Tennessee Valley Authority

Third Quarter Fiscal Year 2026 Earnings Webcast

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CORPORATE PARTICIPANTS

Mike Skaggs — *Interim President and Chief Executive Officer*

Tom Rice — *Executive Vice President and Chief Financial Officer*

Clifton Lowry — *Vice President of Planning and Investor Relations*

PRESENTATION

Clifton Lowry
Good morning, everyone, and thank you for joining us for the Tennessee Valley Authority's Third Quarter Fiscal Year 2026 financial review. My name is Clifton Lowry. I'm TVA's Vice President of Planning and Investor Relations, and I'm pleased to be joined by TVA's interim CEO, Mike Skaggs, and TVA's CFO, Tom Rice. To start, Mike will provide a business update, and then Tom will follow with a review of TVA's financial performance.

As a reminder before we begin, today's press release and TVA's quarterly report on Form 10-Q for the third quarter ended June 30, 2026, are available on TVA's Investor Relations website at tva.com/investors. The webcast and presentation will also remain available on TVA's Investor Relations website for a period of one year. And as a reminder, today's remarks may include forward-looking statements that are subject to various risks and uncertainties, so please refer to TVA's quarterly report on Form 10-Q for the quarter ended June 30, 2026, and TVA's annual report on Form 10-K for the year ended September 30, 2025, for a discussion of these factors.

With that, I will now turn over the call to TVA's interim President and CEO, Mike Skaggs. Mike, please go ahead.

Mike Skaggs
Thank you, Clifton, and I appreciate everyone joining TVA's quarterly investor call. I've now been back at TVA for a full quarter. During my initial days, I spent my time reviewing TVA's current performance, listening to stakeholders at all levels, federal, state, and local officials, as well as the local power companies we partner with, talking to our TVA employees and union partners, and evaluating our long-term strategic needs and directions. Here's what I've learned. There is tremendous support for an alignment around TVA's mission of service. This is because TVA continues to deliver for this region in key areas – cost-competitive energy, high reliability, and contributing to substantial economic development across our region. We remain among the lowest cost electric utilities in the nation.

Just before July 4, our employees and our system reliably served peak loads between 31,000 to 32,000 megawatts across multiple days, and our team has our system positioned well for the remainder of the summer peak season. We expect energy demand to continue rising in the years ahead. The Tennessee Valley continues to grow in population, and our region's economy continues to expand.

To power this growth, TVA has a pipeline of new generation planned with 3,770 megawatts actively under construction. This includes our new gas plants at our Cumberland and Kingston sites. Our new Cumberland combined cycle plant achieved its first fire milestone, keeping us on schedule to commission that facility later this year.

Our new Kingston gas plant is expected to come online in 2027. We also have new gas units planned at New Caledonia, in Mississippi, and at our Allen site in Memphis. In addition to the generation we are building, TVA is entering into long-term commercial agreements to further expand capacity and support reliability across the Valley. These agreements include battery storage, advanced nuclear, and other resources that will add additional megawatts to our system as they come online over the next decade.

Beyond our currently planned generation projects, TVA is also looking at the region's longer-term generation needs. We recently held a public comment period on our preliminary final 2026 Integrated Resource Plan. The IRP is a long-term strategic study that evaluates options to meet the region's growing energy needs over the next 20-plus years, based on different ways the future could unfold.

The IRP indicates that maintaining a balanced portfolio of generating resources is critical for continuing to deliver low cost, reliable power to the people we serve. As we build out more generation to support regional economic growth, TVA is investing in our transmission capabilities. We are formalizing a strategy that both expands and modernizes our transmission grid.

A key part of this work is our new system operations center, which exceeds industry standards and includes advanced features to protect the grid. Construction was completed in fiscal year 2025, and the facility became fully operational in June of this year. This modernized operations center enhances situational awareness, strengthens reliability, and provides the capabilities needed to manage a more complex and distributed grid.

Expanding our region’s and our country's energy system is the number one theme I've heard as I met with TVA customers, the federal administration, state leaders, local officials, and economic development representatives from across our area. Specifically, TVA's large-scale, ongoing investments in expanding our energy system align with the Trump administration's goal of American energy dominance. We have been working closely with the administration and its national Energy Dominance Council to ensure we are working toward the same objectives.
In July, TVA signed the Trump administration's Ratepayer Protection Pledge, reaffirming our commitment to providing customers in TVA's seven-state region with some of the nation's lowest energy costs. With data center load expected to double by 2030, this pledge ensures data center costs are not passed on to the 10 million people in the TVA region.

In addition to the previously announced federal grants for transmission and new nuclear development, in June the US Department of Energy awarded TVA $46 million to support the revitalization of our Cumberland fossil plant. This is in addition to the steps TVA has taken to extend the lives of operational coal units to maintain reliability and help meet growing demand. Investments in our existing units, from coal to gas to nuclear to hydro, coupled with investments in new generation, demonstrate that TVA is listening to our federal and state partners, as well as the local power companies we serve. The feedback I've heard from all our stakeholders is a desire for more energy to serve growing demand, promote economic development, and lead in technologies that are national priorities.

One of these technologies is nuclear power. TVA is a leader in helping advance the US nuclear industry in terms of both overall direction and technological expertise. One of my top priorities for TVA is clarifying our nuclear strategy to continue investments in TVA's existing nuclear fleet, which is one of the largest in the nation, support the expansion of nuclear generation capacity to help meet long-term energy demand, support the administration's goal of advancing the US nuclear industry, while also powering the growing nuclear supply chain hub in our region, and leverage partnerships that helps us make smart investments so we maintain TVA's cost competitive electric rates.

You can see this commitment at our Clinch River site, where TVA has combined its own prudently gated investments with federal grants to advance small modular reactor design and potential deployment. Recently, the Nuclear Regulatory Commission published a safety evaluation report recommending the issuance of a construction permit for Clinch River. We continue to work closely with the NRC as they move through the construction permit process, while TVA formalizes its broader nuclear investment strategy.

Of course, investing in new generation, upgrading existing generation, enhancing our transmission grid, and partnering for potential new emerging generation all require starting from a position of financial strength. What I've seen from TVA is a foundation of strong financial planning and discipline, a commitment to maintaining affordable rates, and positive financial results. This combination has TVA well positioned to continue efficiently executing historic levels of investments across our power system in order to support national energy goals and regional economic growth.

I'll now turn it over to Tom Rice, for a detailed review of TVA's financial performance through the third quarter of our fiscal year.

Tom Rice
Thank you, Mike, and good morning, everyone. I'm Tom Rice, TVA's Executive Vice President and Chief Financial Officer. And I want to begin with a quick summary of our financial results for the first nine months of the fiscal year.

TVA delivered higher sales volume year-over-year, driven primarily by growth across the system that I will discuss more in a moment. And as you would expect, this growth translated into higher operating revenues and higher net income compared to the prior year. So let me walk through the key drivers behind these results in more detail on the next few slides.

Looking at sales and revenue, our power sales were up approximately 1% year over year despite milder weather. As shown in the chart on the right, total degree days were 6% below normal, and 1% lower than the prior year. The growth we saw was primarily driven by higher sales within the data processing, web hosting, and related services sector, which more than offset the impact of the milder weather.

And the increase in sales is one of the main drivers of higher operating revenues this year. And those operating revenues were approximately $10 billion for the first nine months of the fiscal year, an increase of $279 million, or about 3%, compared to last year. Breaking that down, fuel cost recovery revenue increased $144 million, primarily due to higher fuel cost recovery rates resulting from higher natural gas prices and higher sales volume. And $116 million of the increase came from higher base revenue, driven by higher sales volumes. And as you can see at the bottom of the chart, our total effective rate came in at 8.1 cents per kilowatt hour, again driven by the higher fuel rate driven by higher natural gas prices.

Looking at the Power Supply Summary, TVA continues to see the benefits of a balanced mix of nuclear, natural gas, hydro, coal, and other renewables in providing reliable electricity to people and industries across the Tennessee Valley. Looking at the chart on the left, you'll see that nuclear generation is significantly higher this year, reflecting strong performance and increased availability across our nuclear fleet. TVA-generated resources met 83% of the demand, up from 80% last year, demonstrating strong performance across our owned fleet and a corresponding reduction in purchase power needs.

The chart on the right shows total power supply, including purchased power, allocated by resource type. This highlights the strength of TVA's balanced generation mix. And our diverse generation portfolio continues to deliver benefits, helping us maintain affordability and reliability and reducing exposure to fuel price volatility across the various commodities.

Now, looking at our year-to-date income statement, I'll start at the top. Base revenue, which I previously discussed, was approximately 2% higher than the prior year. Fuel revenue was $144 million higher year over year, primarily driven by $115 million increase in fuel rates from higher natural gas prices.

And looking at the expense side, fuel and purchased power expense increased $253 million year over year, reflecting higher purchase power market prices and natural gas prices. O&M expense decreased $76 million, driven primarily by accrued tax credits, but also reflecting our efficiency efforts to manage cost pressures.

Payments in lieu of taxes, depreciation, and other expenses decreased $171 million, with the primary drivers being asset-related decisions, including the Browns Ferry Nuclear Plant license extension. Interest expense was $53 million higher, reflecting higher average balances and rates on long-term debt.

And at the bottom, you can see TVA delivered $965 million in net income, $220 million higher than in the same period last year, primarily due to higher operating revenues. And this strong financial performance enables us to reinvest in the power system to maintain reliability and keep rates competitive.

Now, on to the cash flow statement. Operating cash flow through the third quarter were $1.9 billion, which was $193 million lower than the same period last year. While TVA saw increases in both operating revenue and net income, lower cash flows from operating activities are a result of higher fuel and purchase power payments, the termination of the Distributor Prepayment Program at the end of 2025, and refunds related to transmission interconnection deposits. Taken collectively, these factors more than offset the higher revenue and net income.

As we continue the execution of the largest capital program in TVA's history, cash used in investing activities decreased $629 million compared to the prior year. This year over year trend is as you would expect with less capital spending on TVA's Cumberland and Kingston gas plants, as these major projects are approaching their expected commercial operation dates.

Our financing cash flow decreased $527 million year over year, reflecting lower power bond issuances and the use of cash on hand to pay bond maturities. Financing activity this year also included proceeds from the variable interest entity debt associated with our highly successful $2 billion lease financing for the Cumberland Combined Cycle Project, one of the largest financing transactions in TVA's history.

We saw $6.7 billion in initial orders from 127 active investors, including 17 orders of one hundred million or more. I want to thank the investors and the financial community who participated and expressed interest in this transaction. This result underscores TVA's financial strength in the market and the confidence from the investor community as we fund and execute our long-term capital plan.

At the bottom of the table, you'll see that total financing obligations were $24.9 billion as of June 30, which is higher than the same period last year, as we continue executing our capital plan to invest in our system.

So, to recap the financial result, we continue to support growing power demand with sound financial discipline. And you see that reflected in the strong financial performance for the first nine months of the year. Higher sales driven by system growth in the data processing, web hosting, and related services sector resulted in increased operating revenue and net income. And our balanced power system continues to perform exceptionally well, ensuring affordability and reliability for the people and industries across the Tennessee Valley.

And, as Mike mentioned, TVA's nearing commercial operation on several new assets being added to the system, including the gas units at Cumberland and Kingston. The strong financing executed for the Cumberland Combined Cycle Project supports the historic power system investments we are making. And looking ahead, we will maintain capital market activity to support and execute one of the largest capital investment plans in our history. Investments that will strengthen the power system and position TVA to serve a growing region for decades to come.

And with that, I will now pass it back over to Mike, for his closing remarks.

Mike Skaggs
Thank you, Tom. As I said in my earlier comments, the progress you are hearing about today reflects the dedication and strong performance of employees across TVA. Our progress reflects TVA's commitment to meeting this region's growing energy demand through system upgrades, new infrastructure investments, and operational excellence, as well as our support for and alignment with the Trump administration's desire for U.S. energy dominance, especially in the areas of extending coal generation and advancing our nation's nuclear industry.

And most of all, TVA's ongoing progress reflects the strength of our partnerships with local power companies, with our direct-serve customers, with elected officials, and with our community leaders. As we sharpen our strategic focus in key areas, we continue to deliver TVA's long-standing mission of service, namely, the low cost and reliable electricity our region needs for ongoing economic growth. Thank you for your support of TVA, which helps us serve and grow our region, as well as advance our nation's energy future.