the Equity Breakage.

**“Station Service Requirements”** shall mean the Capacity and Energy required during any period (including initial start-up and testing) and supplied from any source other than the Facility for operation of all on-site process and auxiliary equipment and systems used or useful in connection with the operation and maintenance of the Facility.

**“STG”** shall have the meaning specified in Attachment A to the Head Lease.

**“Subordinated Resolution”** shall mean the Tennessee Valley Authority Subordinated Debt resolution adopted March 29, 1995, as amended and supplemented.

**“Supermajority of Facility Users”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Supplemental Financing”** shall have the meaning specified in Section 11.2(b) of the Participation Agreement.

**“Supplemental Lease Rent”** shall mean any and all amounts, liabilities and obligations (other than Basic Lease Rent or any amount determined by reference thereto) that TVA assumes, agrees to or is required to pay under the Transaction Documents (whether or not identified as “Supplemental Lease Rent”) to the Owner Lessor or any other Person, including Termination Value and Make Whole Premium.

**“Support Agreement”** shall mean the Joint Operating and Support Agreement, dated as of the Closing Date, between the Owner Lessor and TVA, substantially in the form of Exhibit H to the Participation Agreement.

**“Tax”** or **“Taxes”** shall mean all fees, taxes (including sales taxes, use taxes, stamp taxes, value added taxes, *ad valorem* taxes and property taxes (personal and real, tangible and intangible)), levies, assessments, withholdings and other charges and impositions of any nature, plus all related interest, penalties, fines and additions to tax, now or hereafter imposed by any Federal, state, local or foreign government or other taxing authority (including penalties or other amounts payable pursuant to subtitle B of Title I of ERISA).

**“Tax Advance”** shall have the meaning specified in Section 9.2(g)(iii)(4) of the Participation Agreement.

**“Tax Benefit”** shall have the meaning specified in Section 9.2(e) of the Participation Agreement.

**“Tax Claim”** shall have the meaning specified in Section 9.2(g)(i) of the Participation Agreement.

**“Tax Event”** shall mean any event or transaction that results in a Noteholder being subject to U.S. federal income Tax on a different amount, in a different manner or at a different time than would have been the case if such event had not occurred.

**“Tax Indemnatee”** shall have the meaning specified in Section 9.2(a) of the Participation Agreement.

**“Term-Out Notice Date”** shall have the meaning specified in Section 18.4 of the Facility Lease.

**“Term-Out Payment Dates”** shall have the meaning specified in Section 18.4 of the Facility Lease.

**“Termination Date”** shall mean each of the monthly dates during the Facility Lease Term identified as a “Termination Date” on Schedule 2 of the Facility Lease.

**“Termination Value”** for any Termination Date shall mean an amount equal to the sum of (a) Termination Value (Debt Portion) and (b) Termination Value (Equity Portion) for such Termination Date.

**“Termination Value (Debt Portion)”** for any Termination Date shall mean the amount set forth under the heading “Termination Value (Debt Portion)” on Schedule 2 of the Facility Lease for such Termination Date.

**“Termination Value (Equity Portion)”** for any Termination Date shall mean the amount set forth under the heading “Termination Value (Equity Portion)” on Schedule 2 of the Facility Lease for such Termination Date.

**“Transaction”** shall mean, collectively, the transactions contemplated under the Participation Agreement and the other Transaction Documents.

**“Transaction Costs”** shall mean the following costs to the extent substantiated or otherwise supported in reasonable detail:

(i) the cost of reproducing and printing the Transaction Documents and the Offering Circular and all costs and fees, including filing and recording fees and recording, transfer, mortgage, intangible and similar Taxes in connection with the execution, delivery, filing and recording of the Head Lease, the Facility Lease, the Ground Lease, the Ground Sublease and any other Transaction Document, and any other document required to be filed or recorded pursuant to the provisions hereof or of any other Transaction Document and any Uniform Commercial Code filing fees in respect of the perfection of any security interests created by any of the Transaction Documents or as otherwise reasonably required by the Owner Lessor or the Lease Indenture Trustee;

(ii) the reasonable fees and expenses of Hunton & Williams LLP, counsel to the Equity Investor and the Southaven Holdco Note Purchasers, and Winston & Strawn LLP, special counsel to the Southaven Holdco Note Purchasers for services rendered in connection with the negotiation, execution and delivery of the Participation Agreement and the other Transaction Documents;

(iii) the reasonable fees and expenses of Bradley Arant Boult Cummings LLP, Mississippi counsel to the Equity Investor and the Underwriters, for services rendered in connection with the negotiation, execution and delivery of the Participation Agreement and the other Transaction Documents;

(iv) the reasonable fees and expenses of Orrick, Herrington & Sutcliffe LLP, special counsel to TVA, and Butler, Snow, O’Mara, Stevens & Cannada, PLLC, Mississippi counsel to TVA, for services rendered in connection with the negotiation, execution and delivery of the Participation Agreement, the other Transaction Documents and the Underwriting Agreement and the preparation of the Offering Circular;

(v) the reasonable fees and expenses of Morris James LLP, counsel to the Owner Lessor, the Lessor Manager, the Equity Manager and the Equity Collateral Agent, for services rendered in connection with the negotiation, execution and delivery of the Participation Agreement and the other Transaction Documents;

(vi) the reasonable fees and expenses of White & Case, LLP, counsel to the Underwriters, for services rendered in connection with the negotiation, execution and delivery of the Participation Agreement, the other Transaction Documents and the Underwriting Agreement and the preparation of the Offering Circular;

(vii) the reasonable fees and expenses of Richards, Layton & Finger, PA, counsel to the Lease Indenture Trustee for services rendered in connection with the negotiation, execution and delivery of the Participation Agreement and the other Transaction Documents;

(viii) the underwriting discounts and commissions payable to, and reasonable out of pocket expenses of, the Underwriters;

(ix) the reasonable fees and expenses of Ernst & Young LLP for services rendered in connection with the Transaction;

(x) the reasonable, documented out-of-pocket expenses of the Equity Investor, each Southaven Holdco Note Purchaser, the Owner Participant, Seven States and the Owner Lessor;

(xi) the reasonable fees and expenses of Dentons US LLP, counsel to the Owner Participant, and Miller & Martin PLLC, counsel to Seven States, each for services rendered in connection with the Transaction;

(xii) the reasonable fees and expenses of First Southwest Company, financial advisor to Seven States, for services rendered in connection with the Transaction;

(xiii) the initial fees and expenses of the Lease Indenture Trustee in connection with the execution and delivery of the Participation Agreement and the other Transaction Documents to which it is or will be a party;

(xiv) the initial fees and expenses of Wilmington, in its capacity as Lessor Manager, Equity Manger and Collateral Agent, in connection with the execution and delivery of the Participation Agreement and the other Transaction Documents to which it is or will be a party;

(xv) the fees and expenses of the Appraiser, for services rendered in connection with delivering the Closing Appraisal required by Section 4 of the Participation Agreement;

(xvi) the fees and expenses of the Engineering Consultant, for services rendered in connection with delivering the Engineering Report required by Section 4 of the Participation Agreement;

(xvii) the fees and expenses of Trinity Consultants, Inc. for services rendered in connection with delivering the Phase I required by Section 4(u) of the Participation Agreement;

(xviii) the fees and expenses of PLS, Inc. for services rendered in connection with delivering the map or drawing required by Section 4(s) of the Participation Agreement;

(xvix) the fees and expenses of Fidelity National Title Insurance Company for services rendered in connection with delivering the title report required by Section 4(s) of the Participation Agreement; and

(xvx) the fees and expenses of the Rating Agencies in connection with the rating of the Lessor Notes.

Notwithstanding the foregoing, Transaction Costs shall not include internal costs and expenses such as salaries and overhead of whatsoever kind or nature nor costs incurred by the parties to the Participation Agreement pursuant to arrangements with third parties for services (other than those expressly referred to above), such as the fees and expenses of financial analysis and consulting, advisory services, and costs of a similar nature.

**“Transaction Documents”** shall mean the Operative Documents and the Southaven Holdco Note Purchase Documents.

**“Transaction Party(ies)”** shall mean, individually or collectively as the context may require, all or any of the parties to the Transaction Documents (including the Trust Company and Wilmington Trust).

**“Transferee”** shall have the meaning specified in Section 7.1(a) of the Participation Agreement.

**“Transmission Services Guidelines”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Treasury Regulations”** shall mean regulations, including temporary regulations, promulgated under the Code.

**“Trust Company”** shall have the meaning set forth in the introductory paragraph to the Participation Agreement.

**“Trust Indenture Act”** shall mean the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed except as provided in Section 905 of such act; *provided, however*, that in the event the Trust Indenture Act of 1939 is amended after such date, “Trust Indenture Act” means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

**“TVA”** shall have the meaning set forth in the introductory paragraph to the Participation Agreement.

**“TVA (Entergy) Interconnection Facilities”** shall have the meaning specified in Section 1 of the Support Agreement.

**“TVA Act”** shall mean the Tennessee Valley Authority Act of 1933, as amended.

**“TVA IA”** shall have the meaning specified in Section 4.2(a) of the Support Agreement.

**“TVA Interconnection Facilities”** shall have the meaning specified in Section 1 of the Support Agreement.

**“TVA Point of Interconnection”** shall have the meaning specified in Section 1 of the Support Agreement.



**“TVA Substation”** shall have the meaning specified in Section 1 of the Support Agreement.

**“TVA Transmission System”** shall mean the facilities owned, controlled or operated by TVA (or a successor entity) that are used to provide transmission service under the Transmission Service Guidelines.

**“TVA’s Percentage Interest”** shall mean TVA’s 10% undivided interest in the Facility and the Facility Site not subject to the Transaction.

**“Uncontrollable Forces”** shall have the meaning set forth in Section 7.2 of the Support Agreement.

**“Underwriters”** shall mean Merrill, Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC and J.P. Morgan Securities LLC.

**“Underwriting Agreement”** shall mean the Underwriting Agreement, dated the Execution Date, between TVA and the Underwriters.

**“Undivided Interest”** shall mean a 90% undivided interest in the Facility together with (i) all rights under Applicable Law as a tenant-in-common of the Facility with the Head Lessor as owner/holder of the remaining 10% undivided interest (or any successor, assignee or lessee of the Head Lessor’s 10% undivided interest) in the Facility, as such rights of a tenant-in-common are modified by the Head Lease (including Sections 14.17 and 14.18 thereof) and, following termination of the Facility Lease, the Support Agreement, (ii) the right to nonexclusive possession with the Head Lessor as owner/holder of the remaining 10% undivided interest (or any successor, assignee or lessee of the Head Lessor’s 10% undivided interest) in the Facility, and (iii) following the termination of the Facility Lease, the right to 90% of the capacity, energy and ancillary services as may be available from the Facility from time to time.

**“Uniform Commercial Code”** or **“UCC”** shall mean the Uniform Commercial Code as in effect in the applicable jurisdiction.

**“Uniform System of Accounts”** shall mean the Uniform System of Accounts prescribed by FERC, as in effect on the Closing Date and as from time to time and thereafter amended, or the chart of accounts and accounting classifications which may be substituted for such Uniform System of Accounts from time to time by FERC or its successor for such purpose.

**“Unit”** and collectively the **“Units”** shall mean each of the three (3) General Electric Frame 7FA combustion turbine generators, together with the related Aalborg heat recovery steam generator and the related General Electric A10 steam turbine generator, and any Components exclusively related thereto, as more particularly described on Exhibit A to the Facility Lease.

**“U.S. Government Obligations”** shall mean securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case under clauses (i) or (ii) are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to

any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt, *provided* that (except as required by law) such custodian is not authorized to make any deduction in the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“**Verifier**” shall have the meaning specified in Section 3.4(c) of the Facility Lease.

“**Wilmington**” shall mean Wilmington Trust, National Association.

“**Wilmington Trust**” shall have the meaning set forth in the introductory paragraph to the Participation Agreement.

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Copies of the Ground Lease, the Ground Sublease, the Head Lease, the Facility Lease, the Indenture of Trust and the Support Agreement are of record with the Office of the Chancery Clerk of DeSoto County, Mississippi.

## Index

2013 Lessor Notes.....	4	Debt Portion.....	9
Actual Knowledge.....	4	Deed of Trust Trustee.....	9
Additional Equity Investment.....	4	Defaulting Facility User.....	9
Additional Facility.....	4	Discounted Value.....	9
Additional Lessor Notes.....	4	Dollars.....	9
Additional Owner.....	4	DTC.....	9
Affiliate.....	4	Early Buy Out.....	9
After-Tax Basis.....	4	Early Buy Out Date.....	9
Applicable Law.....	5	Early Buy Out Notice.....	9
Applicable Percentage.....	5	Effective Date.....	9
Applicable Rate.....	5	Election Notice.....	9
Appraisal Procedure.....	5	Eligible Customer.....	9
Appraiser.....	5	Energy.....	9
Appropriations Act Paragraph.....	5	Enforcement Notice.....	9
Arbitration Proceeding.....	5	Engineering Consultant.....	9
Assigned Documents.....	6	Engineering Report.....	10
Assignment and Assumption Agreement.....	6	Entergy.....	10
Bankruptcy Code.....	6	Entergy Point of Interconnection.....	10
Base Rate.....	6	Entergy Substation.....	10
Basic Lease Rent.....	6	Entergy Transmission System.....	10
Basic Lease Rent (Debt Portion).....	7	Environmental Condition.....	10
Basic Lease Rent (Equity Portion).....	7	Environmental Laws.....	10
Benefit Plan.....	7	Equity Breakage.....	10
Bond Resolution.....	7	Equity Collateral Agent.....	10
Business Day.....	7	Equity Guarantor.....	10
Called Amount.....	7	Equity Guaranty.....	10
Capability.....	7	Equity Investment.....	10
Capacity.....	7	Equity Investor.....	11
Capital Expenditure Budget.....	7	Equity Investor LLC Agreement.....	11
Claim.....	7	Equity Investor Members.....	11
Closing.....	7	Equity Investor's Lien.....	11
Closing Appraisal.....	7	Equity Manager.....	11
Closing Date.....	8	Equity Placement Agent.....	11
Code.....	8	Equity Pledge Agreement.....	11
Co-Equity Manager.....	8	Equity Portion.....	11
Co-Lessor Manager.....	8	ERISA.....	11
Collateral.....	8	Event of Loss.....	12
Common Facilities.....	8	Evidences of Indebtedness.....	12
Competitor.....	8	Excepted Payments.....	12
Component.....	8	Expected Rights.....	12
Confidential Information.....	8	Excess Amount.....	12
Construction Cost.....	8	Exchange Act.....	12
Contract Year.....	8	Exchange Date.....	13
CTG.....	9	Excluded Assets.....	13

Excluded Taxes.....	13	Indemnity Period.....	17
Execution Date.....	13	Independent Appraiser.....	17
Existing Southaven Credit Agreement.....	13	Investment Banker.....	17
Existing Southaven Lease Documents.....	13	Lease Default.....	17
Existing Southaven Loan Documents.....	13	Lease Event of Default.....	17
Expiration Date.....	13	Lease Indenture.....	17
Facility.....	13	Lease Indenture Estate.....	17
Facility Lease.....	13	Lease Indenture Event of Default.....	17
Facility Lease Term.....	13	Lease Indenture Payment Default.....	17
Facility Lessee.....	13	Lease Indenture Trustee.....	17
Facility Lessee's Interest.....	13	Lease Indenture Trustee Office.....	17
Facility Operating Fee.....	13	Lease Indenture Trustee's Account.....	17
Facility Operation and Maintenance Expense.....	13	Lease Indenture Trustee's Liens.....	17
Facility Site.....	14	Leasehold Deed of Trust Trustee.....	18
Facility User.....	14	Lessee Person.....	18
Fair Market Rental Value.....	14	Lessor Estate.....	18
Fair Market Sales Value.....	14	Lessor Manager.....	18
Federal Power Act.....	15	Lessor Notes.....	18
FERC.....	15	LGIP.....	18
Final Determination.....	15	Lien.....	18
Final Shutdown.....	15	List of Competitors.....	18
Final Shutdown Date.....	15	Majority in Interest of Noteholders.....	18
Fitch.....	15	Majority of Facility Users.....	19
FMV Net Termination Value.....	15	Make Whole Premium.....	19
GAAP.....	15	Material Adverse Effect.....	19
Government.....	15	Maximum Net Generating Capacity.....	19
Governmental Entity.....	15	Member.....	19
Ground Interest.....	15	Membership Interests.....	19
Ground Lease.....	16	Mississippi Real Property.....	19
Ground Lease Term.....	16	Modification.....	19
Ground Lessee.....	16	Month.....	19
Ground Lessor.....	16	Moody's.....	19
Ground Lessor's Release Rights.....	16	Net TV Amount.....	19
Ground Sublease.....	16	Net TV Amount (Debt Portion).....	20
Ground Sublease Term.....	16	Net TV Amount (Debt Portion) Rate.....	20
Ground Sublessee.....	16	Net TVA Amount (Equity Portion).....	20
Ground Sublessor.....	16	Net TVA Amount (Equity Portion) Rate.....	20
Hazardous Substance.....	16	Non-Defaulting Facility User.....	20
Head Lease.....	16	Nonseverable Modifications.....	20
Head Lease Rent.....	16	Note Register.....	20
Head Lessee.....	16	Noteholder.....	20
Head Lessor.....	17	Offering Circular.....	20
HRSG.....	17	Officer's Certificate.....	20
Indemnatee.....	17	Operation and Maintenance Agreement.....	20

Operation and Maintenance Expense Budget.....	20	Reinvestment Yield.....	26
Operative Documents.....	21	Related Party.....	26
Optional Modification.....	21	Released Property.....	26
Other Exchange Date Payment Amounts.....	21	Relevant Portion of the Facility.....	26
Other Redemption Date Payment Amounts.....	21	Relevant Portion of the Undivided Interest.....	27
Overdue Rate.....	21	Remaining Average Life.....	27
Owner Lessor.....	21	Remaining Scheduled Payments.....	27
Owner Lessor LLC Agreement.....	21	Removable Modification.....	27
Owner Lessor Mortgage.....	21	Rent.....	27
Owner Lessor's Account.....	21	Rent Payment Date.....	27
Owner Lessor's Interest.....	22	Replacement Component.....	27
Owner Lessor's Lien.....	22	Replacement Power Bond.....	27
Owner Lessor's Percentage Interest.....	22	Reported.....	27
Owner Participant.....	22	Required Modification.....	27
Partial Early Buy Out.....	22	Responsible Officer.....	27
Partial Event of Loss.....	22	Revenues.....	28
Participation Agreement.....	22	S&P.....	28
Paying Agent.....	22	Sale Net Termination Value.....	28
Permitted Closing Date Liens.....	22	Scheduled Closing Date.....	28
Permitted Instruments.....	22	SEC.....	28
Permitted Liens.....	23	Secured Indebtedness.....	28
Permitted Post Facility Lease Term Liens.....	23	Securities Act.....	28
Permitted Securities.....	23	Service Commencement Date.....	28
Person.....	24	Settlement Date.....	28
Personalty.....	24	Seven States.....	28
Phase I.....	24	Seven States Parent.....	28
Plan.....	24	Seven States Profits Interest.....	28
Points of Interconnection.....	24	Seven States Transfer.....	28
Power.....	24	Severable Modification.....	28
Proceeds.....	24	Significant Lease Default.....	28
Prohibited Transaction Class Exemption.....	24	Similar Law.....	29
Prudent Industry Practice.....	24	Southaven Holdco Note Purchase Agreement.....	29
Purchase Agreement.....	24	Southaven Holdco Note Purchase Documents.....	29
Quarter.....	24	Southaven Holdco Note Purchasers.....	29
Rates.....	24	Southaven Holdco Notes.....	29
Rating Agencies.....	25	Southaven Holdco Note Purchaser's Percentage Interest of the Notes.....	29
Real Property.....	25	Southaven Holdco Note Purchasers.....	29
Reasonable Basis.....	25	Southaven Holdco Notes.....	29
Rebuilding Closing Date.....	25	Special Lessee Transfer.....	29
Redemption Date.....	25	Special Lessee Transfer Amount.....	29
Registrar.....	25	Station Service Requirements.....	29
Regulatory Events of Loss.....	25	STG.....	29
Regulatory Event of Loss Termination Payment.....	26	Subordinated Resolution.....	29

Supermajority of Facility User.....	29	Trust Company.....	33
Supplemental Financing.....	29	Trust Indenture Act.....	33
Supplemental Lease Rent.....	30	TVA.....	33
Support Agreement.....	30	TVA (Entergy) Interconnection Facilities.....	33
Tax.....	30	TVA Act.....	33
Tax Advance.....	30	TVA IA.....	33
Tax Benefit.....	30	TVA Interconnection Facilities.....	33
Tax Claim.....	30	TVA Point of Interconnection.....	33
Tax Event.....	30	TVA Substation.....	34
Tax Indemnatee.....	30	TVA Transmission System.....	34
Taxes.....	30	TVA's Percentage Interest.....	34
Termination Date.....	30	U.S. Government Obligations.....	34
Termination Value.....	30	UCC.....	34
Termination Value (Debt Portion).....	30	Uncontrollable Forces.....	34
Termination Value (Equity Portion).....	31	Underwriters.....	34
Term-Out Notice Date.....	30	Underwriting Agreement.....	34
Term-Out Payment Dates.....	30	Undivided Interest.....	34
Transaction.....	31	Uniform Commercial Code.....	34
Transaction Costs.....	31	Uniform System of Accounts.....	34
Transaction Documents.....	33	Unit.....	34
Transaction Party(ies).....	33	Units.....	34
Transferee.....	33	Verifier.....	35
Transmission Services Guidelines.....	33	Wilmington.....	35
Treasury Regulations.....	33	Wilmington Trust.....	35

**SCHEDULE 1**  
**to**  
**Facility Lease**

**BASIC LEASE RENT**

<u>Rent Payment Date</u>	<u>Basic Lease Rent (Debt Portion)</u>	<u>Basic Lease Rent (Equity Portion)</u>	<u>Basic Lease Rent Interest Portion*</u>
February 15, 2014	\$15,405,730	\$2,222,840	\$8,576,893
August 15, 2014	15,405,730	2,222,840	8,136,128
February 15, 2015	15,405,730	2,222,840	7,940,171
August 15, 2015	15,405,730	2,222,840	7,739,976
February 15, 2016	15,405,730	2,222,840	7,535,445
August 15, 2016	15,405,730	2,222,840	7,326,478
February 15, 2017	15,405,730	2,222,840	7,112,972
August 15, 2017	15,405,730	2,222,840	6,894,821
February 15, 2018	15,405,730	2,222,840	6,671,918
August 15, 2018	15,405,730	2,222,840	6,444,151
February 15, 2019	15,405,730	2,222,840	6,211,406
August 15, 2019	15,405,730	2,222,840	5,973,568
February 15, 2020	15,405,730	2,222,840	5,730,515
August 15, 2020	15,405,730	2,222,840	5,482,127
February 15, 2021	15,405,730	2,222,840	5,228,276
August 15, 2021	15,405,730	2,222,840	4,968,834
February 15, 2022	15,405,730	2,222,840	4,703,668

\* For the avoidance of doubt, the amounts set forth under the column entitled "Basic Lease Rent Interest Portion" are provided for informational purposes only and reflect the amount included within the payment of Basic Lease Rent (Debt Portion) and Basic Lease Rent (Equity Portion) that constitutes, and shall be treated by the parties as, interest for U.S. federal income tax purposes and the listing of such amount does not create a payment obligation in addition to Basic Lease Rent.

Rent Payment Date	Basic Lease Rent (Debt Portion)	Basic Lease Rent (Equity Portion)	Basic Lease Rent Interest Portion*
August 15, 2022	15,405,730	2,222,840	4,432,643
February 15, 2023	15,405,730	2,222,840	4,155,620
August 15, 2023	9,797,483	1,150,076	3,872,455
February 15, 2024	9,797,483	1,150,076	3,728,396
August 15, 2024	9,797,483	1,150,076	3,581,286
February 15, 2025	9,797,483	1,150,076	3,431,057
August 15, 2025	9,797,483	1,150,076	3,277,639
February 15, 2026	9,797,483	1,150,076	3,120,960
August 15, 2026	9,797,483	1,150,076	2,960,947
February 15, 2027	9,797,483	1,150,076	2,797,524
August 15, 2027	9,797,483	1,150,076	2,630,613
February 15, 2028	9,797,483	1,150,076	2,460,137
August 15, 2028	9,797,483	1,150,076	2,286,013
February 15, 2029	9,797,483	1,150,076	2,108,160
August 15, 2029	9,797,483	1,150,076	1,926,490
February 15, 2030	9,797,483	1,150,076	1,740,919
August 15, 2030	9,797,483	1,150,076	1,551,355
February 15, 2031	9,797,483	1,150,076	1,357,708
August 15, 2031	9,797,483	1,150,076	1,159,883
February 15, 2032	9,797,483	1,150,076	957,785
August 15, 2032	9,797,483	1,150,076	751,315
February 15, 2033	9,797,483	1,150,076	540,371
August 15, 2033	9,797,483	4,140,000	324,851



**SCHEDULE 2**  
**to**  
**Facility Lease**

**TERMINATION VALUES**

Termination Date (Monthly)	Termination Value (Debt Portion)	Termination Value (Equity Portion)
August 9, 2013	\$360,000,000	\$40,000,000
September 15, 2013	361,382,400	40,280,000
October 15, 2013	362,534,400	40,513,333
November 15, 2013	363,686,400	40,746,667
December 15, 2013	364,838,400	40,980,000
January 15, 2014	365,990,400	41,213,333
February 15, 2014	351,747,830	39,200,494
March 15, 2014	352,873,423	39,429,163
April 15, 2014	353,999,016	39,657,833
May 15, 2014	355,124,610	39,886,502
June 15, 2014	356,250,203	40,115,172
July 15, 2014	357,375,796	40,343,841
August 15, 2014	343,106,211	38,349,671
September 15, 2013	344,204,151	38,573,378
October 15, 2013	345,302,091	38,797,084
November 15, 2013	346,400,031	39,020,791
December 15, 2013	347,497,971	39,244,497
January 15, 2014	348,595,911	39,468,203
February 15, 2014	334,298,414	37,469,070
March 15, 2014	335,368,169	37,687,640

Termination Date (Monthly)	Termination Value (Debt Portion)	Termination Value (Equity Portion)
April 15, 2015	336,437,924	37,906,209
May 15, 2015	337,507,679	38,124,779
June 15, 2015	338,577,434	38,343,348
July 15, 2015	339,647,189	38,561,918
August 15, 2015	325,321,243	36,557,648
September 15, 2015	326,362,271	36,770,901
October 15, 2015	327,403,299	36,984,154
November 15, 2015	328,444,327	37,197,407
December 15, 2015	329,485,355	37,410,660
January 15, 2016	330,526,383	37,623,913
February 15, 2016	316,171,441	35,614,326
March 15, 2016	317,183,190	35,822,076
April 15, 2016	318,194,938	36,029,827
May 15, 2016	319,206,687	36,237,577
June 15, 2016	320,218,435	36,445,327
July 15, 2016	321,230,184	36,653,077
August 15, 2016	306,845,688	34,637,988
September 15, 2016	307,827,594	34,840,043
October 15, 2016	308,809,501	35,042,098
November 15, 2016	309,791,407	35,244,153
December 15, 2016	310,773,313	35,446,208
January 15, 2017	311,755,219	35,648,262
February 15, 2017	297,340,601	33,627,478
March 15, 2017	298,292,091	33,823,638
April 15, 2017	299,243,581	34,019,798

Termination Date (Monthly)	Termination Value (Debt Portion)	Termination Value (Equity Portion)
May 15, 2017	300,195,071	34,215,959
June 15, 2017	301,146,561	34,412,119
July 15, 2017	302,098,051	34,608,279
August 15, 2017	287,652,731	32,581,600
September 15, 2017	288,573,220	32,771,659
October 15, 2017	289,493,709	32,961,718
November 15, 2017	290,414,197	33,151,778
December 15, 2017	291,334,686	33,341,837
January 15, 2018	292,255,175	33,531,896
February 15, 2018	277,778,564	31,499,116
March 15, 2018	278,667,455	31,682,861
April 15, 2018	279,556,346	31,866,606
May 15, 2018	280,445,238	32,050,351
June 15, 2018	281,334,129	32,234,096
July 15, 2018	282,223,021	32,417,840
August 15, 2018	267,714,516	30,378,746
September 15, 2018	268,571,202	30,555,955
October 15, 2018	269,427,889	30,733,164
November 15, 2018	270,284,575	30,910,374
December 15, 2018	271,141,261	31,087,583
January 15, 2019	271,997,948	31,264,792
February 15, 2019	257,456,936	29,219,162
March 15, 2019	258,280,798	29,389,607
April 15, 2019	259,104,661	29,560,052
May 15, 2019	259,928,523	29,730,497

Termination Date (Monthly)	Termination Value (Debt Portion)	Termination Value (Equity Portion)
June 15, 2019	260,752,385	29,900,943
July 15, 2019	261,576,247	30,071,388
August 15, 2019	247,002,103	28,018,993
September 15, 2019	247,792,510	28,182,437
October 15, 2019	248,582,917	28,345,881
November 15, 2019	249,373,324	28,509,325
December 15, 2019	250,163,730	28,672,770
January 15, 2020	250,954,137	28,836,214
February 15, 2020	236,346,224	26,776,818
March 15, 2020	237,102,532	26,933,016
April 15, 2020	237,858,840	27,089,214
May 15, 2020	238,615,148	27,245,413
June 15, 2020	239,371,456	27,401,611
July 15, 2020	240,127,764	27,557,809
August 15, 2020	225,485,432	25,491,167
September 15, 2020	226,206,986	25,639,866
October 15, 2020	226,928,539	25,788,564
November 15, 2020	227,650,093	25,937,263
December 15, 2020	228,371,646	26,085,961
January 15, 2021	229,093,199	26,234,660
February 15, 2021	214,415,788	24,160,518
March 15, 2021	215,101,918	24,301,455
April 15, 2021	215,788,049	24,442,391
May 15, 2021	216,474,179	24,583,328
June 15, 2021	217,160,310	24,724,264

Termination Date (Monthly)	Termination Value (Debt Portion)	Termination Value (Equity Portion)
July 15, 2021	217,846,440	24,865,200
August 15, 2021	203,133,274	22,783,297
September 15, 2021	203,783,300	22,916,200
October 15, 2021	204,433,327	23,049,102
November 15, 2021	205,083,353	23,182,005
December 15, 2021	205,733,380	23,314,907
January 15, 2022	206,383,406	23,447,810
February 15, 2022	191,633,797	21,357,873
March 15, 2022	192,247,025	21,482,460
April 15, 2022	192,860,253	21,607,048
May 15, 2022	193,473,481	21,731,635
June 15, 2022	194,086,709	21,856,223
July 15, 2022	194,699,938	21,980,811
August 15, 2022	179,913,185	19,882,559
September 15, 2022	180,488,907	19,998,540
October 15, 2022	181,064,629	20,114,522
November 15, 2022	181,640,352	20,230,503
December 15, 2022	182,216,074	20,346,485
January 15, 2023	182,791,796	20,462,467
February 15, 2023	167,967,186	18,355,609
March 15, 2023	168,504,681	18,462,683
April 15, 2023	169,042,176	18,569,757
May 15, 2023	169,579,671	18,676,832
June 15, 2023	170,117,166	18,783,906
July 15, 2023	170,654,661	18,890,980

Termination Date (Monthly)	Termination Value (Debt Portion)	Termination Value (Equity Portion)
August 15, 2023	161,399,712	17,847,979
September 15, 2023	161,916,191	17,952,092
October 15, 2023	162,432,670	18,056,205
November 15, 2023	162,949,149	18,160,318
December 15, 2023	163,465,629	18,264,432
January 15, 2024	163,982,108	18,368,545
February 15, 2024	154,705,946	17,322,582
March 15, 2024	155,201,005	17,423,630
April 15, 2024	155,696,064	17,524,679
May 15, 2024	156,191,123	17,625,727
June 15, 2024	156,686,182	17,726,775
July 15, 2024	157,181,241	17,827,824
August 15, 2024	147,883,459	16,778,796
September 15, 2024	148,356,686	16,876,673
October 15, 2024	148,829,913	16,974,549
November 15, 2024	149,303,140	17,072,425
December 15, 2024	149,776,367	17,170,301
January 15, 2025	150,249,594	17,268,178
February 15, 2025	140,929,775	16,215,978
March 15, 2025	141,380,750	16,310,571
April 15, 2025	141,831,725	16,405,164
May 15, 2025	142,282,701	16,499,758
June 15, 2025	142,733,676	16,594,351
July 15, 2025	143,184,651	16,688,944
August 15, 2025	133,842,372	15,633,461

Termination Date (Monthly)	Termination Value (Debt Portion)	Termination Value (Equity Portion)
September 15, 2025	134,270,667	15,724,656
October 15, 2025	134,698,963	15,815,852
November 15, 2025	135,127,259	15,907,047
December 15, 2025	135,555,554	15,998,242
January 15, 2026	135,983,850	16,089,437
February 15, 2026	126,618,678	15,030,556
March 15, 2026	127,023,858	15,118,234
April 15, 2026	127,429,037	15,205,913
May 15, 2026	127,834,217	15,293,591
June 15, 2026	128,239,397	15,381,269
July 15, 2026	128,644,577	15,468,947
August 15, 2026	119,256,072	14,406,550
September 15, 2026	119,637,692	14,490,588
October 15, 2026	120,019,311	14,574,626
November 15, 2026	120,400,931	14,658,664
December 15, 2026	120,782,550	14,742,702
January 15, 2027	121,164,169	14,826,741
February 15, 2027	111,751,884	13,760,703
March 15, 2027	112,109,490	13,840,974
April 15, 2027	112,467,096	13,921,244
May 15, 2027	112,824,702	14,001,515
June 15, 2027	113,182,308	14,081,786
July 15, 2027	113,539,914	14,162,057
August 15, 2027	104,103,390	13,092,251
September 15, 2027	104,436,521	13,168,623

Termination Date (Monthly)	Termination Value (Debt Portion)	Termination Value (Equity Portion)
October 15, 2027	104,769,652	13,244,994
November 15, 2027	105,102,782	13,321,366
December 15, 2027	105,435,913	13,397,737
January 15, 2028	105,769,044	13,474,109
February 15, 2028	96,307,815	12,400,404
March 15, 2028	96,616,000	12,472,740
April 15, 2028	96,924,185	12,545,075
May 15, 2028	97,232,370	12,617,411
June 15, 2028	97,540,555	12,689,747
July 15, 2028	97,848,740	12,762,083
August 15, 2028	88,362,332	11,684,342
September 15, 2028	88,645,091	11,752,501
October 15, 2028	88,927,851	11,820,659
November 15, 2028	89,210,610	11,888,818
December 15, 2028	89,493,370	11,956,977
January 15, 2029	89,776,129	12,025,135
February 15, 2029	80,264,057	10,943,218
March 15, 2029	80,520,902	11,007,053
April 15, 2029	80,777,747	11,070,889
May 15, 2029	81,034,592	11,134,724
June 15, 2029	81,291,437	11,198,560
July 15, 2029	81,548,282	11,262,395
August 15, 2029	72,010,052	10,176,155
September 15, 2029	72,240,484	10,235,516
October 15, 2029	72,470,916	10,294,876



Termination Date (Monthly)	Termination Value (Debt Portion)	Termination Value (Equity Portion)
November 15, 2029	72,701,349	10,354,237
December 15, 2029	72,931,781	10,413,598
January 15, 2030	73,162,213	10,472,959
February 15, 2030	63,597,323	9,382,244
March 15, 2030	63,800,834	9,436,974
April 15, 2030	64,004,346	9,491,703
May 15, 2030	64,207,857	9,546,433
June 15, 2030	64,411,368	9,601,163
July 15, 2030	64,614,880	9,655,893
August 15, 2030	55,022,816	8,560,546
September 15, 2030	55,198,889	8,610,483
October 15, 2030	55,374,963	8,660,419
November 15, 2030	55,551,036	8,710,356
December 15, 2030	55,727,109	8,760,292
January 15, 2031	55,903,182	8,810,229
February 15, 2031	46,283,423	7,710,089
March 15, 2031	46,431,529	7,755,065
April 15, 2031	46,579,636	7,800,041
May 15, 2031	46,727,743	7,845,016
June 15, 2031	46,875,850	7,889,992
July 15, 2031	47,023,957	7,934,967
August 15, 2031	37,375,970	6,829,867
September 15, 2031	37,495,573	6,869,707
October 15, 2031	37,615,176	6,909,548
November 15, 2031	37,734,779	6,949,389

Termination Date (Monthly)	Termination Value (Debt Portion)	Termination Value (Equity Portion)
December 15, 2031	37,854,382	6,989,230
January 15, 2032	37,973,986	7,029,071
February 15, 2032	28,297,227	5,918,836
March 15, 2032	28,387,778	5,953,362
April 15, 2032	28,478,330	5,987,889
May 15, 2032	28,568,881	6,022,415
June 15, 2032	28,659,432	6,056,942
July 15, 2032	28,749,983	6,091,468
August 15, 2032	19,043,900	4,975,919
September 15, 2032	19,104,841	5,004,945
October 15, 2032	19,165,781	5,033,971
November 15, 2032	19,226,722	5,062,998
December 15, 2032	19,287,662	5,092,024
January 15, 2033	19,348,603	5,121,050
February 15, 2033	9,612,632	4,000,000
March 15, 2033	9,643,392	4,023,333
April 15, 2033	9,674,153	4,046,667
May 15, 2033	9,704,913	4,070,000
June 15, 2033	9,735,673	4,093,333
July 15, 2033	9,766,434	4,116,667
August 15, 2033	\$0	\$0

**DESCRIPTION OF THE FACILITY**

The Facility consists of the Units, Common Facilities, and any other equipment, material or property owned or leased by TVA associated with the Units and Common Facilities (except for Excluded Assets, as defined below), all of which are located on, under, or over the Facility Site, which Facility Site is the real property located in the City of Southaven, Mississippi and is described in greater detail in Exhibit B hereto. For the avoidance of doubt, the Facility does not include the Facility Site.

Each Unit consists of one General Electric Frame 7FA.03 combustion turbine (“CTG”), one Aalborg Pioneer GT8 heat recovery steam generator (“HRSG”) with supplementary duct firing and one GE A10 steam turbine (“STG”) in a 1x1x1 configuration and all ancillary equipment relating thereto, except for the equipment which constitutes Common Facilities.

The units are sometimes referred to as SCC 01, SCC 02 and SCC 03. The serial numbers for each CTG-HRSG-STG group are as follows (CTG and STG serial numbers are turbine / generator):

<u>TVA Tag Number</u>	<u>CTG Serial Number</u>	<u>HRSG Serial Number</u>	<u>ST Serial Number</u>
SCC 01	298002 / 338X339	102142	270T568 / 290T568
SCC 02	298003 / 338X340	102143	270T569 / 290T569
SCC 03	298004 / 338X341	102144	270T570 / 290T570

The Components for each Unit includes the following:

- GE Mark V Gas Turbine Control System
- GE Mark V Steam Turbine Control System
- Forney -401550 low-NO<sub>x</sub> Duct Burner
- Fuel Gas Heater
- Main Step-up Transformer
- Inlet Fogging System (not in use)
- Inlet Filter System
- CO2 Fire Protection System
- MCC Room (EB Room) with DGP
- EX2000 Gas Turbine Generator System
- EX2000 Steam Turbine Generator System (brushless)
- Fuel Gas Module
- Gas Turbine Lube Oil Module
- Steam Turbine Lube Oil Module
- Emissions Monitoring System

- Feed Water System
- Steam System
- SCR Catalyst
- Steam Turbine Hydraulic Module
- Condensate System
- Compressed Air System
- Chemical Feed System
- Steam and Water Sample System
- Generator Hydrogen System
- Cooling Tower and Circ Water System including Cooling Tower Transformers, MCC,  
and Auxiliary Cooling System
- Condenser
- Station Service Transformers
- Electric Steam Super Heater
- Gas Turbine Generator Breaker
- Steam Turbine Generator Breaker

The Common Facilities are property and facilities that are used for the operation of the Units at the Facility. These shared facilities support the Units. The Common Facilities are as follows:

- Two LCI Starting Systems, including Transformers
- Unit Auxiliary Transformer on Unit 1 and Unit 3 Common to Unit 2
- Plant Water Treatment System
- Demineralized Water Tank
- Service Water / Fire Water Tanks
- Potable Water System
- Eye Wash System
- Storm Water System
- Process Water System
- Compressor Wash System
- Oil-Water Separation and Discharge System
- Auxiliary Steam System and Auxiliary Boiler
- Gas Supply Piping and Gas Yard
- Fire Protection System
- DeltaV DCS

The Excluded Assets shall, without limitation, be as follows:

- Switchyard
- Electrical transmission facilities and related equipment
- All other property and facilities located on the Facility Site not necessary or connection with the operation or support of the  
useful in Units

**DESCRIPTION OF THE FACILITY SITE**

**Parcel 1**

A parcel of land lying in the SW1/4 of Section 15 Township 1 South Range 8 West in DeSoto County, State of Mississippi, being on the Southaven Combustion Turbine Site and at the intersection of Tulane Road and Stateline Road, as shown on US-TVA Drawing No. 112 MS 421 B 99(D) R.1 (formerly US-TVA Drawing No. 112 MS 422 B 100(D) R.0) and being more particularly described as follows:

Commencing at a concrete monument (found) (Coordinates: N. 275,703.11, E. 750,567.00), being NGS MON 153; thence S42° 05'16"E, 13,353.72 feet to an angle iron (set) on the accepted Mississippi-Tennessee state line being corner No. SCBTS-1 and the Point of Beginning;

Thence leaving the point of beginning and said Mississippi-Tennessee state line S02°11'31"W, 1,100.72 feet to a rebar (found) in the northern right of way of Stateline Road, being corner No. SCBTS-2; thence continuing with said right of way for the following two calls; N87°47'07"W, 304.06 feet to a rebar (found), being corner No. SCBTS-3; thence N87°47'41" W, 104.99 feet to a (3/8") rebar (found), being corner No. SCBTS-6; thence leaving said right of way N02°12'24"E, 206.98 feet to a (3/8") rebar (found), being corner No. SCBTS-5; thence parallel with north right of way of Stateline Road N87°48'27"W, 1,260.36 feet to rebar with cap (found) and stamped "THY INC. #888" in the eastern right of way of Tulane Road, being corner No. SCBTS-7; thence with said right of way N02°15'03"E, 899.31 feet to a rebar with cap (found) on the accepted Mississippi-Tennessee state line, being corner No. SCBTS-8; thence leaving said right of way and with said state line S87°36'39"E, 1,668.44 feet to the point of beginning.

Located on VTM Quad Horn Lake, MS.

Positions of corners and directions of lines are referred to the Tennessee Lambert State Coordinate System and NAD 83 (2007) Horizontal Datum.

Exh. B-1

[\(Back To Top\)](#)

**Section 6: EX-10.35 (EXHIBIT 10.35)**

This Head Lease Agreement has been filed to provide investors with information regarding its terms. It is not intended to provide any other factual information about the Tennessee Valley Authority. The representations and warranties of the parties in this Head Lease Agreement were made to, and solely for the benefit of, the other parties to this Head Lease Agreement. The assertions embodied in the representations and warranties may be qualified by information included in schedules, exhibits, or other materials exchanged by the parties that may modify or create exceptions to the representations and warranties. Accordingly, investors should not rely on the representations and warranties as characterizations of the actual state of facts at the time they were made or otherwise.

**EXECUTION VERSION**

This instrument prepared by: Christopher J. Moore, Esq., Orrick, Herrington & Sutcliffe LLP, 51 West 52<sup>nd</sup> Street, New York, New York, 10019, telephone (212) 506-5000, and co-prepared for purposes of complying with Mississippi law by Ronald G. Taylor, MS Bar No. 7992, Butler, Snow, O'Mara, Stevens & Cannada, PLLC, 1020 Highland Colony Parkway, Suite 1400, Ridgeland, MS 39157, telephone (601) 948-5711.

After recording return to: Christopher J. Moore, Esq., Orrick, Herrington & Sutcliffe LLP, 51 West 52<sup>nd</sup> Street, New York, New York, 10019.

Head Lessor: Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, TN 37902, telephone (865) 632-3366.

Head Lessee: Southaven Combined Cycle Generation LLC, Wilmington Trust, National Association, 1100 North Market Street, Wilmington, DE, 19890, telephone (302) 636-6191.

Indexing instructions: SW ¼ of Section 15, Township 1 South, Range 8 West, DeSoto County, Mississippi

**Head Lease Agreement**

Dated as of August 9, 2013

among

**The United States of America,**

**Tennessee Valley Authority,**

as Head Lessor

and

**Southaven Combined Cycle Generation LLC,**

as Head Lessee

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**Southaven Combined Cycle Facility**

located in the City of Southaven, Mississippi

## TABLE OF CONTENTS

	Page
SECTION 1.	1
SECTION 2.	1
SECTION 3.	2
Section 3.1.	2
Section 3.2.	2
SECTION 4.	2
SECTION 5.	2
SECTION 6.	3
Section 6.1.	3
Section 6.2.	3
Section 6.3.	3
SECTION 7.	4
Section 7.1.	4
Section 7.2.	4
SECTION 8.	4
SECTION 9.	5
SECTION 10.	5
SECTION 11.	5
SECTION 12.	5
SECTION 13.	6
SECTION 14.	6
Section 14.1.	6
Section 14.2.	6
Section 14.3.	6
Section 14.4.	6
Section 14.5.	7
Section 14.6.	7
Section 14.7.	7
Section 14.8.	7
Section 14.9.	7
Section 14.10.	7
Section 14.11.	7
Section 14.12.	7
Section 14.13.	8
Section 14.14.	8

**TABLE OF CONTENTS**  
**(continued)**

	<b>Page</b>
Section 14.15. Separate Tax Parcels.....	8
Section 14.16. Waiver of Abatement.....	8
Section 14.17. Co-tenancy.....	8
Section 14.18. Successors and Assigns.....	9

Appendix A Definitions

Attachment A Description of the Facility

Attachment B Description of the Facility Site

Attachment C Permitted Closing Date Liens



## Head Lease Agreement

This **HEAD LEASE AGREEMENT**, dated as of August 9, 2013 (this “Head Lease”), among **THE UNITED STATES OF AMERICA** (the “Government”), **TENNESSEE VALLEY AUTHORITY**, a wholly owned corporate agency and instrumentality of the United States (“TVA”) (the Government, solely for purposes of Section 2, and TVA, collectively, together with their successors and permitted assigns, the “Head Lessor”), and **SOUTHAVEN COMBINED CYCLE GENERATION LLC**, a Delaware limited liability company (together with its successors and permitted assigns, the “Head Lessee”).

**WHEREAS**, TVA holds title to the Southaven Combined Cycle Facility, a combined cycle generating facility with a summer net generation capacity of approximately 774 megawatts, located in the City of Southaven, Mississippi (as more particularly described on Attachment A hereto, the “Facility”), which is located on the Facility Site (as more particularly described in Attachment B hereto);

**WHEREAS**, the Head Lessor holds title to the Undivided Interest, and desires to lease the Undivided Interest to the Head Lessee, and the Head Lessee desires to lease the Undivided Interest from the Head Lessor, in each case on the terms and conditions provided herein; and

**WHEREAS**, pursuant to the Ground Lease, the Head Lessee will lease the Ground Interest from the Head Lessor for a term equal to the term of this Head Lease;

**NOW, THEREFORE**, in consideration of the premises, the mutual agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

### SECTION 1. DEFINITIONS

Unless the context otherwise requires, capitalized terms used in this Head Lease, including those used in the recitals, and not otherwise defined herein shall have the respective meanings set forth in Appendix A hereto. The general provisions of Appendix A shall apply to terms used in this Head Lease and specifically defined herein.

### SECTION 2. LEASE OF THE FACILITY

The Head Lessor hereby leases the Undivided Interest to the Head Lessee, upon the terms and conditions set forth herein, for the term described below, and the Head Lessee hereby leases the Undivided Interest, upon the terms and conditions set forth herein, from the Head Lessor. The Head Lessor and the Head Lessee understand and agree that (a) 100% of the legal title to the Facility is vested in the Head Lessor, (b) the Head Lessee is leasing a 90% undivided interest in the Facility and all rights in respect thereof from the Head Lessor in accordance with the terms of this Head Lease, (c) the Head Lessor is retaining a 10% undivided interest in the Facility and all rights in respect thereof, (d) each of the Head Lessor (and any

successor, assignee or lessee of its 10% undivided interest) and the Head Lessee (and any permitted successor, assignee or lessee of its 90% undivided interest) shall have a right to nonexclusive possession of the Facility and collectively the Head Lessor, the Head Lessee and their respective successors, assignees and lessees shall have the right to exclusive possession of the Facility subject to Permitted Liens, including the Permitted Closing Date Liens set forth in Attachment C hereto, and (e) this Head Lease is intended to be a lease of personal property under Mississippi law. The Undivided Interest also includes the Owner Lessor's Percentage Interest in (i) all Modifications which are incorporated in the Facility and which pursuant to Section 8.3 of the Facility Lease and Section 9 hereof become subject to this Head Lease, and (ii) all Replacement Components which become part of the Facility pursuant to Section 7.2 of the Facility Lease and Section 10 hereof.

### SECTION 3. TERM AND RENT

*Section 3.1. Head Lease Term.* The term of this Head Lease shall commence on the Closing Date and shall terminate at 11:59 p.m. (New York City time) on November 9, 2044, subject to earlier termination pursuant to the express terms hereof (the "Head Lease Term"). Notwithstanding anything to the contrary set forth in this Section 3.1, in no event shall the Head Lease Term terminate so long as the Head Lessee's interest under this Head Lease shall be subject to the Lien of the Lease Indenture.

*Section 3.2. Rent for the Undivided Interest.*

(a) The Head Lessee hereby agrees to pay the Head Lessor rent of \$400,000,000 (the "Head Lease Rent") on the Closing Date for the entire Head Lease Term. The Head Lessor acknowledges receipt of such amount in full satisfaction of the Head Lessee's obligation to pay rent during the Head Lease Term.

(b) Head Lease Rent paid pursuant to Section 3.2(a) shall be retained by the Head Lessor in any and all events which are contemplated, prospective or possible under the provisions and conditions of this Head Lease and the other Transaction Documents and shall be absolute and irrevocable under any circumstances whatsoever, including any rescission or termination of this Head Lease, in whole or in part.

### SECTION 4. RIGHT OF QUIET ENJOYMENT

The Head Lessor agrees that, during the Head Lease Term, neither the Head Lessor, any Affiliate nor any other Person claiming title superior to, or by, through or under it shall interfere with or interrupt the quiet enjoyment of the use, operation and possession by the Head Lessee of the Undivided Interest subject to the terms hereof; *provided* that, the Head Lessor's covenant does not relate to actions of the Lease Indenture Trustee.

### SECTION 5. TRANSFERS OF THE FACILITY; CONVEYANCE OF TITLE

The Head Lessee agrees that, prior to the expiration or earlier termination of the Facility Lease Term, it shall not assign, transfer or convey the Head Lessee's leasehold interest in the Undivided Interest, in whole or in part, except as part of the Head Lessee's transfer of all or part of the Owner Lessor's Interest pursuant to, and as permitted or required by, the Transaction Documents. The Head Lessor acknowledges and agrees that (a) the Undivided Interest will be leased to the Facility Lessee pursuant to the Facility Lease, (b) the

Head Lessee shall have the right to transfer and convey all or part of the Head Lessee's leasehold interest in the Undivided Interest under and in accordance with Sections 5.1, 15.2, 16 and 18.2 of the Facility Lease in connection with the transfer thereunder of all or part of the Owner Lessor's Interest (or, in connection with a partial termination pursuant to Section 15.2 of the Facility Lease, the Relevant Portion of the Undivided Interest), (c) the Head Lessee's interest hereunder may be transferred together with the Owner Lessor's Interest to the Lease Indenture Trustee or an Affiliate of the Lease Indenture Trustee or any other Person who is the purchaser thereof in foreclosure of the Lien of the Lease Indenture or by deed in lieu of any such foreclosure or after any such foreclosure or deed in lieu of foreclosure or in connection with the exercise of the Owner Lessor's remedies under Section 18.2 of the Facility Lease, and (d) the Facility Lessee shall have the right to sublease the Undivided Interest in accordance with Section 20.2 of the Facility Lease.

## SECTION 6. TERMINATION; SURRENDER; AND RETURN

### *Section 6.1. Surrender and Termination of this Head Lease.*

(a) The Head Lessee shall surrender all of its interest in this Head Lease upon (i) the termination in whole of the Facility Lease pursuant to Section 15.2 thereof, (ii) the expiration of the Facility Lease Term in accordance with Section 16 of the Facility Lease, or (iii) the expiration or termination of the Head Lease Term in accordance herewith.

(b) If the Facility Lease is terminated pursuant to Section 15.2 thereof in part with respect to a Relevant Portion of the Undivided Interest, this Head Lease shall terminate in part with respect to such Relevant Portion of the Undivided Interest on the same date and time as the termination of the Facility Lease with respect to such Relevant Portion.

*Section 6.2. Termination of Head Lease at Option of Head Lessee.* At any time on or following (a) termination of the Facility Lease pursuant to Section 18.2 thereof, or (b) the expiration of the Facility Lease Term in circumstances under which the Facility Lessee is required to deliver possession of the Undivided Interest to the Owner Lessor in accordance with Section 5 of the Facility Lease, the Head Lessee may elect to terminate this Head Lease upon written notice to the Head Lessor, in each case without any obligation or liability to the Head Lessor. In connection with any termination of this Head Lease pursuant to this Section 6.2, the Head Lessee shall return the Undivided Interest to the Head Lessor in accordance with Section 6.3.

*Section 6.3. Return.* Upon (a) surrender of the Head Lessee's interest in this Head Lease pursuant to Section 6.1(a), (b) termination of this Head Lease in whole pursuant to Section 6.2, or (c) termination of this Head Lease in part with respect to a Relevant Portion of the Undivided Interest pursuant to Section 6.1(b), the Head Lessee shall (i) return the Undivided Interest or the Relevant Portion of the Undivided Interest, as the case may be, to the Head Lessor, by delivering possession of the same to the Head Lessor at its location on the Facility Site, and (ii) execute, acknowledge and deliver a release, surrender or conveyance of all its right, title, interest and estate in the Undivided Interest or the Relevant Portion of the Undivided Interest, as the case may be, to the Head Lessor, to be prepared by and at the expense of the Head Lessor in a form

reasonably satisfactory to the Head Lessee, in each case on an “as is,” “where is,” and “with all faults” basis and otherwise without representation or warranty other than as to the absence of Owner Lessor’s Liens.

## SECTION 7. LIENS

*Section 7.1. Head Lessee Covenant.* The Head Lessee agrees that it shall (a) not, directly or indirectly, create, incur, assume or suffer to exist, any Owner Lessor’s Liens, (b) promptly notify the Head Lessor and, so long as the Lien of the Lease Indenture has not been discharged, the Lease Indenture Trustee, of the imposition of any such Owner Lessor’s Lien of which the Head Lessee is aware, and (c) promptly, at its own expense, take such action as may be necessary to fully discharge or release any such Owner Lessor’s Lien; *provided, however*, that the Head Lessee shall not be in breach of this covenant so long as it shall be diligently contesting such Lien and such contest shall not present any material risk of the sale, foreclosure or loss of the Owner Lessor’s Interest or any part thereof or the rights of the Head Lessor or, so long as the Lien of the Lease Indenture has not been terminated or discharged, the Lease Indenture Trustee under the Transaction Documents.

*Section 7.2. Head Lessor Covenant.* The Head Lessor agrees that it shall (a) not, directly or indirectly, create, incur, assume or suffer to exist any Lien on or with respect to the Undivided Interest or any interest therein or in, to or on its interest in this Head Lease, other than Permitted Liens, (b) promptly notify the Head Lessee and, so long as the Lien of the Lease Indenture has not been discharged, the Lease Indenture Trustee of the imposition of any such Lien (other than Permitted Liens) of which the Head Lessor is aware, and (c) promptly, at its own expense, take such action as may be necessary to fully discharge or release any such Lien (other than Permitted Liens); *provided, however*, that the Head Lessor shall not be in breach of this covenant so long as it shall be diligently contesting such Lien and such contest shall not present any material risk of the sale, foreclosure or loss of the Owner Lessor’s Interest or any part thereof or the rights of the Head Lessee or, so long as the Lien of the Lease Indenture has not been terminated or discharged, the Lease Indenture Trustee under the Transaction Documents.

## SECTION 8. NONTERMINABILITY

Neither the rights nor obligations of the Head Lessee or the Head Lessor under this Head Lease shall be terminated, extinguished, diminished, lost or otherwise impaired prior to the expiration or early termination of the Head Lease Term in accordance herewith by any circumstances of any character, including: (a) any loss or destruction of, or damage to, or failure to complete construction of, all or any part of the Facility, the Facility Site or any Component for any reason whatsoever and of whatever duration, (b) the condemnation, requisitioning (by eminent domain or otherwise), expropriation, seizure or other taking of title to or use of all or a portion of the Facility Site or the Facility or any portion or Component thereof, or interest therein, by any Governmental Entity or otherwise, (c) any prohibition, limitation or restriction on the use by any Person of all or any part of its property or the interference with such use by any Person, or any eviction by paramount title or otherwise, (d) any inadequacy, incorrectness or failure of the description of the Facility Site, the Facility, the Undivided Interest, the Ground Interest or any part thereof or any rights or property in which an interest is intended to be granted or conveyed by this Head Lease, (e) insolvency, bankruptcy,

reorganization or similar proceedings by or against the Head Lessor, the Head Lessee or any other Person, (f) the failure by the Head Lessee or the Head Lessor to comply with Section 7 hereof or with any other Transaction Documents, or (g) any other reason whatsoever, whether similar or dissimilar to any of the foregoing.

#### SECTION 9. MODIFICATIONS; REPLACEMENT COMPONENTS

The Owner Lessor's Percentage Interest in all Required Modifications, all Nonseverable Modifications and all Modifications financed by the Owner Lessor by an Additional Equity Investment or a Supplemental Financing pursuant to Section 11.2 of the Participation Agreement shall automatically upon being affixed to or incorporated into the Facility become subject to this Head Lease without any action by any Person whatsoever and shall be deemed to be a part of the Undivided Interest for all purposes of this Head Lease. No interest in any Removable Modification shall become subject to this Head Lease unless the Owner Lessor shall have leased such Removable Modification in accordance with Section 5.2 of the Facility Lease. The Owner Lessor's Percentage Interest in all Replacement Components incorporated in the Facility in accordance with the Facility Lease shall automatically become subject to this Head Lease without any action by any Person whatsoever and shall be deemed to be a part of the Undivided Interest for all purposes of this Head Lease.

#### SECTION 10. RELEASE OF COMPONENTS

Whenever a Component is replaced or any surplus or obsolete Component is removed because it is no longer necessary for the use, operation or maintenance of the Facility, in each case pursuant to, and in accordance with, Section 7.2 of the Facility Lease, and thereafter ceases to be subject to the Facility Lease, the Head Lessee's interest in such replaced, surplus or obsolete Component shall automatically and without further act of any Person be released from this Head Lease, and the Head Lessee shall, upon the written request of, and at the cost and expense of, the Head Lessor, execute and deliver to, and as directed in writing by, the Head Lessor an appropriate instrument (in due form for recording) releasing such replaced, surplus or obsolete Component from this Head Lease.

#### SECTION 11. NONMERGER

The reversionary interests of the Head Lessor in the Undivided Interest shall not merge into any interests in the Undivided Interest leased by, through or under this Head Lease even if such reversionary interests and such leased interests are at any time vested in or held directly or indirectly by the same Person, but this Head Lease shall nonetheless remain in full force and effect in accordance with its terms notwithstanding such vesting or holding. Notwithstanding this Section 11, nothing shall preclude termination of this Head Lease pursuant to Section 6.1.

#### SECTION 12. APPLICATION OF PAYMENTS FROM GOVERNMENTAL ENTITY

Any payments received during or with respect to the Facility Lease Term by the Head Lessor or by the Head Lessee from any Governmental Entity with respect to the seizure, expropriation, condemnation or requisition of the use of, or title to, the Undivided Interest shall be applied in accordance with Section 10.2 of the Facility Lease. Any payments received with respect to the period beginning upon the early termination or expiration of the Facility Lease Term and ending at the end of the Head Lease Term by the Head Lessor

or by the Head Lessee from any Governmental Entity with respect to the seizure, expropriation, condemnation or requisition of the use of, or title to the Undivided Interest shall be paid over to, or retained by, the Head Lessee. Any payment received with respect to the period after the Head Lease Term by the Head Lessor or by the Head Lessee from any Governmental Entity with respect to the seizure, expropriation, condemnation or requisition of the use of, or title to, the Undivided Interest shall be paid over to, or retained by, the Head Lessor.

### SECTION 13. SECURITY FOR THE HEAD LESSEE'S OBLIGATIONS

In order to secure the Lessor Notes, the Head Lessee will by the Lease Indenture assign and grant a Lien to the Lease Indenture Trustee in and to all of the Head Lessee's right, title and interest in, to and under this Head Lease and the Owner Lessor's Interest, including its leasehold interest in the Undivided Interest, other than Excepted Payments and subject to Excepted Rights. The Head Lessor hereby consents to such assignment and to the creation of such Lien and acknowledges receipt of a copy of the Lease Indenture, it being understood that such consent shall not affect any requirement or the absence of any requirement for any consent under any other circumstances. TO THE EXTENT, IF ANY, THAT THIS HEAD LEASE CONSTITUTES CHATTEL PAPER (AS SUCH TERM IS DEFINED IN THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN ANY APPLICABLE JURISDICTION), NO SECURITY INTEREST IN THIS HEAD LEASE MAY BE CREATED THROUGH THE TRANSFER OR POSSESSION OF ANY COUNTERPART HEREOF OTHER THAN THE ORIGINAL COUNTERPART, WHICH SHALL BE IDENTIFIED AS THE COUNTERPART CONTAINING THE RECEIPT THEREFOR EXECUTED BY THE LEASE INDENTURE TRUSTEE ON THE SIGNATURE PAGE THEREOF.

### SECTION 14. MISCELLANEOUS

*Section 14.1.* Amendments and Waivers. No term, covenant, agreement or condition of this Head Lease may be terminated, amended or compliance therewith waived (either generally or in a particular instance, retroactively or prospectively) except by an instrument or instruments in writing executed by each party hereto.

*Section 14.2.* Notices. Any notices, requests or communications hereunder shall be given or made in accordance with the provisions of Section 15.5 of the Participation Agreement.

*Section 14.3.* Survival. Except as expressly set forth herein, the warranties and covenants made by each party hereto shall not survive the expiration or termination of this Head Lease in accordance with the terms hereof.

*Section 14.4.* Successors and Assigns.

(a) This Head Lease shall be binding upon and shall inure to the benefit of, and shall be enforceable by, the parties hereto and their respective successors and permitted assigns as permitted by and in accordance with the terms hereof.

(b) The Head Lessor hereby consents to the entry by the Head Lessee into, and the performance by the Head Lessee of, the Transaction Documents. Except as expressly provided herein or in

any other Transaction Document, neither party may assign its interests or transfer its obligations herein without the consent of the other party hereto.

*Section 14.5. Business Day.* Notwithstanding anything herein to the contrary, if the date on which any payment or performance is to be made pursuant to this Head Lease is not a Business Day, the payment otherwise payable on such date shall be payable on the next succeeding Business Day with the same force and effect as if made on such scheduled date and (provided such payment is made on such succeeding Business Day) no interest shall accrue on the amount of such payment from and after such scheduled date to the time of such payment on the next succeeding Business Day.

*Section 14.6. Governing Law.* This Head Lease shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York (without regard to conflicts of laws principles other than as provided in Section 5-1401 of the NY General Obligations Law), except to the extent that Mississippi law or U.S. federal law shall apply.

*Section 14.7. Severability.* If any provision hereof shall be invalid, illegal or unenforceable under the Applicable Law of any jurisdiction, the validity, legality and enforceability of such provision in any other jurisdiction, and of the remaining provisions hereof in any jurisdiction, shall not be affected or impaired thereby.

*Section 14.8. Counterparts.* This Head Lease may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

*Section 14.9. Headings and Table of Contents.* The headings of the sections of this Head Lease and the Table of Contents are inserted for purposes of convenience only and shall not be construed to affect the meaning or construction of any of the provisions hereof.

*Section 14.10. Further Assurances.* Each party hereto shall promptly and duly execute and deliver such further documents to make such further assurances for and take such further action reasonably requested by the other party hereto, all as may be reasonably necessary to carry out more effectively the intent and purpose of this Head Lease.

*Section 14.11. Effectiveness.* This Head Lease has been dated as of the date first above written for convenience only. This Head Lease shall become effective on the Effective Date.

*Section 14.12. Measuring Life.* If and to the extent that any of the rights and privileges granted under this Head Lease, would, in the absence of the limitation imposed by this sentence, be invalid or unenforceable as being in violation of the rule against perpetuities or any other rule or law relating to the vesting of interests in property or the suspension of the power of alienation of property, then it is agreed that notwithstanding any other provision of this Head Lease, such options, rights and privileges, subject to the respective conditions hereof governing the exercise of such options, rights and privileges, shall be exercisable only during (a) the longer of (i) a period which shall end twenty-one (21) years after the death of the last survivor of the descendants living on the date of the execution of this Head Lease of the following Presidents of the United States: Franklin D. Roosevelt, Harry S. Truman, Dwight D. Eisenhower, John F. Kennedy, Lyndon B. Johnson, Richard M. Nixon, Gerald R. Ford, James E. Carter, Ronald W. Reagan, George H.W. Bush,

William J. Clinton, George W. Bush and Barack H. Obama, or (ii) the period provided under the Uniform Statutory Rule Against Perpetuities, or (b) the specific applicable period of time expressed in this Head Lease, whichever of (a) and (b) is shorter.

*Section 14.13. Limitation of Liability.* It is expressly understood and agreed by the parties hereto that (a) this Head Lease is executed and delivered by Wilmington Trust, National Association (“Wilmington”), not individually or personally but solely as the Lessor Manager of the Head Lessee under the Owner Lessor LLC Agreement, in the exercise of the powers and authority conferred and vested in it pursuant thereto, (b) each of the representations, undertakings and agreements herein made on the part of the Head Lessee is made and intended not as personal representations, undertakings and agreements by Wilmington, but is made and intended for the purpose for binding only the Head Lessee, (c) nothing herein contained shall be construed as creating any liability on Wilmington, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto or by any Person claiming by, through or under the parties hereto, and (d) under no circumstances shall Wilmington be personally liable for the payment of any indebtedness or expenses of the Head Lessee or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Head Lessee under this Head Lease.

*Section 14.14. Effect of the Facility Lease.* Except for its obligations under Sections 4, 6, or 7.1 hereof, by entering into the Facility Lease, the Head Lessee shall be deemed to have complied with any covenant or agreement made by it hereunder with respect to the operation, maintenance and use of the Undivided Interest during the Facility Lease Term, without necessity of any action by the Head Lessee and regardless of whether the Facility Lessee complies with its corresponding obligations under the Facility Lease.

*Section 14.15. Separate Tax Parcels.* Neither the Head Lessor nor the Head Lessee will seek to have, or assist or cooperate in having, the Undivided Interest separately assessed as a tax parcel for *ad valorem* tax purposes. The Head Lessor and the Head Lessee agree to cooperate in opposing such separate assessment of the Undivided Interest.

*Section 14.16. Waiver of Abatement.* The Head Lessee waives any right under Section 89-7-3 of the Mississippi Code Annotated, as the same may be amended from time to time, to abate rent because of damage to the Facility Site or the Facility.

*Section 14.17. Co-tenancy.* The Head Lessor and the Head Lessee intend for their respective rights as tenants-in-common in the Facility under Applicable Law to be modified and supplemented by the terms of this Head Lease and, following termination of the Facility Lease, the Support Agreement. Without limiting the foregoing, to the extent inconsistent with this Head Lease and, following termination of the Facility Lease, the Support Agreement, and to the extent permitted by law, the Head Lessor and the Head Lessee, on its own behalf and on behalf of its successors and assigns, disclaim the application of fiduciary duties imposed on co-tenants, any right for reimbursement for repairs and improvements made by a co-tenant, and any right to a share of rents or profits generated by a co-tenant.



*Section 14.18. Waiver of Partition.* Each of the Head Lessor and the Head Lessee, on its own behalf and on behalf of its successors and assigns, hereby waives any right, whether pursuant to statute including Section 11-21-3 of the Mississippi Code of 1972, as amended, or common law, to partition the Facility or any interest or portion thereof, and such waiver will continue in effect until the termination of this Head Lease in accordance with its terms. Until termination of this Head Lease, each of the Head Lessee and the Head Lessor agrees not to commence any action of any kind seeking any form of partition with respect thereto.

*[Signature page follows.]*

**IN WITNESS WHEREOF**, the Head Lessor and the Head Lessee have caused this Head Lease to be duly executed and delivered by their respective officers thereunto duly authorized on the dates of their respective acknowledgments and effective as of the Effective Date.

**THE UNITED STATES OF AMERICA**

By: Tennessee Valley Authority, as legal agent

By: /s/ John M. Hoskins

Name: John M. Hoskins

Title: Senior Vice President and Treasurer and Interim  
Chief Risk Officer

Date: August 1, 2013

STATE OF Tennessee     )

) ss.:

COUNTY OF Knox     )

Personally appeared before me, the undersigned authority in and for the said county and state, on this 1st day of August, 2013, within my jurisdiction, the within named John M. Hoskins, who acknowledged to me that he is Senior Vice President, Treasurer, Interim Chief Risk Officer of Tennessee Valley Authority, a wholly owned corporate agency and instrumentality of the United States of America and agent for the United States of America, and that for and on behalf of Tennessee Valley Authority as agent for the United States of America, and as the act and deed of the United States of America, he executed the above and foregoing instrument, after first having been duly authorized by Tennessee Valley Authority and the United States of America so to do.

/s/ Joshua L. McGill

Notary Public

My Commission expires:  
May 1, 2016

(Head Lease)

**TENNESSEE VALLEY AUTHORITY,**  
as Head Lessor

By: /s/ John M. Hoskins

Name: John M. Hoskins

Title: Senior Vice President and Treasurer and Interim  
Chief Risk Officer

Date: August 1, 2013

STATE OF Tennessee )

) ss.:

COUNTY OF Knox )

Personally appeared before me, the undersigned authority in and for the said county and state, on this 1st day of August, 2013, within my jurisdiction, the within named John M. Hoskins, who acknowledged to me that he is Senior Vice President, Treasurer, Interim Chief Risk Officer of Tennessee Valley Authority, a wholly owned corporate agency and instrumentality of the United States of America, and that for and on behalf of the Tennessee Valley Authority, and as its act and deed, he executed the above and foregoing instrument, after first having been duly authorized so to do.

/s/ Stephanie L. Raley

Notary Public

My Commission expires:  
May 1, 2016

(Head Lease)

**SOUTHAVEN COMBINED CYCLE  
GENERATION LLC,**

as Head Lessee

By: Wilmington Trust, National Association, not in its individual  
capacity, but solely as Lessor Manager under the Owner Lessor  
LLC Agreement

By: /s/ Rita Marie Ritrovato

Name: Rita Marie Ritrovato

Title: Assistant Vice President

Date: August 1, 2013

STATE OF Delaware )

) ss.:

COUNTY OF New Castle )

Personally appeared before me, the undersigned authority in and for the said county and state, on this 1 day of August, 2013, within my jurisdiction, the within named Rita Marie Ritrovato, who acknowledged to me that she is Assistant Vice President of Wilmington Trust, National Association, a national banking association and Lessor Manager of Southaven Combined Cycle Generation LLC, a Delaware limited liability company (the "Owner Lessor"), and that for and on behalf of Wilmington Trust, National Association solely as Lessor Manager of the Owner Lessor, and as the act and deed of Wilmington Trust, National Association solely as Lessor Manager of the Owner Lessor, and as the act and deed of the Owner Lessor, he executed the above and foregoing instrument, after first having been duly authorized by Wilmington Trust, National Association and the Owner Lessor so to do.

/s/ Mark H. Brzoska

Notary Public

My Commission expires:  
January 6, 2014

(Head Lease)

The name and address of the Head Lessor are:

HEAD LESSOR: Tennessee Valley Authority  
400 West Summit Hill Drive  
Knoxville, Tennessee 37902  
Telephone No.: (865) 632-3366  
Facsimile No.: (865) 632-6673

and (for purposes of Section 2 hereof):

United States of America  
c/o Tennessee Valley Authority  
400 West Summit Hill Drive  
Knoxville, Tennessee 37902  
Telephone No.: (865) 632-3366  
Facsimile No.: (865) 632-6673

The name and address of the Head Lessee are:

HEAD LESSEE: Southaven Combined Cycle Generation LLC  
Wilmington Trust, National Association  
1100 North Market Street  
Wilmington, Delaware 19890-1600  
Telephone No.: (302) 636-6191  
Facsimile No.: (302) 636-4140  
E-mail: [jparedes@wilmingtontrust.com](mailto:jparedes@wilmingtontrust.com)  
Attention: Corporate Trust Administration

(Head Lease)

\*Receipt of the original counterpart of the foregoing Head Lease is hereby acknowledged on this 9th day of August, 2013.

**WILMINGTON TRUST COMPANY,**  
not in its individual capacity, but solely as Lease Indenture  
Trustee

By: Wilmington Trust, National Association, not in its individual  
capacity, but solely as Lessor Manager under the Owner Lessor  
LLC Agreement

By: /s/ Jose L. Paredes

Name: Jose L. Paredes

Title: Assistant Vice President

STATE OF Delaware )

) ss.:

COUNTY OF New Castle )

Personally appeared before me, the undersigned authority in and for the said county and state, on this 5 day of August, 2013, within my jurisdiction, the within named Jose L. Paredes, who acknowledged to me that he is Assistant Vice President of Wilmington Trust Company, and that for and on behalf of Wilmington Trust Company, and as the act and deed of Wilmington Trust Company solely as Lease Indenture Trustee, he executed the above and foregoing instrument, after first having been duly authorized by Wilmington Trust Company so to do.

/s/ Jacqueline Solone  
Notary Public

My Commission expires:  
March 9, 2015

(Head Lease)

**DEFINITIONS**

# **Appendix A**

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## **Definitions**

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### **Southaven Combined Cycle Facility**



## **Appendix A - Definitions**

### **GENERAL PROVISIONS**

In this Appendix A and each Transaction Document (as hereinafter defined), unless otherwise provided herein or therein:

(a) the terms set forth in this Appendix A or in any such Transaction Document shall have the meanings herein provided for and any term used in a Transaction Document and not defined therein or in this Appendix A but in another Transaction Document shall have the meaning herein or therein provided for in such other Transaction Document;

(b) any term defined in this Appendix A by reference to another document, instrument or agreement shall continue to have the meaning ascribed thereto whether or not such other document, instrument or agreement remains in effect;

(c) words importing the singular include the plural and vice versa;

(d) words importing a gender include either gender;

(e) a reference to a part, clause, section, paragraph, article, party, annex, appendix, exhibit, schedule or other attachment to or in respect of a Transaction Document is a reference to a part, clause, section, paragraph, or article of, or a part, annex, appendix, exhibit, schedule or other attachment to, such Transaction Document unless, in any such case, otherwise expressly provided in any such Transaction Document;

(f) a reference to any statute, regulation, proclamation, ordinance or law includes all statutes, regulations, proclamations, ordinances or laws varying, consolidating or replacing the same from time to time, and a reference to a statute includes all regulations, policies, protocols, codes, proclamations and ordinances issued or otherwise applicable under that statute unless, in any such case, otherwise expressly provided in any such statute or in such Transaction Document;

(g) a definition of or reference to any document, instrument or agreement includes an amendment or supplement to, or restatement, replacement, modification or renovation of, any such document, instrument or agreement unless otherwise specified in such definition or in the context in which such reference is used;

(h) a reference to a particular section, paragraph or other part of a particular statute shall be deemed to be a reference to any other section, paragraph or other part substituted therefor from time to time;

(i) if a capitalized term describes, or shall be defined by reference to, a document, instrument or agreement that has not as of any particular date been executed and delivered and such document, instrument or agreement is attached as an exhibit to the Participation Agreement (as hereinafter defined),

such reference shall be deemed to be to such form and, following such execution and delivery and subject to paragraph (h) above, to the document, instrument or agreement as so executed and delivered;

(j) a reference to any Person (as hereinafter defined) includes such Person's successors and permitted assigns;

(k) any reference to "days" shall mean calendar days unless "Business Days" (as hereinafter defined) are expressly specified;

(l) if the date as of which any right, option or election is exercisable, or the date upon which any amount is due and payable, is stated to be on a date or day that is not a Business Day, such right, option or election may be exercised, and such amount shall be deemed due and payable, on the next succeeding Business Day with the same effect as if the same was exercised or made on such date or day (without, in the case of any such payment, the payment or accrual of any interest or other late payment or charge, provided such payment is made on such next succeeding Business Day);

(m) words such as "hereunder", "hereto", "hereof" and "herein" and other words of similar import shall, unless the context requires otherwise, refer to the whole of the applicable document and not to any particular article, section, subsection, paragraph or clause thereof;

(n) a reference to "including" shall mean including without limiting the generality of any description preceding such term, and for purposes hereof and of each Transaction Document the rule of *ejusdem generis* shall not be applicable to limit a general statement, followed by or referable to an enumeration of specific matters, to matters similar to those specifically mentioned;

(o) all accounting terms not specifically defined herein or in any Transaction Document shall be construed in accordance with GAAP;

(p) the word "or" need not be exclusive; and

(q) unless the context or the specific provision otherwise requires, whenever in the Transaction Documents a provision requires that the rating of a Person or the Lessor Notes be confirmed, such provisions shall be deemed to mean that each Rating Agency shall have confirmed the rating of the senior long term unsecured debt of such Person or the Lessor Notes, if then rated by such Rating Agency, a copy of which confirmation shall be delivered by TVA to the Equity Investor, the Owner Lessor and, so long as the Lien of the Lease Indenture shall not have been terminated or discharged, to the Lease Indenture Trustee and shall be without indication that such Person or the Lessor Notes, as the case may be, has been placed on credit watch, credit review, or any similar status with negative implications or which does not indicate the direction of the potential ratings change.

## DEFINED TERMS

**“2013 Lessor Notes”** shall mean the 3.846% Series 2013 Bonds due August 15, 2033 issued on the Closing Date by the Owner Lessor and any Lessor Notes issued in replacement therefor pursuant to Section 2.9 of the Lease Indenture.

**“Actual Knowledge”** shall mean, with respect to any Transaction Party, actual knowledge of, or receipt of written notice by, an officer (or other employee whose responsibilities include the administration of the Transaction) of such Transaction Party; *provided* that neither the Lease Indenture Trustee nor the Lessor Manager shall be deemed to have Actual Knowledge of any fact solely by virtue of an officer of the Lease Indenture Trustee or the Lessor Manager, as the case may be, having actual knowledge of such fact unless such officer is an officer in the Corporate Trust Administration Department of the Lease Indenture Trustee or the Lessor Manager, as the case may be, responsible for the administration of this transaction.

**“Additional Equity Investment”** shall mean the amount, if any, provided by the Equity Investor to finance all or a portion of the cost of any Modification financed pursuant to Section 11.2(a) of the Participation Agreement.

**“Additional Facility”** shall have the meaning specified in Section 4.4 of the Ground Lease.

**“Additional Lessor Notes”** shall have the meaning specified in Section 2.12 of the Lease Indenture.

**“Additional Owner”** shall have the meaning specified in Section 4.4 of the Ground Lease.

**“Affiliate”** of a particular Person shall mean any Person directly or indirectly controlling, controlled by or under common control with such particular Person. For purposes of this definition, “control” when used with respect to any particular Person shall mean the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing; *provided, however*, that under no circumstances shall the Trust Company be considered an Affiliate of any of the Owner Lessor, the Equity Investor, any Equity Investor Member or any Southaven Holdco Note Purchaser, nor the Owner Lessor, any Equity Investor, any Equity Investor Member or any Southaven Holdco Note Purchaser be considered an Affiliate of the Trust Company; *provided, further*, that no Federal Governmental Entity shall be considered to be an Affiliate of TVA.

**“After-Tax Basis”** shall mean, with respect to any payment to be received by any Person, the amount of such payment (the base payment) supplemented by a further payment (the additional payment) to that Person so that the sum of the base payment plus the additional payment shall, after deduction of the amount of all Federal, state and local income Taxes required to be paid by such Person in respect of the receipt or accrual of the base payment and the additional payment (taking into account any reduction in such income Taxes resulting from tax benefits realized or to be realized by the recipient as a result of the payment or the event giving rise to the payment), be equal to the amount required to be received. Such calculations shall be made on the basis of the highest generally applicable Federal, state and local income tax rates applicable to the

Person for whom the calculation is being made for all relevant periods, and shall take into account the deductibility of state and local income Taxes for Federal income tax purposes.

**“Applicable Law”** shall mean, without limitation, all applicable laws, including all Environmental Laws, and treaties, judgments, decrees, injunctions, writs and orders of any court, arbitration board or Governmental Entity and rules, regulations, orders, ordinances, licenses and permits of any Governmental Entity.

**“Applicable Percentage ”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Applicable Rate”** shall mean 4.95% per annum.

**“Appraisal Procedure”** shall mean (except with respect to the Closing Appraisal and any appraisal to determine Fair Market Sales Value after a Lease Event of Default shall have occurred and be continuing) an appraisal conducted by an appraiser or appraisers in accordance with the procedures set forth in this definition of “Appraisal Procedure.” The Equity Investor and TVA will consult with the intent of selecting a mutually acceptable Independent Appraiser. If a mutually acceptable Independent Appraiser is selected, the Fair Market Sales Value shall be determined by such Independent Appraiser. If the Equity Investor and TVA are unable to agree upon a single Independent Appraiser within a 15-day period, one shall be appointed by the Equity Investor, and one shall be appointed by TVA (or its designee), which Independent Appraisers shall attempt to agree upon the value, period, amount or other determination that is the subject of the appraisal. If either the Equity Investor or TVA does not appoint its appraiser, the determination of the other appraiser shall be conclusive and binding on the Equity Investor and TVA. If the appraisers appointed by the Equity Investor and TVA are unable to agree upon the value, period, amount or other determination in question, such appraisers shall jointly appoint a third Independent Appraiser or, if such appraisers do not appoint a third Independent Appraiser, the Equity Investor and TVA shall jointly appoint the third Independent Appraiser. In such case, the average of the determinations of the three appraisers shall be conclusive and binding on the Equity Investor and TVA, unless the determination of one appraiser differs from the middle determination by more than twice the amount by which the third determination differs from the middle determination, in which case the determination of the most disparate appraiser shall be excluded, and the average of the remaining two determinations shall be conclusive and binding on the Equity Investor and TVA.

**“Appraiser”** shall mean DAI Management Consultants, Inc.

**“Appropriations Act Paragraph”** shall have the meaning specified in Section 3.1(v) of the Participation Agreement.

**“Arbitration Proceeding”** shall mean a procedure whereby the party seeking to arbitrate a dispute concerning an amount payable under the Support Agreement shall provide written notice of its intention to arbitrate at the time and to the other party of the Support Agreement. Such notice (i) shall specify the section or sections of the Support Agreement which authorizes or authorize an Arbitration Proceeding, (ii) provide reasonable detail of the item or items in dispute, and (iii) set forth the name and address of the person designated to act as the arbitrator on behalf of the party providing such notice. Within 20 Business Days after such notice is

given, the party to which such notice was given shall give notice to the first party, specifying the name and address of the person designated to act as arbitrator on its behalf. If the second party fails to notify the first party of the appointment of its arbitrator within such 20 Business Day period, then the appointment of the second arbitrator shall be made in the same manner as hereinafter provided for the appointment of a third arbitrator. The arbitrators so chosen shall meet within 10 Business Days after the second arbitrator is appointed and within 20 Business Days thereafter shall decide the dispute. If within such period they cannot agree upon their decision, they shall within 10 Business Days thereafter appoint a third arbitrator and, if they cannot agree upon such appointment, the third arbitrator shall be appointed upon their application or upon the application of either party, by the American Arbitration Association, or any organization which is a successor thereto from a panel of arbitrators having expertise in the business of operating simple cycle combustion turbines. The three arbitrators shall meet and decide the dispute within 20 Business Days of the appointment of the third arbitrator. Any decision or determination in which two of the three arbitrators shall concur or, if no two of the three arbitrators shall concur, the decision or determination of the arbitrator last selected shall be final and binding upon the parties. In designating arbitrators and in deciding the dispute, the arbitrators shall act in accordance with the rules of the American Arbitration Association then in force, *subject, however*, to express provisions to the contrary, if any, contained in the Support Agreement. In the event that the American Arbitration Association or a nationally recognized successor shall not then be in existence, the arbitration shall proceed under comparable laws or statutes then in effect. The parties to the arbitration shall be entitled to present evidence and argument to the arbitrators. Each party shall pay (i) the fees and expenses of the arbitrator appointed by or on its behalf, and (ii) equal shares of (a) the other expenses of the arbitration properly incurred and (b) the fees and expenses of the third arbitrator, if any. For purposes of this definition, the Facility User shall be deemed to be one party and TVA shall be deemed to be the other party.

**“Assigned Documents”** shall have the meaning specified in clause (2) of the Granting Clause of the Lease Indenture.

**“Assignment and Assumption Agreement”** shall mean an assignment and assumption agreement in form and substance substantially in the form of Exhibit F to the Participation Agreement.

**“Bankruptcy Code”** shall mean the United States Bankruptcy Code of 1978, as amended from time to time, 11 U.S.C. §101 *et seq.*

**“Base Rate”** shall mean the rate of interest publicly announced from time to time by Citibank, N.A. at its New York office as its base rate for domestic commercial loans, such rate to change as and when such base rate changes. For purpose of this definition, “base rate” shall mean that rate announced by Citibank, N.A. from time to time as its base rate as that rate may change from time to time with changes to occur on the date Citibank, N.A.’s base rate changes.

**“Basic Lease Rent”** shall have the meaning specified in Section 3.2 of the Facility Lease.

**“Basic Lease Rent (Debt Portion)”** for any Rent Payment Date shall mean the amount set forth under the heading “Basic Lease Rent (Debt Portion)” on Schedule 1 of the Facility Lease for such Rent Payment Date.

**“Basic Lease Rent (Equity Portion)”** for any Rent Payment Date shall mean the amount set forth under the heading “Basic Lease Rent (Equity Portion)” on Schedule 1 of the Facility Lease for such Rent Payment Date.

**“Benefit Plan”** shall mean an employee benefit plan as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, a plan as defined in Section 4975(e) of the Code that is subject to Section 4975 of the Code or any entity that is deemed to hold the assets of any such employee benefit plan or plan by virtue of such employee benefit plan’s or plan’s investment in such entity.

**“Bond Resolution”** shall mean the Basic Tennessee Valley Authority Power Bond Resolution adopted October 6, 1960, as amended.

**“Business Day”** shall mean any day other than a Saturday, a Sunday, or a day on which commercial banking institutions are authorized or required by law, regulation or executive order to be closed in Wilmington, Delaware, Knoxville, Tennessee, or the city and the state in which the Corporate Trust Office of the Lease Indenture Trustee, the Lessor Manager or the Equity Manager is located.

**“Called Amount”** shall mean the amount of the Equity Investment that is being repaid, determined by reference to the Termination Value (Equity Portion) with respect to the applicable Termination Date.

**“Capability”** shall mean the amount of Energy, expressed in megawatt hours, that can be generated by the Facility.

**“Capacity”** shall mean megawatts of electric energy generating capacity.

**“Capital Expenditure Budget”** shall have the meaning set forth in Section 3.4(a) of the Support Agreement.

**“Claim”** shall mean any liability (including in respect of negligence (whether passive or active or other torts), strict or absolute liability in tort or otherwise, warranty, latent or other defects (regardless of whether or not discoverable), statutory liability, property damage, bodily injury or death), obligation, loss, settlement, damage, penalty, claim, action, suit, proceeding (whether civil or criminal), judgment, penalty, fine and other legal or administrative sanction, judicial or administrative proceeding, cost, expense or disbursement, including reasonable legal, investigation and expert fees, expenses and reasonable related charges, of whatsoever kind and nature, but excluding Taxes.

**“Closing”** shall have the meaning specified in Section 2.2(a) of the Participation Agreement.

**“Closing Appraisal”** shall mean the appraisal, dated the Closing Date, prepared by the Appraiser for the use of TVA.

**“Closing Date”** shall have the meaning specified in Section 2.2(a) of the Participation Agreement.

**“Code”** shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

**“Co-Equity Manager”** shall mean a co-Manager appointed pursuant to Section 23 of the Equity Investor LLC Agreement.

**“Co-Lessor Manager”** shall mean a co-Independent Manager appointed pursuant to Section 16.6 of the Owner Lessor LLC Agreement.

**“Collateral”** shall have the meaning specified in the Granting Clause of the Owner Lessor Mortgage.

**“Common Facilities”** shall mean all property and facilities intended for common use in the operation of the Units, as more particularly described on Exhibit A to the Facility Lease, and shall include any Modifications to such facilities which become subject to the Head Lease during the Facility Lease Term and any Modifications to the Common Facilities made in accordance with the Support Agreement.

**“Competitor”** shall have the meaning specified in Section 7.1(b) of the Participation Agreement.

**“Component”** shall mean any appliance, part, instrument, appurtenance, accessory, furnishing, equipment or other property of whatever nature that may from time to time be incorporated in any Unit or the Facility, except to the extent constituting Modifications.

**“Confidential Information”** shall have the meaning specified in Section 13.2 of the Participation Agreement.

**“Construction Cost”** shall mean, with respect to any Modification, the actual cost or purchase price (after deducting amounts realized as the salvage value of any component or item of equipment which is being replaced by the Modification, determined in accordance with Prudent Industry Practice), including, without limitation, (i) all costs of architectural and engineering services, labor, materials, equipment, supplies, personnel training, testing, permits and licenses, and legal services, (ii) payroll, including related fringe benefits and payroll Taxes, of direct full time employees of TVA allocable on an actual time basis to such acquisition or construction and not included in costs described in clause (vi) below, (iii) reasonable and allocable traveling expenses including use of TVA’s transportation equipment, (iv) all costs relating to injury or damage claims and claims by contractors or suppliers arising under construction contracts and arising out of such acquisition or construction, (v) all Taxes legally required to be paid with respect to such acquisition or construction if paid by TVA, and (vi) administrative and other overhead costs of TVA as apportioned by TVA to such Modification in accordance with the Uniform System of Accounts, applicable to such acquisition or construction of such Modification, all in accordance with the Capital Expenditure Budget in effect from time to time.

**“Contract Year”** shall mean the 12-month period commencing at 12:01 a.m. on January 1 of each year and ending at 12:01 a.m. on the following January 1, except that the first Contract Year shall begin on the Service

Commencement Date and the last Contract Year shall end on the Final Shutdown Date.

“**CTG**” shall have the meaning specified in Attachment A to the Head Lease.

“**Debt Portion**” shall mean the separate portions of the Net TV Amount (Debt Portion), which portions correspond to the 2013 Lessor Notes and each series of Additional Lessor Notes that may have been issued from time to time and are determined by multiplying (a) the Net TV Amount (Debt Portion), by (b) the fraction (i) the numerator of which is the outstanding principal amount of the applicable 2013 Lessor Notes or such series of Additional Lessor Notes and (ii) the denominator of which is the aggregate outstanding principal amount of the 2013 Lessor Notes and the Additional Lessor Notes.

“**Deed of Trust Trustee**” shall mean W. Rodney Clement, Jr., Esq.

“**Defaulting Facility User**” shall have the meaning specified in Section 2.7(a) of the Support Agreement.

“**Discounted Value**” shall mean, with respect to the Called Amount of any Equity Investment, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Amount from their respective scheduled due dates to the Settlement Date with respect to such Called Amount, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which return on the Equity Investment is payable) equal to the Reinvestment Yield with respect to such Called Amount.

“**Dollars**” or the sign “\$” shall mean United States dollars or other lawful currency of the United States.

“**DTC**” shall mean The Depository Trust Company, a New York corporation.

“**Early Buy Out**” shall have the meaning specified in Section 15.1 of the Facility Lease.

“**Early Buy Out Date**” shall have the meaning specified in Section 15.1 of the Facility Lease.

“**Early Buy Out Notice**” shall have the meaning specified in Section 15.1 of the Facility Lease.

“**Effective Date**” shall mean the Closing Date.

“**Election Notice**” shall have the meaning specified in Section 13.1 of the Facility Lease.

“**Eligible Customer**” shall have the meaning specified in the Transmission Services Guidelines.

“**Energy**” shall mean megawatt hours of electric energy.

“**Enforcement Notice**” shall have the meaning specified in Section 5.1 of the Lease Indenture.

“**Engineering Consultant**” shall mean Sargent & Lundy LLC.



**“Engineering Report”** shall mean the report of the Engineering Consultant, dated April 15, 2013.

**“Entergy”** shall mean Entergy Mississippi, Inc. or its successor entity.

**“Entergy Point of Interconnection”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Entergy Substation”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Entergy Transmission System”** shall mean the facilities owned and controlled by Entergy or a successor entity that are used to provide transmission service under Entergy’s or such successor entity’s open access transmission tariff.

**“Environmental Condition”** shall mean any action, omission, event, condition or circumstance, including the presence of any Hazardous Substance, that does or is reasonably likely to (i) require assessment, investigation, abatement, correction, removal or remediation by order of an applicable Governmental Entity pursuant to any Environmental Law, (ii) give rise to any obligation or liability of any nature (whether civil or criminal, arising under a theory of negligence or strict liability, or otherwise) under any Environmental Law, or (iii) constitute a violation of or non-compliance with any Environmental Law.

**“Environmental Laws”** shall mean any federal, state or local laws, common law, ordinances, rules, orders, statutes, decrees, judgments, injunctions, directives, permits, licenses, approvals, codes and regulations relating to the environment, human health, natural resources or Hazardous Substances, now or hereafter in effect and as each may from time to time be amended, supplemented or supplanted.

**“Equity Breakage”** shall mean, with respect to a Called Amount, an amount equal to the excess, if any, of the Discounted Value with respect to the Called Amount of such Equity Investment over the amount of such Called Amount, *provided* that the Equity Breakage may in no event be less than zero.

**“Equity Collateral Agent”** shall mean Wilmington Trust, National Association, or any successor thereto, as collateral agent appointed pursuant to the Southaven Holdco Note Purchase Documents.

**“Equity Guarantor”** shall have the meaning specified in Section 7.1 of the Participation Agreement.

**“Equity Guaranty”** shall mean any guaranty agreement guaranteeing the obligations of the Equity Investor or entered into pursuant to Section 7.1 of the Participation Agreement in form and substance substantially in the form of Exhibit G to the Participation Agreement.

**“Equity Investment”** shall mean the amount specified under the heading “Equity Investment” in Schedule 4 to the Participation Agreement.

**“Equity Investor”** shall have the meaning set forth in the introductory paragraph to the Participation Agreement; *provided* that if the Membership Interests are transferred pursuant to Section 7.1 of the Participation Agreement such that more than one person is a holder thereof, the term “Equity Investor” shall be deemed to include each holder of the Membership Interests.

**“Equity Investor LLC Agreement”** shall mean the limited liability company agreement, dated on or about the Execution Date, between the Owner Participant, Seven States and the Equity Manager.

**“Equity Investor Members”** shall mean any member of the Equity Investor, including a profits member for purposes of the Code.

**“Equity Investor’s Lien”** shall mean, with respect to the Equity Investor, any Southaven Holdco Note Purchaser, the Trust Company or the Equity Manager, any Lien on the Facility, the Facility Site, the Lessor Estate or any part thereof arising as a result of (i) Claims against or any act or omission of the Equity Investor, a Southaven Holdco Note Purchaser, the Trust Company or the Equity Manager or any Affiliate of any thereof that are not related to, or that are in violation of, any Transaction Document or the transactions contemplated thereby or that are in breach of any covenant or agreement of the Equity Investor, the Trust Company or the Equity Manager set forth therein, (ii) Taxes against the Equity Investor, any Southaven Holdco Note Purchaser, the Trust Company, the Equity Manager or any respective Affiliate thereof that are not indemnified against by TVA pursuant to any Transaction Document, or (iii) Claims against or affecting the Equity Investor, any Southaven Holdco Note Purchaser, the Trust Company, the Equity Manager or any respective Affiliate thereof arising out of the voluntary or involuntary transfer by the Trust Company, the Equity Manager or the Equity Investor (except as contemplated or permitted by the Transaction Documents) of any portion of the Equity Investor’s Membership Interests.

**“Equity Manager”** shall have the meaning set forth in the introductory paragraph of the Participation Agreement.

**“Equity Placement Agent”** shall mean Merrill Lynch, Pierce, Fenner & Smith Incorporated.

**“Equity Pledge Agreement”** shall mean the Pledge Agreement, dated on or about the Closing Date, between the Equity Investor and the Equity Collateral Agent.

**“Equity Portion”** shall mean the separate portions of the Net TV Amount (Equity Portion), which portions correspond to the Equity Investment and each series of Additional Equity Investment that may have been issued from time to time and are determined by multiplying (a) the Net TV Amount (Equity Portion), by (b) the fraction (i) the numerator of which is the outstanding principal amount of the applicable Equity Investment or such series of Additional Equity Investment and (ii) the denominator of which is the aggregate outstanding principal amount of the Equity Investment and the Additional Equity Investments.

**“ERISA”** shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

**“Event of Loss”** shall mean, with respect to any Unit or Units, any of the following events:

(a) loss of such Unit or Units or use thereof due to destruction or damage to such Unit or Units or the Common Facilities that is beyond economic repair or that renders such Unit or Units permanently unfit for normal use;

(b) damage to such Unit or Units or the Common Facilities that results in an insurance settlement with respect to such Unit or Units on the basis of a total loss or an agreed constructive or a compromised total loss of such Unit or Units; and

(c) seizure, condemnation, confiscation or taking of, or requisition of title to or use of, all or substantially all of a Unit or Units or the Common Facilities by any Governmental Entity, which in the case of a requisition of use prevents the Facility Lessee from operating and maintaining all or substantially all of the Facility, such Unit or Units or the Facility Site for a period of 365 days or more, in each case following any contest thereof and exhaustion of all permitted appeals or an election by TVA not to pursue such appeals.

**“Evidences of Indebtedness”** shall have the meaning specified in the Bond Resolution.

**“Excepted Payments”** shall mean and include (a)(i) any indemnity or other payment (whether or not constituting Supplemental Lease Rent and whether or not a Lease Event of Default exists) payable to the Trust Company, the Equity Investor, the Equity Manager, any Equity Investor Member, any Southaven Holdco Note Purchaser, the Lessor Manager or to their respective successors and permitted assigns (other than the Lease Indenture Trustee) pursuant to Section 2.4, 9.1 or 9.2 of the Participation Agreement and Section 11.1 of the Owner Lessor LLC Agreement, or (ii) any amount payable by TVA to the Owner Lessor, the Equity Investor, the Lessor Manager, the Equity Manager, any Equity Investor Member or any Southaven Holdco Note Purchaser to reimburse any such Person for its costs and expenses in exercising its rights under the Transaction Documents; (b) insurance proceeds, if any, payable to the Owner Lessor or the Equity Investor under insurance separately maintained by the Owner Lessor or the Equity Investor with respect to the Facility as permitted by Section 11.1 of the Facility Lease; (c) any amount payable to the Equity Investor as the purchase price of the Equity Investor’s Membership Interests in connection with any permitted sale or transfer thereof pursuant to Section 7.1 of the Participation Agreement or Section 13 of the Facility Lease; (d) any amounts payable to the Equity Investor upon exercise by TVA of the Special Lessee Transfer pursuant to Section 12 of the Participation Agreement; (e) all other fees expressly payable to the Owner Lessor, the Equity Investor, the Lessor Manager, the Equity Manager or any Southaven Holdco Note Purchaser under the Transaction Documents; (f) any amounts payable by TVA to the Owner Lessor pursuant to Section 13.2 of the Facility Lease; and (g) any payments in respect of interest to the extent attributable to payments referred to above that constitute Excepted Payments.

**“Excepted Rights”** shall mean the rights specified in Section 5.6 of the Lease Indenture.

**“Excess Amount”** shall have the meaning specified in Section 15.3 of the Participation Agreement or Section 9.12 of the Lease Indenture, as applicable.

**“Exchange Act”** shall mean the Securities Exchange Act of 1934, as amended.

**“Exchange Date”** shall mean, when used with respect to any Lessor Notes being replaced and exchanged for Replacement Power Bonds, the date fixed for such replacement and exchange by or pursuant to the Lease Indenture or the respective Lessor Notes, which date shall be a Termination Date.

**“Excluded Assets”** Excluded Assets shall mean have the meaning specified in Attachment A to the Head Lease.

**“Excluded Taxes”** shall have the meaning specified in Section 9.2(b) of the Participation Agreement.

**“Execution Date”** shall mean August 6, 2013.

**“Existing Southaven Credit Agreement”** shall mean the Amended and Restated Credit Agreement, dated as of April 22, 2010, by and among Seven States, Seven States Parent, JPMorgan Chase Bank, National Association, CoBank, ACB and Wells Fargo Bank, National Association, as amended.

**“Existing Southaven Lease Documents”** shall mean the Joint Ownership Agreement, dated as of April 30, 2008, between Seven States Parent and TVA, as amended, modified and supplemented from time to time, and the Lease Agreement, dated September 30, 2008, between Seven States and TVA, as amended, modified and supplemented from time to time.

**“Existing Southaven Loan Documents”** shall have the meaning specified in the Existing Southaven Credit Agreement.

**“Expiration Date”** shall mean August 15, 2033, the scheduled expiration date of the Facility Lease Term.

**“Facility”** shall have the meaning specified in the first recital of the Participation Agreement.

**“Facility Lease”** shall mean the Facility Lease-Purchase Agreement, dated as of the Closing Date, between the Owner Lessor and TVA, substantially in the form of Exhibit C to the Participation Agreement.

**“Facility Lease Term”** shall have the meaning specified in Section 3.1 of the Facility Lease.

**“Facility Lessee”** shall mean TVA as lessee under the Facility Lease.

**“Facility Lessee’s Interest”** shall mean the Facility Lessee’s interest in and to the Undivided Interest under the Facility Lease and the Ground Interest under the Ground Sublease.

**“Facility Operating Fee”** shall have the meaning specified in Section 2.5 of the Support Agreement.

**“Facility Operation and Maintenance Expense”** shall mean all payments made, costs incurred, and obligations and liabilities incurred, by TVA for or in connection with engineering, contract preparation, purchasing, repairing, insuring, supervising, recruiting, training, expediting, inspecting, accounting, providing legal services, testing, protecting, operating, insuring, using, decommissioning, retiring, and

maintaining the Facility, *including* Station Service Requirements and all such payments made, and obligations incurred, during an operating emergency, and with respect to the purchase of materials, supplies and spare parts, *but excluding* the Construction Cost of Modifications and any other cost included in a Capital Expenditure Budget. Facility Operation and Maintenance Expenses shall include the properly allocable direct overheads of TVA in the operation and maintenance of the Facility. Facility Operation and Maintenance Expenses shall be determined under and in accordance with the Uniform System of Accounts and shall be in accordance with the Operation and Maintenance Expense Budget in effect from time to time. There shall be credited against Facility Operation and Maintenance Expenses for such Month the proceeds of the sale by TVA of any surplus materials or supplies constituting part of, or used in connection with, the Facility. Facility Operation and Maintenance Expense shall not include any payments made by the Ground Lessee for Taxes pursuant to Section 3.2 of the Ground Lease and payments made, or costs incurred, for commodities, equipment or services supplied by TVA to the Facility User under separate contract, including transmission services supplied under contracts negotiated pursuant to Section 4.2 of the Support Agreement.

**“Facility Site”** shall mean the land on which the Facility is situated, as more particularly described in Exhibit 1 to the Ground Lease.

**“Facility User”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Fair Market Rental Value”** or **“Fair Market Sales Value”** shall mean with respect to any property or service as of any date, the cash rent or cash price obtainable in an arm’s length lease, sale or supply, respectively, between an informed and willing lessee or purchaser under no compulsion to lease or purchase and an informed and willing lessor or seller or supplier under no compulsion to lease or sell or supply the property or service in question, and shall, in the case of an Owner Lessor’s Interest, be determined (except as otherwise provided below or in the Transaction Documents) on the basis that (a) the Facility is located on the Facility Site and the conditions contained in Sections 7 and 8 of the Facility Lease shall have been complied with in all respects, (b) the lessee or buyer shall have rights in, or an assignment of, the Transaction Documents to which the Owner Lessor is a party and the obligations relating thereto and (c) the Owner Lessor’s Interest is free and clear of all Liens (other than Owner Lessor’s Liens, Equity Investor’s Liens and Lease Indenture Trustee’s Liens) and taking into account (i) the remaining term of the Ground Lease and the Ground Sublease, and (ii) in the case of the Fair Market Rental Value, the terms of the Facility Lease and the Transaction Documents. If the Fair Market Sales Value of the Owner Lessor’s Interest is to be determined during the continuance of a Lease Event of Default or in connection with the exercise of remedies by the Owner Lessor pursuant to Section 18 of the Facility Lease, such value shall be determined by an appraiser appointed by the Owner Lessor on an “as-is,” “where-is” and “with all faults” basis and shall take into account all Liens (other than Owner Lessor’s Liens, Equity Investor’s Liens and Lease Indenture Trustee’s Liens); *provided, however*, in any such case where the Owner Lessor shall be unable to obtain constructive possession sufficient to realize the economic benefit of the Owner Lessor’s Interest, Fair Market Sales Value of the Owner Lessor’s Interest shall be deemed equal to \$0. If in any case other than in the preceding sentence the parties are unable to agree upon a Fair Market Sales Value of the Owner Lessor’s Interest within 30 days after a request therefor has been made, the Fair Market Sales Value of the Owner Lessor’s Interest shall be determined by appraisal pursuant to the Appraisal Procedures. Any fair market value determination of a Severable Modification shall

take into consideration any liens or encumbrances to which the Severable Modification being appraised is subject and which are being assumed by the transferee.

**“Federal Power Act”** shall mean the Federal Power Act, as amended.

**“FERC”** shall mean the Federal Energy Regulatory Commission.

**“Final Determination”** shall mean (i) a decision, judgment, decree or other order by any court of competent jurisdiction, which decision, judgment, decree or other order has become final after all allowable appeals or rehearings by either party to the action have been exhausted or the time for filing such appeal has expired, or in any case where judicial review shall at the time be unavailable because the proposed adjustment involves a decrease in net operating loss carryforward or a business credit carryforward, a decision, judgment, decree or other order of an administrative official or agency of competent jurisdiction, which decision, judgment, decree or other order has become final (*i.e.*, where all administrative appeals have been exhausted by all parties thereto), (ii) a closing agreement entered into under section 7121 of the Code, or any other settlement agreement entered into in connection with an administrative or judicial proceeding, or (iii) the expiration of the time for instituting a claim for refund, or if such a claim was filed, the expiration of the time for instituting suit with respect thereto.

**“Final Shutdown”** shall mean the permanent removal from operation and commercial service of the Facility.

**“Final Shutdown Date”** shall mean the date on which Final Shutdown occurs.

**“Fitch”** shall mean Fitch, Inc. and any successor thereto.

**“FMV Net Termination Value”** shall have the meaning set forth in Section 18.2(d) of the Facility Lease.

**“GAAP”** shall mean generally accepted accounting principles used in the United States consistently applied.

**“Government”** shall mean the United States of America.

**“Governmental Entity”** shall mean and include the Government, any national government, any political subdivision of a national government or of any state, county or local jurisdiction therein or any board, commission, department, division, organ, instrumentality, court or agency of any thereof, but shall not include TVA.

**“Ground Interest”** shall mean a 90% undivided interest in the Facility Site together with (i) all rights under Applicable Law as a tenant-in-common of the Facility Site with the Ground Lessor as owner/holder of the remaining 10% undivided interest (or any successor, assignee or lessee of Ground Lessor’s 10% undivided interest) in the Facility Site, as such rights of a tenant-in-common are modified by the Ground Lease (including Sections 12.19 and 12.20 thereof) and, following termination of the Ground Sublease, the Support Agreement, and (ii) the right to nonexclusive possession with the Ground Lessor as owner/holder of the remaining 10%

undivided interest (or any successor, assignee or lessee of Ground Lessor's 10% undivided interest) in the Facility Site.

**"Ground Lease"** shall mean the Ground Lease Agreement, dated as of the Closing Date, among the Ground Lessor and the Ground Lessee, substantially in the form of Exhibit B to the Participation Agreement.

**"Ground Lease Term"** shall have the meaning specified in Section 2.2 of the Ground Lease.

**"Ground Lessee"** shall mean the Owner Lessor as lessee of the Ground Interest under the Ground Lease.

**"Ground Lessor"** shall mean TVA and the Government (solely for purposes of Section 2.1 of the Ground Lease), as lessor of the Ground Interest under the Ground Lease.

**"Ground Lessor's Release Rights"** shall have the meaning specified in Section 4.2 of the Ground Lease.

**"Ground Sublease"** shall mean the Ground Sublease Agreement, dated as of the Closing Date, among the Ground Sublessor and the Ground Sublessee, substantially in the form of Exhibit D to the Participation Agreement.

**"Ground Sublease Term"** shall have the meaning specified in Section 2.2 of the Ground Sublease.

**"Ground Sublessee"** shall mean TVA and the Government (solely for purposes of Section 2.1 of the Ground Sublease) as sublessee of the Ground Interest under the Ground Sublease.

**"Ground Sublessor"** shall mean the Owner Lessor as sublessor of the Ground Interest under the Ground Sublease.

**"Hazardous Substance"** shall mean any pollutant, contaminant, hazardous substance, hazardous waste, toxic substance, chemical substance, extremely hazardous substance, petroleum or petroleum derived substance, waste, or additive, asbestos, PCBs, radioactive material, corrosive, explosive, flammable or infectious material, lead, radon or other compound, element, material or substance in any form whatsoever (including products) defined, regulated, restricted or controlled by or under any Environmental Law.

**"Head Lease"** shall mean the Head Lease Agreement, dated as of the Closing Date, among the Head Lessor and the Head Lessee, substantially in the form of Exhibit A to the Participation Agreement.

**"Head Lease Rent"** shall have the meaning specified in Section 3.2(a) of the Head Lease.

**"Head Lease Term"** shall have the meaning specified in Section 3.1 of the Head Lease.

**"Head Lessee"** shall mean the Owner Lessor as lessee of the Undivided Interest under the Head Lease.

**“Head Lessor”** shall mean TVA and the Government (solely for purposes of Section 2 of the Head Lease) as lessor of the Undivided Interest under the Head Lease.

**“HRSG”** shall have the meaning specified in Attachment A to the Head Lease.

**“Indemnatee”** shall have the meaning specified in Section 9.1(a) of the Participation Agreement.

**“Indemnity Period”** shall have the meaning specified in Section 11 of the Ground Lease.

**“Independent Appraiser”** shall mean a disinterested, licensed industrial property appraiser who is a member of the Appraisal Institute having experience in the business of evaluating facilities similar to the Facility.

**“Investment Banker”** shall have the meaning specified in Section 2.10(b) of the Lease Indenture.

**“Lease Default”** shall mean any event or circumstance that, with the passage of time or the giving of notice, or both, would become a Lease Event of Default.

**“Lease Event of Default”** shall have the meaning specified in Section 17 of the Facility Lease.

**“Lease Indenture”** shall mean the Indenture of Trust, Deed of Trust and Security Agreement, dated as of the Closing Date, among the Owner Lessor, the Lease Indenture Trustee and the Deed of Trust Trustee, substantially in the form of Exhibit E to the Participation Agreement.

**“Lease Indenture Estate”** shall have the meaning specified in the Granting Clause of the Lease Indenture.

**“Lease Indenture Event of Default”** shall have the meaning specified in Section 4.2 of the Lease Indenture.

**“Lease Indenture Payment Default”** shall mean any event or occurrence, which, with the passage of time or the giving of notice or both, would become a Lease Indenture Event of Default under Section 4.2(b) of the Lease Indenture.

**“Lease Indenture Trustee”** shall mean Wilmington Trust Company, not in its individual capacity, but solely as Lease Indenture Trustee under the Lease Indenture, and each other Person who may from time to time be acting as Lease Indenture Trustee in accordance with the provisions of the Lease Indenture.

**“Lease Indenture Trustee Office”** shall mean the office to be used for notices to the Lease Indenture Trustee from time to time pursuant to Section 9.5 of the Lease Indenture.

**“Lease Indenture Trustee’s Account”** shall mean the account identified as the Lease Indenture Trustee’s Account on Schedule 4 of the Participation Agreement.

**“Lease Indenture Trustee’s Liens”** shall mean any Lien on the Facility, the Facility Site, the Lessor Estate or any part thereof arising as a result of (i) Taxes against or affecting the Lease Indenture Trustee, or any



Affiliate thereof, in its individual capacity that is not related to, or that is in violation of, any Transaction Document or the transactions contemplated thereby, (ii) Claims against or any act or omission of the Lease Indenture Trustee, or Affiliate thereof, in its individual capacity that is not related to, or that is in violation of, any Transaction Document or the transactions contemplated thereby or that is in breach of any covenant or agreement of the Lease Indenture Trustee specified therein, (iii) Taxes imposed upon the Lease Indenture Trustee, or any Affiliate thereof, in its individual capacity that are not indemnified against by TVA pursuant to any Transaction Document, or (iv) Claims against or affecting the Lease Indenture Trustee, or any Affiliate thereof, in its individual capacity arising out of the voluntary or involuntary transfer by the Lease Indenture Trustee of any portion of the interest of the Trust Company or the Lease Indenture Trustee in the Lessor Estate, other than pursuant to the Transaction Documents.

**“Leasehold Deed of Trust Trustee”** shall mean W. Rodney Clement, Jr., Esq.

**“Lessee Person”** shall mean the Facility Lessee, any sublessee of the Facility Lessee or any other Person using or having possession of the Undivided Interest during the Facility Lease Term or any portion thereof and any Affiliate, successor, assignee, transferee, agent or employee of any of the foregoing or any Person claiming through any of the foregoing, except that none of the Owner Lessor, the Equity Investor, the Equity Manager, any Southaven Holdco Note Purchaser nor the Lease Indenture Trustee, nor any Affiliate, successor, assignee, transferee, agent or employee of any of the foregoing, nor any Person claiming through any of the foregoing, shall be a Lessee Person.

**“Lessor Estate”** shall mean all the estate, right, title and interest of the Owner Lessor in, to and under the Undivided Interest, the Ground Interest and the Transaction Documents, including all funds advanced to the Owner Lessor by the Equity Investor, all installments and other payments of Basic Lease Rent, Supplemental Lease Rent, Termination Value, condemnation awards, purchase price, sale proceeds and all other proceeds, rights and interests of any kind for or with respect to the estate, right, title and interest of the Owner Lessor in, to and under the Undivided Interest, the Ground Interest, the Transaction Documents, and any of the foregoing.

**“Lessor Manager”** shall have the meaning set forth in the introductory paragraph of the Participation Agreement.

**“Lessor Notes”** shall mean the 2013 Lessor Notes and any Additional Lessor Notes.

**“LGIP”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Lien”** shall mean any mortgage, security deed, security title, pledge, lien, charge, encumbrance, lease, or security interest or title retention arrangement.

**“List of Competitors”** shall mean the initial list attached to the Participation Agreement as Schedule 2, as amended from time to time pursuant to Section 7.1(b) of the Participation Agreement.

**“Majority in Interest of Noteholders”** as of any date of determination, shall mean Noteholders holding in aggregate more than 50% of the total outstanding principal amount of Lessor Notes; *provided, however*, that

any Lessor Notes held by TVA and/or any Affiliate of TVA shall not be considered outstanding for purposes of this definition unless TVA and/or such Affiliate shall hold title to all the Lessor Notes outstanding.

**“Majority of Facility Users”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Make Whole Premium”** shall mean, with respect to the Lessor Notes subject to redemption pursuant to the Lease Indenture, an amount equal to the Discounted Present Value of the Lessor Notes *less* the unpaid principal amount of such Lessor Notes; *provided* that the Make Whole Premium shall not be less than zero. For purposes of this definition, the “Discounted Present Value” of any Lessor Notes subject to redemption pursuant to the Lease Indenture shall be equal to the discounted present value of all principal and interest payments scheduled to become due after the date of such redemption in respect of the Lessor Notes, calculated using a discount rate equal to the sum of (i) the yield to maturity on the U.S. Treasury security having a life equal to the remaining average life of the Lessor Notes and (ii) 20 basis points; *provided, however*, that if there is no U.S. Treasury security having a life equal to the remaining average life of the Lessor Notes, such discount rate shall be calculated using a yield to maturity interpolated or extrapolated on a straight-line basis (rounding to the nearest calendar month, if necessary) from the yields to maturity for two U.S. Treasury securities having lives most closely corresponding to the remaining average life of the Lessor Notes.

**“Material Adverse Effect”** shall mean with respect to any Person a materially adverse effect on (i) the business, assets, revenues, results of operations, or financial condition of such Person, (ii) the ability of such Person to perform its obligations under the Transaction Documents, or (iii) the validity or enforceability of the Transaction Documents, the Liens granted thereunder, or the rights and remedies thereto.

**“Maximum Net Generating Capacity”** shall mean the maximum net Capability of the Facility to produce Energy under conditions existing from time to time.

**“Member”** shall have the meaning specified in Section 3.7(a) of the Support Agreement.

**“Membership Interests”** shall mean the membership interests of the Equity Investor in the Owner Lessor.

**“Mississippi Real Property”** shall have the meaning specified in Section 4.7 of the Indenture.

**“Modification”** shall mean a modification, alteration, improvement, addition, betterment or enlargement of the Facility, including any Required Modifications and Optional Modifications, but not Components.

**“Month”** shall mean a calendar month.

**“Moody’s”** shall mean Moody’s Investors Service, Inc. and any successor thereto.

**“Net TV Amount”** shall mean the FMV Net Termination Value or the Sale Net Termination Value, as applicable.

**“Net TV Amount (Debt Portion)”** shall be the amount equal to the product of (a) the applicable Net TV Amount as of the applicable Termination Date, *multiplied by* (b) a fraction (i) the numerator of which is the Termination Value (Debt Portion) as of such Termination Date and (ii) the denominator of which is the Termination Value as of such Termination Date.

**“Net TV Amount (Debt Portion) Rate”** shall mean, with respect to the applicable Debt Portion, a rate per annum equal to (a) 5.846% per annum with respect to the Debt Portion that corresponds to the 2013 Lessor Notes; or (b) the interest rate on the applicable Additional Lessor Notes *plus* two percent (2%) per annum with respect to the Debt Portion that corresponds to such Additional Lessor Notes.

**“Net TV Amount (Equity Portion)”** shall be the amount equal to the product of (a) the applicable Net TV Amount as of the applicable Termination Date, *multiplied by* (b) a fraction (i) the numerator of which is the Termination Value (Equity Portion) as of such Termination Date and (ii) the denominator of which is the Termination Value as of such Termination Date.

**“Net TV Amount (Equity Portion) Rate”** shall mean, with respect to the applicable Equity Portion, a rate per annum equal to (a) 6.95% per annum with respect to the Equity Portion that corresponds to the Equity Investment; and (b) the interest rate on the applicable Additional Equity Investment *plus* two percent (2%) per annum with respect to the Equity Portion that corresponds to such Additional Equity Investment.

**“Nonseverable Modifications”** shall mean any Modification that is not a Severable Modification.

**“Non-Defaulting Facility User”** shall have the meaning specified in Section 2.7(a) of the Support Agreement.

**“Note Register”** shall have the meaning specified in Section 2.8 of the Lease Indenture.

**“Noteholder”** shall mean any holder from time to time of outstanding Lessor Notes, and each such holder’s successors and permitted assigns.

**“Offering Circular”** shall mean the Offering Circular, dated August 6, 2013 with respect to the 2013 Lessor Notes.

**“Officer’s Certificate”** shall mean with respect to any Person a certificate signed by the Responsible Officer of such Person.

**“Operation and Maintenance Agreement”** shall have the meaning specified in Section 3.6(a) of the Support Agreement.

**“Operating Committee”** shall have the meaning specified in Section 3.7(a) of the Support Agreement.

**“Operation and Maintenance Expense Budget”** shall have the meaning set forth in Section 3.4(c) of the Support Agreement.

**“Operative Documents”** shall mean the Participation Agreement, the Head Lease, the Facility Lease, the Ground Lease, the Ground Sublease, any Equity Guaranty, the Owner Lessor Mortgage, the Lease Indenture, the Lessor Notes, the Owner Lessor LLC Agreement and the Support Agreement.

**“Optional Modification”** shall have the meaning specified in Section 8.2 of the Facility Lease.

**“Other Exchange Date Payment Amounts”** shall mean the following amounts (without duplication) to be paid by the Facility Lessee on the Exchange Date: (a) if the Exchange Date is also a Rent Payment Date, Basic Lease Rent payable on such Exchange Date; *plus* (b) all reasonable documented out-of-pocket costs and expenses incurred by the Owner Lessor, the Equity Investor, the Southaven Holdco Note Purchasers and the Lease Indenture Trustee in connection with the exercise of the Early Buy Out (without duplication of any such costs and expenses payable pursuant to the Facility Lease); *plus* (c) any other Supplemental Lease Rent payments due and unpaid on the Exchange Date under any other Transaction Document.

**“Other Redemption Date Payment Amounts”** shall mean the following amounts (without duplication) to be paid by the Facility Lessee on the Redemption Date: (a) if the Redemption Date is also a Rent Payment Date, Basic Lease Rent payable on such Redemption Date; *plus* (b) all reasonable documented out-of-pocket costs and expenses incurred by the Owner Lessor, the Equity Investor, the Southaven Holdco Note Purchasers and the Lease Indenture Trustee in connection with the exercise of the Early Buy Out (without duplication of any such costs and expenses payable pursuant to the Facility Lease); *plus* (c) any other Supplemental Lease Rent payments due and unpaid on the Redemption Date under any other Transaction Document.

**“Overdue Rate”** (a) when used with reference to the Lessor Notes, Basic Lease Rent (Debt Portion) or Termination Value (Debt Portion) shall mean two percent (2%) per annum over the greater of (i) the Base Rate and (ii) the stated interest rate on the Lessor Notes, (b) when used with reference to the Basic Lease Rent (Equity Portion) or Termination Value (Equity Portion), shall mean two percent (2%) over the greater of (A) the Base Rate and (B) 4.95% per annum or (c) when used with reference to any amount which is due and owing and not referenced in clause (a) or (b) of this definition, the Base Rate *plus* two percent (2%) per annum.

**“Owner Lessor”** shall have the meaning set forth in the introductory paragraph to the Participation Agreement.

**“Owner Lessor LLC Agreement”** shall mean the limited liability company agreement of the Owner Lessor, dated on or about the Execution Date, between the Equity Investor, and the Lessor Manager.

**“Owner Lessor Mortgage”** shall mean the Leasehold Deed of Trust and Security Agreement, dated as of the Closing Date, made by the Owner Lessor to the Leasehold Deed of Trust Trustee and TVA, substantially in the form of Exhibit I to the Participation Agreement.

**“Owner Lessor’s Account”** shall mean the account identified as the Owner Lessor’s Account on Schedule 4 to the Participation Agreement.

**“Owner Lessor’s Interest”** shall mean the Owner Lessor’s right, title and interest in and to (i) the Undivided Interest under the Head Lease, (ii) the Ground Interest under the Ground Lease, and (iii) the Support Agreement.

**“Owner Lessor’s Lien”** shall mean any Lien on the Facility, the Undivided Interest, the Facility Site, the Ground Interest, the Lessor Estate or any part thereof arising as a result of (i) Taxes against or affecting the Trust Company, the Lessor Manager or the Owner Lessor, or any respective Affiliate thereof that is not related to, or that is in violation of, any Transaction Document or the transactions contemplated thereby, (ii) Claims against, or any act or omission of, the Trust Company, the Lessor Manager or the Owner Lessor, or any respective Affiliate thereof, that is not related to, or that is in violation of, any Transaction Document or the transactions contemplated thereby or that is in breach of any covenant or agreement of the Trust Company, the Lessor Manager or the Owner Lessor specified therein, (iii) Taxes imposed upon the Trust Company, the Lessor Manager or the Owner Lessor, or any respective Affiliate thereof that are not indemnified against by TVA pursuant to any Transaction Document, or (iv) Claims against or affecting the Trust Company, the Lessor Manager or the Owner Lessor, or any respective Affiliate thereof arising out of the voluntary or involuntary transfer by the Trust Company, the Lessor Manager or the Owner Lessor of any portion of the interest of the Trust Company, the Lessor Manager or the Owner Lessor in the Owner Lessor’s Interest, other than pursuant to the Transaction Documents.

**“Owner Lessor’s Percentage Interest”** shall mean an undivided interest equal to 90%.

**“Owner Participant”** shall mean GSS Holdings (Southaven), Inc. until such time, if any, that it has transferred its membership interests in the Equity Investor in accordance with the Equity Investor LLC Agreement, and, thereafter shall mean such transferee or its permitted successor or assign.

**“Partial Early Buy Out”** shall mean TVA’s exercise of the Early Buy Out with respect to less than all Units.

**“Partial Event of Loss”** shall mean an Event of Loss with respect to less than all Units.

**“Participation Agreement”** shall mean the Participation Agreement, dated as of the Execution Date, among TVA, the Owner Lessor, the Lessor Manager, the Equity Manager, the Equity Investor and the Lease Indenture Trustee.

**“Paying Agent”** shall have the meaning specified in Section 2.6 of the Lease Indenture.

**“Permitted Closing Date Liens”** shall mean those matters listed on Exhibit 2 to the Ground Lease.

**“Permitted Instruments”** shall mean (a) Permitted Securities, (b) overnight loans to or other customary overnight investments in commercial banks of the type referred to in paragraph (d) below, (c) open market commercial paper of any corporation (other than TVA or any Affiliate thereof) incorporated under the laws of the United States or any state thereof which is rated not less than “prime 1” or its equivalent by Moody’s and “A 1” or its equivalent by S&P maturing within one year after such investment, or such other comparable rating by a nationally recognized rating agency, (d) certificates of deposit issued by commercial banks

organized under the laws of the United States or any state thereof or a domestic branch of a foreign bank (i) having a combined capital and surplus in excess of \$500,000,000 and (ii) which are rated “AA” or better by S&P and “Aa2” or better by Moody’s, or such other comparable rating by a nationally recognized rating agency; *provided* that no more than \$20,000,000 may be invested in such deposits at any one such bank, and (e) a money market fund registered under the Investment Company Act of 1940, as amended, the portfolio of which is limited to Permitted Securities.

“**Permitted Liens**” shall mean (i) the interests of TVA, the Equity Investor, the Owner Lessor and the Lease Indenture Trustee under any of the Transaction Documents; (ii) all Owner Lessor’s Liens, Equity Investor’s Liens and Lease Indenture Trustee’s Liens; (iii) the interests of TVA in the Facility and the Facility Site; (iv) Permitted Closing Date Liens; (v) Liens for Taxes either not delinquent or being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of TVA if required by generally accepted accounting principles, so long as such proceedings shall not involve any danger of the sale, forfeiture or loss of any part of the Undivided Interest or the Ground Interest; (vi) materialmen’s, mechanics’, workers’, repairmen’s, employees’ or other like liens arising in the ordinary course of business for amounts either not delinquent or being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of TVA if required by generally accepted accounting principles, so long as such proceedings shall not involve any danger of the sale, forfeiture or loss of any part of the Undivided Interest or the Ground Interest; (vii) liens arising out of judgments or awards against TVA with respect to which at the time an appeal or proceeding for review is being prosecuted in good faith by TVA, so long as such judgment, award or appeal shall not involve any danger of the sale, forfeiture or loss of any part of the Undivided Interest or the Ground Interest; (viii) utility rights of way and easements; and (ix) Liens permitted pursuant to Section 4.2 or 4.3 of the Ground Lease.

“**Permitted Post Facility Lease Term Liens**” shall mean the Permitted Liens referred to in clauses (ii), (iii) and (ix) of the definition thereof.

“**Permitted Securities**” shall mean securities (and security entitlements with respect thereto) that (a) are (i) direct obligations of the United States of America or obligations guaranteed as to principal and interest by the full faith and credit of the United States of America, and (ii) securities issued by agencies of the U.S. Federal government whether or not backed by the full faith and credit of the United States rated “AA” and “Aa2” by S&P and Moody’s, respectively, which, in either case under clauses (i) or (ii) are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government obligation or a specific payment of interest on or principal of any such U.S. Government obligation held by such custodian for the account of the holder of a depository receipt, *provided* that (except as required by law) such custodian is not authorized to make any deduction in the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government obligation or the specific payment of interest on or principal of the U.S. Government obligation evidenced by such depository receipt, and (b) have a stated maturity no later than the date of the expected use of the funds.

**“Person”** shall mean any individual, corporation, cooperative, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof.

**“Personalty”** shall have the meaning specified in the Granting Clause of the Owner Lessor Mortgage.

**“Phase I”** shall mean the Phase I environmental site assessment required by Section 4(u) of the Participation Agreement or Section 5.3 of the Facility Lease.

**“Plan”** shall mean any “employee benefit plan” (as defined in Section 3(3) of ERISA) that is subject to ERISA, any “plan” (as defined in Section 4975(e)(1) of the Code) that is subject to Section 4975 of the Code, any trust created under any such plan or any “governmental plan” (as defined in Section 3(32) of ERISA or Section 414(d) of the Code) that is organized in a jurisdiction having prohibitions on transactions with government plans similar to those contained in Section 406 of ERISA or Section 4975 of the Code.

**“Points of Interconnection”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Power”** shall mean megawatts of Capacity and associated Energy.

**“Proceeds”** shall mean the proceeds from the sale of the 2013 Lessor Notes by the Owner Lessor to the Noteholders on the Closing Date.

**“Prohibited Transaction Class Exemption”** shall mean a class exemption from the applicable restrictions of Section 406 of ERISA and Section 4975 of the Code issued by the Department of Labor.

**“Prudent Industry Practice”** shall mean, at a particular time, either (a) any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry with respect to facilities similar in nature to the Facility, or (b) any of the practices, methods and acts which, in the exercise of reasonable judgment at the time the decision was made, could have been expected to accomplish the desired result at the lowest reasonable cost consistent with good business practices, reliability, safety and expedition. “Prudent Industry Practice” is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts.

**“Purchase Agreement”** shall mean the Asset Purchase Agreement, dated as of August 6, 2013, by and between TVA, as purchaser, and Seven States, as seller, of all right, title and interest of Seven States in and to the Facility, the Facility Site and certain related personal property and real property as set forth therein.

**“Quarter”** means a calendar three-month period, ending on March 31, June 30, September 30 or December 31.

**“Rates”** shall have the meaning specified in Section 5.4 of the Participation Agreement.

**“Rating Agencies”** shall mean S&P, Moody’s and Fitch and any other comparable nationally recognized rating agency.

**“Real Property”** shall have the meaning specified in the Granting Clause of the Owner Lessor Mortgage.

**“Reasonable Basis”** for a position shall exist if tax counsel may properly advise reporting such position on a tax return in accordance with Formal Opinion 85-352 issued by the Standing Committee on Ethics and Professional Responsibility of the American Bar Association (or any successor to such opinion).

**“Rebuilding Closing Date”** shall have the meaning specified in Section 10.3(b) of the Facility Lease.

**“Redemption Date”** shall mean, when used with respect to any Lessor Notes to be redeemed, the date fixed for such redemption by or pursuant to the Lease Indenture or the respective Lessor Notes, which date shall be a Termination Date.

**“Registrar”** shall have the meaning specified in Section 2.8 of the Lease Indenture.

**“Regulatory Event of Loss”** shall mean a condition or circumstance where, if elected by the Owner Lessor, the Equity Investor or one or more affected Southaven Holdco Note Purchasers (by notice to the Facility Lessee) within 12 months of obtaining knowledge of the event or circumstance causing a “Regulatory Event of Loss,” the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers become subject to rate of return regulation or other applicable public utility law or regulation of a Governmental Entity that, in the reasonable opinion of the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers, is materially burdensome to the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers and cannot be remedied by cooperation among the parties and the taking of reasonable measures to alleviate the source or consequence of any such regulation or law, *provided* that: (i) such regulation or law is applicable solely as a result of the participation of the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers in the transactions contemplated by the Transaction Documents and not as a result of (A) any other investments, loans, or other business activities of the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers or their Affiliates or the nature of properties or assets owned, held or otherwise available to the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers or their Affiliates, or (B) a failure of the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers or their Affiliates to perform routine, administrative or ministerial actions which would not have a material adverse consequence on the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers or their Affiliates; and (ii) the Owner Lessor, the Equity Investor or such affected Southaven Holdco Note Purchaser or Purchasers would no longer be subject to such law or regulation if the Owner Lessor terminated the Head Lease and the Facility Lease and transferred the Undivided Interest to the Head Lessor, the Equity Investor disposed of its Membership Interests, or such affected Southaven Holdco Note Purchaser or Purchasers disposed of its or their Southaven Holdco Notes as the case may be.



**“Regulatory Event of Loss Termination Payment”** shall mean, with respect to any Termination Date, an amount equal to the product of (a) the Termination Value (Equity Portion) with respect to such Termination Date, *multiplied* by (b) the applicable Southaven Holdco Note Purchaser’s Percentage Interest of the Notes.

**“Reinvestment Yield”** shall mean, with respect to the Called Amount of any Equity Investment, 0.50% over the yield to maturity implied by the yield(s) reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Amount, on the display designated as “Page PX1” (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on-the-run U.S. Treasury securities (**“Reported”**) having a maturity equal to the Remaining Average Life of such Remaining Scheduled Payments as of such Settlement Date. If there are no such U.S. Treasury securities Reported having a maturity equal to such Remaining Average Life, then such implied yield to maturity will be determined by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between the yields Reported for the applicable most recently issued actively traded on-the-run U.S. Treasury securities with the maturities (1) closest to and greater than such Remaining Average Life and (2) closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Equity Investment. If such yields are not Reported or the yields Reported as of such time are not ascertainable (including by way of interpolation), then **“Reinvestment Yield”** shall mean, with respect to the Called Amount of any Equity Investment, 0.50% over the yield to maturity implied by the U.S. Treasury constant maturity yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Amount, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for the U.S. Treasury constant maturity having a term equal to the Remaining Average Life of such Called Amount as of such Settlement Date. If there is no such U.S. Treasury constant maturity having a term equal to such Remaining Average Life, such implied yield to maturity will be determined by interpolating linearly between (1) the U.S. Treasury constant maturity so reported with the term closest to and greater than such Remaining Average Life and (2) the U.S. Treasury constant maturity so reported with the term closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Equity Investment.

**“Related Party”** shall mean, with respect to any Person or its successors and assigns, an Affiliate of such Person or its successors and assigns and any director, officer, servant, employee or agent of that Person or any such Affiliate or their respective successors and assigns; *provided* that the Lessor Manager and the Owner Lessor shall not be treated as Related Parties to each other and neither the Owner Lessor nor the Lessor Manager shall be treated as a Related Party to the Equity Investor except that, for purposes of Section 9 of the Participation Agreement, the Owner Lessor will be treated as a Related Party to the Equity Investor to the extent that the Owner Lessor acts on the express direction or with the express consent of the Equity Investor.

**“Released Property”** shall have the meaning specified in Section 4.2 of the Ground Lease.

**“Relevant Portion of the Facility”** shall mean the Unit or Units suffering an Event of Loss.

**“Relevant Portion of the Undivided Interest”** shall mean the Owner Lessor’s Percentage Interest in the Relevant Portion of the Facility.

**“Remaining Average Life”** shall mean, with respect to any Called Amount, the number of years obtained by dividing (i) such Called Amount into (ii) the sum of the products obtained by multiplying (a) the return of equity component of each Remaining Scheduled Payment with respect to such Called Amount by (b) the number of years, computed on the basis of a 360-day year composed of twelve 30-day months, that will elapse between the Settlement Date with respect to such Called Amount and the scheduled due date of such Remaining Scheduled Payment.

**“Remaining Scheduled Payments”** shall mean, with respect to the Called Amount of any Equity Investment, all payments of Basic Lease Rent (Equity Portion) that would be due after the Settlement Date if no payment of such Called Amount were made prior to its scheduled due date.

**“Removable Modification”** shall have the meaning specified in Section 8.3 of the Facility Lease.

**“Rent”** shall mean Basic Lease Rent and Supplemental Lease Rent.

**“Rent Payment Date”** shall mean each August 15 and February 15, commencing February 15, 2014, to and including August 15, 2033.

**“Replacement Component”** shall have the meaning specified in Section 7.2 of the Facility Lease.

**“Replacement Power Bond”** shall have the meaning specified in Section 2.10(c) of the Lease Indenture.

**“Reported”** shall have the meaning specified in the definition of Reinvestment Yield in this Appendix A.

**“Required Modification”** shall have the meaning specified in Section 8.1 of the Facility Lease.

**“Responsible Officer”** shall mean (a) with respect to a corporation or limited liability company, its Chairman of the Board, its President, any Senior Vice President, the Chief Financial Officer, any Vice President, the Treasurer, its Independent Manager or any other management employee (i) that has the power to take the action in question and has been authorized, directly or indirectly, by the Board of Directors (or equivalent body) of such Person, (ii) working under the direct supervision of such Chairman of the Board, President, Senior Vice President, Chief Financial Officer, Vice President or Treasurer, and (iii) whose responsibilities include the administration of the transactions and agreements contemplated by the Transaction Documents, (b) with respect to the Lease Indenture Trustee, an officer in its corporate trust administration department, (c) with respect to TVA, its Chairman of the Board, its President, any Senior Vice President, the Chief Financial Officer, any Vice President, the Treasurer or any other management employee, (d) with respect to the Owner Lessor, the Lessor Manager, and (e) with respect to the Equity Investor, the Equity Manager.

**“Revenues”** shall have the meaning specified in the Granting Clause of the Lease Indenture.

**“S&P”** shall mean Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. or any successor thereto.

**“Sale Net Termination Value”** shall have the meaning set forth in Section 18.2(e) of the Facility Lease.

**“Scheduled Closing Date”** shall mean August 9, 2013 or any date set for the Closing in a notice of postponement pursuant to Section 2.3(a) of the Participation Agreement.

**“SEC”** shall mean the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934.

**“Secured Indebtedness”** shall have the meaning specified in Section 1 of the Lease Indenture.

**“Securities Act”** shall mean the Securities Act of 1933, as amended.

**“Service Commencement Date”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Settlement Date”** shall mean, with respect to the Called Amount of any Equity Investment, the date, which shall be a Termination Date, on which such Called Amount is to be repaid pursuant to Section 15 of the Facility Lease.

**“Seven States”** shall have the meaning specified in the recitals to the Participation Agreement.

**“Seven States Parent”** shall mean Seven States Power Corporation, a not-for-profit mutual benefit corporation created and existing under the laws of the State of Tennessee.

**“Seven States Profits Interest”** shall mean the membership interest in the Equity Investor held by Seven States.

**“Seven States Transfer”** shall mean the purchase by TVA of all right, title and interest of Seven States in and to the Facility and the Facility Site pursuant to the terms and conditions of the Purchase Agreement.

**“Severable Modification”** shall mean any Modification that is removable without causing material damage to the Facility that cannot readily be repaired.

**“Significant Lease Default”** shall mean any of: (i) TVA shall fail to make any payment of Basic Lease Rent or Termination Value on the relevant payment date or after the same shall have become due and payable, (ii) TVA shall fail to make any payment of Supplemental Lease Rent in excess of \$250,000 (other than Excepted Payments, or Termination Value or any amount determined by reference thereto) on the relevant payment date after the same shall have become due and payable, except to the extent such amounts are the subject of a good faith dispute and have not been established to be due and payable, or (iii) an event which is or, with the passage of time would be, a Lease Event of Default under Section 17(e) or (f) of the Facility Lease.

**“Similar Law”** shall mean any federal, state or local law that is substantially similar to Title I of ERISA or Section 4975 of the Code.

**“Southaven Holdco Notes”** shall mean, with respect to any Southaven Holdco Note Purchaser, the Southaven Holdco Note issued by the Equity Investor as of the Closing Date to such Southaven Holdco Note Purchaser substantially in the form attached as Exhibit 1 to the Southaven Holdco Note Purchase Agreement.

**“Southaven Holdco Note Purchase Agreement”** shall mean the Note Purchase Agreement, dated as of the Execution Date, between the Equity Investor and the Southaven Holdco Note Purchasers.

**“Southaven Holdco Note Purchase Documents”** shall mean the Southaven Holdco Note Purchase Agreement, the Southaven Holdco Notes, the Equity Pledge Agreement and the Equity Investor LLC Agreement.

**“Southaven Holdco Note Purchaser”** or **“Southaven Holdco Note Purchasers”** shall mean the Persons set forth under the caption “Southaven HoldcoSouthaven Holdco Note Purchaser’s Percentage Interest of the Notes” shall mean, as of any date of determination, the percentage of the outstanding principal amount of Southaven Holdco Notes held by the applicable Southaven Holdco Note Purchaser.

**“Special Lessee Transfer”** shall have the meaning specified in Section 12 of the Participation Agreement.

**“Special Lessee Transfer Amount”** shall mean for any Termination Date, the amount determined as follows: (i) the Termination Value (Equity Portion) under the Facility Lease on such Termination Date; *plus* (ii) any unpaid Basic Lease Rent (Equity Portion) due on or before such Termination Date; *plus* (iii) the Equity Breakage.

**“Station Service Requirements”** shall mean the Capacity and Energy required during any period (including initial start-up and testing) and supplied from any source other than the Facility for operation of all on-site process and auxiliary equipment and systems used or useful in connection with the operation and maintenance of the Facility.

**“STG”** shall have the meaning specified in Attachment A to the Head Lease.

**“Subordinated Resolution”** shall mean the Tennessee Valley Authority Subordinated Debt resolution adopted March 29, 1995, as amended and supplemented.

**“Supermajority of Facility Users”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Supplemental Financing”** shall have the meaning specified in Section 11.2(b) of the Participation Agreement.

**“Supplemental Lease Rent”** shall mean any and all amounts, liabilities and obligations (other than Basic Lease Rent or any amount determined by reference thereto) that TVA assumes, agrees to or is required to pay under the Transaction Documents (whether or not identified as “Supplemental Lease Rent”) to the Owner Lessor or any other Person, including Termination Value and Make Whole Premium.

**“Support Agreement”** shall mean the Joint Operating and Support Agreement, dated as of the Closing Date, between the Owner Lessor and TVA, substantially in the form of Exhibit H to the Participation Agreement.

**“Tax”** or **“Taxes”** shall mean all fees, taxes (including sales taxes, use taxes, stamp taxes, value added taxes, *ad valorem* taxes and property taxes (personal and real, tangible and intangible)), levies, assessments, withholdings and other charges and impositions of any nature, plus all related interest, penalties, fines and additions to tax, now or hereafter imposed by any Federal, state, local or foreign government or other taxing authority (including penalties or other amounts payable pursuant to subtitle B of Title I of ERISA).

**“Tax Advance”** shall have the meaning specified in Section 9.2(g)(iii)(4) of the Participation Agreement.

**“Tax Benefit”** shall have the meaning specified in Section 9.2(e) of the Participation Agreement.

**“Tax Claim”** shall have the meaning specified in Section 9.2(g)(i) of the Participation Agreement.

**“Tax Event”** shall mean any event or transaction that results in a Noteholder being subject to U.S. federal income Tax on a different amount, in a different manner or at a different time than would have been the case if such event had not occurred.

**“Tax Indemnatee”** shall have the meaning specified in Section 9.2(a) of the Participation Agreement.

**“Term-Out Notice Date”** shall have the meaning specified in Section 18.4 of the Facility Lease.

**“Term-Out Payment Dates”** shall have the meaning specified in Section 18.4 of the Facility Lease.

**“Termination Date”** shall mean each of the monthly dates during the Facility Lease Term identified as a “Termination Date” on Schedule 2 of the Facility Lease.

**“Termination Value”** for any Termination Date shall mean an amount equal to the sum of (a) Termination Value (Debt Portion) and (b) Termination Value (Equity Portion) for such Termination Date.

**“Termination Value (Debt Portion)”** for any Termination Date shall mean the amount set forth under the heading “Termination Value (Debt Portion)” on Schedule 2 of the Facility Lease for such Termination Date.

**“Termination Value (Equity Portion)”** for any Termination Date shall mean the amount set forth under the heading “Termination Value (Equity Portion)” on Schedule 2 of the Facility Lease for such Termination Date.

**“Transaction”** shall mean, collectively, the transactions contemplated under the Participation Agreement and the other Transaction Documents.

**“Transaction Costs”** shall mean the following costs to the extent substantiated or otherwise supported in reasonable detail:

(i) the cost of reproducing and printing the Transaction Documents and the Offering Circular and all costs and fees, including filing and recording fees and recording, transfer, mortgage, intangible and similar Taxes in connection with the execution, delivery, filing and recording of the Head Lease, the Facility Lease, the Ground Lease, the Ground Sublease and any other Transaction Document, and any other document required to be filed or recorded pursuant to the provisions hereof or of any other Transaction Document and any Uniform Commercial Code filing fees in respect of the perfection of any security interests created by any of the Transaction Documents or as otherwise reasonably required by the Owner Lessor or the Lease Indenture Trustee;

(ii) the reasonable fees and expenses of Hunton & Williams LLP, counsel to the Equity Investor and the Southaven Holdco Note Purchasers, and Winston & Strawn LLP, special counsel to the Southaven Holdco Note Purchasers for services rendered in connection with the negotiation, execution and delivery of the Participation Agreement and the other Transaction Documents;

(iii) the reasonable fees and expenses of Bradley Arant Boult Cummings LLP, Mississippi counsel to the Equity Investor and the Underwriters, for services rendered in connection with the negotiation, execution and delivery of the Participation Agreement and the other Transaction Documents;

(iv) the reasonable fees and expenses of Orrick, Herrington & Sutcliffe LLP, special counsel to TVA, and Butler, Snow, O’Mara, Stevens & Cannada, PLLC, Mississippi counsel to TVA, for services rendered in connection with the negotiation, execution and delivery of the Participation Agreement, the other Transaction Documents and the Underwriting Agreement and the preparation of the Offering Circular;

(v) the reasonable fees and expenses of Morris James LLP, counsel to the Owner Lessor, the Lessor Manager, the Equity Manager and the Equity Collateral Agent, for services rendered in connection with the negotiation, execution and delivery of the Participation Agreement and the other Transaction Documents;

(vi) the reasonable fees and expenses of White & Case, LLP, counsel to the Underwriters, for services rendered in connection with the negotiation, execution and delivery of the Participation Agreement, the other Transaction Documents and the Underwriting Agreement and the preparation of the Offering Circular;

(vii) the reasonable fees and expenses of Richards, Layton & Finger, PA, counsel to the Lease Indenture Trustee for services rendered in connection with the negotiation, execution and delivery of the Participation Agreement and the other Transaction Documents;

(viii) the underwriting discounts and commissions payable to, and reasonable out of pocket expenses of, the Underwriters;

(ix) the reasonable fees and expenses of Ernst & Young LLP for services rendered in connection with the Transaction;

(x) the reasonable, documented out-of-pocket expenses of the Equity Investor, each Southaven Holdco Note Purchaser, the Owner Participant, Seven States and the Owner Lessor;

(xi) the reasonable fees and expenses of Dentons US LLP, counsel to the Owner Participant, and Miller & Martin PLLC, counsel to Seven States, each for services rendered in connection with the Transaction;

(xii) the reasonable fees and expenses of First Southwest Company, financial advisor to Seven States, for services rendered in connection with the Transaction;

(xiii) the initial fees and expenses of the Lease Indenture Trustee in connection with the execution and delivery of the Participation Agreement and the other Transaction Documents to which it is or will be a party;

(xiv) the initial fees and expenses of Wilmington, in its capacity as Lessor Manager, Equity Manger and Collateral Agent, in connection with the execution and delivery of the Participation Agreement and the other Transaction Documents to which it is or will be a party;

(xv) the fees and expenses of the Appraiser, for services rendered in connection with delivering the Closing Appraisal required by Section 4 of the Participation Agreement;

(xvi) the fees and expenses of the Engineering Consultant, for services rendered in connection with delivering the Engineering Report required by Section 4 of the Participation Agreement;

(xvii) the fees and expenses of Trinity Consultants, Inc. for services rendered in connection with delivering the Phase I required by Section 4(u) of the Participation Agreement;

(xviii) the fees and expenses of PLS, Inc. for services rendered in connection with delivering the map or drawing required by Section 4(s) of the Participation Agreement;

(xvix) the fees and expenses of Fidelity National Title Insurance Company for services rendered in connection with delivering the title report required by Section 4(s) of the Participation Agreement; and

(xvx) the fees and expenses of the Rating Agencies in connection with the rating of the Lessor Notes.

Notwithstanding the foregoing, Transaction Costs shall not include internal costs and expenses such as salaries and overhead of whatsoever kind or nature nor costs incurred by the parties to the Participation Agreement pursuant to arrangements with third parties for services (other than those expressly referred to above), such as the fees and expenses of financial analysis and consulting, advisory services, and costs of a similar nature.

**“Transaction Documents”** shall mean the Operative Documents and the Southaven Holdco Note Purchase Documents.

**“Transaction Party(ies)”** shall mean, individually or collectively as the context may require, all or any of the parties to the Transaction Documents (including the Trust Company and Wilmington Trust).

**“Transferee”** shall have the meaning specified in Section 7.1(a) of the Participation Agreement.

**“Transmission Services Guidelines”** shall have the meaning specified in Section 1 of the Support Agreement.

**“Treasury Regulations”** shall mean regulations, including temporary regulations, promulgated under the Code.

**“Trust Company”** shall have the meaning set forth in the introductory paragraph to the Participation Agreement.

**“Trust Indenture Act”** shall mean the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed except as provided in Section 905 of such act; *provided, however*, that in the event the Trust Indenture Act of 1939 is amended after such date, “Trust Indenture Act” means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

**“TVA”** shall have the meaning set forth in the introductory paragraph to the Participation Agreement.

**“TVA (Entergy) Interconnection Facilities”** shall have the meaning specified in Section 1 of the Support Agreement.

**“TVA Act”** shall mean the Tennessee Valley Authority Act of 1933, as amended.

**“TVA IA”** shall have the meaning specified in Section 4.2(a) of the Support Agreement.

**“TVA Interconnection Facilities”** shall have the meaning specified in Section 1 of the Support Agreement.

**“TVA Point of Interconnection”** shall have the meaning specified in Section 1 of the Support Agreement.



**“TVA Substation”** shall have the meaning specified in Section 1 of the Support Agreement.

**“TVA Transmission System”** shall mean the facilities owned, controlled or operated by TVA (or a successor entity) that are used to provide transmission service under the Transmission Service Guidelines.

**“TVA’s Percentage Interest”** shall mean TVA’s 10% undivided interest in the Facility and the Facility Site not subject to the Transaction.

**“Uncontrollable Forces”** shall have the meaning set forth in Section 7.2 of the Support Agreement.

**“Underwriters”** shall mean Merrill, Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC and J.P. Morgan Securities LLC.

**“Underwriting Agreement”** shall mean the Underwriting Agreement, dated the Execution Date, between TVA and the Underwriters.

**“Undivided Interest”** shall mean a 90% undivided interest in the Facility together with (i) all rights under Applicable Law as a tenant-in-common of the Facility with the Head Lessor as owner/holder of the remaining 10% undivided interest (or any successor, assignee or lessee of the Head Lessor’s 10% undivided interest) in the Facility, as such rights of a tenant-in-common are modified by the Head Lease (including Sections 14.17 and 14.18 thereof) and, following termination of the Facility Lease, the Support Agreement, (ii) the right to nonexclusive possession with the Head Lessor as owner/holder of the remaining 10% undivided interest (or any successor, assignee or lessee of the Head Lessor’s 10% undivided interest) in the Facility, and (iii) following the termination of the Facility Lease, the right to 90% of the capacity, energy and ancillary services as may be available from the Facility from time to time.

**“Uniform Commercial Code”** or **“UCC”** shall mean the Uniform Commercial Code as in effect in the applicable jurisdiction.

**“Uniform System of Accounts”** shall mean the Uniform System of Accounts prescribed by FERC, as in effect on the Closing Date and as from time to time and thereafter amended, or the chart of accounts and accounting classifications which may be substituted for such Uniform System of Accounts from time to time by FERC or its successor for such purpose.

**“Unit”** and collectively the **“Units”** shall mean each of the three (3) General Electric Frame 7FA combustion turbine generators, together with the related Aalborg heat recovery steam generator and the related General Electric A10 steam turbine generator, and any Components exclusively related thereto, as more particularly described on Exhibit A to the Facility Lease.

**“U.S. Government Obligations”** shall mean securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case under clauses (i) or (ii) are not callable or redeemable at the option of the issuer thereof,

and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt, *provided* that (except as required by law) such custodian is not authorized to make any deduction in the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“**Verifier**” shall have the meaning specified in Section 3.4(c) of the Facility Lease.

“**Wilmington**” shall mean Wilmington Trust, National Association.

“**Wilmington Trust**” shall have the meaning set forth in the introductory paragraph to the Participation Agreement.

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Copies of the Ground Lease, the Ground Sublease, the Head Lease, the Facility Lease, the Indenture of Trust and the Support Agreement are of record with the Office of the Chancery Clerk of DeSoto County, Mississippi.

## Index

2013 Lessor Notes.....	4	Debt Portion.....	9
Actual Knowledge.....	4	Deed of Trust Trustee.....	9
Additional Equity Investment.....	4	Defaulting Facility User.....	9
Additional Facility.....	4	Discounted Value.....	9
Additional Lessor Notes.....	4	Dollars.....	9
Additional Owner.....	4	DTC.....	9
Affiliate.....	4	Early Buy Out.....	9
After-Tax Basis.....	4	Early Buy Out Date.....	9
Applicable Law.....	5	Early Buy Out Notice.....	9
Applicable Percentage.....	5	Effective Date.....	9
Applicable Rate.....	5	Election Notice.....	9
Appraisal Procedure.....	5	Eligible Customer.....	9
Appraiser.....	5	Energy.....	9
Appropriations Act Paragraph.....	5	Enforcement Notice.....	9
Arbitration Proceeding.....	5	Engineering Consultant.....	9
Assigned Documents.....	6	Engineering Report.....	10
Assignment and Assumption Agreement.....	6	Entergy.....	10
Bankruptcy Code.....	6	Entergy Point of Interconnection.....	10
Base Rate.....	6	Entergy Substation.....	10
Basic Lease Rent.....	6	Entergy Transmission System.....	10
Basic Lease Rent (Debt Portion).....	7	Environmental Condition.....	10
Basic Lease Rent (Equity Portion).....	7	Environmental Laws.....	10
Benefit Plan.....	7	Equity Breakage.....	10
Bond Resolution.....	7	Equity Collateral Agent.....	10
Business Day.....	7	Equity Guarantor.....	10
Called Amount.....	7	Equity Guaranty.....	10
Capability.....	7	Equity Investment.....	10
Capacity.....	7	Equity Investor.....	11
Capital Expenditure Budget.....	7	Equity Investor LLC Agreement.....	11
Claim.....	7	Equity Investor Members.....	11
Closing.....	7	Equity Investor's Lien.....	11
Closing Appraisal.....	7	Equity Manager.....	11
Closing Date.....	8	Equity Placement Agent.....	11
Code.....	8	Equity Pledge Agreement.....	11
Co-Equity Manager.....	8	Equity Portion.....	11
Co-Lessor Manager.....	8	ERISA.....	11
Collateral.....	8	Event of Loss.....	12
Common Facilities.....	8	Evidences of Indebtedness.....	12
Competitor.....	8	Excepted Payments.....	12
Component.....	8	Expected Rights.....	12
Confidential Information.....	8	Excess Amount.....	12
Construction Cost.....	8	Exchange Act.....	12
Contract Year.....	8	Exchange Date.....	13
CTG.....	9	Excluded Assets.....	13

Excluded Taxes.....	13	Indemnity Period.....	17
Execution Date.....	13	Independent Appraiser.....	17
Existing Southaven Credit Agreement.....	13	Investment Banker.....	17
Existing Southaven Lease Documents.....	13	Lease Default.....	17
Existing Southaven Loan Documents.....	13	Lease Event of Default.....	17
Expiration Date.....	13	Lease Indenture.....	17
Facility.....	13	Lease Indenture Estate.....	17
Facility Lease.....	13	Lease Indenture Event of Default.....	17
Facility Lease Term.....	13	Lease Indenture Payment Default.....	17
Facility Lessee.....	13	Lease Indenture Trustee.....	17
Facility Lessee's Interest.....	13	Lease Indenture Trustee Office.....	17
Facility Operating Fee.....	13	Lease Indenture Trustee's Account.....	17
Facility Operation and Maintenance Expense.....	13	Lease Indenture Trustee's Liens.....	17
Facility Site.....	14	Leasehold Deed of Trust Trustee.....	18
Facility User.....	14	Lessee Person.....	18
Fair Market Rental Value.....	14	Lessor Estate.....	18
Fair Market Sales Value.....	14	Lessor Manager.....	18
Federal Power Act.....	15	Lessor Notes.....	18
FERC.....	15	LGIP.....	18
Final Determination.....	15	Lien.....	18
Final Shutdown.....	15	List of Competitors.....	18
Final Shutdown Date.....	15	Majority in Interest of Noteholders.....	18
Fitch.....	15	Majority of Facility Users.....	19
FMV Net Termination Value.....	15	Make Whole Premium.....	19
GAAP.....	15	Material Adverse Effect.....	19
Government.....	15	Maximum Net Generating Capacity.....	19
Governmental Entity.....	15	Member.....	19
Ground Interest.....	15	Membership Interests.....	19
Ground Lease.....	16	Mississippi Real Property.....	19
Ground Lease Term.....	16	Modification.....	19
Ground Lessee.....	16	Month.....	19
Ground Lessor.....	16	Moody's.....	19
Ground Lessor's Release Rights.....	16	Net TV Amount.....	19
Ground Sublease.....	16	Net TV Amount (Debt Portion).....	20
Ground Sublease Term.....	16	Net TV Amount (Debt Portion) Rate.....	20
Ground Sublessee.....	16	Net TVA Amount (Equity Portion).....	20
Ground Sublessor.....	16	Net TVA Amount (Equity Portion) Rate.....	20
Hazardous Substance.....	16	Non-Defaulting Facility User.....	20
Head Lease.....	16	Nonseverable Modifications.....	20
Head Lease Rent.....	16	Note Register.....	20
Head Lease Term.....	16	Noteholder.....	20
Head Lessee.....	16	Offering Circular.....	20
Head Lessor.....	17	Officer's Certificate.....	20
HRSG.....	17	Operation and Maintenance Agreement.....	20
Indemnatee.....	17		

Operation and Maintenance Expense Budget.....	20	Reinvestment Yield.....	26
Operative Documents.....	21	Related Party.....	26
Optional Modification.....	21	Released Property.....	26
Other Exchange Date Payment Amounts.....	21	Relevant Portion of the Facility.....	26
Other Redemption Date Payment Amounts.....	21	Relevant Portion of the Undivided Interest.....	27
Overdue Rate.....	21	Remaining Average Life.....	27
Owner Lessor.....	21	Remaining Scheduled Payments.....	27
Owner Lessor LLC Agreement.....	21	Removable Modification.....	27
Owner Lessor Mortgage.....	21	Rent.....	27
Owner Lessor's Account.....	21	Rent Payment Date.....	27
Owner Lessor's Interest.....	22	Replacement Component.....	27
Owner Lessor's Lien.....	22	Replacement Power Bond.....	27
Owner Lessor's Percentage Interest.....	22	Reported.....	27
Owner Participant.....	22	Required Modification.....	27
Partial Early Buy Out.....	22	Responsible Officer.....	27
Partial Event of Loss.....	22	Revenues.....	28
Participation Agreement.....	22	S&P.....	28
Paying Agent.....	22	Sale Net Termination Value.....	28
Permitted Closing Date Liens.....	22	Scheduled Closing Date.....	28
Permitted Instruments.....	22	SEC.....	28
Permitted Liens.....	23	Secured Indebtedness.....	28
Permitted Post Facility Lease Term Liens.....	23	Securities Act.....	28
Permitted Securities.....	23	Service Commencement Date.....	28
Person.....	24	Settlement Date.....	28
Personalty.....	24	Seven States.....	28
Phase I.....	24	Seven States Parent.....	28
Plan.....	24	Seven States Profits Interest.....	28
Points of Interconnection.....	24	Seven States Transfer.....	28
Power.....	24	Severable Modification.....	28
Proceeds.....	24	Significant Lease Default.....	28
Prohibited Transaction Class Exemption.....	24	Similar Law.....	29
Prudent Industry Practice.....	24	Southaven Holdco Note Purchase Agreement.....	29
Purchase Agreement.....	24	Southaven Holdco Note Purchase Documents.....	29
Quarter.....	24	Southaven Holdco Note Purchaser.....	29
Rates.....	24	Southaven Holdco Note Purchaser's Percentage Percentage Interest of the Notes.....	29
Rating Agencies.....	25	Southaven Holdco Note Purchasers.....	29
Real Property.....	25	Southaven Holdco Notes.....	29
Reasonable Basis.....	25	Special Lessee Transfer.....	29
Rebuilding Closing Date.....	25	Special Lessee Transfer Amount.....	29
Redemption Date.....	25	Station Service Requirements.....	29
Registrar.....	25	STG.....	29
Regulatory Events of Loss.....	25	Subordinated Resolution.....	29
Regulatory Event of Loss Termination Payment.....	26		

Supermajority of Facility User.....	29	Trust Company.....	33
Supplemental Financing.....	29	Trust Indenture Act.....	33
Supplemental Lease Rent.....	30	TVA.....	33
Support Agreement.....	30	TVA (Entergy) Interconnection Facilities.....	33
Tax.....	30	TVA Act.....	33
Tax Advance.....	30	TVA IA.....	33
Tax Benefit.....	30	TVA Interconnection Facilities.....	33
Tax Claim.....	30	TVA Point of Interconnection.....	33
Tax Event.....	30	TVA Substation.....	34
Tax Indemnatee.....	30	TVA Transmission System.....	34
Taxes.....	30	TVA's Percentage Interest.....	34
Termination Date.....	30	U.S. Government Obligations.....	34
Termination Value.....	30	UCC.....	34
Termination Value (Debt Portion).....	30	Uncontrollable Forces.....	34
Termination Value (Equity Portion).....	31	Underwriters.....	34
Term-Out Notice Date.....	30	Underwriting Agreement.....	34
Term-Out Payment Dates.....	30	Undivided Interest.....	34
Transaction.....	31	Uniform Commercial Code.....	34
Transaction Costs.....	31	Uniform System of Accounts.....	34
Transaction Documents.....	33	Unit.....	34
Transaction Party(ies).....	33	Units.....	34
Transferee.....	33	Verifier.....	35
Transmission Services Guidelines.....	33	Wilmington.....	35
Treasury Regulations.....	33	Wilmington Trust.....	35

**DESCRIPTION OF THE FACILITY**

The Facility consists of the Units, Common Facilities, and any other equipment, material or property owned or leased by TVA associated with the Units and Common Facilities (except for Excluded Assets, as defined below), all of which are located on, under, or over the Facility Site, which Facility Site is the real property located in the City of Southaven, Mississippi and is described in greater detail in Attachment B hereto. For the avoidance of doubt, the Facility does not include the Facility Site.

Each Unit consists of one General Electric Frame 7FA.03 combustion turbine (“CTG”), one Aalborg Pioneer GT8 heat recovery steam generator (“HRSG”) with supplementary duct firing and one GE A10 steam turbine (“STG”) in a 1x1x1 configuration and all ancillary equipment relating thereto, except for the equipment which constitutes Common Facilities.

The units are sometimes referred to as SCC 01, SCC 02 and SCC 03. The serial numbers for each CTG-HRSG-STG group are as follows (CTG and STG serial numbers are turbine / generator):

TVA Tag Number	CTG Serial Number	HRSG Serial Number	ST Serial Number
SCC 01	298002 / 338X339	102142	270T568 / 290T568
SCC 02	298003 / 338X340	102143	270T569 / 290T569
SCC 03	298004 / 338X341	102144	270T570 / 290T570

The Components for each Unit includes the following:

- GE Mark V Gas Turbine Control System
- GE Mark V Steam Turbine Control System
- Forney -401550 low-NO<sub>x</sub> Duct Burner
- Fuel Gas Heater
- Main Step-up Transformer
- Inlet Fogging System (not in use)
- Inlet Filter System
- CO2 Fire Protection System
- MCC Room (EB Room) with DGP
- EX2000 Gas Turbine Generator System
- EX2000 Steam Turbine Generator System (brushless)
- Fuel Gas Module
- Gas Turbine Lube Oil Module
- Steam Turbine Lube Oil Module

- Emissions Monitoring System
- Feed Water System
- Steam System
- SCR Catalyst
- Steam Turbine Hydraulic Module
- Condensate System
- Compressed Air System
- Chemical Feed System
- Steam and Water Sample System
- Generator Hydrogen System
- Cooling Tower and Circ Water System including Cooling Tower Transformers, MCC,  
and Auxiliary Cooling System
- Condenser
- Station Service Transformers
- Electric Steam Super Heater
- Gas Turbine Generator Breaker
- Steam Turbine Generator Breaker

The Common Facilities are property and facilities that are used for the operation of the Units at the Facility. These shared facilities support the Units. The Common Facilities are as follows:

- Two LCI Starting Systems, including Transformers
- Unit Auxiliary Transformer on Unit 1 and Unit 3 Common to Unit 2
- Plant Water Treatment System
- Demineralized Water Tank
- Service Water / Fire Water Tanks
- Potable Water System
- Eye Wash System
- Storm Water System
- Process Water System
- Compressor Wash System
- Oil-Water Separation and Discharge System
- Auxiliary Steam System and Auxiliary Boiler
- Gas Supply Piping and Gas Yard
- Fire Protection System
- DeltaV DCS

The Excluded Assets shall, without limitation, be as follows:

- Switchyard
- Electrical transmission facilities and related equipment
- All other property and facilities located on the Facility Site not necessary or connection with the operation or support of the  
useful in Units



**DESCRIPTION OF THE FACILITY SITE**

**Parcel 1**

A parcel of land lying in the SW1/4 of Section 15 Township 1 South Range 8 West in DeSoto County, State of Mississippi, being on the Southaven Combustion Turbine Site and at the intersection of Tulane Road and Stateline Road, as shown on US-TVA Drawing No. 112 MS 421 B 99(D) R.1 (formerly US-TVA Drawing No. 112 MS 422 B 100(D) R.0) and being more particularly described as follows:

Commencing at a concrete monument (found) (Coordinates: N. 275,703.11, E. 750,567.00), being NGS MON 153; thence S42° 05'16"E, 13,353.72 feet to an angle iron (set) on the accepted Mississippi-Tennessee state line being corner No. SCBTS-1 and the Point of Beginning:

Thence leaving the point of beginning and said Mississippi-Tennessee state line S02°11'31"W, 1,100.72 feet to a rebar (found) in the northern right of way of Stateline Road, being corner No. SCBTS-2; thence continuing with said right of way for the following two calls; N87°47'07"W, 304.06 feet to a rebar (found), being corner No. SCBTS-3; thence N87°47'41" W, 104.99 feet to a (3/8") rebar (found), being corner No. SCBTS-6; thence leaving said right of way N02°12'24"E, 206.98 feet to a (3/8") rebar (found), being corner No. SCBTS-5; thence parallel with north right of way of Stateline Road N87°48'27"W, 1,260.36 feet to rebar with cap (found) and stamped "THY INC. #888" in the eastern right of way of Tulane Road, being corner No. SCBTS-7; thence with said right of way N02°15'03"E, 899.31 feet to a rebar with cap (found) on the accepted Mississippi-Tennessee state line, being corner No. SCBTS-8; thence leaving said right of way and with said state line S87°36'39"E, 1,668.44 feet to the point of beginning.

Located on VTM Quad Horn Lake, MS.

Positions of corners and directions of lines are referred to the Tennessee Lambert State Coordinate System and NAD 83 (2007) Horizontal Datum.

**PERMITTED CLOSING DATE LIENS**

Except for the liens listed below, the Liens reflected in the Commitment for Title Insurance, Order No. 4307338, Revision 7, effective date August 2, 2013, prepared by Fidelity National Title Insurance Company, attached to this Attachment C, shall constitute Permitted Closing Date Liens.

1. Deed of Trust of record in Book 2951, Page 634, as amended in First Amendment to Deed of Trust Book 3018, Page 462 and Second Amendment to Deed of Trust Book 3157, Page 224, in the Chancery Clerk's Office of DeSoto County, MS;
2. UCC-1 Financing Statement recorded in Book 2951, Page 650 in the Chancery Clerk's Office of DeSoto County, MS;
3. Memorandum of Joint Ownership Agreement of record in Book 128, Page 472, as amended in Book 131, Page 425 in the Chancery Clerk's Office of DeSoto County, MS;
4. Memorandum of Lease of record in Book 128, Page 480, as amended in Book 131, Page 432 in the Chancery Clerk's Office of DeSoto County, MS; and
5. Collateral Assignment recorded in Book 128, Page 487 in the Chancery Clerk's Office of DeSoto County, MS.

ATTACH. C-1

[\(Back To Top\)](#)

## **Section 7: EX-10.61 (EXHIBIT 10.61)**

**EXHIBIT 10.61**

**DEFERRAL AGREEMENT  
Michael David Skaggs**

You have been approved to participate in TVA's Long-Term Deferred Compensation Plan (Plan) under the following terms:

Duration of deferral agreement	Four years and eight months
First compensation credit	\$100,000 (02/01/2010)
Second through fifth compensation credits	\$100,000 each (10/01/2010, 10/01/2011, 10/01/2012, and 10/01/2013)
Total credits over service period	\$500,000
Expiration date	9/30/2014

Please read the following provisions carefully and indicate your approval by signing at the designated place below.

As a participant in the Plan, I hereby agree to be bound by the following terms and conditions:

Annual deferred compensation credits as stated above will be made to an account in my name to cover a service period beginning February 1, 2010 and ending on September 30, 2014, provided that I remain employed by TVA through the expiration of the agreement on September 30, 2014. Upon the expiration of this agreement, the entire amount credited to my account, including interest or return as provided below, will be paid to me in a lump sum unless I elect below to have the balance of my Long-Term Deferred Compensation Plan (LTDCP) account transferred to my TVA deferred compensation account.

I understand that I must be an employee of TVA at the time of the expiration of this agreement, or no payments or transfers under the Plan will be made by TVA, and any credits to my account will be extinguished. However, in the event that TVA terminates my employment during the term of this agreement through no act or delinquency of my own, this agreement is terminated as of the date of my termination and no further credits will

be made under it and any credits in my account from this agreement, including interest or return as provided below, at the time of termination will become vested. If I elect below to have the balance of my LTDCP account transferred to my TVA deferred compensation account, all credits from this agreement will be paid out to me in accordance with my deferral election applicable to such credits or in accordance with otherwise applicable IRS rules. If TVA terminates my employment for cause prior to the expiration of this agreement, no payments will be made and my account balance will be extinguished. In the event of my death during the term of this agreement, my account balance will be paid to the person identified on my beneficiary designation form or, in the absence of such designation, to my estate, in a manner permitted by applicable IRS rules.

Interest will be credited to the balance reflected in my LTDCP account on the same basis as interest is calculated and credited under the TVA Deferred Compensation Plan. In the alternative, I may choose to have the balance of my LTDCP account adjusted based on the return of the funds I select under the same conditions as are contained in TVA's Deferred Compensation Plan. I understand that I am solely responsible for the risk associated with any return elections that I make.

The Plan may be amended or discontinued by the Board. If the Board elects to discontinue the Plan, any credits to my account as of the date of termination of the Plan will be paid to me in accordance with applicable IRS rules. I elect the following option for payment upon expiration of this agreement:

\_\_\_\_\_ Balance of account to be paid to me in a lump sum

  x   Balance of account to be transferred to my TVA Deferred Compensation Plan account

I understand that nothing contained in this agreement shall be construed as conferring the right to continue in the employment of TVA as an executive or in any other capacity and that the payment election I have made is final (not revocable).

/s/ Michael D Skaggs \_\_\_\_\_ 3/1/10  
Michael David Skaggs Date

[\(Back To Top\)](#)

## Section 8: EX-10.62 (EXHIBIT 10.62)

**EXHIBIT 10.62**

### **DEFERRAL AGREEMENT Michael David Skaggs**

You have been approved to participate in TVA's Long-Term Deferred Compensation Plan (Plan) under the following terms:

Duration of deferral agreement	Three years and ten months
First and second compensation credits	\$50,000 each on 03/01/2013 and 01/01/2014
Third and fourth compensation credits	\$150,000 each on 01/01/2015 and 01/01/2016
Total credits over service period	\$400,000
Expiration date	12/31/2016

Please read the following provisions carefully and indicate your approval by signing at the designated place below.

As a participant in the Plan, I hereby agree to be bound by the following terms and conditions:

Annual deferred compensation credits as stated above will be made to an account in my name to cover a service period beginning March 1, 2013 and ending on December 31, 2016, provided that I remain employed by TVA in a position responsible for the completion of Watts Bar Unit 2 through the expiration of the agreement on December 31, 2016. Upon the expiration of this agreement, the entire amount credited to my account, including interest or return as provided below, will be paid to me in a lump sum unless I elect below to have the balance of my Long-Term Deferred Compensation Plan (LTDCP) account transferred to my TVA deferred compensation account.

I understand that I must be an employee of TVA at the time of the expiration of this agreement, or no payments or transfers under the Plan will be

- EXHIBIT 31.1**

about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2013

/s/ William D. Johnson

William D. Johnson

President and Chief Executive Officer

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[\(Back To Top\)](#)

## Section 10: EX-31.2 (EXHIBIT 31.2)

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### EXHIBIT 31.2

#### **RULE 13a-14(a)/15d-14(a) CERTIFICATION**

I, John M. Thomas, III, certify that:

1. I have reviewed this Annual Report on Form 10-K of the Tennessee Valley Authority;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent

functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2013

/s/ John M. Thomas, III

John M. Thomas, III

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

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[\(Back To Top\)](#)

## Section 11: EX-32.1 (EXHIBIT 32.1)

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### EXHIBIT 32.1

**CERTIFICATION FURNISHED PURSUANT TO  
SECURITIES EXCHANGE ACT RULE 13a-14(b)  
OR RULE 15d-14(b) AND 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of the Tennessee Valley Authority (the "Company") for the year ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William D. Johnson, President and Chief Executive Officer of the Company, certify, for the purposes of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William D. Johnson

William D. Johnson

President and Chief Executive Officer

November 15, 2013

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[\(Back To Top\)](#)

## Section 12: EX-32.2 (EXHIBIT 32.2)

**CERTIFICATION FURNISHED PURSUANT TO  
SECURITIES EXCHANGE ACT RULE 13a-14(b)  
OR RULE 15d-14(b) AND 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of the Tennessee Valley Authority (the "Company") for the year ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John M. Thomas, III, Executive Vice President and Chief Financial Officer of the Company, certify, for the purposes of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John M. Thomas, III

John M. Thomas, III

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

November 15, 2013

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[\(Back To Top\)](#)

