8 FEBRUARY 2021

LAZARD REPORT TO THE TENNESSEE VALLEY AUTHORITY

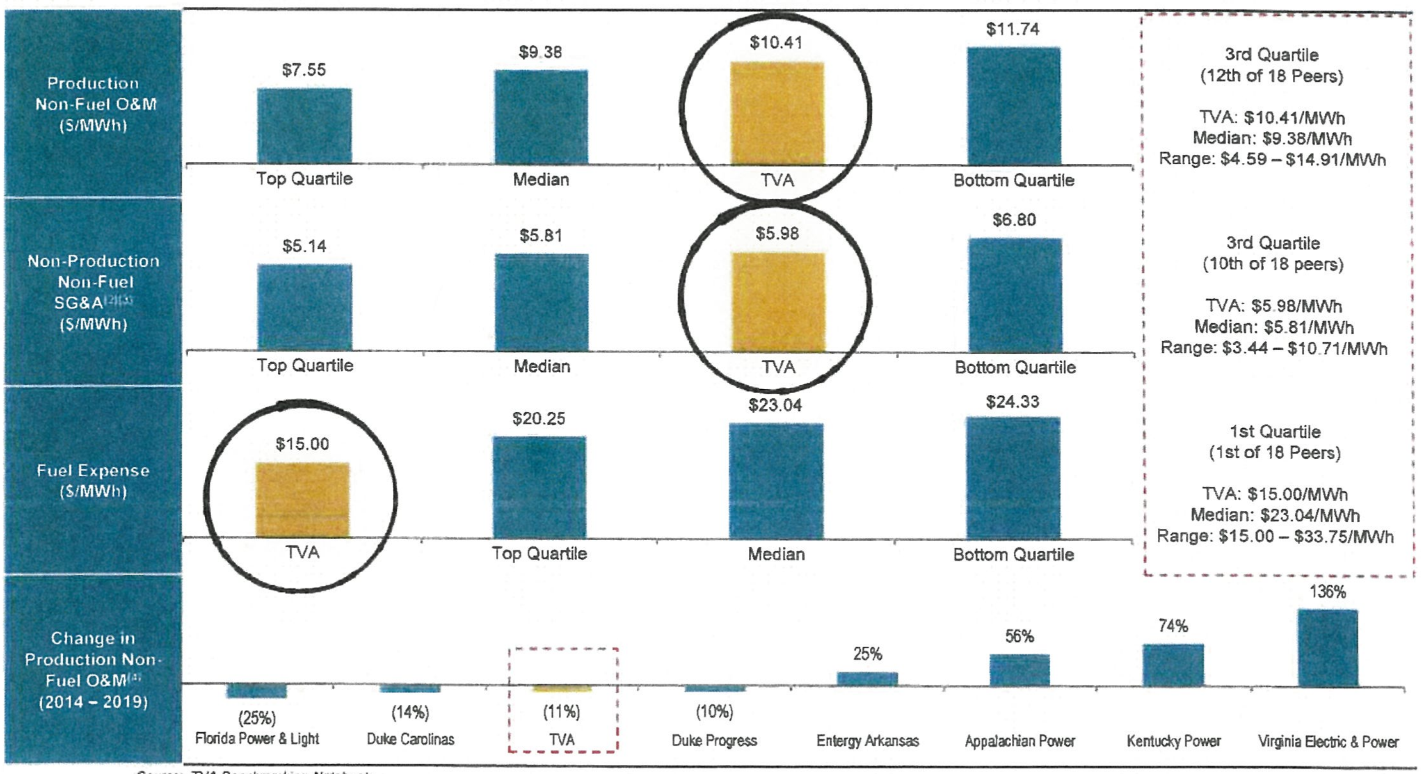
TVA

LAZARD

Benchmarking—Cost Structure[1]

TVA continues to lag behind its peers in production non-fuel O&M and non-production non-fuel SG&A expenses, two of the largest areas of "controllable" costs that impact rates; this is partially offset by top quartile performance in fuel expenses

- **However, TVA has meaningfully reduced average production non-fuel O&M and non-production non-fuel SG&A expenses since 2014, which are at levels lower than what was forecasted in 2014, with TVA's cost reductions exceeding many peers on a relative basis**



Source: *TVA Benchmarking Notebook*

(1) Represents average figures over 2017 – 2019 period Figures ranked on $/MWh generated basis with the exception of non-production non-fuel SG&A, which is ranked on a $/MWh sold basis.

(2) Non-production non-fuel SG&A expense primarily reflects costs incurred to provide power to TVA's customers but also includes some expenses related to TVA's non-power mission.

(3) TVA's average non-production non-fuel SG&A expense is adjusted to exclude an average of ~$850 million of one-time items including pension funding, the extinguishment of legacy regulatory assets and asset portfolio monetization expenses incurred over 2017 – 2019.

(4) Peers reflect the top and bottom performers in production non-fuel O&M expense reduction from 2014 – 2019 across TVA's regional electric company peer set.