

Tennessee Valley Authority

Government Performance and Results Act (GPRA)

Annual Performance Report

FY 2007

For the Fiscal Year Ending
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Submitted to Congress
March 2008



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Introduction

The Government Performance and Results Act of 1993 (GPRA) requires federal agencies to establish standards measuring their performance and effectiveness. Federal agencies are required to develop strategic plans describing their overall goals and objectives, annual performance plans containing quantifiable measures of their progress, and performance reports describing their success in meeting those standards and measures. This report documents the Tennessee Valley Authority's (TVA) actual performance and progress in achieving the goals and objectives identified in its annual performance plan for FY 2007. Information is expressed in terms set out by GPRA and the Office of Management and Budget (OMB) Circular A-11.

While TVA is a corporation of the federal government, it receives no federal appropriations and operates and finances a \$9.2 billion business entirely through revenues from sales and power financings. TVA has developed a corporate strategic plan¹ consistent with and complementary to the plan required by GPRA.

TVA improves the quality of life for the 8.7 million people of the Tennessee Valley through its work in three major areas: energy, the environment, and economic development. TVA fulfills its mission of public service by making prudent business decisions and using the best practices of private enterprise.

UPDATE: TVA's 2007 Strategic Plan

On May 31, 2007, The TVA Board of Directors approved Tennessee Valley Authority's new Strategic Plan. TVA's Board and executive leadership recognized the need to articulate TVA's overall strategic direction for the next decade to account for emerging market trends, a new national energy policy, the impacts of rising fuel costs, and other changes since the previously issued 2004 Strategic Plan. The 2007 Strategic Plan outlines objectives TVA must accomplish to align with this direction. The plan also identifies aspects of TVA's current business structure that must be fine-tuned for TVA to strengthen its ability to continue to serve the people of the Tennessee Valley.

TVA's Fiscal Year 2009 Budget Proposal and Management Agenda submitted to Congress February 2008 includes TVA's GPRA Annual Performance Plan for FY 2009 based upon TVA's 2007 Strategic Plan. The FY 2009 GPRA Annual Performance Plan builds upon the strategic objectives and critical success factors identified in the Strategic Plan including the metrics that will be used to monitor TVA's performance toward achieving successful implementation of its strategy.

As outlined in the 2007 Strategic Plan, the mission of TVA is to improve the quality of life in the Tennessee Valley through its work in three key areas: energy, the environment, and economic development. TVA provides reliable, competitive power; manages the Tennessee River system and associated lands to meet multiple needs; and partners with Valley communities and states for economic development. For nearly 75 years, TVA's unique mission has served as the foundation of its business endeavors and provided the context for its business objectives and internal processes.

In its 2007 Strategic Plan, TVA identified five broad strategic objectives on which it will focus as it moves forward, and twenty-four corresponding critical success factors that support those objectives. These strategic objectives, along with their corresponding critical success factors, are as follows:

¹ All references to TVA's Strategic Plan beginning with the Mission section relate to TVA's 2004 Strategic Plan.

CUSTOMER: Maintain power reliability, provide competitive rates, and build trust with TVA's customers

Critical Success Factors:

- Strengthen relationships and trust by being responsive to stakeholder needs
- Develop a portfolio of product and pricing structures that more accurately reflect the costs of serving load at different times and levels of use
- Partner with distributors and directly served customers to encourage conservation, promote energy efficiency, and reduce peak demand
- Partner with customers to limit volatility in rates and participate in power supply through shared generation ownership
- Assist states, communities, and distributors in sustaining economic development programs

PEOPLE: Build pride in TVA's performance and reputation

Critical Success Factors:

- Safeguard the health and safety of employees and the public
- Strengthen workforce knowledge and skills and management processes to motivate performance and successfully implement the strategic objectives
- Treat employees, customers, and other stakeholders with integrity and respect
- Communicate clearly and consistently

FINANCIAL: Adhere to a set of sound guiding financial principles to improve TVA's fiscal performance

Critical Success Factors:

- Apply sound economic and financing practices to new investments
- Pay financing obligations before assets are fully depreciated
- Strengthen TVA's balance sheet by improving the ratio of debt and debt-like obligations to total assets
- Improve TVA's cash return on total assets in order to service debt, preserve existing assets, reinvest in new assets, and improve environmental performance
- Achieve top-quartile performance in non-fuel operation and maintenance (O&M) expenses and then hold increases to be less than unit sales growth (kWhs)

ASSETS: Use TVA's assets to meet market demand and deliver public value

Critical Success Factors:

- Balance TVA's production capabilities and load by adding assets (buy, build or through long-term contracts) and encouraging the use of energy in ways that reduce the need for new generation
- Preserve, maintain, repower or retire existing assets where appropriate
- Manage land and water resources to provide multiple benefits to the Valley
- Reduce fuel supply risk with a diverse portfolio of generation assets

OPERATIONS: Improve performance to be recognized as an industry leader

Critical Success Factors:

- Deliver reliable electric power generation and transmission products and services
- Benchmark the industry's best performers to develop metrics for top-quartile performance
- Make nuclear safety the overriding priority for each nuclear facility and for each individual associated with it
- Continue to reduce the impacts of TVA's operations on the environment
- Serve as a responsible steward of the Tennessee River system
- Apply science and technological innovation to improve operational performance

The objective of this report is to provide TVA's actual performance and progress in achieving the goals and objectives identified in its annual performance plan for FY 2007. The FY 2007 goals were derived from the 2004 Strategic Plan before the Board approved the new 2007 Strategic Plan. All future references in this report are to the 2004 Strategic Plan. The Annual Performance Report for FY 2009 will be based upon the new 2007 Strategic Plan.

Mission - Consistent with 2004 Strategic Plan

TVA plays a vital role in improving the quality of life in the Tennessee Valley through the interrelated parts of its mission:

Energy

TVA is the largest public power provider in the nation and provides reliable, competitively-priced, power for the residents and businesses in the Tennessee Valley.

Environment

TVA manages the Tennessee River System, managing the benefits of navigation, flood control, power production, water supply, water quality, recreation and land use.

Economic Development

TVA further supports economic development by providing technical assistance, research data, and financial assistance to help communities and businesses thrive.

TVA's Vision, General Goals, and Strategic Objectives - Consistent with 2004 Strategic Plan

Vision

Generating Prosperity in the Valley

General Goals

TVA's strategic plan was developed to identify courses of action that will preserve its core mission and keep it financially viable in a more competitive market.

TVA's general goals that define how the core mission is achieved are as follows:

Energy

Supply competitively-priced, reliable power and meet the changing needs of power distributors and directly served customers for energy products and services in changing markets.

Environment

Support a thriving river system to minimize flood damage, maintain navigation, support power production, improve water quality, protect public health and the environment, support recreational uses, and manage land to provide multiple public benefits.

Economic Development

Provide services based on core expertise to solve regional problems, protect natural resources, attract and retain jobs in the region, and build partnerships for the public benefit.

Strategic Objectives:

The general goals are supported by the following strategic objectives:

- Meet customers' needs with affordable, reliable electric power;
- Reduce TVA's delivered cost of power relative to the market;
- Improve TVA's financial flexibility by reducing its debt and debt-like obligations;
- Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship;
- Demonstrate leadership in sustainable economic development for the Valley; and
- Strengthen working relationships with all of TVA's stakeholders.

In addition to the long-term goals and strategic objectives needed to fulfill TVA's core mission, the Strategic Plan identified four specific areas that are key to preparing for a more competitive market:

- 1) Pricing, Services and Products - Develop new, more highly differentiated prices, services and contract terms that more closely tie the cost and risk of the product to its terms and pricing.
- 2) Transmission Pricing - Address the range of issues related to wholesale market design and transmission pricing, including how TVA will interface with the markets that are expected to surround us, as well as how TVA will price transmission services within the Valley when distributors can choose other suppliers.

- 3) Improved Financial Flexibility - Accelerate reduction in debt and debt-like obligations and achieve higher interest coverage ratios to provide the financial flexibility needed to tolerate the higher levels of revenue and cost volatility associated with a more competitive market.
- 4) Maintain Assets - Maintain and operate generation and transmission assets to fulfill TVA's supply obligations in a safe and reliable manner.

Relationship Between Performance Indicators and Goals and Objectives - Consistent with 2004 Strategic Plan

Performance goals are developed to support attainment of the general goals and strategies and are expressed as performance indicators and annual targets. While each performance indicator is a distinct measurement, each may impact the outcome of multiple goals and objectives as shown in the following table.

TVA Level Performance Indicators									
Strategic Objectives/Goals	DCOP Exc. FCA Costs	FCA Costs	Connect Pt Int	Cust. Satis. Survey	Econ. Dev.	Asset Avail.	Environ. Impact	Safe Work-place	Productivity
1. Improve financial flexibility	✓	✓		✓					
2. Reduce Cost of Power	✓	✓	✓	✓	✓	✓		✓	✓
3. Strengthen stakeholder relations			✓	✓	✓	✓	✓	✓	
4. Provide affordable, reliable power	✓	✓	✓	✓	✓	✓		✓	✓
5. Support thriving river system				✓	✓		✓		
6. Sustain economic development				✓	✓				
7. Develop new pricing		✓		✓	✓				

✓ = indicates an interrelationship between the performance target and the goals/objectives, i.e., the performance indicator may measure whether a goal is achieved or failure to achieve a particular goal may affect whether a performance target can be attained.

Summary of Changes in Performance Indicators - Consistent with 2004 Strategic Plan

As part of its performance management process, TVA periodically assesses its key performance indicators for alignment with goals and objectives. Accordingly, certain indicators are discontinued or replaced as business conditions change and as new indicators are developed that provide for better alignment. The following table summarizes the changes in performance indicators subsequent to submission of TVA's 2007 GPRA Performance Plan.

Measure	Status	Reason
Total Financing Obligations	Discontinued in FY 2007.	This indicator was included in the Financial Strength / Reduction in TFO indicator in FY 2006. This measure was discontinued in FY 2007.
Net Cash Flow	Discontinued in FY 2007.	This indicator was replaced by TVA FCA Costs and TVA Delivered Cost of Power Excluding FCA Costs in FY 2007 when the Fuel Cost Adjustment was implemented.
Customer Impact	Discontinued in FY 2007.	This indicator was replaced by Customer Satisfaction Survey which was formerly included as one element of Customer Impact.
Asset Availability	Discontinued in FY 2007.	This indicator was replaced by the Equivalent Availability Factor in FY 2007.

TVA Level Performance Indicator - Financial

Net Cash Flow

Goal/Strategic Objective/Critical Success Factor

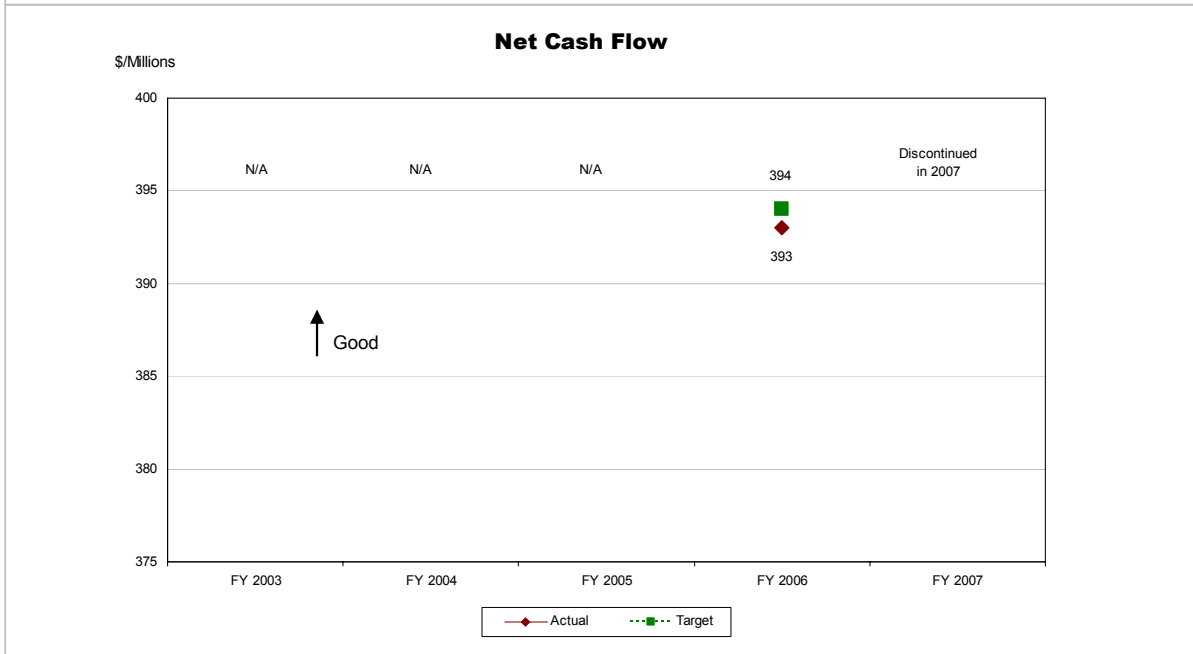
TVA Goal: Supplying low cost reliable power.

Strategic Objective: Control O&M expenses to allow TVA to focus on competitiveness in a deregulated wholesale power market.

Critical Success Factor: Generate more for less.

Description

Generating a favorable cash flow is important to achieving TVA's stated debt and debt-like reduction goal. TVA calculates Net Cash Flow as the total cash flows from operating activities (excluding energy prepayments and changes in short-term investments) less investing activities.



FY 2007 Target:

FY 2007 Performance:

This indicator was discontinued in FY 2007.

TVA Level Performance Indicator - Financial

TVA Delivered Cost of Power Excluding FCA Costs

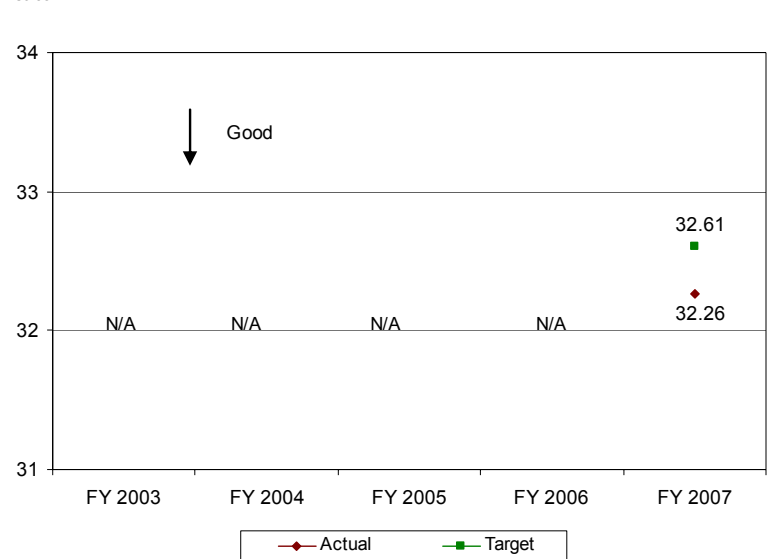
Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.
Strategic Objective: Control O&M expenses to allow TVA to focus on competitiveness in a deregulated wholesale power market.
Critical Success Factor: Generate more for less.

Description

Delivered Cost of Power Excluding FCA Cost is a measure of controlling O&M costs while increasing output by increasing operational efficiency. A continued awareness and emphasis on controlling costs and increasing output helps TVA to fulfill its mission of providing low-cost reliable power. Controlling costs will also help TVA to improve its financial flexibility and competitiveness in the wholesale power market.

TVA Delivered Cost of Power Excluding FCA Costs



FY 2007 Target: 32.61 \$/MWh Sales
FY 2007 Performance: 32.26 \$/MWh Sales

Targeted performance on this goal was achieved.

Performance Explanation: This favorable result is due primarily to lower interest expense, lower O&M costs due to timing of O&M expenditures, lower benefit and pension expense costs due to changes in actuarial assumptions, and higher than planned power sales for the year.

TVA Level Performance Indicator - Financial

TVA FCA Costs

Goal/Strategic Objective/Critical Success Factor

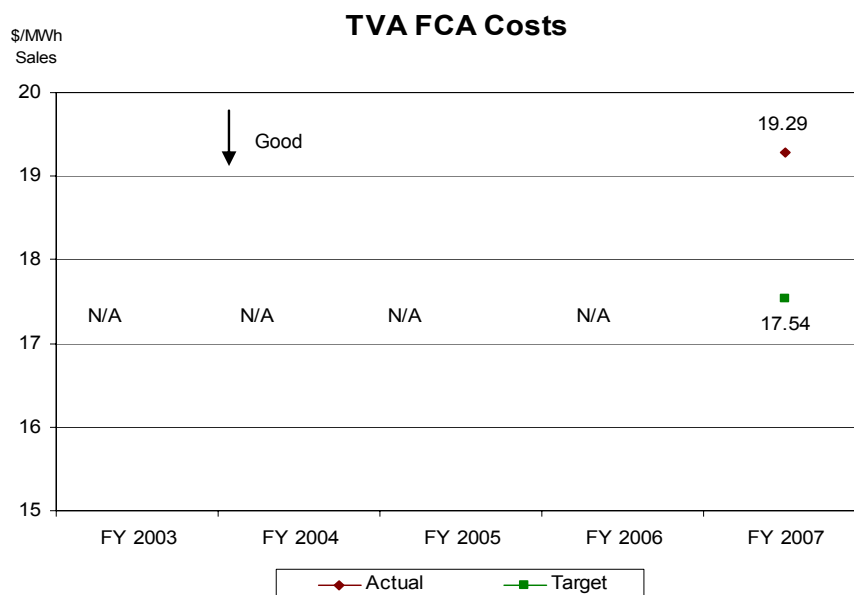
TVA Goal: Supplying low-cost, reliable power.

Strategic Objective: Control O&M expenses to allow TVA to focus on competitiveness in a deregulated wholesale power market.

Critical Success Factor: Generate more for less.

Description

TVA FCA Costs is a measure of TVA's eligible Fuel Cost Adjustment (FCA) expenses per MWh of power sold. A continued awareness and emphasis on monitoring and quickly reacting to changes in eligible FCA costs allows TVA to improve its competitiveness and positioning for future success. Eligible costs are those approved by the TVA Board for inclusion in the FCA mechanism and include fuel, purchased power expense, emissions allowance expense and reagent expense.



FY 2007 Target: 17.54 \$/MWh Sales

FY 2007 Performance: 19.29 \$/MWh Sales

Targeted performance on this goal was not achieved.

Performance Explanation: This target was not achieved due in part to the following:

- 1) Higher FCA eligible coal fuel expense as a result of higher average cost of coal burned.
- 2) Increased FCA eligible purchased power costs primarily due to the replacement of lower hydro generation, and higher CT fuel expense.

Corrective Action: Actions are being taken to control costs and increase output such as increasing generating unit efficiency, reducing forced outages, and completing planned outages more efficiently.

TVA Level Performance Indicator - Financial

TVA Productivity

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

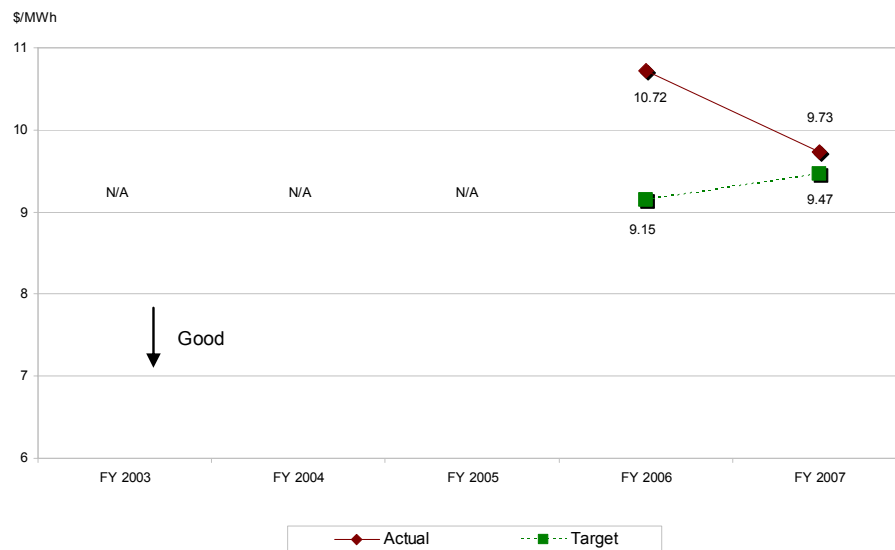
Strategic Objective: Control O&M expenses to allow TVA to focus on competitiveness in a deregulated wholesale power market.

Critical Success Factor: Generate more for less.

Description

Increasing competitiveness in the electric utility and the energy services sector requires that TVA manage its production costs to effectively compete for and retain its customer base. Productivity measures the total delivered generation (i.e., including combustion turbines, conventional hydro, fossil, nuclear and pumped storage) per operating and maintenance (O&M) and capital labor cost dollar (TVA plus contractor, excluding BFN U1). This measure provides a direct line of sight for all employees by demonstrating their individual contribution and performance in producing TVA's principal source of revenue --- electricity.

TVA Productivity



FY 2007 Target: 9.47 \$/MWh

FY 2007 Performance: 9.73 \$/MWh

Targeted performance on this goal was not achieved. Actual performance was 2.7% less than target performance.

Performance Explanation: This target was not reached due in part to the following:

- 1) Total generation was less than expected and accounted for half of the variance.
- 2) Higher than planned contractor labor costs accounted for the remainder of the variance.

Corrective Action: TVA implemented the Sustainable Performance Improvement Initiative to reduce \$420 million in non-fuel O&M by the end of FY 2010, much of which will be reduced labor and contractor cost.

TVA Level Performance Indicator – Customer/Stakeholder

TVA Connection Point Interruptions

Goal/Strategic Objective/Critical Success Factor

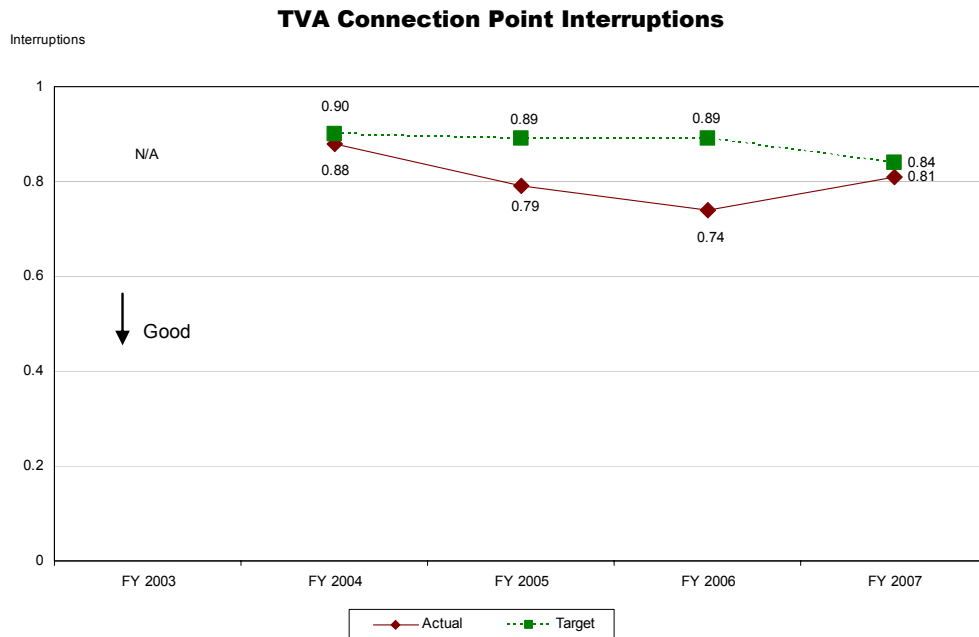
TVA Goal: Supplying low-cost, reliable power.

Strategic Objective: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor: Improve power reliability to meet customer requirements.

Description

Customers rank reliability as most critical in importance and are requesting improved performance in all aspects of reliability, including momentary interruptions. This index measures reliability from our customers' perspective. It tracks interruptions of power, including momentary, at customer connection points that are caused by the transmission system.



FY 2007 Target: 0.84 Interruptions

FY 2007 Performance: 0.81 Interruptions

Targeted performance on this goal was achieved.

Performance Explanation: Actual connection point interruptions were better than target due to an aggressive system-wide preventative maintenance program and other maintenance efforts directed toward the lower voltage portion of the transmission system.

TVA Level Performance Indicator - Customer/Stakeholder Customer Impact

Goal/Strategic Objective/Critical Success Factor

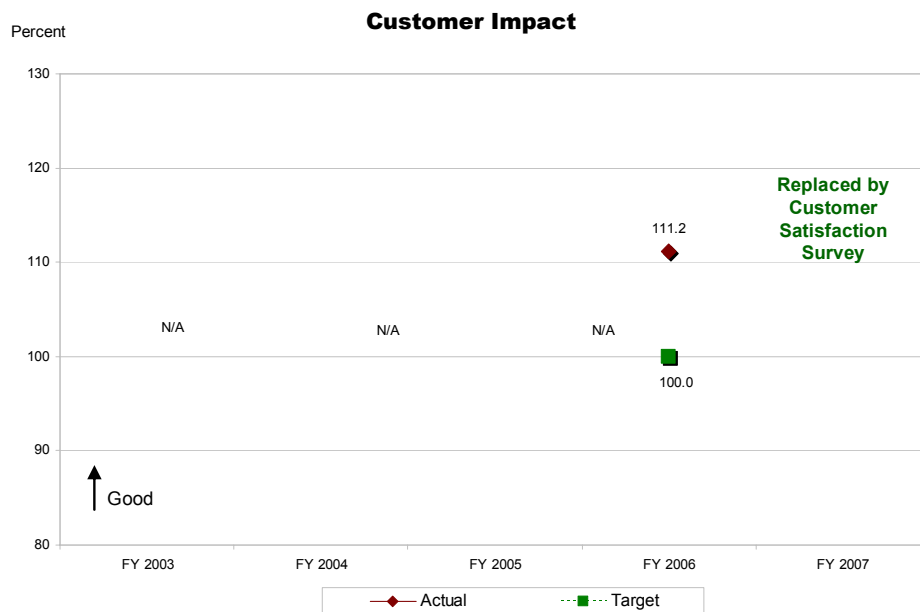
TVA Goal: Supplying low-cost reliable power.

Strategic Objective: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor: Achieve excellence in the customer value and relationship process.

Description

Customer Impact is a measure of key TVA performance elements that affect TVA's long-term relationship with its customers. The measure focuses on two elements that are deemed important by customers and TVA: connection point interruptions and the customer satisfaction survey. Connection point interruptions are measured by the rate of connection point interruptions. Customer satisfaction survey is measured by the distributors' satisfaction with TVA as their wholesale supplier, with the performance of local TVA customer service staff, and with TVA's power quality and reliability of transmission service.



FY 2006 Target: 100.0%

FY 2006 Performance: 111.2%

Targeted performance on this goal was achieved.

Performance Explanation: FY06 Customer Impact performance was better than target due to improved power reliability performance.

Customer Impact was redefined in FY06.

TVA Level Performance Indicator - Customer/Stakeholder

TVA Customer Satisfaction Survey

Goal/Strategic Objective/Critical Success Factor

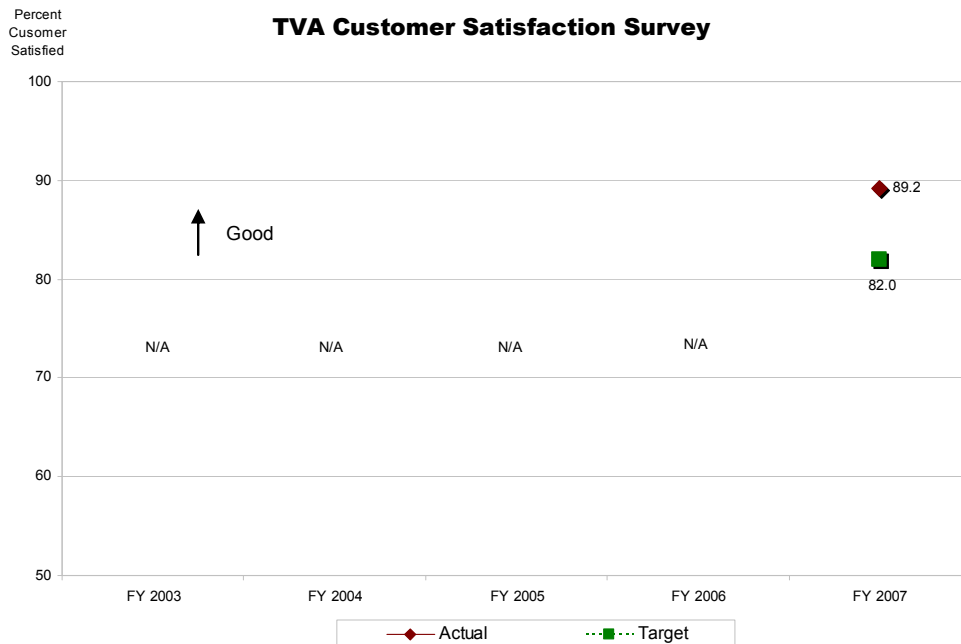
TVA Goal: Supplying low-cost reliable power.

Strategic Objective: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor: Achieve excellence in the customer value and relationship process.

Description

The Customer Satisfaction Survey is a quarterly measure of distributors' and directly served customers' satisfaction with TVA in a variety of areas including wholesale/retail supplier, performance of local TVA customer service staff, power quality and reliability of transmission service, pricing, contracts, and power supply mix. Customer satisfaction with TVA as an electricity supplier is critical to retention of sales and maintaining and improving customer relationships. This measure allows for a snapshot view of performance in this area and provides the basis for continuous improvement.



FY 2007 Target: 82.0%

FY 2007 Performance: 89.2%

Targeted performance on this goal was achieved.

Performance Explanation: This favorable result was due to significant improvements in power distributors' satisfaction with wholesale price, contractual arrangements, and economic development, and directly served customers' satisfaction with retail price, power mix and overall satisfaction with TVA.

Customer Satisfaction Survey was formerly included in the Customer Satisfaction Index.

TVA Level Performance Indicator – Customer/Stakeholder

TVA Economic Development Index

Goal/Strategic Objective/Critical Success Factor

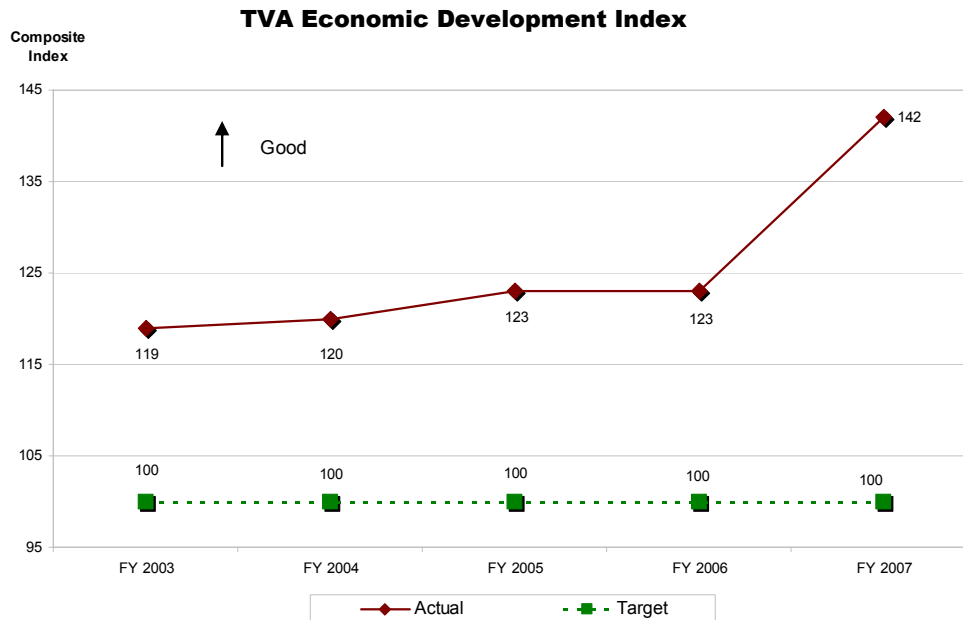
TVA Goal: Stimulating economic growth.

Strategic Objective: Demonstrate leadership in sustainable economic development in the Valley.

Critical Success Factor: Promote development through targeted growth initiatives.

Description

Since 1933, TVA has played a significant role in economic and community development in the Tennessee Valley. Energy customers are interested in the economic vitality of their communities resulting from projects which focus on business growth and industrial development. In this performance indicator, TVA is measuring the overall impact of employment opportunities, financial investment, and quality of life improvements for Valley residents.



FY 2007 Target: 100

FY 2007 Performance: 142

Targeted performance on this goal was achieved.

Performance Explanation: This indicator, a component measure of jobs created and/or retained, capital investment leveraged and jobs impact, performed above target due in large part to higher than anticipated capital investments made by new company announcements (such as Toyota, PACCAR, National Steel and Christensen Shipyards) and expanding companies.

TVA Level Performance Indicator – Operations Process

Asset Availability

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

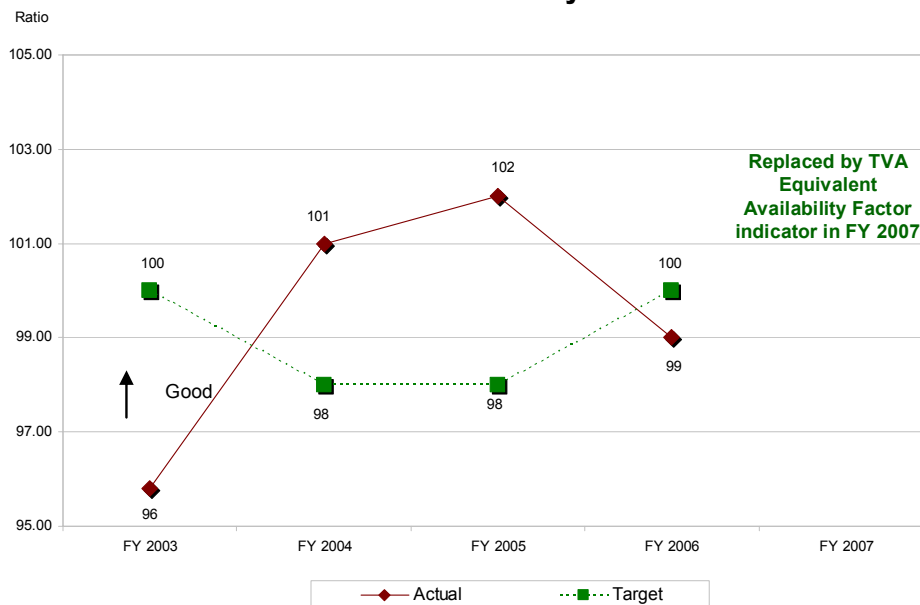
Strategic Objective: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor: Achieve excellence in asset optimization and production processes.

Description

Asset Availability is a monthly measure of how well TVA's generation system (excluding power purchase contracts) performed compared to availability and price forecasts. It is the ratio of actual to planned availability multiplied by a value factor that reflects market price.

Asset Availability



FY 2006 Target: 100%
FY 2006 Performance: 99%

Asset Availability was replaced by TVA Equivalent Availability Factor in FY 2007. The Equivalent Availability Factor is a benchmarkable metric.

TVA Level Performance Indicator – Operations Process

TVA Equivalent Availability Factor (EAF)

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

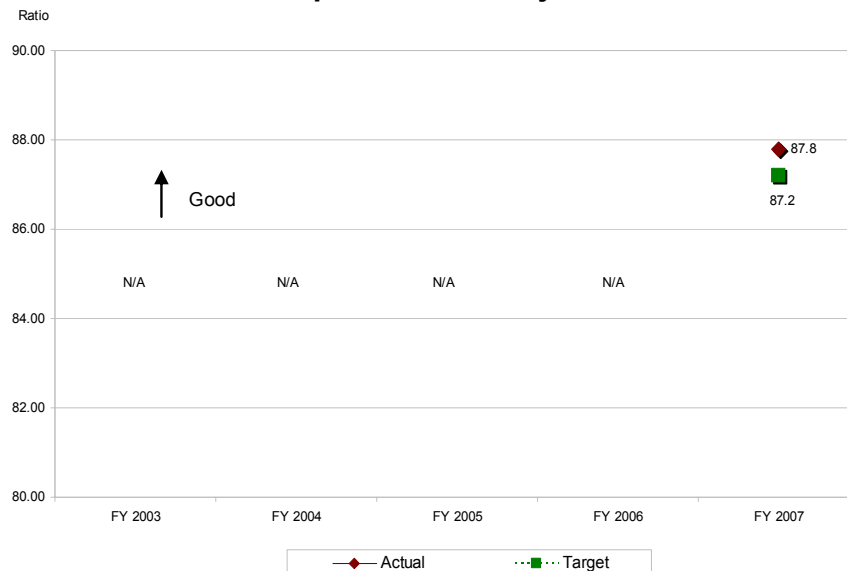
Strategic Objective: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor: Achieve excellence in asset optimization and production processes.

Description

TVA EAF is a measure of asset performance based on the ratio of actual available generation from all TVA generating assets in a given period compared to maximum availability of assets.

TVA Equivalent Availability Factor



FY 2007 Target: 87.2%
FY 2007 Performance: 87.8%

Targeted performance on this goal was achieved.

Performance Explanation: This favorable result is due primarily to better than planned availability for the nuclear and CT fleets, partially offset by less availability from the fossil and hydro fleets. The generation availability was driven by outage execution and fewer forced outages across the generation fleet.

TVA Level Performance Indicator – Operations Process

TVA Environmental Impact Index

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

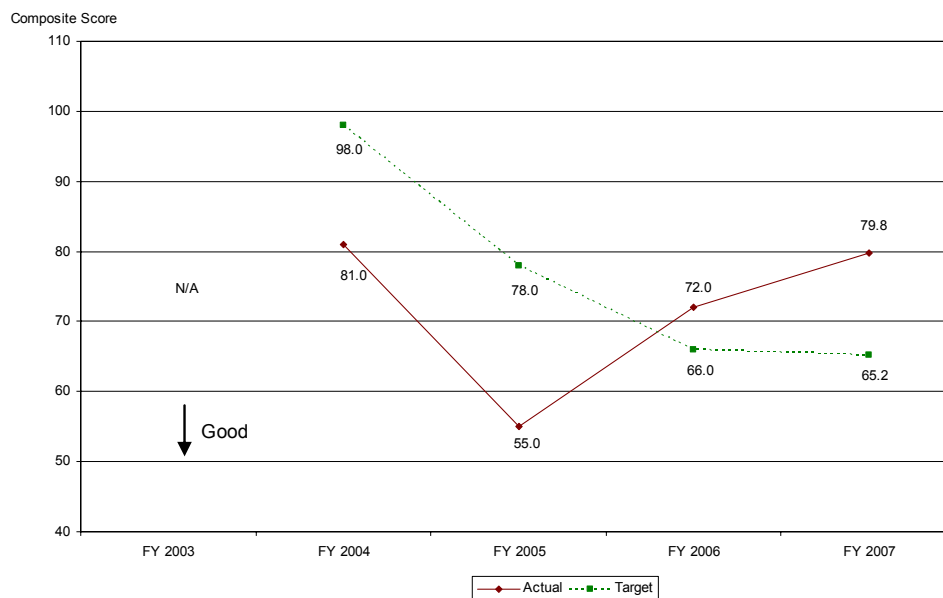
Strategic Objective: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor: Manage the environmental and safety impacts of TVA's operations on employees and the region.

Description

TVA has developed and implemented a comprehensive Environmental Management System (EMS) to meet the commitments expressed in its Environmental Policy and Principles (<http://www.tva.com.environment/policy.htm>). This set of processes and procedures standardizes environmental practices, provides a means for continuous improvement, and is a tool for reducing environmental risk. The EMS, covering all TVA facilities and operations, requires TVA to identify its actual and potential environmental impacts. To track progress, the Environmental Impact Index was created as a measure of the more significant impacts and is a composite of 23 elements in 5 categories in terms of beneficial and detrimental impacts (or precursors) on Air Quality, Water Quality, Land, Waste Production, and Energy Consumption compared to a baseline of FY 2002. The elements allow a greater "line of sight" for more employees and demonstrate the balance between the different types of impacts. Tradeoffs and mitigation are also visible in the index providing a comprehensive view of TVA's overall environmental performance.

TVA Environmental Impact Index



FY 2007 Target: 65.2
FY 2007 Performance: 79.8

Targeted performance on this goal was not achieved. Actual performance was 22% less than target performance.

Performance Explanation: Air quality performance was better than target due to burning coal with lower sulfur content than planned. Water quality was better than target due to less spills to water and discharges than anticipated and exceedence of minimum flow and dissolved oxygen attainment. Energy consumption was better than target because of more heat pump installations than expected and less energy consumption at TVA buildings. Land performance was better than target due to no accidental releases. However, the overall Environmental Impact Index target was not achieved due to waste production performance significantly less than target for hazardous waste disposal, low-level rad waste, and office recyclables.

Corrective Action: Internal teams are continuing their focus on best practices and lessons learned so that further index improvements can be made to TVA's new Key Environmental Metrics indicator in FY 2008. All organizations are closely monitoring their FY 2008 activities to continue their strong FY 2007 performance in various elements and to ensure each element stays on target.

TVA Level Performance Indicator - People
TVA Safe Workplace

Goal/Strategic Objective/Critical Success Factor

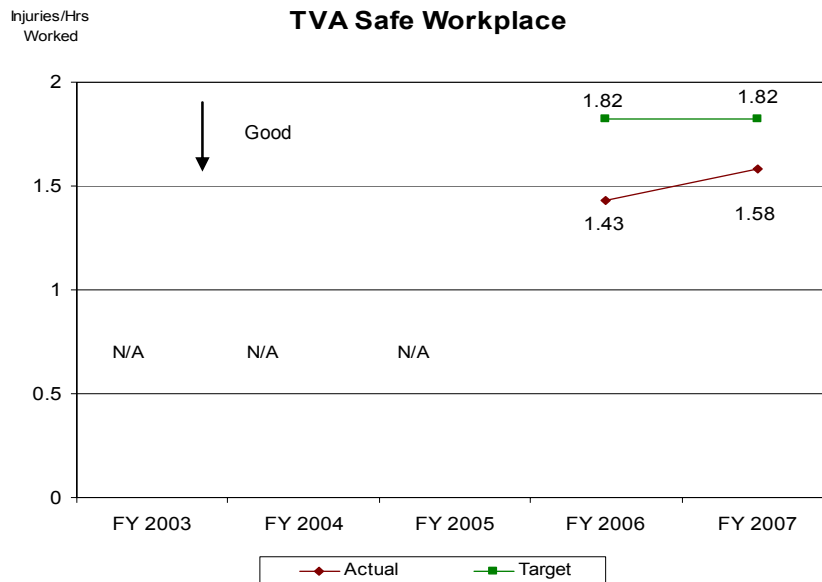
TVA Goal: Supplying low-cost, reliable power.

Strategic Objective: Strengthen working relationships with all of TVA's stakeholders.

Critical Success Factor: Develop work force capabilities required to be the supplier and employer of choice.

Description

Safe Workplace is a rate-based measure of employee safety. It tracks the number and types of work-related injuries reported by employees through TVA's record keeping system for safety statistics.



FY 2007 Target: 1.82 Injuries/Hours Worked
FY 2007 Performance: 1.58 Injuries/Hours Worked

Targeted performance on this goal was achieved.

Performance Explanation: The TVA-wide recordable injury rate for FY 2007 was 13.2% less than target.

COO/SBU Level Performance Indicator

Net Electric Generation

Goal/Strategic Objective/Critical Success Factor

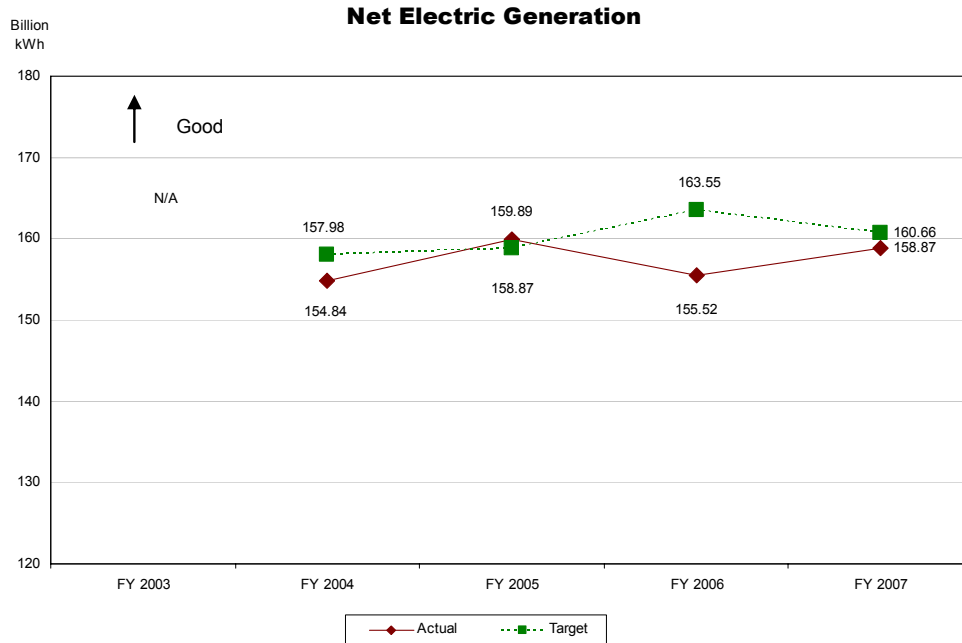
TVA Goal: Supplying low-cost, reliable power.

Strategic Objective: Reduce TVA's delivered cost of power relative to the market.

Critical Success Factor: Invest prudently.

Description

Net Electric Generation is the total electric energy produced by the generating units less energy consumed for the generating units use measured in billions of kWh. This measurement is a composite of the scores from each component of TVA's generation mix: Nuclear Power Group (NPG), the Fossil Power Group (FPG), and Hydro Power.



FY 2007 Target: 160.66 Billion kWh

FY 2007 Performance: 158.87 Billion kWh

Targeted performance on this goal was not achieved. Actual performance was 1.1% less than target performance.

Performance Explanation: Net Generation did not meet the FY 07 target primarily due to drought conditions across the Tennessee Valley that negatively impacted hydro generation.

Corrective Action: No corrective action is being taken as hydro plants were unavailable as forecasted for generation during FY 2007 due to drought conditions.

COO/SBU Level Performance Indicator

NPG Contribution to Delivered Cost of Power

Goal/Strategic Objective/Critical Success Factor

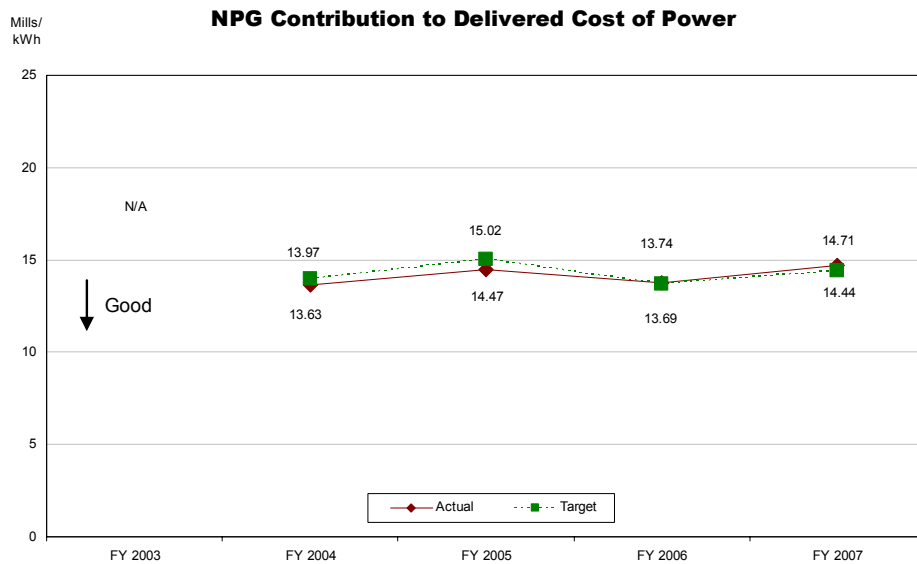
TVA Goal: Supplying low-cost, reliable power.

Strategic Objective: Meet customers' needs by providing affordable, reliable electric power.

Critical Success Factor: Generate more for less.

Description

NPG Contribution to Delivered Cost of Power measures the cost of generating nuclear power per unit of output. The purpose is to focus on cost-effective operation of the nuclear plants by minimizing refueling outage durations and reducing unplanned scrams.



FY 2007 Target: 14.44 Mills/kWh

FY 2007 Performance: 14.71 Mills/kWh

Targeted performance on this goal was not achieved.

Performance Explanation: O&M costs were higher due to forced outages and refueling outages lasting longer than planned and net generation was less than planned.

Corrective Action: NPG continues to focus on improving equipment reliability relative to benchmark utilities.

COO/SBU Level Performance Indicator

NPG INPO Performance Index

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

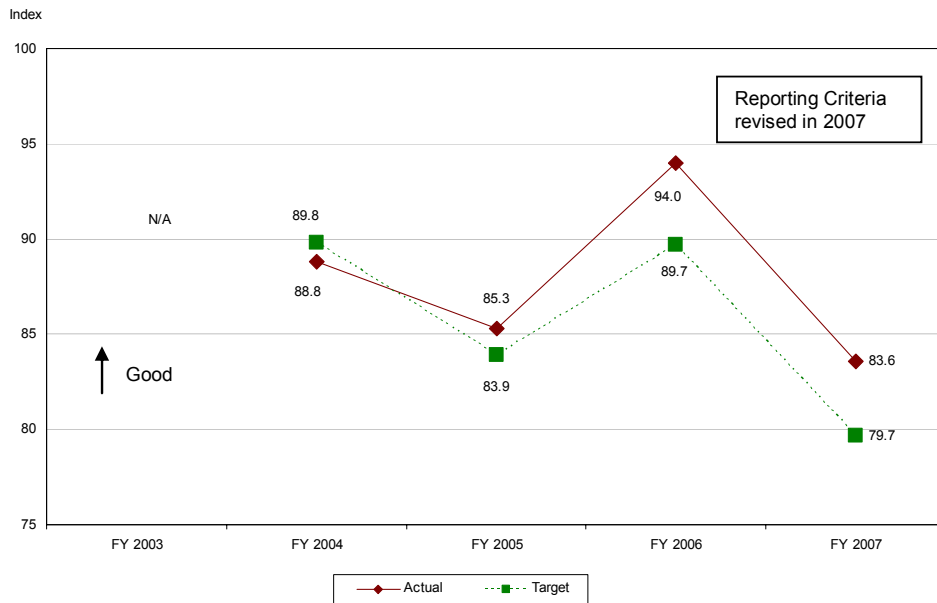
Strategic Objective: Meet customers' needs by providing affordable, reliable electric power.

Critical Success Factor: Manage the environmental and safety impacts of TVA's operations on employees and the region.

Description

The Institute of Nuclear Power Operators (INPO) index is TVA's primary nuclear safety index. It is a weighted combination of ten overall performance indicators and is a useful tool for management in trending overall station performance. This measure is the recognized industry standard for trending operations performance based on safety and reliability.

NPG INPO Performance Index



FY 2007 Target: 79.7
FY 2007 Performance: 83.6

Targeted performance on this goal was achieved.

Performance Explanation: INPO Index was better than planned due to nuclear fuel reliability being better than planned.

The 2007 target was lower due to known impacts of a 80 plus day outage to replace the steam generators at Watts Bar Unit 1. INPO Index reporting criteria was revised to include industrial safety as one of the ten elements.

COO/SBU Level Performance Indicator

FPG Contribution to Delivered Cost of Power

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

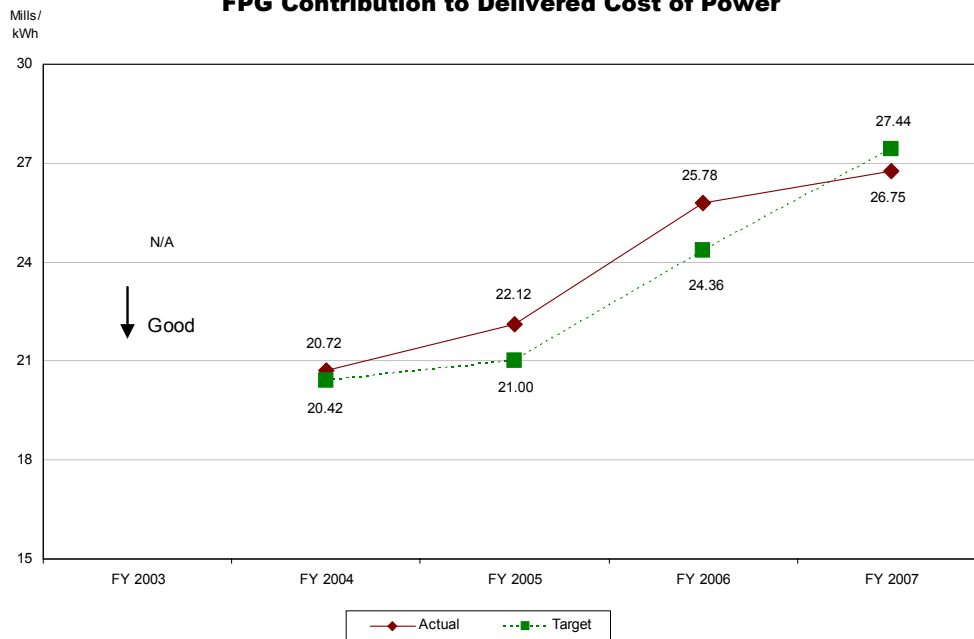
Strategic Objective: Meet customers' needs by providing affordable, reliable electric power.

Critical Success Factor: Generate more for less.

Description

This measures the cost of generating fossil power per unit of output. The purpose is to focus on cost-effective operation of the fossil plants. Fossil production expense includes plant base and outage, O&M projects, reagents, yard, and central office. Fuel expense includes coal.

FPG Contribution to Delivered Cost of Power



FY 2007 Target: 27.44 Mills/kWh
FY 2007 Performance: 26.75 Mills/kWh

Targeted performance on this goal was achieved.

Performance Explanation: Delivered cost of power was lower than target primarily due to planned generation and fuel cost which were better than target.

COO/SBU Level Performance Indicator

FPG Equivalent Forced Outage Rate

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

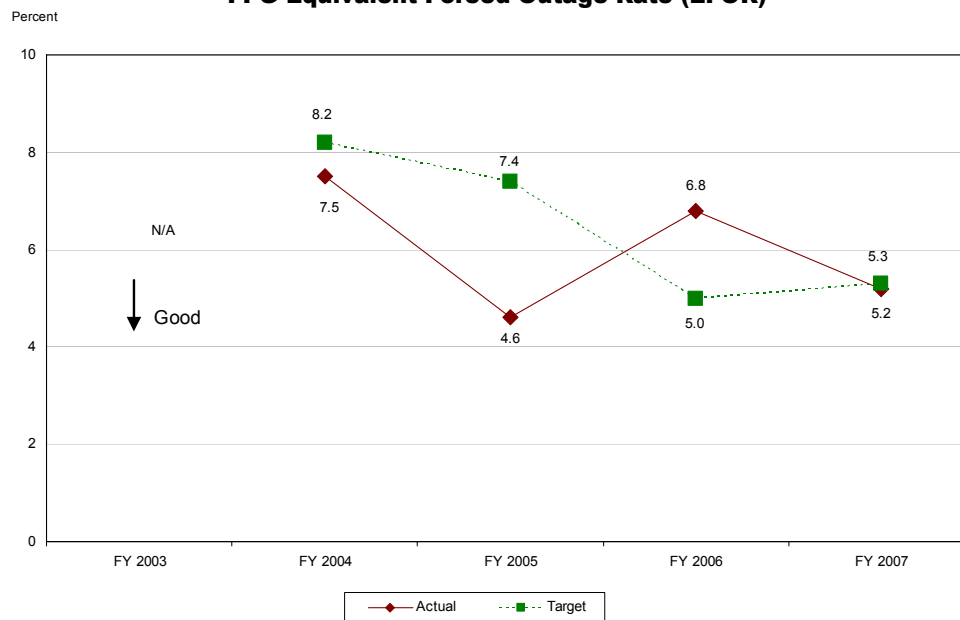
Strategic Objective: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor: Improve power reliability to meet customer requirements.

Description

This measurement focuses on achieving reliable operation. As an indicator of unit reliability, the percentage of fossil generation lost due to forced outages and forced deratings is measured.

FPG Equivalent Forced Outage Rate (EFOR)



FY 2007 Target: 5.3%

FY 2007 Performance: 5.2%

Targeted performance on this goal was achieved.

Performance Explanation: Actual performance was slightly better than target performance.

COO/SBU Level Performance Indicator

PSO Connection Point Interruptions

Goal/Strategic Objective/Critical Success Factor

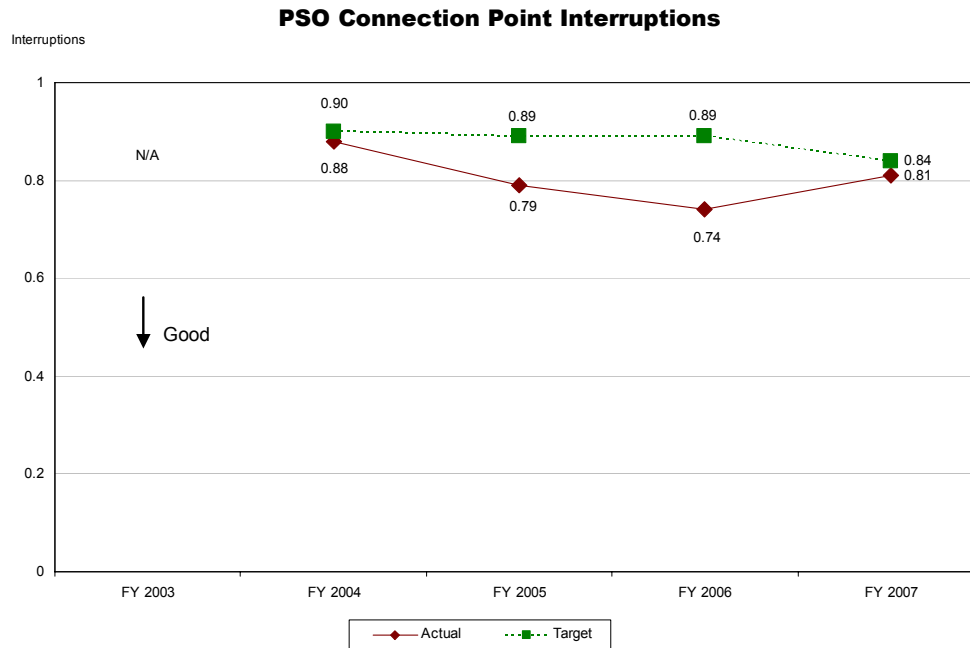
TVA Goal: Supplying low-cost, reliable power.

Strategic Objective: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor: Improve power reliability to meet customer requirements.

Description

Customers rank reliability as most critical in importance and are requesting improved performance in all aspects of reliability, including momentary interruptions. This index measures reliability from our customers' perspective. It tracks interruptions of power, including momentary, at customer connection points that are caused by the transmission system.



FY 2007 Target: 0.84 Interruptions
FY 2007 Performance: 0.81 Interruptions

Targeted performance on this goal was achieved.

Performance Explanation: Actual connection point interruptions were better than target due to an aggressive system-wide preventative maintenance program and other maintenance efforts directed toward the lower voltage portion of the transmission system.

COO/SBU Level Performance Indicator

PSO Load Not Served

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

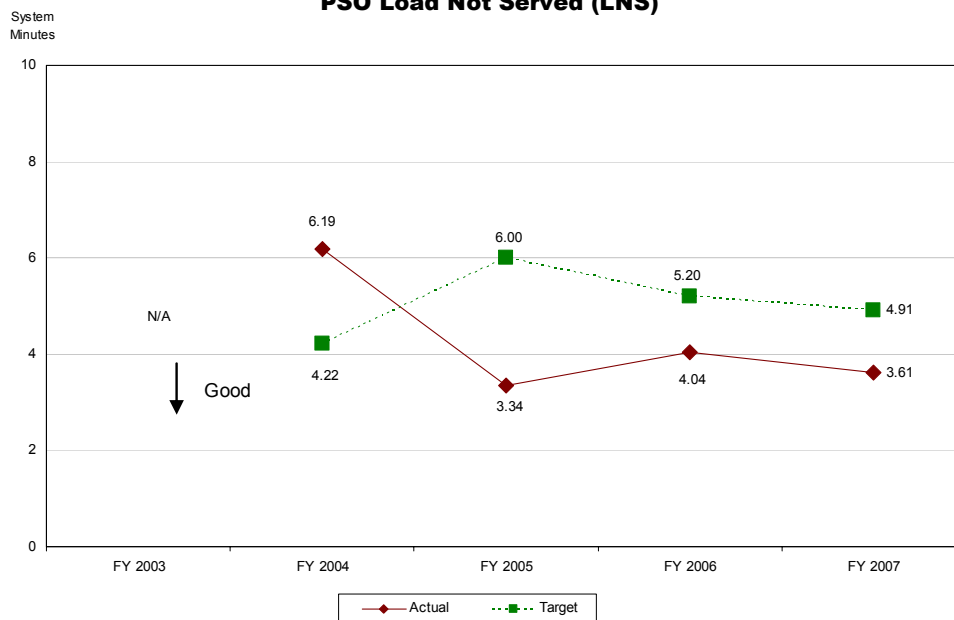
Strategic Objective: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor: Improve power reliability to meet customer requirements.

Description

Load Not Served is a measure of the magnitude and duration of transmission system outages that affect TVA customers expressed in system minutes. Reliability is the number one customer requirement. A customer interruption with an actual duration that exceeds one minute is tracked as a Load Not Served event. This is the primary measure of the magnitude and duration of transmission power outages.

PSO Load Not Served (LNS)



FY 2007 Target: 4.91 System Minutes

FY 2007 Performance: 3.61 System Minutes

Targeted performance on this goal was achieved.

Performance Explanation: Performance was better than target due to an aggressive system-wide preventative maintenance program and other maintenance efforts directed toward the lower voltage portion of the transmission system.

COO/SBU Level Performance Indicator

PSO Transmission Expense per Total Energy Delivery

Goal/Strategic Objective/Critical Success Factor

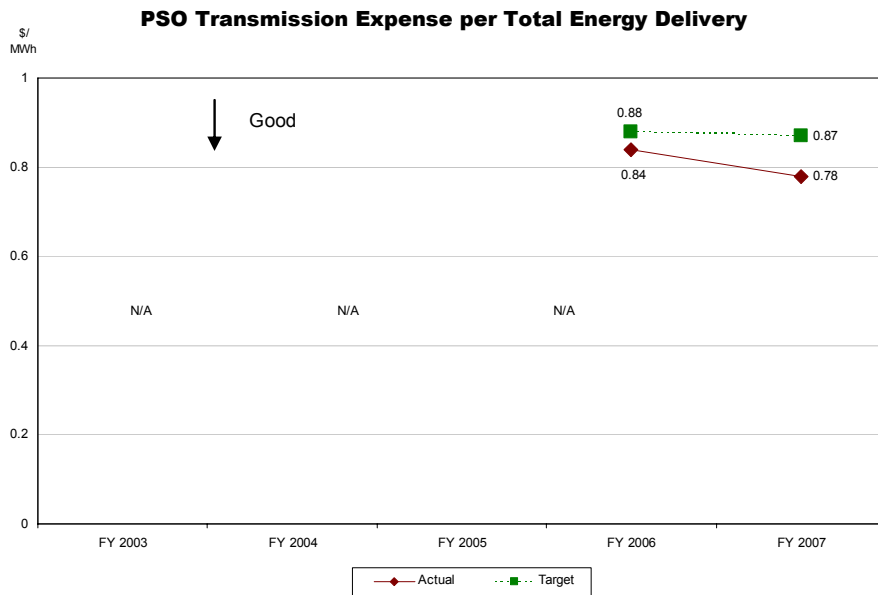
TVA Goal: Supplying low-cost, reliable power.

Strategic Objective: Control O&M expenses to allow TVA to focus on competitiveness in a deregulated wholesale power market.

Critical Success Factor: Generate more for less.

Description

The PSO Transmission Expense per Total Energy Delivery indicator is the ratio of TVA transmission system operating, maintenance and control expenses divided by total energy delivery, which includes electricity sales plus wheeling.



FY 2007 Target: 0.87 \$/MWh

FY 2007 Performance: 0.78 \$/MWh

Targeted performance on this goal was achieved.

Performance Explanation: Performance was better than target as transmission maintenance and operations expenses were less than target while MWh delivered exceeded target.

COO/SBU Level Performance Indicator

Hydro Equivalent Forced Outage Rate

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supplying low-cost, reliable power.

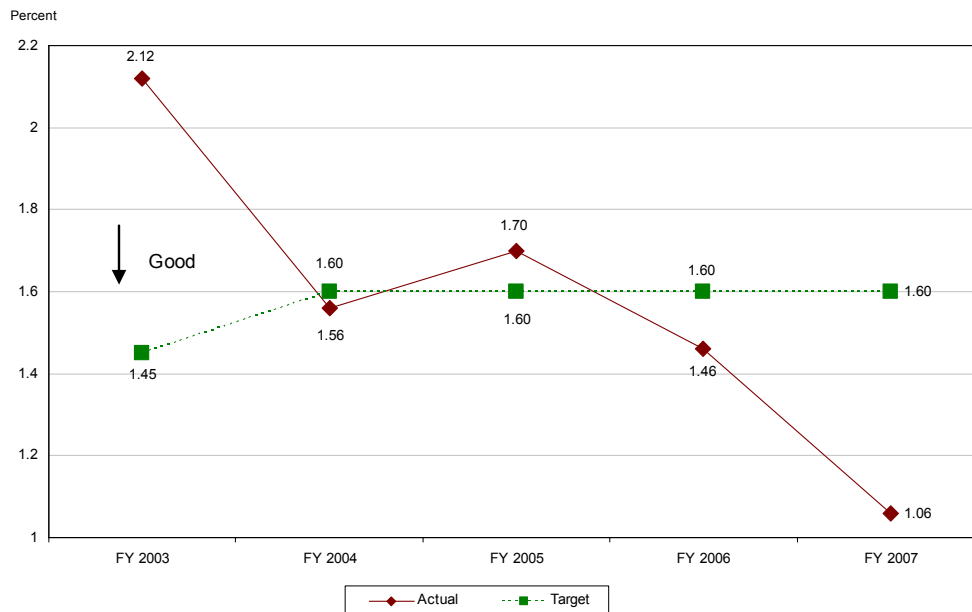
Strategic Objective: Meet customers' needs with affordable, reliable electric power.

Critical Success Factor: Improve power reliability to meet customer requirements.

Description

Electricity generation is a major function of the multipurpose assets within TVA's River Operations (RO). The purpose of this measure is to focus on achieving reliable unit operation to meet power demands of the TVA system.

RO Hydro Equivalent Forced Outage Rate (EFOR)



FY 2007 Target: 1.60%
FY 2007 Performance: 1.06%

Targeted performance on this goal was achieved.

Performance Explanation: The actual performance of total system Equivalent Forced Outage Rate (EFOR) was better than target due to lower than normal unit usage. However, units were generally available for generation during the year when called upon, regardless of the low rainfall. The target was based on the previous three-year average and assumed normal rainfall.

COO/SBU Level Performance Indicator

Flood Storage Availability

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supporting a thriving river system.

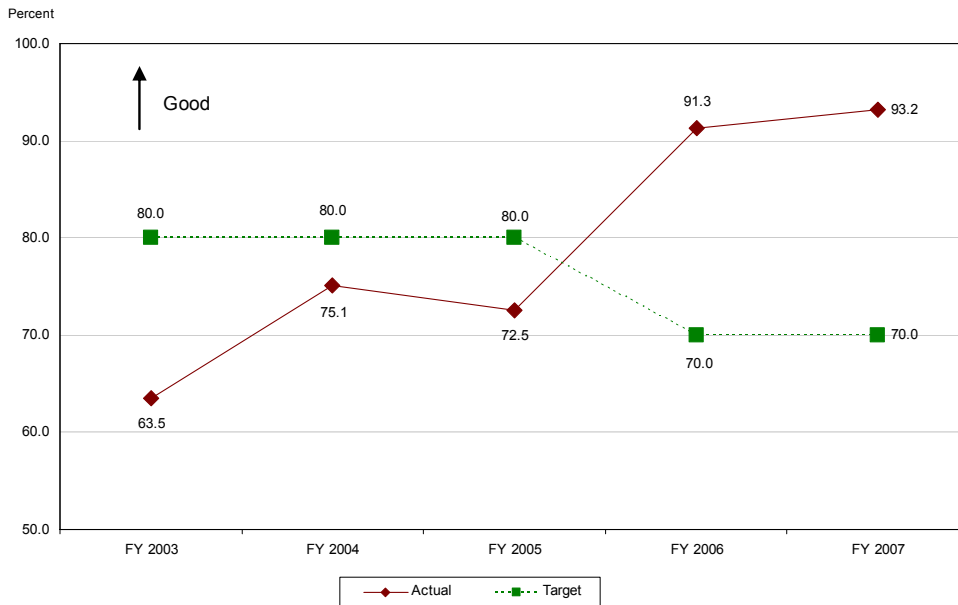
Strategic Objective: Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship.

Critical Success Factor: Minimize flood damage by operating the river system according to best management practices with flood control as a priority.

Description

Flood storage availability indicates TVA's readiness to control damaging floods. The reservoir system is operated based on mandates of the TVA Act and broad policy last reviewed as part of the Reservoir Operations Study in 2004. Based on these guidelines, monthly flood storage availability targets were established. Operation of the system in accordance with these targets helps ensure that the priority placed on flood damage avoidance is maintained.

RO Flood Storage Availability



FY 2007 Target: 70.0%

FY 2007 Performance: 93.2%

Targeted performance on this goal was achieved.

Performance Explanation: Flood Storage Availability exceeded the target due to exceptionally dry conditions which made it possible to maintain more than the targeted flood storage space throughout the system for most of the year.

COO/SBU Level Performance Indicator

Days Navigable Waterway is Available from Knoxville to Paducah

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supporting a thriving river system.

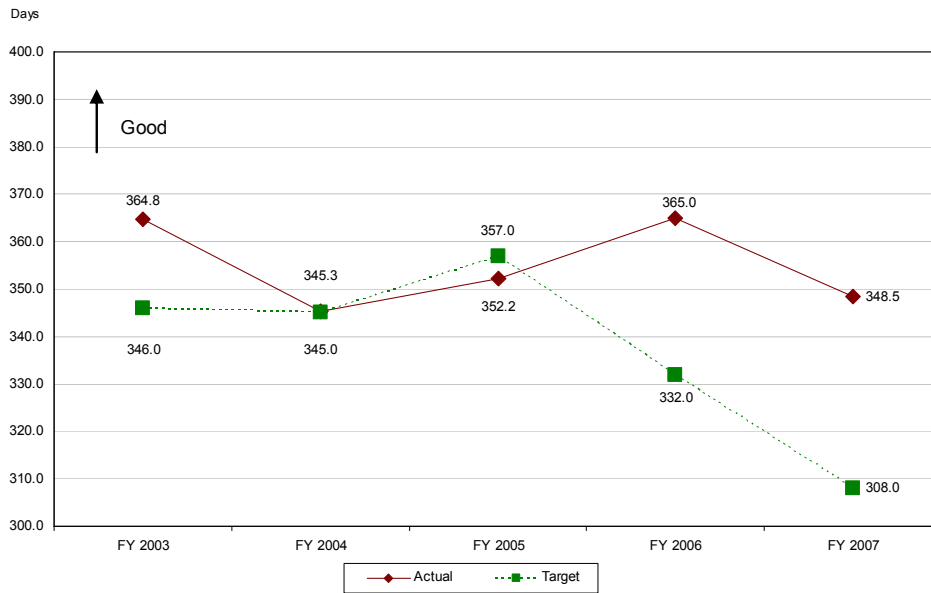
Strategic Objective: Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship.

Critical Success Factor: Maintain a navigable commercial waterway from Knoxville to Paducah.

Description

Commercial shippers rely on TVA to maintain locks and other navigation system components in operable condition and to operate the river system to minimize disruptions to navigation. This metric monitors TVA's effectiveness in keeping the navigation channel and locks available for use.

RO Days Navigable Waterway is Available



FY 2007 Target: 308.0 Days
FY 2007 Performance: 348.5 Days

Targeted performance on this goal was achieved.

Performance Explanation: The target was exceeded though there were several lock closures documented in FY 2007, including the accident at Wilson Main Lock. This was due to several factors such as the expeditious return-to-service at Wilson Lock, completion of planned dewaterings ahead of schedule, coordination with waterway users during closures, and the availability of auxiliary locks.

COO/SBU Level Performance Indicator

Land and Water Stewardship

Goal/Strategic Objective/Critical Success Factor

TVA Goal: Supporting a thriving river system.

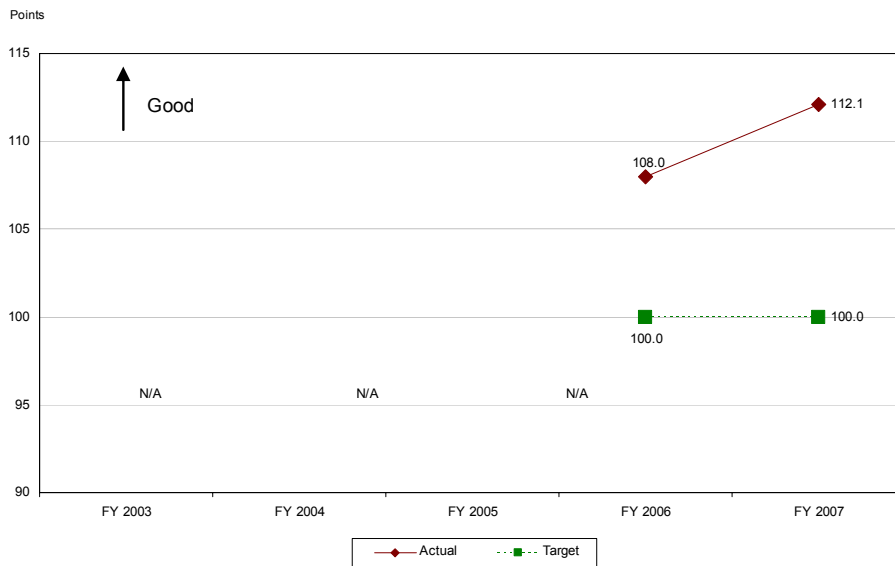
Strategic Objective: Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship.

Critical Success Factor: Manage the environmental and safety impacts of TVA's operations on employees and the region.

Description

TVA developed a Land and Water Stewardship index that tracks the combined monthly performance of four components. Water Quality Objectives Completed tracks the number of major milestones achieved by Watershed Teams in implementing targeted watershed initiatives and by Aquatic Monitoring and Management in evaluating and reporting water resource conditions. Shoreline Restored tracks the actual number of critically impaired shoreline miles which are enhanced or stabilized through shoreline restoration and revegetation activities. Resource Management Projects Completed tracks the number of resource management projects implemented. Recreation Projects Completed tracks the number of reservoirs for which recreation facility data is updated. Data on informal recreation areas is collected and analyzed, and campgrounds are assessed and evaluated.

OE&R Land and Water Stewardship



FY 2007 Target: 100.0 Points

FY 2007 Performance: 112.1 Points

Targeted performance on this goal was achieved.

Performance Explanation: Performance was better than target due primarily to the restoration of a greater number of miles of shoreline than planned.

Appendix A

Descriptions of Means to Verify and Validate Values Of Performance Goals

Financial Strength (Discontinued in FY 2007)

Measurement and Validation: This indicator is measured as the change in debt and debt-like obligations including statutory debt, combustion turbine lease obligations, prepaid energy obligations, and QTE (Qualified Technological Equipment) lease obligations.

O&M Costs

This indicator was replaced by Net Cash Flow in fiscal year 2006.

Net Cash Flow (Discontinued in FY 2007)

Measurement and Validation: This indicator is measured as the total cash flows from operating activities (excluding energy prepayments and changes in short-term investments) less cash used in investing activities.

TVA Delivered Cost of Power Excluding FCA Costs

Measurement and Validation: This measure represents the cost in dollars per MWh of power sold to customers (Total Sales Volume). Cost includes total Income Statement expenses (excluding FCA costs) plus or minus Other Income, net (excluding non-cash derivative gains and losses). Income Statement Expenses include non-FCA Fuel and purchased power costs, O&M, Depreciation & Amortization, Tax Equivalents, and Interest Expense.

TVA FCA Costs

Measurement and Validation: This indicator is a measure of TVA's eligible FCA expenses per MWh of power sold (Total Sales Volume). The eligible FCA costs are those approved by the Board for inclusion in the Fuel Cost Adjustment Mechanism. Costs include FCA eligible fuel and purchased power expense plus emissions allowance expense plus reagent expense.

Customer Impact (Replaced by Customer Satisfaction Survey in FY 2007)

Measurement and Validation: This measure focuses on two elements customers consistently rate as critical: power reliability (number of connection point interruptions) and customer satisfaction survey (distributor satisfaction with TVA as their wholesale supplier, with performance of TVA customer service staff, and with TVA's power quality and reliability of transmission service).

TVA Customer Satisfaction Survey

Measurement and Validation: This indicator is a quarterly measure of distributors' and directly served customers' satisfaction with TVA. Results are based on customer responses to survey questions in a variety of areas including TVA as a wholesale/retail supplier, performance of local TVA customer service staff, power quality and reliability of transmission service, pricing, contracts, and power supply mix.

TVA Economic Development Index

Measurement and Validation: Data is reported based on commitments with strategic partners to support job growth, leverage project investments, and enhance job quality in the region.

Asset Availability (Replaced by Equivalent Availability Factor in FY 2007)

Measurement and Validation: TVA measures how well its electric generation system, excluding power purchase contracts, performed compared to planned availability and price forecasts. A monthly result is calculated by dividing Actual GWh Available by Plan GWh Available and multiplying the result by 100%. The fiscal-year-to-date Asset Availability result is based on the weighted average of monthly results based on a value factor.

TVA Equivalent Availability Factor

Measurement and Validation: This measure is a ratio of actual available generation from all TVA generating assets in a given period compared to maximum availability.

TVA Environmental Impact Index

Measurement and Validation: The Environmental Impact Index is a composite of environmental performance factors in terms of beneficial and detrimental impacts (or precursors) on Air Quality, Water Quality, Land, Waste Production, and Energy Consumption compared to a baseline of FY 02. The 23 elements forming the index are dispersed throughout the agency, and data is provided by the owners on a quarterly basis. Measurements are made using a variety of methods: monitors, meters, scales, calculation, direct observation, utility bills, number of contracts, project planning, billing, and more.

TVA Safe Workplace

Measurement and Validation: This is a rate-based measure of safety. It tracks the number of recordable injuries incurred by TVA employees or staff-augmented employees and types of work-related injuries and illnesses reported by employees through TVA's record keeping system for safety statistics.

$$\frac{\text{Recordable Injury Rate} \times 200,000}{\text{Hours worked during time period}}$$

NOTE: Hearing events are reported to OSHA as recordable injuries, but will be excluded from the TVA Winning Performance Safe Workplace Indicator. Hearing loss is an occupational illness, not a typical recordable workplace safety event.

200,000 = 100 employees working 40 hours/week for 50 weeks/year

TVA Productivity

Measurement and Validation: Productivity measures the total TVA labor costs (Straight time, overtime, premium and other pay, and benefits) and Contractor labor costs (Staff Augmented, Managed Task and Consultants) needed to meet the total TVA electric sales (MWh). Both TVA and Contractor labor exclude Capital cost. This measure calculates the amount of human capital needed per unit of output.

Net Electric Generation

Measurement and Validation: The total electric energy produced by the generating units measured at the generator terminals less energy consumed for the generating station use.

NPG Contribution to Delivered Cost of Power (mills/kWh)

Measurement and Validation: This measures the cost of generating nuclear power per unit of output (kWh).

NPG Institute of Nuclear Power Operations (INPO) Index

Measurement and Validation: The individual parameters measure performance in Unit Capability and Losses, Unplanned Automatic Scrams, Safety System Availability and Reliability, Fuel Reliability, Water Chemistry, and Radiation Exposure. These individual parameters are weighted and combined into a single measurement index. This index provides an indication of overall plant performance, as well as a benchmark measurement to other plants' performance. The INPO index is tracked monthly and the targets are determined based on industry top quartile performance adjusted for history and extraordinary items such as the Watts Bar Steam Generator replacement and Browns Ferry power uprate activities. Each year's September calculation is reported as the annual performance on this measure.

FPG Contribution to Delivered Cost of Power (mills/kWh)

Measurement and Validation: TVA's coal-fired plants generate about 60% of the electricity that TVA produces. Their costs impact TVA's ability to provide low cost power to its customers. The FPG Delivered Cost of Power is the cost of generating power from the coal-fired plants. It includes operation and maintenance, fuel, reagent, and other costs. The cost is divided by generation to express it as a unit cost.

FPG Equivalent Forced Outage Rate (EFOR)

Measurement and Validation: TVA's coal-fired plants generate about 60% of the electricity that TVA produces. The ability of TVA's coal-fired plants to operate when needed impacts TVA's ability to provide low cost, reliable electricity to its customers. This measurement focuses on achieving reliable operation. As an indicator of unit reliability, the percentage of fossil generation lost due to forced outages and forced deratings is measured.

PSO Connection Point Interruptions (CPI)

Measurement and Validation: The CPI indicator measures reliability from our customers' perspective. It tracks interruptions of power, including momentary, at connection points caused by the transmission system. Customers rank reliability the most critical in importance and are requesting improved performance in all aspects of reliability, including momentary interruptions. TVA recognizes that reliability is a critical customer satisfaction measure. A customer CPI event with a duration that exceeds one minute is also tracked as a Load Not Served event.

PSO Load Not Served (LNS)

Measurement and Validation: LNS is a measure of the magnitude and duration of transmission system outages that affect TVA customers expressed in system minutes. Reliability is the number one customer requirement. A customer interruption with an actual duration that exceeds one minute is tracked as a Load Not Served (LNS) event. This is the primary measure of the magnitude and duration of transmission power outages.

PSO Contribution to Delivered Cost of Power (mills/kWh)

This indicator was replaced by the Transmission Expense per Total Energy Delivery indicator in fiscal year 2006.

PSO Transmission Expense per Total Energy Delivery (\$ per MWh)

Measurement and Validation: Ratio of TVA transmission system operating, maintenance and control expenditures divided by total energy delivery, which includes electricity sales plus wheeling. Measured to control O&M expenses in relation to MWhs delivered.

RO Hydro Equivalent Forced Outage Rate

Measurement and Validation: This indicator measures the ability of a plant to generate when required by Power System Operations.

RO Flood Storage Availability

Measurement and Validation: This performance measure is defined as the percent of project days when actual storage availability is greater than allocated storage. Eleven tributary storage projects are included in this measure; in addition, a measure of the composite eastern system is also included. TVA measures reservoir levels at midnight each day for each of the projects. In a 30-day month, each storage project has a maximum of 30 project days when actual reservoir storage can be equal to or greater than the allocated storage. TVA sums the days when storage meets or exceeds the guideline. For example, if all 11 projects and the eastern composite had reservoir storage levels above those required for 20 of the 30 days, monthly performance would be $240/360=66.7\%$. Data is reported monthly and is accumulated over the entire year to determine the annual performance on this measure.

RO Days Navigable Waterway is Available from Knoxville to Paducah

Measurement and Validation: This indicator measures instances when any segment of the Tennessee River is closed to navigation traffic. Lock operation and maintenance reports are the source of this information.

OE&R Land and Water Stewardship

Measurement and Validation: This measure is defined as an index score which reflects the number of resource management projects completed and the number of recreation projects completed. Water Quality Objectives Completed tracks the number of major milestones achieved by Watershed Teams in implementing targeted watershed initiatives and by Aquatic Monitoring and Management in evaluating and reporting water resource conditions. Shoreline Restored tracks the actual number of critically impaired shoreline miles which are enhanced or stabilized through shoreline restoration and revegetation activities. Resource Management Projects Completed tracks the number of resource management projects implemented. Recreation Projects Completed tracks the number of reservoirs for which recreation facility data is updated. Data on informal recreation areas is collected and analyzed, and campgrounds are assessed and evaluated.

Appendix B

Program Assessment Rating Tool (PART) - Status Update

Power Program

TVA's power program is entirely self-financing and does not receive any federal appropriations. The power program budget is, however, included in the consolidated Budget of the United States Government. TVA is the fifth largest electric utility in the country, generating power from a diverse mix of coal-fired, hydro-electric, nuclear, and combustion-turbine plants to meet the electricity needs of 8.7 million people.

In the 2004 PART assessment, TVA received solid ratings for its Operational Performance, Strategic Planning, Program Management, and Program Results. Some of the comments in the Program Management section are as follows:

- *TVA has an ongoing monthly budget and performance reporting system that includes both TVA organizational and contractor performance information. Budgets are reallocated as necessary to address emerging problems or opportunity. TVA is implementing Activity Based Management (ABM) as another tool to manage performance.*
- *TVA's financial reporting system includes detailed reports of actual vs. budget expenditures on a monthly (and for some components weekly) basis.*
- *TVA includes performance requirements in all major procurement and contractor "partner" agreements. Incentives are designed such that the supplier and TVA share in cost savings achieved.*
- *TVA has developed a highly qualified executive management team, most of which have private sector as well as public sector experience. Within the operating groups, functional "peer teams" have been established across all major disciplines. They meet regularly to evaluate all business processes, do extensive benchmarking studies, and implement "best practices" from other units and other companies.*
- *TVA develops extensive cost and benefit analysis on all asset acquisitions ranging from computer systems to generating units.*

Non-Power Program - Water and Land Stewardship

TVA serves the seven-state Tennessee Valley region through its management of the nation's largest public power system and the nation's fifth-largest river system, the Tennessee River. TVA dams and locks are operated as a fully integrated system to deliver multipurpose outputs. Navigation, flood control, and electric power generation are achieved while sustaining a balance between economic progress and protection of the environment. Public lands are managed to provide flood control, wildlife habitat, and recreation benefits.

In FY 2004, OMB gave TVA's stewardship program an average overall 86 percent rating for the entire assessment and stated that, "TVA's Stewardship program continues to meet or exceed performance goals without increasing overall costs. These efficiency improvements come through the use of public/private partnerships and more effective use of internal resources (i.e., managed attrition, realignment of functions)."

TVA is committed to meeting its obligation to operate and maintain its system of dams, reservoirs, and adjacent lands. The Energy and Water Development Appropriations Act of 1998 authorized TVA to fund its essential water and land stewardship activities with power revenues. TVA last received appropriations for Water and Land Stewardship in FY 1999. TVA funding levels for these activities have continued at about the same level for the past eight years. FY 2006 funding of this program was \$82 million.

NOx Emission Reduction

The Tennessee Valley Authority (TVA) NOx emissions reduction program is designed to remove nitrogen oxide compounds from emissions produced at TVA coal plants in compliance with all NOx-related Clean Air Act regulations at the lowest overall cost to TVA ratepayers. The program's activities involve construction of selective catalytic reduction (SCR) and selective non catalytic reduction (SNCR) equipment at coal plants as well as monitoring NOx emissions for regulatory compliance. TVA has reduced its annual NOx emissions by over 40% since 1999 and its ozone season NOx emissions by over 70% and has plans for further reductions going forward. This will be achieved at the same time energy demand grows in the Tennessee Valley region by 2 percent a year.

In 2007, OMB gave TVA's NOx Emissions Reduction PART an average overall 95 percent rating for the entire assessment and stated that, "TVA has been largely effective in achieving its annual and long-term goals to meet NOx reduction targets and comply with Clean Air Act mandates." OMB also gave TVA an "Effective" performance rating for the program. This is the highest rating a program can achieve. Programs rated Effective set ambitious goals, achieve results, are well-managed and improve efficiency.

TVA has met its annual NOx emission targets every year except one since the program began tracking results. TVA has installed SCR equipment at 60 percent of its coal-fired power plants. Plans are underway to install two additional SNCR units beginning in 2007 and 5 additional SNCR units in 2009.