

Tom Kilgore, President and Chief Executive Officer

Tennessee Valley Authority

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**Testimony of
Tom Kilgore
President and Chief Executive Officer, Tennessee Valley Authority,
before the
House Transportation and Infrastructure Committee
Subcommittee on Water Resources and Environment
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Opening Statement

Chairwoman Johnson, Ranking Member Baker, and members of the Committee, I am honored to appear before you to discuss TVA's programs and priorities for the future.

2006 was a challenging year for TVA. Unusual weather, equipment failures, and increases in the price of fuel and purchased power gave the people of TVA many opportunities to think fast, work hard, and rise to the challenges we faced.

This also was a year of great change for TVA. Seven new Board members took the oath of office, implementing the new governance structure established by Congress. The new Board elected Bill Sansom as Chairman and later appointed me President and Chief Executive Officer.

I first joined TVA about two years ago as Chief Operating Officer, but TVA and its mission have been part of my life a lot longer than that. Like Congressman Duncan, Congressman Shuler, and the members of the TVA Board, I have deep roots in the Tennessee Valley region. I grew up in a small town in north Alabama, not far from where TVA has its Chattanooga operations center. One of my first jobs in college was on a TVA fossil plant testing crew, and that marked the beginning of my career in the electric utility industry.

Before joining TVA, I was the President and Chief Executive Officer of Progress Energy Ventures, where I was responsible for non-regulated, wholesale energy operations. Before that, I was President and CEO of Oglethorpe Power Corporation in Georgia, the nation's largest electricity generation and transmission cooperative. Prior to that, I worked in generation operations at Arkansas Power and Light.

About TVA

As you know, TVA is a United States government corporation and the nation's largest public power supplier. TVA is financially self-supporting and no longer receives federal appropriations. We pay our own way using power revenues to buy fuel, pay wages, service our debt, maintain assets, and fund our stewardship and economic development activities.

In partnership with 158 wholesale distributors, TVA provides reliable, affordable electricity to 8.7 million people and 650,000 businesses in Tennessee and six other southeastern states. TVA also provides power directly to more than 60 large industrial customers and federal installations.

TVA has stewardship responsibilities for the Tennessee Valley region's natural resources, including the nation's fifth-largest river system. TVA also is a catalyst for economic development and job creation throughout its 80,000-square-mile service area.

These three areas – energy, environment, and economic development – are the core of TVA's mission of service to the people of the Tennessee Valley region and our nation. Today, I'd like to discuss TVA's recent contributions and achievements in each of these areas and TVA's priorities for the future.

Reliable, Affordable Power

Electricity fuels the economic engine of the Tennessee Valley, and powering this engine is a responsibility that TVA and its public power partners take very seriously. During the past seven decades, TVA has developed a strong and diverse mix of generating assets that includes 11 coal-fired plants, three nuclear plants, 29 hydro-electric plants, and one pumped-storage facility. TVA also has a growing fleet of combustion-turbine units and is a leader in providing renewable energy alternatives through its award-winning Green Power Switch program.

TVA sold nearly 176 billion kilowatt-hours of electricity in 2006, earning revenue of more than \$9.1 billion. Along the way, TVA met eight monthly records for peak power demand, including an all-time peak demand of more than 32,000 megawatts last July. On that record-setting day, all five TVA nuclear units were online and 58 of 59 TVA fossil units were in service.

TVA's fossil system generated the second-highest amount of power in TVA history during 2006, and 13 TVA coal plants set records for continuous operation. One unit at our Shawnee facility in Kentucky became the nation's longest continuously operating coal plant. TVA's Sequoyah Nuclear Plant produced more electricity in 2006 than any previous fiscal year. It was a banner year for TVA's 17,000-mile transmission system, too, which served customers with 99.999 percent reliability for the seventh year in a row.

Power demand in our region continues to grow, and the TVA power system is growing with it. In 2006, the TVA Board approved the purchase of two natural-gas combustion turbine generating facilities that will add significant peaking capacity to our system. TVA also is on schedule to soon restart Unit 1 at our Browns Ferry Nuclear Plant in Athens, Alabama. Even though it is a restart, Browns Ferry Unit 1 will be the first U.S. nuclear unit brought online in the 21st century, providing enough safe, clean, zero-emission power to meet the needs of some 650,000 homes.

Anticipating further growth in energy demand, the TVA Board has ordered a study of the cost and feasibility of completing the second unit at TVA's Watts Bar Nuclear Plant near Spring City, Tennessee. TVA also continues to participate in the 10-company NuStart Energy Development consortium. NuStart is developing applications for licensing of two advanced nuclear power reactors, one of which could be built at TVA's Bellefonte site in north Alabama.

As we explore alternatives for the cleanest, most cost-effective energy resources in the future, the people of TVA are making the most of assets we already have and implementing new technologies that make our power system more efficient and reliable.

TVA's hydro modernization program is helping us squeeze more power from every drop of water enabling us to add about 10 percent to our hydro generating capabilities. Other

TVA innovations and advances earned industry honors in 2006, including the SuperVar technology that TVA and American Superconductor developed to help absorb power fluctuations caused by large changes in demand.

Environmental Stewardship

The Tennessee River system is an important national and regional resource that has long been a key focus of TVA's mission. The environmental component of TVA's mission requires that TVA manage the Tennessee River and its tributaries as an integrated unit to provide multiple public benefits that include year-round navigation, reduced flooding, economical electricity, recreation opportunities, improved water quality, and a reliable supply of water to cool power plants and meet municipal and industrial needs.

As part of this integrated approach to resource management, TVA operates its 34 flood-control dams as a unified system to prevent, on average, an estimated \$231 million in flood damage per year. TVA's management of the river also enables the transportation of some 50 million tons of cargo annually, saving industries about \$550 million in freight charges compared with shipping by other means.

Despite low rainfall throughout much of 2006, TVA successfully managed the river system to meet water quality and water supply needs in months when rainfall was the second-lowest in 117 years. TVA also supported community coalitions to improve water quality at 34 locations and stabilized more than six miles of critically eroding shoreline.

TVA joined partnerships to improve wildlife, add hiking trails, and provide other stewardship enhancements for Valley communities, including surveys of sport fish population on 31 reservoirs. And TVA's seven watershed teams, assisted by 3,500 citizen volunteers, collected more than 123 tons of trash and debris from reservoirs and streams in the Tennessee Valley.

TVA manages not only the water in our reservoirs, but also the 293,000 acres of public lands adjoining them. In 2006, the TVA Board adopted a new policy that restricts the sale of these lands for residential development while providing standards for the consideration of industrial and commercial development proposals.

Air quality is another important component of TVA's environmental mission, and in 2006 TVA invested \$182 million as part of an ongoing \$5.8 billion clean air program. This investment has enabled TVA to reduce sulfur-dioxide emissions 80 percent since 1977. Nitrogen-oxide emissions during the summer ozone season have been reduced 81 percent since 1995. Today our region's air is cleaner than it has been in many years, and air quality continues to improve.

Renewable energy plays an important role in keeping our air clean. In 2006, TVA exceeded its goal of providing 32,000 blocks of renewable energy as part of its Green Power Switch program. Each block represents 150-kilowatt hours, which is more than 10 percent of a typical family's monthly power consumption. With the addition of 15 new wind turbines in 2005, TVA has enough green power capacity to meet expected demand for the next five years.

Economic Development

Economic development is the third component of TVA's mission through which we build state and local partnerships that foster prosperity for business, industries, and families.

In 2006, TVA invested about \$40 million in economic development efforts to support the expansion of businesses and industries in the Tennessee Valley. These investments helped attract or keep some 53,000 jobs in the region and leveraged \$4.2 billion in capital investment from other sources.

TVA administers Appalachian Regional Commission grants that support economic and social development in the ARC region. TVA also provided a broad portfolio of other services and financial resources in 2006, including more than 600 community development and technical assistance projects to foster economic growth in Valley communities. In addition, TVA and its employees volunteered more than 26,000 hours of their personal time and made more than \$5.2 million in charitable contributions in communities throughout the region.

TVA provided \$376 million in tax-equivalent payments to state and local governments in 2006 based on our power sales and the value of TVA power properties in Tennessee Valley communities. In the past five years, these payments have provided more than \$1.7 billion in funding for local education and other vital needs.

TVA supports economic prosperity in the communities we serve in other ways. Last year, TVA purchased \$2.4 billion in goods, fuel, and services from businesses and industries in the Tennessee Valley region. TVA launched a program that helps communities identify and recruit new industries. Additionally, several new Tennessee Valley megasites suitable for automobile manufacturing plants were independently certified. Eight megasites have been certified since the program began in 2004.

TVA's economic development efforts to attract jobs to the Tennessee Valley were ranked No. 1 among utilities in *Business Facilities* magazine's 2006 report card on economic development. *Site Selection* magazine named TVA one of the "Top Utilities of the Year" for outstanding economic development initiatives. TVA's economic development web site and site selection web sites won top honors at the International Economic Development Council's annual awards competition.

Improving the Balance Sheet

TVA is fulfilling its unique responsibilities in energy, the environment, and economic development while being fiscally responsible and improving its financial health. TVA remains committed to reducing its existing Total Financing Obligations – or TFOs – which include existing statutory debt and alternative financing mechanisms, such as lease-leasebacks and prepayment agreements. TVA is committed to ensuring that our debt does not outlast the value of our assets.

In what was a very challenging year for TVA, financially and operationally, TVA met its debt reduction target, reducing TFOs by \$341 million, which was \$40 million more than the previous year. This year we expect to pay \$529 million in TFO reduction. In the past decade, TVA has reduced TFOs by nearly \$2.5 billion and reduced the amount of each revenue dollar used to pay interest and other financing expenses from 34 cents to 14 cents.

Other Financial Matters

As I mentioned earlier, TVA's power program is entirely self-financing and does not receive federal appropriations. Beginning in fiscal year 2000, TVA has paid for its non-power operations entirely from power revenues, user fees, and sources other than appropriations. Subject to TVA Board approval, TVA expects to spend about \$85 million on water and land stewardship activities in fiscal year 2008.

Dramatic increases in the cost of fuel and purchased power forced TVA and many other utilities to raise rates in 2005 and 2006. TVA implemented a 7.52 percent increase in October 2005 and another 9.95 percent in April 2006. The TVA Board then reduced rates by 4.5 percent after developing a fuel-cost adjustment mechanism that will automatically adjust rates as fuel and purchased-power costs rise and fall.

This year, TVA began filing financial reports with the Securities and Exchange Commission in accordance with the Consolidated Appropriations Act of 2005. We also began complying with portions of the Sarbanes-Oxley Act that provide an appropriate level of disclosure and transparency for TVA stakeholders.

Looking Forward

The new TVA Board and governance structure have brought a fresh approach to TVA. With their strong business backgrounds, new Board members have gotten quickly up to speed and are using their wealth of experience to guide TVA's wide-ranging business.

The years ahead will be challenging for TVA. Electric power demand in our region is creating the need for about 600 megawatts of additional generating capacity each year. TVA is evaluating the most cost-effective ways to acquire this capacity while being fiscally responsible, keeping our balance sheet strong, and without increasing our environmental footprint. Browns Ferry Unit 1 is an important step in this direction, and it will be a valuable contributor to our clean air strategy.

These and other challenges are among those being addressed in a new Strategic Plan that the TVA Board requested. That plan is being developed, and the final plan will be in place to guide business planning for fiscal year 2008.

Conclusion

While much has changed and will continue to change at TVA, it is important to note what is not changing at TVA, and that is TVA's dedication to improving its financial health, maintaining fiscal responsibility, and staying true to our mission for improving the quality of life of the people we serve.

We look forward to continuing our close partnership with this Committee and the entire Congress, the Administration, and all our stakeholders to ensure that we accomplish these goals.

Thank you for the opportunity to appear before you, and I look forward to answering your questions.