

this month's theme:
TVA's prescription
for financial health

TVA Nuclear's 'Stop Doing This' makes time for smart work

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Renee Gibson, Senior Instrument Mechanic at Sequoyah Nuclear Plant, tests a circuit board from the Reactor Vessel Level Instrumentation System.

CLETUS MITCHELL

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Managing the dollars

As TVA prepares for fiscal year 2005 and beyond, the TVA Board is asking everyone to join them in reviewing every corner of the company and examining every expenditure in order to bring more financial flexibility for TVA.

For TVA to achieve greater financial strength and operational success as a power provider long into the future, it is looking for ways to reduce the cost of providing power to its customers.

Chief Financial Officer Mike Rescoe says he's optimistic about TVA's ability to manage its financial future.

"TVA is turning a corner in the sense it is managing its budgets to ensure the company can increase its financial flexibility," Rescoe says. "That means holding our costs down. And lower costs mean we are a more competitive provider.

"Our budget process is where the rubber meets the road. We have to look at where we need to be and make intelligent tradeoffs. A lot of the measures we're taking are painful in the short run, but they will be extremely valuable in the long run."

Rescoe says the next five years will be a sobering challenge, and he knows the executive team, managers and

employees are up to the challenge.

"When we enter into the budget process, we need to think of TVA as a reliable service provider, be respectful of the environment and operate with safety in mind," Rescoe says. "And we need to improve efficiency and reliability and reward the people for their work. This will all lead to TVA's continuing its rich history as a reliable provider to its customers in the supply of power."

He believes TVA has entered a time and into a process where it has a sharp focus on finding ways to do the job of being a power provider in as frugal a way as it can by thoroughly and continually looking at its spending behaviors.

"We find out what we don't need and what not to spend. We don't buy things we don't need, and we don't overpay for what we buy. In every department, we find out how much it costs to do certain work, and we try very hard to prove to ourselves that the dollars we spend make



us a better power company. 'How many cents per kilowatt-hour' is a great report card for measuring success."

For example, TVA Nuclear's operations and maintenance costs and fuel expenses decreased from 35.62 mills per kilowatt-hour in 1993 to 12.86 in 2002. However, for 2004, the mills per kWh are slightly higher. A mill is 1/10th of a cent, so generation costs are about 1.3 cents per kilowatt-hour.

Looking at the longer term

The annual budget process is part of a much longer-term process of what TVA needs to be doing. The TVA Strategic Plan addressed the financial challenge of reducing the debt by \$3 billion-\$5 billion over the next 10-12 years.

"TVA has a high fixed-cost structure — everything from environmental controls to capital replacements, such as steam generators," Rescoe says. "Our competitors

See "Financial health" on page 5

what's new in employee news

Multicultural cookbook recipes needed

TVA's Special Emphasis Action Council needs your favorite recipes for a multicultural cookbook it is producing in partnership with Employee Relations & Diversity.

The cookbook, part of TVA's observance of Appreciate Diversity Month, will celebrate the contributions and unique traditions of TVA's diverse workforce through a collection of various types of food.

Proceeds from the sale of the cookbook will go to the St. Jude Children's Research Hospital.

The deadline for submitting recipes is Sept. 7.

The target date for completing the cookbook is mid-December. The cookbook will sell for \$10.

The form for submitting a recipe is on TVA's internal Web site. Recipes also can be sent via interoffice mail to Vyrone Cravanas at ET 6D-K or to Wavine Isaac at Allen Fossil Plant at ASP 1A-MET or by regular mail to Isaac at TVA Memphis, 2574 Plant Rd., Memphis, TN 38109.

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INSIDE BRIEFS

Bulk Power Trading

TVA has joined the PJM Interconnection Energy Market, the world's largest competitive wholesale electricity market. Amy Burns, Vice President of Bulk Power Trading, says this arrangement with PJM involves only the purchasing of power by TVA when it is beneficial to TVA. It will not result in any change in how the TVA transmission system is operated or controlled. "TVA is directly interconnected with Appalachian Power Co., whose parent company, American Electric Power, is expected to become part of the PJM Interconnection this year," says Burns. TVA will continue to sell to Appalachian Power/American Electric Power — one of the 12 companies outside the TVA service area to which TVA can sell power — under the previous arrangements. "In order to maintain our power-trading relationship with American Electric Power, which is one of the top three companies TVA buys power from and sells power to, TVA needs to be a member of the PJM Interconnection Energy Market," says Burns. "Even as a member of this market, federal law still requires any power we sell to remain in the American Electric Power service territory."

Economic Development

The Northwest Alabama Film Commission recently received a \$60,000 grant from the Economic Development Administration to conduct a feasibility study for developing the entertainment industry in the Shoals. TVA Community Development facilitated the development of a three-year strategic plan that helped the Commission secure the grant. The Shoals area has long been known for its contribution to the music industry and now has a growing film industry. The Commission's mission is to increase and maintain film and video production in the Shoals.

Transmission/Power Supply

A series of training videos on transmission-line splicing that TVA helped the Electric Power Research Institute develop won four awards in an international video-production competition held earlier this year. The series won two Awards of Excellence in the Creativity/On-Camera Talent and Creativity/Use of Graphics & Design categories. The videos also received an Award of Distinction in the Training category and an Honorable Mention in Creativity/Directing. The Award of Excellence is given to entries that demonstrate an exceptional ability to capture an event or communicate a message. The Award of Distinction goes to projects considered outstanding, and Honorable Mention is for projects that exceed industry standards. The video series was filmed in June 2003 at TVA's Bellefonte Training Center near Scottsboro, Ala.

Breeden named Customer Service & Marketing Executive Vice President

Kenneth Breeden joined TVA Aug. 1 as the new Executive Vice President of Customer Service & Marketing. He is succeeding Mark Medford, who has announced plans to retire later this year after 15 years with TVA.

Breeden has 20 years of utility-industry experience, having served in officer positions at TXU Corp. in Dallas and at Entergy Services Inc. in Little Rock, Ark.

He served as President of Energy Services for TXU, which provides electricity to more than 2.6 million competitive electricity customers in Texas. Breeden was responsible for sales, marketing, delivery and operations, finance, strategic planning, regulatory affairs, supply and all administrative functions. He joined TXU in 1995 as Senior Vice President of TXU Electric & Gas and was responsible for establishing a marketing and sales presence at the company, as well as preparing it for eventual competition. He was a key contributor to TXU's retail strategy for the deregulated market structure in Texas.

Prior to being recruited by TXU, Breeden spent 10 years at Entergy Corp., serving as Vice President of Marketing for Arkansas Power & Light; Senior Vice President of Customer Service & Marketing for AP&L; and Senior Vice President of Marketing, Entergy. He also served as President of Systems & Services International, a small Memphis energy-services company that Entergy purchased in late 1992. During the next two years, the company grew to \$50 million in revenue with more than 350 employees, doing business in 27 states. Breeden positioned SASI for an initial public offering, but Entergy exercised its right of first refusal to buy all of the stock of the company in 1995.

Before joining Entergy, Breeden worked for 11 years with South Central Bell in Nashville and Memphis and with AT&T in Nashville and New Jersey.

Breeden holds a B.S. in Business Administration and an MBA from Wichita State University in Wichita, Kan.



Kenneth Breeden

what's new online

Real-time reservoir and river data now available on tva.com

Going to a reservoir to fish, boat or swim? Before heading out, go to your computer, log on to www.tva.com and find out reservoir conditions, water-release schedules and elevations for the entire reservoir system. Need some facts to share with friends and neighbors and for group presentations? See the 2003 River Performance report on the Web site for facts and figures on rainfall, hydroplant generation, navigation, recreation benefits and reservoir health. In addition, the 24-hour automated service featured on the Web site provides anglers and other recreational users with information on reservoir levels, predicted reservoir levels, tributary flows and expected water releases from the dams. To use the service with a push-button phone, call one of these numbers:

- Knoxville: 865-632-2264
- Chattanooga: 423-751-2264
- Muscle Shoals: 256-386-2264

- Elsewhere in the Tennessee Valley: 1-800-238-2264 (toll-free)
- TDD: 800-438-2264.

Bad weather. Good weather.

Find out about all the weather on the updated Electric System Operations weather site on TVA's internal Web. Weather statistics for 18 Tennessee Valley cities — including Chattanooga, Huntsville, Knoxville, Muscle Shoals, Nashville and Paducah — are all on one page. The site also includes satellite imagery, real-time lightning data, radar, weather watches and warnings, and aviation and marine forecasts. "The Web site will continue to evolve over the next year," says ESO Meteorologist Patrick Walshe. "We'll be adding more than 200 near-real-time weather stations to provide us with even more up-to-the-minute data, such as temperature and wind, as well as pan and zoom features on radar and satellite."

Board sets new hospitality policy for the company

After carefully reviewing TVA's policies on managing hospitality expenses, the TVA Board has taken the following actions:

- TVA's "Business Practice 7, Hospitality" has been revised to provide additional clarity for those employees who may incur hospitality expenses as part of their TVA responsibilities and establishes a standard set of guidelines for all employees to follow, company-wide. Disciplinary actions, up to and including termination, will be taken for future expenditures incurred outside the revised Business Practice 7. Business Practice 7 is available from the Employee Relations & Policies Web site on TVA's internal Web site. From the

Employee Relations homepage, click on "Policy Administration," "Principles & Practices Manual" and then scroll down and click on "Hospitality" under the Business heading.

- Materials are being developed to provide a better understanding of generally accepted, appropriate business expenses. More information will be provided as the materials are developed, and training on this issue will be mandatory for managers and employees responsible for hospitality costs.
- The TVA Board has communicated its expectations for prudent and responsible behavior to the Management Committee and to all employees.



Environmental Impact Index better than predicted

After nine months of measuring, environmental goal between mid and stretch

The Environmental Impact Index is one of the eight Winning Performance goals for fiscal year 2004. The index measures TVA's performance in five categories: air quality, water quality, land stewardship, waste production and energy consumption. These categories include 29 elements such as air emissions, spills to land or water, and reduction of hazardous waste generated.

"For the third quarter, our impacts decreased because of improved processes, additional training for field staffs, increased capital spending to install equipment to reduce coal-plant air emissions, no reportable spills to land and having only 10 spills to water when 17 were predicted," says Warren Behlau, Manager of Performance Analysis & Reporting in Environmental Policy & Planning.



"The third-quarter score for the Environmental Impact Index is 87, which is below the original target of 100, or 13 percent better than predicted. The comparison is against a base-

line number that was developed in 2002."

Behlau says TVA's operations have a wide range of detrimental as well as beneficial impacts on the environment. Through the Environmental Management System, these impacts are scored, ranked, prioritized and managed by each strategic business unit.

"By reducing detrimental impacts and supporting beneficial impacts, TVA reduces financial, environmental and stakeholder risks while improving the environment," he says. "The good work and dedication of TVA employees across the Tennessee Valley is responsible for such an impressive EII score."

The index measures impacts to the environment of TVA operations and can be affected for better or worse by anyone who works at TVA.

"As our Environmental Policy states, we continually improve the environmental performance of our operations," Behlau says. "The EMS processes and procedures are tools developed to ensure we meet the policy requirements and perform our jobs in such a way that lessens our total environmental footprint."

—BARBARA MARTOCCI

Winning Performance

TVA's Six Strategic Objectives



TVA Balanced Scorecard for June

Financial	Weight	Status	Actual YTD	Plan YTD	Year-End Forecast	GOALS		
						Target*	Mid	Stretch
• O&M Costs (\$ millions)	15%	↑	2,583	2,675	3,623	3,644	3,608	3,535
• Financial Strength (\$ millions)	15%	↑	192	33	225	225	275	375
• Productivity (kWh/\$)	10%	↑	150.2	143.7	147.8	147.8	150.8	152.4
Customer								
• Customer Satisfaction (%)	10%	↑	129.6	100.0	130.0	100.0	117.0	130.0
• Economic Development (index)	10%	↑	117	100	100	100	110	120
Operations								
• Asset Availability (%)	20%	↑	101	98	100	98	100	102
• Environmental Impact (index)	10%	↑	87	100	92	98	91	85
People								
• Safe Workplace** (all injuries/hour worked)	10%	↑	1.66	2.41	2.41	2.41	2.36	2.31

Notes:
 * Target equals FY04 Performance Plan Target.
 ** Payout at any performance level is contingent upon no fatalities.

Status:
 ↑ = Forecast at or better than Target
 → = Forecast worse than Target, but recovery is possible
 ↓ = Forecast worse than Target, and recovery is unlikely

This scorecard has been posted on the Winning Performance section of TVA's internal Web site.

Environmental Award nominations due Sept. 6

Exemplary environmental performance by employees, teams, sites or facilities, or organizations will once again be recognized in TVA's Environmental Excellence Awards program. Environmental Policy & Planning is accepting nominations through Sept. 6.

The categories are the six business principles defined in TVA's Environmental Policy & Principles — Management Commitment, Environmental Compliance, Environmental Protection & Stewardship, Pollution Prevention & Control, Partnerships/Public Involvement, and Innovation & Technology Development.

The Environmental Peer Team awards up to six Environmental Excellence Awards each fiscal year. Environmental Policy & Planning selects the one that best exemplifies TVA's commitment

to responsible environmental management and environmental leadership for the TVA Environmental Excellence of the Year Award. A \$1,000 donation will be made to an environmental project or charity selected by the recipient of this award.

EP&P and the Environmental Peer Team also may recommend award recipients for consideration in external environmental awards and competitions, such as the White House's Closing the Circle Award and the Environmental Engineer of the Year.

To make a nomination, send TVA form 17546 to the Environmental Peer Team representative listed on the Environmental Information Center site on TVA's internal Web site. Anyone with questions can call or e-mail Beth Keel (632-6113).

'Getting in touch' getting easier

Communicating throughout TVA is getting more compact, secure and reliable with the new pocket-sized, secure devices that combine paging, cell phone, text messaging, packet data, e-mail and cellular, and mobile radio services.

Nextel Communications will supply the service through a single Integrated Digital Enhanced Network, or iDEN, says Philip Adams, Team Lead for TVA's Operations Mobile Communications Team.

"Integrating mobile, cell and paging services will reduce costs, enhance security and improve communications capabilities," he says. "The Sept. 11 terrorist attacks and last year's Aug. 13 power

blackout made it clear to us that security, interoperability and standardization are absolutely essential to TVA's communications, especially in emergencies. Our team was set up to consolidate TVA's mobile-communications tools."

TVA uses a broad array of systems, including 36 separate Land Mobile Radio systems serving 5,500 users. Another 2,200 people rely on commercial cell phones, and 5,000 depend on a one-way paging service.

Installation of the devices is complete at Kingston, Gallatin, Allen and Widows Creek fossil plants and at Sequoyah Nuclear Plant. The Power Service Shops and 10 other organizations on the Muscle Shoals Reservation are get-

ting the devices now. Colbert, Shawnee and Johnsonville fossil plants, plus Browns Ferry and Watts Bar nuclear plants, are scheduled to get the devices this year. Bull Run, Cumberland and John Sevier fossil plants are scheduled for fiscal year 2005, followed by Paradise in early FY 2006.

"This technology also is available to anyone who wants to convert their existing cell phone to Nextel," Adams says. "Now individual users can keep their existing cell-phone number."

For more information on the Nextel radio project and TVA's mobile-communications strategy, call or e-mail Philip Adams (751-6606; listed in Outlook).



Morris Martin, a Steamfitter/Fire Operator/EMT-Basic at Sequoyah Nuclear Plant, uses a Nextel radio. "The plant fire brigade and medical emergency-response team must stay in absolute contact with the Fire Brigade Leader and ourselves at all times," he says.

Making sense out of the dollars

TVA's budget for fiscal year 2005 will be finalized in late September. Planning for the year requires months of teamwork and coordination. And just like your personal budget, every possibility and challenge must be considered. Administration and TVA Nuclear are among the organizations that look at every avenue for the fiscal year and beyond.

You've budgeted for new school clothes for the kids. Saved for a vacation at the beach. Just when you thought you had your household budget under control, the unexpected happens — you need new tires for the car, a new heat pump and air conditioner. And even though you knew it was coming, college expenses for your freshman are looming.

That well-planned budget can be blown in an instant.

At TVA, planning for the expected as well as the unexpected is conducted by every corporate and operations organization each year through the performance planning and budget process.

"A budget is a plan, and plans change," says Mike Shirey, General Manager of COO Business Services. "The performance-planning process developed by the TVA Business Peer Team and sub-teams is a living process that accommodates the changing demands of our business."

The TVA Business Peer Team, comprised of business managers from all organ-

izations in TVA, has developed an integrated approach for the performance-planning and budget process.

"This integrated approach has basically standardized the way performance planning is done across TVA, with the TVA Power Supply Plan as the basic building block," Shirey says. "The process involves input from throughout TVA and includes goals and objectives for each organization."

"Organizations then develop their planning assumptions, resource requirements and performance indicators to measure how well we implement the plans and achieve our goals and objectives, which are directly tied to TVA's Winning Performance process."

He says the plans are monitored, updated and reviewed on an ongoing basis through the Quarterly Performance Review & Outlook with the Board and Executive Committee.

"The quarterly review allows flexibility to make adjustments as challenges arise and also incorporates a rolling three-year forecast."

PERFORMANCE PLANNING AND BUDGETING Considering every cost

Like other business managers, Administration's Dan Cothron and TVA Nuclear's John Walker are deep in the planning process for fiscal year 2005.

For the Administration organization, that means replacing leaky roofs and heating-and-air-conditioning systems and extra security after the 9-11 terrorist attacks in 2001. And for the operating organizations, it can be environmental controls and scheduled or unscheduled equipment replacement.

Administration — all about service

The Administration organization encompasses Information Services, Procurement, Facilities Management and TVA Police. And it provides services as diverse as security, computers and cell phones, vendor contracts, vehicles and grass-cutting.

Right now the Administration groups are making planning assumptions from financial, operational and workforce information, Cothron says.

"We also set objectives based on key issues, processes and initiatives for the next year. Then we go into our performance-indicator summary — the indicators we measure ourselves against."

Administration has initiated service-level agreements to identify the level of services organizations need. This process will be a way of managing ongoing customer expectations. Cothron says this includes application support to emergency/incident response, to freight, to operations and maintenance of metro and non-metro facilities.

"We will publish a quarterly report card to the organization executives," he says. "We'll measure how we're doing according to the level of service being provided. Then we'll periodically review SLA requirements, identify improvement opportunities, and update SLAs and work agreements as needed."

"How we spend our budget dollars in '05 is determined by the program reviews and by the service-level agreements."

TVA Nuclear — considering the competition

Competitiveness in the nuclear industry is one of the drivers for TVA Nuclear.

"We get cost and generation data from the nuclear industry, so we know where we stand," says Walker, General Manager of Nuclear Business Services. "We

set aggressive targets as far as competitiveness, using mill rate as a measure. We have a goal of so many mills per kilowatt-hour. We want to be in the top decile or quartile in the industry and still budget for all work required to operate safely and reliably."

Walker says all the plants have received their targets and are setting their budgets now.

"They break their costs down to each department, considering salaries, projected overtime and other expenses. We know we'll have four scheduled outages next year, so we have to budget for those, in addition to base operating cost."

One of the largest capital projects is for the replacement of the steam generators at Watts Bar in 2006. The project is budgeted for the engineering and fabrication for several years before that.

"Our fuel costs are predictable, because we purchase it a couple of years before it is loaded into the reactors. For example, right now we're purchasing the fuel for Browns Ferry Unit 1, which will come online in 2007."

"In January and February, after we're past the first



Dan Cothron (standing) discusses performance planning with Rose Sexton, Manager of Business Services for TVA Police; Karen Gillis, Manager of Facilities Services; and Tony Hopson, Manager of Facilities Asset Preservation & Projects.

quarter, we look at how good our plan is. And we look at any new challenges we have and revisit targets. All of our capital spending and contractor expenses will be scrutinized.

"The bottom line is that in the years to come, we will be setting more aggressive goals in generation and run our units at higher capacity, reaping the benefits on the work we've done recently on equipment reliability at all three plants." — NANCY CANN

All eyes focus on TVA's numbers

TVA Board members and the Chief Financial Officer put their names on the line when it comes to accuracy, ethics and integrity of financial statements and disclosures. These are supported by TVA's Business Council members, who certify the information they are responsible for that is contained in TVA's annual financial reports.

Even though not legally required, TVA voluntarily complies with most of the provisions of the Sarbanes-Oxley Act of 2002, which requires greater corporate accountability, auditor independence and financial disclosure by all publicly traded companies.

TVA must conduct its business openly and forthrightly to instill confidence in its investors, in Congress, in the Executive

branch of the government, in its customers and in its stakeholders, including employees and retirees.

As a public-power provider, TVA operates a little differently from its investor-owned-utility competition. The Securities & Exchange Commission has the primary oversight role for IOUs. The following are the forms of oversight for TVA:

- TVA's independent auditor, PricewaterhouseCoopers, audits TVA's financial statements. The Inspector General, which is independent from TVA, conducts ongoing audits of TVA's operational and financial matters.
- The U.S. House of Representatives' Transportation & Infrastructure Committee

and the U.S. Senate's Environment & Public Works Committee provide formal oversight. The General Accounting Office, or GAO, conducts audits of various TVA activities and programs.

- TVA submits budget information to the Office of Management & Budget. Although it receives no federal funds, TVA's budget is included in the consolidated budget of the federal government. And TVA's financial results are included in the government's financial statements, which are coordinated with the U.S. Treasury and are audited by the GAO.

The TVA Annual Report, quarterly financial reports and related information are available on www.tva.com.

Financial health

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— the investor-owned utilities — have a much less fixed-capital structure. They can raise capital, or money, by selling stocks and bonds, which creates a flexible capital structure that is balanced between equity, or stocks, and debt, or bonds.”

TVA is limited in the ways it can raise capital. And the TVA Act requires TVA to sell power “at rates as low as are feasible.” The investor-owned utilities, or IOUs, try to make money for their stockholders by generating net income. This drives up the market price of the stock, and the stockholders then have a more valuable investment.

Raising cash from selling stock is what provides IOUs with a greater level of financial flexibility when it comes to cutting price or sustaining the loss of customers. In contrast, TVA must make the mandatory interest payments to its bondholders during the life of the bonds and must return the funds back to the bondholders after a specified period of time.

Rescoe says TVA has a unique advantage over some companies because of TVA’s triple-A status from financial-rating agencies.

“However, it’s easy to confuse a lower cost of capital with the concept of financial flexibility. They don’t always go hand in hand.”

TVA has a good credit rating, and because its financial reporting is at levels better than that of many other companies, the financial community sets TVA up as an example of “best in class,” Rescoe says.

“That’s one of the reasons the rating agencies have been so strong with our triple-A rating. The agencies know our world is changing and that we need to develop a business structure that relies much less on debt and that develops the financial flexibility to withstand volatile prices of fuels, increasing environmental costs and the potential for losing customers under choice.

“We can borrow money cheaper than anyone else, except for the federal government. But that’s a double-edged sword. It’s easy to get money, which can increase our debt and further erode our flexibility.”

In order to decrease its debt, TVA has to reduce cost and increase the efficiency and availability of its product.

“The program reviews were a first step in helping us find ways to reduce expenses,” Rescoe says. “We will continue to have our eyes on the major costs that aren’t controllable in the short run. For example, right now, interest rates are at a historically good point. When interest rates rise, we have an uncontrollable cost that puts us at a disadvantage.”

Another disadvantage is the competition’s price structure.

“If a competitor wants to lower its price to take customers away, they can do that. And customers probably won’t switch back, and TVA may not be able to take them back when they find out it wasn’t a good deal.

“The cable and phone companies are good examples. Cable companies might lose money building a cable system. But they believe once they have the infrastructure and get customers to switch to them, they’ll make money. Under competition, providers are frequently willing to bet they can keep the customers once they get them to switch.

“AT&T at one time was the only choice in phone companies. When competition came to the telephone industry, customers were able to switch providers and a lot of them didn’t switch back, even though they could get a better deal with another provider.”

Role of employees

To keep its customers and provide “best-in-class” services, Rescoe says everyone at TVA must work “better, faster, cheaper.” That means doing their jobs reliably, safely and as efficiently as possible.

“We have to constantly review our processes to make them more efficient. If it doesn’t add value, don’t do it.

“I’m a believer in empowering people so they feel good about what they do. And I believe employees should have a voice. I want employees to ask the questions, ‘Why are we doing that?’ and ‘Will it make us cheaper, faster or better?’”

— NANCY CANN



From left, Senior Manager, Finance Tammy Wilson; Senior Vice President/Treasurer John Hoskins; CFO Mike Rescoe; and Senior Manager, Finance Veenita Bisaria are members of the TVA team to help bring financial flexibility to the company.

CLETUS MITCHELL

Understanding financial terms

Financial lingo can make some people dizzy. The following is a glossary of financial terms from www.investopedia.com, which provides a wealth of free information on finance.

Balance sheet — A company’s financial statement. It reports the company’s assets, liabilities and net worth at a specific time.

Note that assets = liabilities + shareholder equity. This equation is true for all balance sheets. If the balance sheet is “consolidated” it just means the company is a corporate group rather than one single company.

Bond — A debt investment, with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.

The indebted entity issues investors a certificate, or bond, that states the interest rate (coupon rate) that will be paid and when the loaned funds are to be returned (maturity date). Interest on bonds is usually paid every six months (semiannually). The main types of bonds are the corporate bond, the municipal bond, the treasury bond, the treasury note, the treasury bill and the zero-coupon bonds.

The higher rate of return the bond offers, the more risky the investment.

Bond rating — Specification of the possibility of default by a bond issuer based on an

analysis of the issuer’s financial condition and profit potential.

Bond-rating services are provided by Standard & Poor’s, Moody’s Investors Service and Fitch Investors Service. Bond ratings start at AAA (denoting the highest investment quality) and usually end at D (meaning payment is in default).

Capital — 1. Financial assets or the financial value of assets such as cash. 2. The factories, machinery and equipment owned by a business.

In general, it refers to financial resources available for use.

Capital structure — The means by which a firm is financed.

A firm can finance operations through common and preferred stock, with retained earnings or with debt. Usually a firm will use a combination of these financing instruments. The proportion of short and long-term debt is considered when analyzing capital structure. And when people refer to a firm’s debt-to-equity ratio, which provides insight into how risky a company is.

Credit rating — An assessment of the credit worthiness of individuals and corporations. It is based upon the history of borrowing and repayment, as well as the availability of assets and extent of liabilities.

Credit is important, since individuals and

corporations with poor credit will have difficulty finding financing and will most likely have to pay more due to the risk of default.

Current assets — Appearing on a company’s balance sheet, it represents cash, accounts receivable, inventory, marketable securities, prepaid expenses and other assets that can be converted to cash within one year.

Current assets are important because it is from current assets that a company funds its ongoing, day-to-day operations.

Debt — An amount of money owed from one person or firm to another. Bonds, loans and commercial paper are all examples of debt.

Equity — 1. A term describing stock, or any security, representing an ownership interest. 2. On the balance sheet, equity refers to the value of the funds contributed by the owners (the stockholders) plus the retained earnings (or losses).

Equity is a term whose meaning depends very much on the context. In general, you can think of equity as ownership. For example, stocks are equity because they represent ownership of a company, whereas bonds are classified as debt because they represent an obligation to pay and not ownership of assets.

On the balance sheet, equity also is referred to as “shareholder’s equity.”

ACROSS TVA

Johnson wins TVARS Board election



Floyd Johnson

In the recent election for director to the TVA Retirement System Board, TVARS members voted to re-elect Floyd Johnson. His new three-year term will run from Nov. 1, 2004, to Oct. 31, 2007.

According to the TVARS rules, if a candidate receives a majority of the votes cast in the initial election, a runoff election is not required. Johnson received 2,422, or 59.58 percent, of the 4,065 votes cast.

Other candidates and their vote totals were as follows:

- Robert "Eddie" DeBusk II — 804 votes (19.78 percent)
- Randall Hartwig — 520 votes (12.79 percent)
- Glenn Henry — 319 votes (7.85 percent)

Fossil Power Group — A golf tournament co-hosted by the Fossil Power Group in Chattanooga recently raised \$12,676 for the Battle Academy, FPG's Partner In Education school. The money will be used to buy microscopes, science kits, supplies and books for the school's science room. More than 140 golfers participated and 41 corporate sponsors contributed to the event.

Gallatin Fossil Plant — Gallatin Program Administrator-Environmental Bill Hunt presented a check on behalf of Gallatin Fossil Plant to Carl Newby, Principal of Oakmont Elementary School. The school plans to use the funds to improve math scores in this kindergarten-fifth-grade school by purchasing a program called "Mountain Math."

Sequoyah Nuclear Plant — One-hundred percent of 11 Sequoyah Nuclear Plant employees recently passed exams administered by the Nuclear Regulatory Commission and will be awarded operator licenses. Chris Brooks, Michelle Conner, Stacy Harvey, Casey Pfeiffer, Ryan Radel, Jimmy Thomas and David Williams took exams to become Reactor Operators. Three employees who previously held Reactor Operator licenses — Cecil Dyer, Roscoe Putnam and Debbie Travis

— passed exams to become Senior Reactor Operators. Gary Garner, who holds an engineering degree and has extensive plant experience, also passed the exams to serve as a Senior Reactor Operator.

Watts Bar Nuclear Plant — Watts Bar Nuclear Plant's 2nd Annual Partners In Education Golf Tournament raised \$18,500. Proceeds from the tournament will benefit the plant's PIE schools, Meigs North Elementary and Spring City Elementary. More than 120 golfers participated. Winners of the morning session were Bob Baldwin (Watts Bar), Chris Gallier (Areva), Jimmy Norris (Watts Bar) and Ken Price (Areva). The afternoon-session winners were Jeff Boggess (Watts Bar), Andy Edgemon (Stone & Webster), Paul Head (Stone & Webster) and Champ Prince (Watts Bar).

Widows Creek Fossil Plant will host a golf tournament Sept. 21 to benefit the Partners In Education program. Proceeds will help fund the Jackson County Special Olympics. The tournament will be at the Goose Pond Colony Golf Course in Scottsboro, Ala. The entry fee covers lunch, green fees and cart fees. Registration will be at 10 a.m. CDT, followed by lunch at 11 and the tournament's shotgun start at noon. The registration deadline is Sept. 13 or until the tournament roster is full. For more information or to sign up, call or e-mail David Mulkey (256-437-4237; listed as James D in the Outlook address book), Melinda Saint (256-437-4696) or Sherrie McCrary (256-437-4271).



Trudy Leake, a Laborer at John Sevier Fossil Plant, helps distribute "care packages" to members of the Rogersville Hawkins County detachment of the National Guard 278th Armored Cavalry. Plant employees supported area troops leaving for Iraq by providing needed supplies. The John

Sevier Christmas Committee, in conjunction with a local church, delivered 50 care packages, and the John Sevier Chapter of the TVA-Veterans' Association provided 50 AT&T phone cards.

Across TVA highlights news, achievements and activities of TVA organizations. E-mail submissions to Nancy Cann on Outlook or send them to her at ET 6E-K. Digital photographs can be e-mailed to the Employee Communications Photos mailbox in Outlook.

CFCs set fall kickoff dates for 2004

The Combined Federal Campaign will once again give employees a chance to help their neighbors. Through workplace giving, employees can contribute to charitable, health and human-service organizations. Here are some key dates and information currently available for TVA's Combined Federal Campaigns at various sites. Details of the events will be covered in *TVA Today*.

Chattanooga Area

- **Theme** — Building Hope
- **Campaign start/end dates** — Sept. 15 to Oct. 27
- **Day of Caring** — Sept. 10
- **Kickoff/Street Fair** — Sept. 15
- **Leader** — Ron Loving, Senior Vice President of Outage Planning & Execution, will serve as CFC Campaign Chair.
- **Last year's TVA results** — Raised \$1.2 million from TVA employees, retirees and contractors; \$1.5 million from area.
- **This year's TVA goal** — \$1.2 million; \$1.5 million from area.

- **Leaders** — John Long, Human Relations Executive Vice President, will be Executive Campaign Manager. Rose Sexton, TVA Police Business Services Manager, will serve as TVA Campaign Chair. Suzan Bowman, Senior Consultant in Employee Technical Training & Organizational Effectiveness, will be Local Federal Coordinating Committee Chair.
- **Last year's TVA results** — Raised more than \$535,000 from TVA employees, retirees and contractors.
- **This year's TVA goal** — \$475,000

Muscle Shoals

- **Theme** — Building Hope
- **Campaign starts** — Oct. 4
- **Day of Caring** — To be determined
- **Kickoff** — To be determined
- **Leader** — Ron Williams, Vice President of Energy Research & Technology Applications, will again serve as TVA Campaign Co-Chair.

Knoxville — Smoky Mountain Region

- **Theme** — Building Hope
- **Campaign start/end dates** — Sept. 13 to Nov. 12
- **Day of Caring** — To be determined
- **Kickoff/Fair** — To be determined

- **Last year's results** — Raised \$207,006 from federal employees, retirees and contractors.
- **This year's goal** — \$210,000

Nashville & Middle Tennessee

- **Theme** — Everyone of US — Together Building Hope
- **Campaign start/end dates** — Sept. 13 to Oct. 22
- **Day of Caring** — To be determined
- **Kickoff/Fair** — To be determined
- **Leaders** — Jim Keiffer, Senior Vice President of Marketing, will serve as TVA Campaign Chair; Dawna Qualls, Customer Service & Marketing, and Melitha Russell, Gallatin Fossil Plant, will serve as Loaned Executives.
- **Last year's TVA results** — Raised \$200,000 from TVA employees, retirees and contractors.
- **This year's TVA goal** — To be determined

around the INDUSTRY



Calpine Corp. has announced it has signed a long-term power-supply agreement for an initial five years, with a renewable term, with Snapping Shoals Electric Membership Corp. for 200 megawatts of capacity and energy. Calpine says it will deliver clean, reliable electricity from its Hog Bayou Energy Center in Mobile, Ala., starting on Jan. 1, 2005. — *Calpine Corp.*

FirstEnergy Corp. has agreed to pay \$89.9 million to settle shareholder lawsuits stemming from last summer's blackout, an extended outage at its Davis-Besse nuclear-power plant and its earnings restatement. FirstEnergy said its insurers would pay \$71.9 million of the settlement, and the company's \$17.9-million share would result in a charge against second-quarter earnings of 3 cents per share. The utility said the agreement didn't amount to an admission of wrongdoing. The blackout affected 50 million customers across the upper Midwest, New England, New York and Ontario. — *Associated Press*



Teco Energy Inc. has agreed to sell its 50-percent stake in power producer Texas Independent Energy to Public Service Enterprise Group Inc. for \$500,000. Texas Independent Energy owns one 1,000-megawatt gas-fired power plant in Odessa, Tex., and another in Guadalupe, Tex. One megawatt is roughly enough to power 1,000 homes. The sale is forecast to result in \$53 million in tax benefits and a second-quarter charge of \$99 million after tax for Teco. Texas Independent Energy was formed in 1999 to develop and operate merchant electric-power plants in the Texas market and will continue to operate the plants, a PSEG spokeswoman said. — *Reuters*

Several large U.S. power companies, including merchant power-producer Dynegy Inc., Midwest utility Xcel Energy Inc. and nuclear operator Exelon Corp., posted higher quarterly earnings, spurred by rising power prices and higher margins. A sharp run-up in natural-gas and coal prices has pushed up U.S. power prices, which have been depressed in most U.S. regions because of a glut of capacity and the collapse of the energy-trading markets. In addition, a rebounding economy that has spurred demand for electricity could signal the start of a recovery in the power markets, some power companies say. Also benefiting from the stronger economy, industry stalwart Southern Co. reported a small rise in quarterly profit on an operating basis, citing warmer weather that boosted demand for electricity and growth in its customer base. The company, known for its consistently steady earnings growth, said it also was helped by higher power prices across the U.S. Southeast — *Reuters*

This feature provides brief highlights of events in the electric-utility industry. More information is available in PowerBolts, accessible through *TVA Today*.

WINNING thoughts

Ability is what you're capable of doing.

Motivation determines what you do.

Attitude determines how well you do it.

— Lou Holtz, college football coach

TVAN employees add value by 'not doing work'

Working smarter and adding value and purpose are at the heart of the new TVA Nuclear initiative called "Stop Doing This!"

TVA Nuclear employees are being empowered to point out things that over time may no longer contribute to keeping workers safe, operating a nuclear plant safely or supporting reliable and efficient plant operations.

"We're eliminating tasks we don't need to perform so our employees will be more capable of achieving or exceeding our performance targets in our core business," says Chief Nuclear Officer Karl Singer. "This effort is designed to help TVAN employees refocus the hours they spend, making it easier for them to do work and sparking their passion to focus on core business. We're already seeing some workhour savings as a result of the tasks we're stopping.

At the TVAN Management Team conference in June, Singer challenged the organization to find those things that don't move TVAN forward in TVA's core business, regulatory requirements, nuclear and industrial safety, plant and equipment reliability or economic value.

Employees from the nuclear sites and corporate offices presented 130 suggestions to their respective peer teams. The peer-team leaders met with the TVAN Pentagen Strategic Council to review and discuss the suggestions. As a result, 115 were adopted as "Stop Doing This" actions or process improvements and will be in TVA Nuclear's section on TVA's internal Web site.

The process improvements identified as part of the "Stop Doing This" actions have been assigned to TVAN peer teams for evaluation and resolution. The Pentagen Strategic Council is continuing to solicit ideas from the workforce for review and is monitoring implementation of "Stop Doing This" items and related process improvements.

"These aren't large, programmatic reviews intended to create newly streamlined organizations or re-engineer the way we do business," Singer says. "Our staffing and operational goals have been well-established for some time now. These are house-keeping actions — changes we can act upon quickly to eliminate those things that hinder us from performing as well as we can.

"We are leaving the line open for more suggestions, and we'll look at the old ones and any new ones again in the next month. After that, we may just stay this course for a while. It never hurts to keep cleaning."

Keith Parker, the Maintenance & Modifications Peer Team leader, is enthusiastic.

"If I had known the vice presidents were so willing to accept the ideas my peer team recommended, I would have presented more," he says. — CRAIG BEASLEY



Multi-skill B Electricians Jerry Newman (left) and John Anderson refurbish a circuit breaker used on the turbine building common board at Sequoyah Nuclear Plant.

CLETUS MITCHELL

Process improvements add up to workhour savings

One example of a value added to TVA Nuclear's "Stop Doing This" initiative is the Excellence In Performance test TVAN employees were taking each week to help identify areas where additional training or reinforcement of fundamental behaviors may be necessary to improve behaviors and performance.

The program won accolades from the Institute of Nuclear Power Operations when TVAN introduced it. However, weekly tests have become arduous, and scores below expectations are usually due to ambiguous or irrelevant questions.

The test now will be given monthly, and the questions will be scrutinized to ensure that only activities directly related to safe, reliable and economic operation are included.

The savings? About 15,000 workhours per year.

Another example: the mid-shift communication briefings all departments had been expected to conduct daily have been relaxed.

The savings? About 47,000 workhours per year.

LETTER to the EDITOR ROS team lauded for job well-done

After the TVA Board meeting in Morristown, Tenn., in July, Glen Bibbins, President of Land Owners & Users of Douglas, or LOUD, praised TVA's efforts with the Reservoir Operations Study. Bibbins was on the ROS Public Review Group, which helped advise the ROS staff on stakeholder issues. The following are excerpts from his letter:

Hats off to you on the completion of the Reservoir Operations Study and your approval of the final environmental-impact statement.

In response to expressed public values for improved lake levels, under the most able leadership of Mr. David Nye, your study team conducted an exhaustive study of the water system, far more comprehensive than had ever been done before, to determine if changes in the reservoir- and river-operating policy would produce greater public value.

During my participation as a member of the Public Review Group for this study, I saw many highly competent, hardworking, dedicated TVA employees reporting on the status and progress of the study within their field of expertise.

For every alternative considered — and there were about 65 of them in the first cut — the study team had to access the impact on navigation, flood risk, power production, water supply, water quality, recreation, economics, aquatic resources, threatened and endangered species, shore birds, wetlands, shoreline erosion and the scenery.

You must operate all the reservoirs and rivers in a

balanced, integrated and efficient manner, not just Douglas. In this very complex, inter-related and balanced system, some objectives are complementary, while some are in conflict.

If we could control rainfall, it would be easy, but your people must be ready for any extreme weather event Mother Nature might deliver. A primary purpose of the tributary lakes is flood control, and the lakes must be lowered to make room to store excessive rainfall.

We are pleased that the new operating guidelines will improve tributary-lake levels and will also provide a more equitable way of balancing pool levels among the tributary reservoirs with less fluctuation and longer duration of higher pool elevations on tributary reservoirs to substantially increase recreation opportunities, as well as the scenic integrity of the water system.

We applaud you for reaching out to the public, listening to their concerns and responding with these operational modifications. You accomplished your objective, and the changes will produce greater overall public value from these unique natural water resources for the people of the Tennessee Valley.

WORD SEARCH PUZZLE Financial Management

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D D S B P P B Y N E T D K I Y T F F A K
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bonds	debt	interest	price
budget	efficient	money	reliable
capital	equity	performance	safely
CFO	finance	planning	TVA
cost	generation	power	

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INSIDER


**THE POWER OF
public
service**

Speaking up for TVA

In their "real" jobs, Amy Bunton is an economic-development expert and Mike Jones is Production Manager at Wilson Hydro. But they are among the many employees who are finding time to give back to their communities through TVA's Speakers Bureau.

Bunton, who has been with TVA almost two years, and Jones, a 26-year TVA veteran, say they are proud to tell the TVA story and promote the good work TVA and its employees do for the Tennessee Valley.

"Having worked with other public and private organizations, I realize what a great place TVA is," says Bunton, General Manager of Business & Community Development in Economic Development. "When I heard TVA needed speakers, I volunteered. Speaking about TVA is a great way to keep me fresh on topics of importance about the company."

Bunton works with communities, entrepreneurs and chambers of commerce, so she says speaking about TVA was a natural for her.

"Although my expertise is in economic development, I talk about a lot of different topics. And sometimes the audience asks tough questions. The Speakers Bureau provides us with tons of support, such as talking points, help with presentations and coaching. We learn how to think on our feet."

She not only is part of the Speakers Bureau, she also uses its services for her stakeholders.

"I had a request from a group for someone to talk about procurement. All I had to do was call Katie Bell with the Speakers Bureau, and she found a speaker for me."

Bunton's last speaking engagement, to the Technology Council in Oak Ridge, was the result of a presentation she made to the East Tennessee Economic Council. She prepares by finding out who the audience is and what they're interested in.

"This last one was a challenge because about 50 percent of the audience had heard me speak to the ETEC group. I had to have something new to tell them."

Does Bunton get nervous?

"Yes, and that's a good thing,"

Speakers Bureau

The TVA Speakers Bureau has employees trained and ready to speak at business, civic, educational, environmental, professional or other meetings at the local, state, or national level. If you need a speaker for a group or if you want to participate as a speaker, call Katie Bell at 865-632-3756, or send an e-mail to speakersbureau@tva.com.

she says. "If I have a twinge, I know I'm ready to go. It's excited anticipation, rather than a sickening dread."

Jones made his public-speaking debut as a STAR 7 workshop facilitator. For the Speakers Bureau, he's spoken to several civic groups in Alabama.

"I get to talking about TVA and probably talk too much," he says. "I let people know I'm proud of TVA and the people I work with. Our plant workers are working so hard. I want my audience to know the things we've done to make the Valley a better place and how our work directly affects their lives every day."

He says he mostly talks about hydro operations and the river system. He gets background information on his topic from Bell.

"I like to finish my talk with the River System Operations & Environment video on what the river does. Then I let people ask questions. If I get some I don't know the answer to, I tell them I'll find out and get back to them. Most of all, I try to make it fun, keep it light and help them learn something about TVA."

One of Jones's near disasters, though, occurred when he was ready to speak to the Decatur Rotary Club.

"I rolled in with my technology equipment that had worked at my office, but I didn't know how to make it work there," he says. "We had a good time with that, and it eventually



Amy Bunton makes a presentation.



Mike Jones has made several talks on behalf of the TVA Speakers Bureau.

worked well. A lesson I learned from that was 'never be afraid to ask for help.' — NANCY CANN

Your
thoughts...

How do you impact TVA's customer relations in your job?

As a TVA Product/Marketing Manager, I manage a manufactured-housing program that works with large-volume heat-pump contractors to facilitate **energy-efficient heat pumps being installed in up to 5,000 families' homes in a year.** I also am a board member for the Tennessee Manufactured Homes Foundation and an officer and board member for the Manufactured Housing Research Alliance. For many of our rural power distributors, manufactured homes are more than 50 percent of their new housing starts in a year. The *energy right* manufactured-homes program has made a large impact on improving customer relations between power distributors and their manufactured-home customers. In addition, the economic impact of the manufactured-housing industry in Tennessee is more than \$2 billion a year. **Our program adds value to this industry and contributes to its overall economic health.**

— Terry McIntosh, Product Manager

In my new job in Accounting Services, we are charged with ensuring that TVA's financial statements reflect a true and accurate accounting of TVA's financial resources. **TVA's customers need to be able to trust us financially.** In this job, I hope to contribute to ensuring that they can.

— Karen Walker, Senior Field Accountant

Economic Development Technical Services provides engineering and architectural assistance for local communities, industrial-development boards and our customers, the power distributors. **It is constantly our goal to provide quality services for all our clients.** We strive to be cutting-edge in the type of product and delivery of our product to the customer. **We strive to exceed expectations.** Our focus is "jobs on the ground," and we do our best to respond quickly and professionally when the community is faced with the prospect visit. Our service is provided in partnership with the power distributor. — Tom Hill, Senior Civil Engineer, TVA Economic Development

people, plaudits and promotions

TVA Police Lt. **Trena Palmer** was one of 245 law-enforcement officers who graduated June 11 from the FBI National Academy Program at Quantico, Va. Internationally known for its academic excellence, the program offers 10 weeks of advanced investigative, management and fitness training for selected officers having proven records as professionals within their agencies. Palmer has 25 years of TVA service. She was formerly supervisor of the Communications Center in Knoxville. On May 17, she became responsible for the three TVAP district Communications Centers.



Trena Palmer

Charlie Ellenburg has been presented an Award of Merit from Tennessee Gov. Phil Bredesen in recognition of Ellenburg's 32 years of public service with TVA and his contributions to parks and recreation throughout the Tennessee Valley. Joyce Hoyle, Director of Recreation Services with the Tennessee Department of Environment & Conservation, presented the award on behalf of Bredesen. Ellenburg, a Land Use Specialist in Resource Stewardship, retired from TVA in July. He is past president of the Tennessee Recreation & Park Association.



Charlie Ellenburg

Rosanne Sietens, a Human Resource Consultant in COO Operations Support, has been appointed to a three-year term on The Elephant Sanctuary Executive Council.



Rosanne Sietens

The nonprofit sanctuary in Hohenwald, Tenn., has eight Asian elephants and three African elephants on 2,700 acres. The sanctuary is the nation's single natural-habitat refuge developed specifically for endangered elephants. It is on the national Combined Federal Campaign list as agency No. 1822.

A team known as the "Bushwackers," which included Team Captain **Scott Lea** of River System Operations & Environment; **Joel Armstrong, Mike Beavers, Steve Bradley** and **Jerry Delaney** of Sequoyah Nuclear Plant; and Michael Lea and Randall Bass, rode their bicycles in the 150-mile Tour de Cure to support the American Diabetes Association. The Bushwackers raised about \$4,700 for the diabetes association, with the overall ride raising about \$65,000.

INSIDE YOUR THOUGHTS

Please tell us... We're listening

Inside TVA wants to hear your opinions about current company issues. Some responses may be published. The first 100 responders will receive a small token of appreciation for their participation. Please include your name and work address in your response.

1. What ideas do you have for improving TVA's financial flexibility in your business unit, department or plant?

Two ways to get your answers to us: the *Inside TVA* mailbox in Outlook or by mail to *Inside TVA*, ET 6E-K. Thanks!