OFFERING CIRCULAR

U.S.$360,000,000
Southaven Combined Cycle Generation LLC
3.846% Secured Notes 2013 Series A Due August 15, 2033

Interest Payable August 15 and February 15

The secured notes will be payable from and secured, as described in this offering circular, by rentals under a facility lease-purchase agreement relating to the Southaven Combined Cycle Facility to be paid by the

TENNESSEE VALLEY AUTHORITY

The 3.846% Secured Notes 2013 Series A due August 15, 2033 described in this offering circular (the "secured notes") will be issued by the lessor, Southaven Combined Cycle Generation LLC, a Delaware limited liability company (the "lessor"), as part of a lease-purchase transaction, and will be secured by collateral which includes the lessor's long-term leasehold interest in a ninety percent undivided interest (as defined below) in the Southaven Combined Cycle Facility (the "facility") and its rights under a facility lease-purchase agreement (the "lease") with the Tennessee Valley Authority, including the right to receive rent from the Tennessee Valley Authority under the lease. The Tennessee Valley Authority, a wholly-owned corporate agency and instrumentality of the United States of America, will be the lessee under the lease.

The secured notes will not be obligations of the Tennessee Valley Authority, but will be secured by rentals payable by the Tennessee Valley Authority under the lease. The obligation of the Tennessee Valley Authority to pay rent under the lease will be absolute and unconditional. These rental payments are required to be sufficient to pay principal of and premium, if any, and interest on the secured notes when due.

The principal of the secured notes will be paid in semi-annual installments commencing on February 15, 2014, and will mature on August 15, 2033. Interest on the secured notes will be paid at a rate per year equal to 3.846% on August 15 and February 15 of each year, beginning February 15, 2014. The secured notes will be subject to redemption in circumstances that are described in this offering circular. The secured notes will not be listed on any securities exchange.

Investment in the secured notes will involve a number of risks. See "Risk Factors" beginning on page 10 of this offering circular.

The secured notes are not obligations of the Tennessee Valley Authority or the United States of America, and neither guarantees the payment of the principal of or premium, if any, or the interest on the secured notes, but the secured notes are secured by rental payments payable by the Tennessee Valley Authority under the lease with the lessor. The obligation of the Tennessee Valley Authority to make rental payments under the lease is not an obligation of or guaranteed by the United States of America. The secured notes will not be registered with the U.S. Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended, pursuant to Section 3(a)(2) thereof. The lessor is not required to file reports with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Tennessee Valley Authority files annual reports, quarterly reports, and current reports with the SEC under the Exchange Act.

	Price to public (1)	Discount and commission to the underwriters	Net proceeds (1)
Per secured note	100.00%	0.60%	99.40%
Total	$360,000,000	$2,160,000	$357,840,000

(1) Plus accrued interest, if any, from August 9, 2013, to date of delivery.

The secured notes offered by this offering circular are offered by Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC, and Morgan Stanley & Co. LLC as underwriters (the "underwriters"), subject to prior sale, withdrawal, cancellation or modification of the offer without notice, to delivery to and acceptance by the underwriters, and to further conditions. The underwriters are required to purchase all of the secured notes, if they purchase any of the secured notes. The underwriters expect the secured notes will be delivered to them through the facilities of The Depository Trust Company ("DTC") on or about August 9, 2013.

Joint Book-Running Managers

BofA Merrill Lynch **J.P. Morgan** **Morgan Stanley**

Structuring Agent

The date of this offering circular is August 6, 2013.

STABILIZATION

THE UNDERWRITERS OF THE SECURED NOTES MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SECURED NOTES. SPECIFICALLY, THE UNDERWRITERS MAY OVERALLOT IN CONNECTION WITH THE OFFERING AND MAY BID FOR, AND PURCHASE, SECURED NOTES IN THE OPEN MARKET AND MAY IMPOSE PENALTY BIDS. SUCH TRANSACTIONS MAY BE EFFECTED IN AN OVER-THE-COUNTER MARKET OR OTHERWISE AND MAY INCLUDE SHORT SALES AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

ABOUT THIS OFFERING CIRCULAR

This offering circular provides you with a description of the secured notes and the offering of these secured notes. This offering circular should be read in connection with TVA's SEC Filings (as defined below), each of which is incorporated in this offering circular by reference. This offering circular and the SEC Filings are collectively referred to in this offering circular as the "offering documents." In this offering circular, the words "TVA," "we," "our," "ours" and "us" refer to the Tennessee Valley Authority. See "Where You Can Find More Information about TVA" for more information about the SEC Filings.

No dealer, salesperson, or any other person has been authorized by the lessor or TVA to give any information or to make any representations on behalf of the lessor or TVA other than those contained in the offering documents or any supplement to any of the offering documents prepared by the lessor or TVA for use in connection with the offer made by this offering circular. If given or made, such information or representations must not be relied upon as having been authorized by the lessor or TVA. Neither the delivery of any offering documents nor any sale of secured notes described in this offering circular shall under any circumstances create an implication that the information provided in this offering circular is correct at any time subsequent to its date, and the lessor and TVA assume no duty to update any offering document except as they deem appropriate. This offering circular does not constitute an offer to sell or a solicitation of an offer to buy the secured notes described in this offering circular in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

This offering circular has been prepared by the Tennessee Valley Authority solely for use in connection with the offering of the secured notes described in this offering circular. The lessor and TVA have taken reasonable care to ensure that the information contained in this offering circular is true and accurate in all material respects and that there are no material facts the omission of which would make misleading any statements in this offering circular in light of the circumstances under which such statements are made. The lessor and TVA accept responsibility accordingly.

In the offering documents, references to "U.S. dollars," "U.S.$," "dollars," and "$" are to United States dollars.

WHERE YOU CAN FIND MORE INFORMATION ABOUT TVA

TVA files annual, quarterly, and current reports with the SEC. TVA's SEC Filings are available to the public over the Internet at the SEC's website at www.sec.gov and at TVA's website at www.tva.gov. Information contained on TVA's website shall not be deemed to be incorporated into, or to be a part of, this offering circular or the other offering documents except to the extent otherwise expressly incorporated into this offering circular or those other offering documents.

TVA incorporates by reference into this offering circular some of TVA's SEC Filings. This means that TVA discloses important information to you by referring you to another document. The information that TVA incorporates by reference is considered to be part of this offering circular, and information that TVA subsequently files with the SEC will automatically update and, where different, supersede the information in this offering circular and in TVA's prior SEC Filings. Nothing in this offering circular shall be deemed to incorporate information furnished to, but not filed with, the SEC, including information furnished under Item 2.02 or Item 7.01 of Form 8-K and corresponding information furnished under Item 9.01 of Form 8-K or included as an exhibit to such Form 8-K.

TVA is incorporating by reference into this offering circular the following documents that TVA has filed with the SEC as well as any future filings that TVA makes with the SEC under Section 37 of the Exchange Act and any amendments thereto (collectively, the "SEC Filings"):

- TVA's annual report on Form 10-K for the year ended September 30, 2012 (the "Annual Report");
- TVA's quarterly reports on Form 10-Q for the quarters ended December 31, 2012, March 31, 2013 and June 30, 2013 (the "Quarterly Reports"); and
- TVA's current reports on Form 8-K filed on December 17, 2012, December 21, 2012, January 4, 2013, February 20, 2013, February 22, 2013, April 5, 2013, April 10, 2013, April 12, 2013, April 23, 2013, June 5, 2013 and July 12, 2013 and TVA's current report on Form 8-K/A filed on February 20, 2013.

You may request a copy of these filings at no cost by writing or calling TVA as follows:

Tennessee Valley Authority
400 West Summit Hill Drive
Knoxville, TN 37902-1401
Attention: Treasury & Investor Relations
E-mail: investor@tva.com
Telephone:
1-888-882-4975

OFFERING AND SELLING RESTRICTIONS

No action has been (or will be) taken in any jurisdiction by the lessor, TVA or the underwriters or any of their affiliates that would permit a public offering of the secured notes, or possession or distribution of the offering circular or any other offering material, in any country or jurisdiction where action for that purpose is required (other than states of the United States in connection with securities or Blue Sky laws of such states). The distribution of this offering circular and the offering of the secured notes may, in some jurisdictions, be restricted by law. Persons into whose possession this offering circular comes are required by the lessor, TVA and the underwriters to inform themselves of and observe all such restrictions. For further information regarding restrictions on offering and selling secured notes, see "Underwriting."

The secured notes described in this offering circular have not been registered with, recommended by or approved by the SEC or any other domestic or foreign regulatory securities commission or authority. In addition, neither the SEC nor any other regulatory commission or authority has passed upon the accuracy or adequacy of this offering circular. Any representation to the contrary is a criminal offense.

FORWARD-LOOKING STATEMENTS

The offering documents contain forward-looking statements relating to future events and future performance. All statements other than those that are purely historical may be forward-looking statements.

In certain cases, forward-looking statements can be identified by the use of words such as "may," "will," "should," "expect," "anticipate," "believe," "intend," "project," "plan," "predict," "assume," "forecast," "estimate," "objective," "possible," "probably," "likely," "potential," "speculate" or other similar expressions.

Although TVA believes that the assumptions underlying the forward-looking statements are reasonable, TVA does not guarantee the accuracy of these statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things:

- new or changed laws, regulations, and administrative orders, including those related to environmental matters, and the costs of complying with these new or changed laws, regulations, and administrative orders, as well as complying with existing laws, regulations, and administrative orders;

- the requirement or decision to make additional contributions to TVA's pension or other post-retirement benefit plans or to TVA's nuclear decommissioning trust or asset retirement trust;
- events at a TVA nuclear facility, which, among other things, could result in loss of life, damage to the environment, damage to or loss of the facility, and damage to the property of others;
- events at a nuclear facility, whether or not operated by or licensed to TVA, which, among other things, could lead to increased regulation or restriction on the construction, operation, and decommissioning of nuclear facilities or on the storage of spent fuel, obligate TVA to pay retrospective insurance premiums, reduce the availability and affordability of insurance, increase the costs of operating TVA's existing nuclear units, negatively affect the cost and schedule for completing Watts Bar Nuclear Plant Unit 2 and Bellefonte Nuclear Plant Unit 1, or cause TVA to forego future construction at these or other facilities;
- significant delays, cost increases, or cost overruns associated with the construction of generation or transmission assets;
- settlements, natural resource damages, fines and penalties associated with the Kingston Fossil Plant ash spill;
- inability to eliminate identified deficiencies in TVA's systems, standards, controls and corporate culture;
- the outcome of legal and administrative proceedings;
- significant changes in demand for electricity;
- addition or loss of customers;
- the continued operation, performance, or failure of TVA's generation, transmission, flood control, and related assets, including coal combustion residual facilities;
- the cost of complying with existing and anticipated emissions reduction requirements, which could render continued operation of many of TVA's aging coal-fired generation units not cost-effective and result in their removal from service, perhaps permanently;
- disruption of fuel supplies, which may result from, among other things, weather conditions, production or transportation difficulties, labor challenges, or environmental laws or regulations affecting TVA's fuel suppliers or transporters;
- purchased power price volatility and disruption of purchased power supplies;
- events or changes involving transmission lines, dams, and other facilities not operated by TVA, including those that affect the reliability of the interstate transmission grid of which TVA's transmission system is a part and those that increase flows across TVA's transmission grid, as well as inadequacies in the supply of water to TVA's generation facilities;
- inability to obtain regulatory approval for the construction or operation of assets;
- weather conditions;
- catastrophic events such as fires, earthquakes, solar events, floods, hurricanes, tornadoes, pandemics, wars, national emergencies, terrorist activities, and other similar events, especially if these events occur in or near TVA's service area;
- restrictions on TVA's ability to use or manage real property currently under its control;
- reliability and creditworthiness of counterparties;
- changes in the market price of commodities such as coal, uranium, natural gas, fuel oil, crude oil, construction materials, reagents, electricity, and emission allowances;
- changes in the market price of equity securities, debt securities, and other investments;
- changes in interest rates, currency exchange rates, and inflation rates;

- changes in the timing or amount of pension and health care costs;
- increases in TVA's financial liability for decommissioning its nuclear facilities and retiring other assets;
- limitations on TVA's ability to borrow money which may result from, among other things, TVA's approaching or substantially reaching the limit on bonds, notes and other evidences of indebtedness specified in the Tennessee Valley Authority Act of 1933, as amended (the "TVA Act");
- an increase in TVA's cost of capital which may result from, among other things, changes in the market for TVA's debt securities, changes in the credit rating of TVA or the U.S. government, and an increased reliance by TVA on alternative financing arrangements (such as this lease-purchase transaction) as TVA approaches its debt ceiling;
- actions taken by the U.S. government to address the situation of approaching its debt limit;
- changes in the economy and volatility in financial markets;
- ineffectiveness of TVA's disclosure controls and procedures and its internal control over financial reporting;
- problems attracting and retaining a qualified workforce;
- changes in technology;
- failure of TVA's assets to operate as planned;
- failure of TVA's cyber security program to protect TVA's assets from cyber attacks;
- differences between estimates of revenues and expenses and actual revenues earned and expenses incurred; and
- unforeseeable events.

Additionally, other risks that may cause actual results to differ materially from the predicted results are set forth in Item 1A, Risk Factors and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report and Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Part II, Item 1A, Risk Factors in the Quarterly Reports. New factors emerge from time to time, and it is not possible for TVA's management to predict all such factors or to assess the extent to which any factor or combination of factors may impact TVA's business or cause results to differ materially from those contained in any forward-looking statement.

TVA undertakes no obligation to update any forward-looking statement to reflect developments that occur after such statement is made.

TABLE OF CONTENTS

Page

SUMMARY OF THE OFFERING

This summary highlights some of the information contained in this offering circular and in TVA's SEC Filings and is qualified in its entirety by the detailed information contained in TVA's SEC Filings and elsewhere in this offering circular. This summary may not contain all the information that is important to you. Therefore, you should read this information in conjunction with the detailed information contained in TVA's SEC Filings and elsewhere in this offering circular. Capitalized terms used and not defined in this summary have the respective meanings given to those terms in TVA's SEC Filings and elsewhere in this offering circular.

The Transaction

We are pursuing an approximately $400,000,000 lease-purchase financing (the "transaction") with respect to a ninety percent undivided interest in the facility, which is located in Southaven, Mississippi, close to Memphis, Tennessee. The facility has a summer net generation capacity of approximately 774 megawatts. The facility consists of three gas fired combustion turbines (General Electric Frame 7FA Combustion Turbine Generators) (each such turbine, together with its related heat recovery steam generator and its related steam turbine generator, constitutes one "unit"), three Aalborg Heat Recovery Steam Generators, three General Electric A10 steam turbine generators and associated balance of plant systems and equipment (together with other facilities common to the operation and maintenance of the units, the "common facilities").

Seven States Southaven, LLC ("Seven States") currently owns a ninety percent undivided interest in the facility and we own the remaining ten percent undivided interest in the facility, other than portions of the facility that constitute real property under the TVA Act, which portions are owned by the United States and have been entrusted to us, as agent of the United States, under the TVA Act. Seven States also currently owns a ninety percent undivided interest in the real property related to the facility, including, but not limited to, the land on which the facility is located (such land on which the facility is located, the "facility site"). The remaining ten percent undivided interest in the facility site is owned by the United States and has been entrusted to us, as agent of the United States, under the TVA Act. Seven States currently leases its ninety percent undivided interest in the facility and the facility site to us pursuant to an existing lease agreement (the "existing lease"). Seven States financed the purchase of its undivided interest in the facility and the facility site using the proceeds of loans under the Amended and Restated Credit Agreement, dated as of April 22, 2010, among Seven States, Seven States Power Corporation ("Seven States Parent"), JPMorgan Chase Bank, National Association, CoBank, ACB, Wells Fargo Bank, National Association and the other lenders referred to therein, as amended (such agreement, the "existing credit agreement" and the loans made pursuant to the existing credit agreement, the "existing loans").

Concurrently with the transaction, we will acquire Seven States' undivided interest in the facility and, as agent of the United States, acquire Seven States' undivided interest in the real property related to the facility, including, but not limited to, the facility site. In consideration for such transfer by Seven States, we will pay in full all outstanding amounts owed by Seven States under the existing loans, the existing credit agreement and related agreements using the proceeds from the one-time payment of head lease rent (as defined below) and additional amounts being transferred to us by Seven States (the "payoff transaction"). The real property related to the facility will be owned by the United States and entrusted to us, as agent of the United States, under the TVA Act. Upon consummation of the payoff transaction, the existing lease and the Joint Ownership Agreement, dated as of April 30, 2008, by and between Seven States Parent and TVA (as amended, the "existing joint ownership agreement") and other related agreements and all liens associated with the existing credit agreement will be terminated.

As used herein, the term "undivided interest" refers to the ninety percent undivided interest in the facility to be acquired by us from Seven States together with (i) all rights under applicable law as a tenant-in-common of the facility with us as owner/holder of the remaining ten percent undivided interest (or any successor, assignee or lessee of our ten percent undivided interest in the facility), as such rights of a tenant-in-common are modified by the head lease and, following termination of the lease, the support agreement (as defined below), (ii) the right to nonexclusive possession with us as owner/holder of the remaining ten percent undivided interest (or any successor, assignee or lessee of our ten percent undivided interest) to the facility, and (iii) following the termination of the lease, the right to ninety percent of the capacity, energy and ancillary services as may be available from the facility from time to time. As part of the transaction, we will lease the undivided interest to the lessor, Southaven Combined Cycle Generation LLC, a single-purpose Delaware limited liability company (which we refer to as the lessor), under a

long-term head lease agreement (the "head lease"). Wilmington Trust, National Association will act as manager of the lessor (in this capacity, the "manager of the lessor"). The head lease will have a term of approximately thirty-one years, approximately 125% of the facility's remaining estimated economic useful life.

The lessor will be owned by a single-purpose Delaware limited liability company (the "equity investor") which will contribute cash equity to the lessor in an aggregate amount equal to $40,000,000 (the "equity investment") on the closing date (as defined below). The equity investor will fully fund the equity investment by issuing notes (the "equity investor notes") to one or more financial institutions or insurance companies (the "equity lenders") pursuant to documents (the "equity note purchase documents") between the equity investor and the equity lenders. The equity investor will be managed by Wilmington Trust, National Association (in this capacity, the "manager of the equity investor").

The lessor will issue the secured notes described in this offering circular in an aggregate principal amount of $360,000,000 pursuant to the terms of an indenture of trust, deed of trust and security agreement (the "lease indenture"), entered into with Wilmington Trust Company, as lease indenture trustee (in this capacity, the "lease indenture trustee," and in its individual capacity, the "trust company").

The lessor will make a one-time payment to us of rent in the amount of $400,000,000 in consideration for the leasehold interest in the undivided interest (the "head lease rent"). The lessor will acquire the funds for the payment of the head lease rent from the estimated aggregate net proceeds of $400,000,000 from the sale of the secured notes and the proceeds from the equity investment. We will use the estimated proceeds of the head lease rent payment, together with additional amounts being transferred to us by Seven States, to pay in full all outstanding amounts owed by Seven States under the existing loans, the existing credit agreement and related agreements, for the benefit of our power program and to pay transaction expenses (including the underwriters discount and commission) associated with this offering and the overall transaction.

The secured notes will be secured by a first priority security interest in and a mortgage lien on the lessor's leasehold interest in the undivided interest, the leasehold interest in the ground interest (as defined under "Summary Description of the Lease and Other Transaction Documents – Ground Interest and Real Estate Arrangements"), and the lessor's interest in each of the head lease, the lease, the joint operating and support agreement between us, the lessor and the other facility users party thereto (the "support agreement"), a participation agreement among us, the lessor, the manager of the lessor, the equity investor, the manager of the equity investor and the lease indenture trustee (the "participation agreement"), and other documents related to the transaction and other collateral. The collateral will not include certain customary excepted payments and is subject to excepted rights reserved to the lessor. See "Description of the Secured Notes – Source of Payment and Security – *Security*" for a description of the collateral, excepted payments and excepted rights.

On the closing date, we will sublease the leasehold interest in the undivided interest from the lessor under the lease. We will pay periodic scheduled rent ("basic rent") to the lessor in an amount which is required to be sufficient to permit the lessor to pay the principal of, and interest on, the secured notes when due and payable and distribute to the equity investor amounts at least sufficient to permit the equity investor to pay the principal of and interest on the equity investor notes when due and payable. We will pay basic rent directly to the lease indenture trustee for so long as the secured notes are outstanding. The lease indenture trustee will first pay any principal of and premium, if any, and interest due on the secured notes issued under the lease indenture before distributing the remaining amounts to the lessor for the benefit of the equity investor. The lease will have a scheduled expiration date which is the same date as the date of final maturity of the secured notes and will terminate on such date to the extent that all relevant amounts due by us under the lease and the other transaction documents have been paid, unless the lease is terminated earlier in accordance with its terms. Our ten percent undivided interest in the facility (including portions of the facility that constitute real property, which portions are owned by the United States and have been entrusted to us, as agent of the United States, under the TVA Act) and the ten percent undivided interest in the facility site owned by the United States and entrusted to us, as agent of the United States, under the TVA Act, will not be affected or encompassed by the transactions contemplated by this offering circular.

Under the lease, we will be obligated to operate, repair and maintain the facility in accordance with prudent industry practice (as defined under "Summary Description of the Lease and Other Transaction Documents – Covenants – *Use, Maintenance, and Removal and Replacement of Components*") and will operate the facility in

accordance with applicable law. As lessee, we will be entitled to all of the electrical output associated with the undivided interest. At the end of the term of the lease, upon payment of all basic rent and other amounts then due and payable, and assuming no payment defaults or bankruptcy defaults have occurred and are continuing, the lessor must transfer the leasehold interest in the undivided interest to us and the lease will terminate. We will not be obligated to pay any amounts in connection with the transfer of the leasehold interest in the undivided interest by the lessor to us at the end of the lease term other than basic rent and any supplemental rent (as defined under "Summary Description of the Lease and Other Transaction Documents – Lease Term, Rent and Termination Values") or other amounts then due and payable under the lease and the other transaction documents (as defined below).

Upon the occurrence of a lease event of default (as defined under "Summary Description of the Lease and Other Transaction Documents – Lease Events of Default") and at any time thereafter so long as the lease event of default is continuing, the lessor may, at its option, declare the lease to be in default by written notice to us, and at any time afterwards if we have not remedied all outstanding lease events of default, the lessor may, in its sole discretion, elect to proceed by appropriate court action or actions, either at law or in equity, to enforce performance of the lease, at our sole cost and expense, and to recover damages for breach of the lease, including recovery of all rent payments then due and unpaid. The lessor may not seek termination of the lease or any other transaction document, dispossession of the undivided interest or acceleration of amounts not yet due and payable under the lease or any other transaction document in connection with these court actions. The lessor may seek to exercise those termination, dispossession and acceleration remedies on a date no earlier than 180 days after the occurrence of a lease event of default resulting (in whole or in part) from our failure to pay basic rent or supplemental rent when due and payable. The lessor also may immediately seek such remedies following an unremedied lease event of default resulting from customary events of bankruptcy, insolvency or other similar events with respect to us or resulting from our repudiation or disaffirmation of the validity or enforceability of the head lease, the ground lease (as defined below) or the lease. See "Summary Description of the Lease and Other Transaction Documents – Remedies" for more information regarding the remedies available under the lease.

On the closing date, we also will enter into a long-term ground lease agreement (the "ground lease") with the lessor with respect to the ground interest. The "ground interest" consists of a ninety percent undivided interest in the facility site, together with (i) all rights under applicable law as a tenant in common of the facility site with us as owner/holder of the remaining ten percent undivided interest (or any successor, assignee or lessee of our ten percent undivided interest in the facility site), as the rights of a tenant-in-common are modified by the ground lease, and, following termination of the ground sublease, the support agreement, and (ii) the right to nonexclusive possession with us as owner/holder of the remaining ten percent undivided interest (or any successor, assignee or lessee of our ten percent undivided interest) in the facility site. The ground interest is entrusted to us, as agent of the United States, under the TVA Act. The ground lease will be coterminous with the head lease. We will sublease the ground interest from the lessor under a ground sublease agreement (the "ground sublease"), which will be coterminous with the lease. The term "closing date" as used in this offering circular refers to the date that the head lease, ground lease and other transaction documents (other than the participation agreement, the equity note purchase agreement and the limited liability company agreements of the lessor and the equity investor) are executed and delivered by the parties to each of those agreements. The term "transaction documents" as used in this offering circular refers to, among other documents, the head lease and the lease, the ground lease and the ground sublease, the participation agreement, the limited liability company agreement of the lessor and the equity note purchase documents.

TVA's Business

TVA was created by an act of the U.S. Congress and is a wholly-owned corporate agency and instrumentality of the United States. We were created to, among other things, improve navigation on the Tennessee River, reduce the damage from destructive flood waters within the Tennessee River system and downstream on the lower Ohio and Mississippi Rivers, further the economic development of our service area in the southeastern United States, and sell the electricity generated at the facilities we operate. Today we operate the nation's largest public power system and supply power in most of Tennessee, northern Alabama, northeastern Mississippi and southwestern Kentucky and in portions of northern Georgia, western North Carolina and southwestern Virginia to a population of over nine million people. In the fiscal year ended September 30, 2012, the revenues generated from our electricity sales were $11.1 billion and accounted for virtually all of our revenues.

We sell power in a service area defined by the TVA Act. Under the TVA Act, subject to minor exceptions, we may not, without specific authorization from the U.S. Congress, enter into contracts that would have the effect of making us, or our distributor customers, a source of power supply outside of the area for which we or our distributor customers were the primary source of power supply on July 1, 1957. In addition to this limitation, an amendment to the Federal Power Act includes a provision that protects our ability to sell power within our service area. This provision, called the anti-cherrypicking provision, prevents the Federal Energy Regulatory Commission from ordering us to provide access to our transmission lines to others for the purpose of using our transmission lines to deliver power to customers within substantially all of our defined service territory. This provision reduces our exposure to loss of customers.

We are primarily a wholesaler of power. We sell to distributor customers which then resell power to their customers at retail rates. Our distributor customers consist of municipalities and other local government entities and customer-owned cooperatives. These municipalities and cooperatives operate public power electric systems that are not doing business for profit but are operated primarily for the purpose of supplying electricity to the general public or members. We also sell power to directly served customers, consisting primarily of federal agencies and customers with large or unusual loads. In addition, power that exceeds the needs of the TVA system may, where consistent with the provisions of the TVA Act, be sold under exchange power arrangements with certain other electric systems. We sell power to our distributor customers under wholesale power contracts that require our distributor customers to purchase from us all of their electric power and energy used within the TVA service area. The board of directors of TVA (the "TVA Board") sets the rates that we charge for power. In setting rates, the TVA Board must have due regard for the primary objectives of the TVA Act, including the objective that power be sold at rates as low as are feasible. These rates are not subject to judicial review or review by any state or federal regulatory body. The transaction documents require us, however, to establish and collect rates, rents, charges, fees and other compensation that, together with other moneys available to us, produce moneys sufficient to enable us to pay all charges relating to our power program (as defined in the Basic Tennessee Valley Authority Power Bond Resolution adopted by the TVA Board on October 6, 1960, as amended (the "Bond Resolution")), including basic rent and supplemental rent under the lease and other rent payments due under our other leases with respect to our power properties (as defined in the Bond Resolution).

The Offering

Lessor	Southaven Combined Cycle Generation LLC is a Delaware single-purpose limited liability company.
Lessee	We are a wholly-owned corporate agency and instrumentality of the United States established by the TVA Act.
Securities offered	$360,000,000 in aggregate principal amount of 3.846% Secured Notes 2013 Series A due August 15, 2033.

Price to public	100.00% of the principal amount of the secured notes and accrued interest, if any.
Interest on the secured notes	Interest on the secured notes will accrue at a rate of 3.846% per year and will be payable semiannually in arrears on August 15 and February 15 of each year, beginning on February 15, 2014. Interest shall accrue from August 9, 2013.
Principal payments on the secured notes	Principal payments will be made on the secured notes according to the amortization schedule set forth under "Description of the Secured Notes – Source of Payment and Security – *Source of Payment*."
Initial average life	The initial average life of the secured notes will be approximately 10 years.
Listing	The secured notes will not be listed on any securities exchange.
Use of proceeds	The aggregate proceeds from the sale of the secured notes will be $360,000,000. The lessor will use the proceeds from the sale of the secured notes, together with $40,000,000 of equity contributed by the equity investor to the lessor in respect of the equity investment, to lease the undivided interest from us on the closing date for a one-time payment of head lease rent in an amount equal to $400,000,000. We will use the aggregate proceeds of the head lease rent payment paid by the lessor, together with additional amounts being transferred to us by Seven States, to pay in full all outstanding amounts owed by Seven States under the existing loans, the existing credit agreement and related agreements, for the benefit of our power program and to pay transaction expenses (including the underwriters discount and commission) associated with this offering and the overall transaction.
Rate covenant	The transaction documents require us to establish and collect rates, rents, charges, fees and other compensation that, together with other moneys available to us, produce moneys sufficient to enable us to pay all charges relating to our power program (as defined in the Bond Resolution), including basic rent and supplemental rent under the lease and other rent payments due under our other leases with respect to our power properties (as defined in the Bond Resolution).
Lease indenture trustee	Wilmington Trust Company will act as the lease indenture trustee for the secured notes under the lease indenture.
Source of payment	Our obligation to pay rent under the lease to the lease indenture trustee, as assignee of the lessor, provides the

source of payment for the secured notes. The schedule for our payment of rent is structured to match in timing and amount the payment schedule of the secured notes.

Collateral for the secured notes ..... The secured notes will be secured by a security interest in all of the rights and interests of the lessor in the collateral, including its leasehold interest in the undivided interest, its leasehold interest in the ground interest and its interest in the transaction documents, including the lessor's right to receive rent and other amounts, if any, under the lease.

The collateral for the secured notes excludes specified excepted payments and is subject to rights reserved to the lessor and the equity investor.

Redemption with premium ..... The lessor is required to redeem the secured notes with premium in whole at any time in connection with a refinancing of the secured notes or in whole or in part if we elect to terminate the lease by exercising an early buy out or a partial early buy out of the lease (other than as a result of an event of loss (as long as, in connection with an event of loss caused by damage to or destruction of the facility, we certify that we have no current intention to rebuild the facility) or a regulatory event of loss).

In lieu of redeeming the secured notes in connection with an early buy out of the lease, however, we may elect to replace and exchange in whole the secured notes for TVA power bonds (as defined below). See "Description of the Secured Notes – Exchange of Secured Notes" for a description of the conditions to our replacing and exchanging the secured notes for TVA power bonds.

Upon a refinancing of the secured notes or an early buy out of the lease (other than as a result of an event of loss (as long as, in connection with an event of loss caused by damage to or destruction of the facility, we certify that we have no current intention to rebuild the facility) or a regulatory event of loss), the redemption price of the secured notes will equal:

- 100% of the principal amount of the secured notes being redeemed, *plus*
- all accrued and unpaid interest, if any, on the secured notes being redeemed, *plus*
- a make whole premium on the secured notes being redeemed and calculated as described under "Description of the Secured Notes – Redemption of Secured Notes – *Redemption with Premium*."

Redemption without premium.....	The lessor is required, upon our election, to redeem the secured notes without premium in whole in connection with an early buy out following an event of loss of the entire facility or in part following an event of loss of a portion of the facility. If we elect to terminate the lease by exercising an early buy out in connection with an event of loss caused by destruction or damage to the facility, we are required to certify that we have no current intention to rebuild the facility. The lessor is also required, upon our election, to redeem the secured notes without premium in whole in connection with an early buy out resulting from a regulatory event of loss. In either case, however, we may elect to replace and exchange the secured notes in whole for TVA power bonds issued under the Bond Resolution. See "Description of the Secured Notes – Exchange of Secured Notes" for a description of the conditions to our replacing and exchanging the secured notes for TVA power bonds. In the case of an early buy out resulting from an event of loss or regulatory event of loss, the outstanding secured notes will be redeemed at a redemption price equal to 100% of the principal amount of the secured notes being redeemed plus all accrued and unpaid interest, if any, on the secured notes being redeemed to the redemption date. See "Summary Description of the Lease and Other Transaction Documents – Early Termination of the Lease, Events of Loss, and Regulatory Events of Loss – *Events of Loss*" and "– *Regulatory Events of Loss*" for a description of the events of loss and regulatory events of loss that may result in our exercise of an early buy out of the lease with respect to an event of loss or regulatory event of loss.
Assignment	We may not assign our interest in the lease and the other transaction documents and be released from our obligations under such documents without the consent of the lessor and the lease indenture trustee. See "Summary Description of the Lease and Other Transaction Documents – Covenants – *Assignment*."

Sublease	We may, upon satisfaction of specified conditions, sublease our interest in the facility without the consent of the lessor, the equity investor, the manager of the equity investor, the equity lenders or the lease indenture trustee if we remain liable for all of our obligations under the transaction documents, including, but not limited to, the timely payment of our obligations. Any sublease must be subject and subordinate to the terms of the head lease, the lease, the ground lease and the ground sublease. See "Summary Description of the Lease and Other Transaction Documents – Covenants – *Sublease*."
Governing law	Each of the transaction documents (other than the ground lease, the ground sublease, the lessor mortgage and the limited liability company agreements of the lessor and the equity investor) will be governed by, and construed and interpreted in accordance with, the laws of the State of New York (without regard to conflicts of laws principles other than as provided in Section 5-1401 of the New York General Obligations Law), except to the extent that U.S. federal law or the law of the State of Mississippi applies. The ground lease, the ground sublease, and the lessor mortgage will each be governed by the laws of the State of Mississippi, except to the extent that U.S. federal law applies. The limited liability company agreements of the lessor and the equity investor will be governed by the laws of the State of Delaware.
Form, denomination, and registration of the secured notes	The secured notes will be issued in book-entry form and will be represented by one or more fully registered global certificates. Each global certificate will be deposited with, or on behalf of, DTC and registered in its name or in the name of Cede & Co., its nominee (or such other nominee as may be requested by an authorized representative of DTC). The secured notes will be issuable in denominations of $2,000 or any integral multiple of $1,000 in excess of $2,000.
ERISA considerations	In general, employee benefit plans subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), or entities which may be deemed to hold the assets of any such plan, will be eligible to acquire secured notes, subject to certain conditions. Each person acquiring or accepting a secured note will be deemed to have made specified representations and warranties. See "Certain ERISA Considerations" in this offering circular.

	Each fiduciary of such a plan (and each fiduciary of a governmental or church plan subject to rules similar to those imposed on such plans) should consult with its legal advisor concerning the secured notes.
Taxation	Interest on the secured notes will not be exempt from state, local, or federal taxation. See "Certain U.S. Federal Income Tax Considerations" for a summary discussion of certain U.S. federal income tax considerations generally applicable to holders of the secured notes that acquire their secured notes in the initial offering.
CUSIP number of the secured notes	The secured notes will be assigned the following CUSIP number: 841215AA4.

RISK FACTORS

Your investment in the secured notes will involve a number of risks. Before you decide that an investment in the secured notes is suitable for you, you should carefully consider the risk factors described below, together with the other information in this offering circular, as well as the risks set forth in Item 1A, Risk Factors, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Annual Report, Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Part II, Item 1A, Risk Factors in the Quarterly Reports and other SEC Filings. In addition, you should consult your own financial and legal advisors regarding the risks and suitability of an investment in the secured notes.

It may be difficult to realize the value of the collateral supporting the secured notes and the proceeds received from the sale of the collateral may be insufficient to pay amounts due on the secured notes.

The secured notes issued by the lessor will be secured by the collateral which will include an assignment of the lessor's leasehold interest in the undivided interest, the lessor's leasehold interest in the ground interest and the lessor's interest in the support agreement and the transaction documents, including its right to receive basic rent and supplemental rent under the lease. See "Description of the Secured Notes – Source of Payment and Security – *Security*." The exercise of remedies by a secured party inherently includes risks. Foreclosure of large generation facilities is complicated and often time consuming, which may delay the receipt of proceeds from any exercise of remedies which would be available for the repayment of principal of and premium (if any) and interest on the secured notes. Third party consents and governmental approvals or permits may be required. In addition, the lease indenture trustee's efforts to foreclose and sell the facility may require additional third party consents and governmental approvals by the purchaser. Further, even if the facility is foreclosed upon and sold, there can be no assurance that the price received in any sale of the facility would be sufficient to repay principal of and premium (if any) and interest on the secured notes.

Lease events of default and remedies under the lease and other transaction documents are limited in significant respects, which will affect the timing and extent of the enforcement of our rent payment and other obligations under the transaction documents.

Events of default and remedies under the lease and other transaction documents are limited in significant respects. See "Summary Description of the Lease and Other Transaction Documents – Lease Events of Default" and "– Remedies" for a description of lease events of default and remedies. If a lease event of default occurs, the lessor (or the lease indenture trustee, as its assignee) may seek damages or seek to enforce our obligations under the transaction documents by appropriate court action. There are no additional remedies for lease events of default related to breaches of covenants (other than in respect of our obligation to pay basic rent or supplemental rent) and material inaccuracies of our representations and warranties. For these lease events of default, the lessor or the lease indenture trustee, as its assignee, will not have the right to terminate the lease, accelerate our rent payment obligations or dispossess us of the undivided interest. As a result, holders of the secured notes will be limited to suing for damages with respect to, or specific enforcement of, these covenants and material inaccuracies of our representations and warranties. Any process to seek damages or enforce these covenants likely would involve legal proceedings, which could be time consuming and costly.

The lease also limits remedies for lease events of default resulting from our failure to pay basic rent or supplemental rent due under the lease and other transaction documents, bankruptcy or similar insolvency events, or repudiation of specified transaction documents. See "Summary Description of the Lease and Other Transaction Documents – Remedies." The lessor or the lease indenture trustee, as its assignee, may seek to terminate the lease and other transaction documents, accelerate our rent payment obligations under the lease, or dispossess us of our interest in the undivided interest under the lease following an event of default related to our failure to pay basic rent or supplemental rent. However, other than in connection with bankruptcy, insolvency or other similar event or a repudiation of the lease, head lease or ground lease, none of these measures may be taken by the lessor or lease indenture trustee earlier than 180 days after the occurrence of the payment default, so long as the event of default is continuing. As a result, our payment of basic rent and supplemental rent, and the payments of principal of and premium, if any, and interest on the secured notes, may be delayed for that 180-day period without other remedies (other than court action) being available to the lessor or lease indenture trustee.

If our rent payments under the lease are accelerated, we will only be obligated to pay (in addition to all then unpaid rent and interest thereon) the amount by which the applicable termination value as of the time of termination exceeds (i) the fair market value of the lessor's interest in the undivided interest, if holders of the secured notes holding seventy-five percent or more of the aggregate unpaid principal amount of the secured notes have consented to the payment of this amount, or (ii) the net proceeds from a sale of the lessor's interest in the undivided interest. In addition, we may elect to pay this net amount in three equal annual installments, with interest, if we certify that the issuance of "evidences of indebtedness" under the Bond Resolution is legally impossible or commercially unreasonable at such time in an amount sufficient to pay net termination value when due. See "Summary Description of the Lease and Other Transaction Documents – Termination Payment Term Out." As a result, we may elect to pay accelerated amounts over a three year period even if we fail to pay basic rent or supplemental rent, so long as we are able to deliver the certificate described above.

We may direct the lessor to incur additional debt, which may reduce the benefits of the collateral to pre-existing holders of the secured notes.

Subject to the satisfaction of conditions in the participation agreement and the lease indenture, we are permitted to direct the lessor to incur additional indebtedness, including through the issuance of additional secured notes (as defined under "Description of the Secured Notes – Refinancing the Secured Notes and Additional Secured Notes"), in connection with the financing of modifications to the facility. See "Summary Description of the Lease and Other Transaction Documents – Covenants – *Modifications and Improvements*" and "– *Financing Modifications through the Lease*." Any such additional indebtedness incurred would rank equally with the secured notes and would share ratably in the collateral for the secured notes. As a result, the benefits of the collateral to the then-existing holders of the secured notes may be diluted due to any such issuance of additional secured notes, although any improvements to the facility financed with the proceeds of any additional indebtedness would become additional collateral for all secured indebtedness (including the secured notes). Further, after any such issuance of additional secured notes, the ability of the then-existing holders of the secured notes to control actions taken with respect to the collateral would be affected following the occurrence of a lease indenture event of default (as defined under "Description of the Secured Notes – Lease Indenture Events of Default") that would permit an enforcement of remedies with respect to the collateral.

If the lessor takes possession of the facility, the principal permits and licenses necessary for the operation of the facility might not be issued, might not be issued without significant delay or might include restrictions.

The principal permits and licenses necessary for the operation of the facility have been issued or are being issued in our name, as owner and operator. These permits and licenses might not be transferrable. If the lessor takes possession and control of the facility, new or amended permits and licenses may be required to operate the facility. However, these new or amended permits and licenses may not be issued, may not be issued without significant delay, or may include restrictions on the lessor's ability to operate the facility or to operate at full capacity. We may be asked to consent to the issuance or amendment of these permits and licenses, and, at the time so requested, it might not be in our interest to provide such consent.

There is no existing market for the secured notes and there is no assurance that an active trading market will develop for the secured notes.

The secured notes are a new issue of securities without an established trading market and will not be listed on any securities exchange. There can be no assurance as to the liquidity of any market that may develop for the secured notes, the ability of the holders of the secured notes to sell the secured notes or the price at which the holders of the secured notes will be able to sell the secured notes. Future trading prices will depend on numerous factors including, among other things, prevailing interest rates and the market for similar securities.

The underwriters have advised us and the lessor that they intend to make a market in the secured notes. However, the underwriters are not required to do so, and any market-making activity may be terminated at any time without notice to the holders of the secured notes. If a market for the secured notes does not develop, a holder of the secured notes may be unable to resell the secured notes for an extended period of time, if at all. Consequently, a holder of the secured notes may not be able to liquidate its investment readily, and the secured notes may not be readily accepted as collateral.

TVA AND THE FACILITY

Overview

In response to a request by President Franklin D. Roosevelt, the U.S. Congress in 1933 enacted legislation that created us, a wholly-owned corporate agency and instrumentality of the United States. We were created to, among other things, improve navigation on the Tennessee River, reduce the damage from destructive flood waters within the Tennessee River system and downstream on the lower Ohio and Mississippi Rivers, further the economic development of our service area in the southeastern United States, and sell the electricity generated at the facilities we operate.

Today, we operate the nation's largest public power system and supply power in most of Tennessee, northern Alabama, northeastern Mississippi, and southwestern Kentucky and in portions of northern Georgia, western North Carolina, and southwestern Virginia to a population of over nine million people. In the fiscal year ended September 30, 2012, the revenues generated from our electricity sales were $11.1 billion and accounted for virtually all of our revenues.

We manage the Tennessee River, its tributaries and certain shorelines to provide, among other things, year-round navigation, flood damage reduction, and affordable and reliable electricity. Consistent with these primary purposes, we also manage the river system to provide recreational opportunities, adequate water supply, improved water quality, natural resource protection, and economic development. We perform these management duties in cooperation with other federal and state agencies which have jurisdiction and authority over certain aspects of the river system. The TVA Board also has established a council under the Federal Advisory Council Act to advise us on our stewardship activities. Our stewardship responsibilities are conducted within the Tennessee watershed, whose boundaries are similar to, though not exactly the same as, our service area.

Initially, all of our operations were funded by federal appropriations. Direct appropriations for our power program ended in 1959, and appropriations for our stewardship, economic development, and multipurpose activities ended in 1999. Since 1999, we have funded all of our operations almost entirely from the sale of electricity and power system financings.

Although we are similar to other power companies in many ways, there are many features that make us different. Some of these features include:

- We were created by an act of the U.S. Congress and are a wholly-owned corporate agency and instrumentality of the United States.
- Each member of the TVA Board is appointed by the President of the United States with the advice and consent of the U.S. Senate.
- We do not own real property; we hold the real property we use or manage as an agent for the United States.
- We are required to make payments to the U.S. Treasury as a repayment of and a return on the appropriation investment that the United States provided us for our power program.
- As a wholly-owned government corporation, we are not authorized to issue equity securities such as common or preferred stock. Accordingly, we finance our operations primarily with cash flows from operations and power system financings – primarily, the sale of debt securities and secondarily, alternative forms of financing such as this lease-purchase transaction.
- The TVA Board sets the rates we charge for power. In setting rates, the TVA Board must have due regard for the objective that power be sold at rates as low as are feasible. These rates are not subject to judicial review or review by any regulatory body.
- We are exempt from paying U.S. federal income taxes and state and local taxes, but we must pay some states and counties an amount in lieu of taxes equal to five percent of our gross revenues from the sale of power during the preceding year, excluding sales or deliveries to other federal agencies and off-system sales with other utilities, with a provision for minimum payments under some circumstances.

- We perform stewardship activities in connection with the Tennessee River and its tributaries and are required by federal law to fund these activities primarily with revenues from the power system and to a lesser extent with revenues from other sources.

Recent Developments

Our operating revenues for the month ended July 31, 2013 were $1,065 million as compared with operating revenues of $1,225 million for the same period of the prior year. This decrease of $160 million was primarily due to unseasonably mild weather conditions in the Tennessee Valley region during the month of July 2013. The numbers in this paragraph relating to our operating revenues for the month ended July 31, 2013 have been derived from our accounting records, are unaudited and remain subject to adjustment in connection with our quarterly review procedures.

The Facility

The facility is a combined cycle generating facility located in Southaven, Mississippi, close to Memphis, Tennessee, with a summer net generation capacity of approximately 774 megawatts. The facility, which commenced commercial operation in 2003, consists of three gas fired combustion turbines (General Electric Frame 7FA Combustion Turbine Generator ("CTG")), three Aalborg Heat Recovery Steam Generators ("HRSG"), three General Electric A10 steam turbine generators and associated balance of plant systems and equipment. In addition to the three units, the facility consists of related accessory equipment, natural gas fuel supply systems, six water wells on site, a demineralized water treatment plant, administration and maintenance buildings, as well as site electrical systems, control systems and various balance of plant systems.

Each HRSG also has duct-burner capability that can provide up to twenty-six megawatts of additional duct-firing capacity. The duct-burners have generally been used during hot summer periods to provide additional generation when demand is high. Coupled with low-nitrogen oxide combustors installed in each CTG, selective catalytic reduction systems are installed on each HRSG to control nitrogen oxide emissions at the facility. The units have a continuous emissions monitoring system that measures and reports all regulated emissions.

Power generated at the facility can be delivered to our transmission system or the Entergy Mississippi, Inc. ("Entergy") transmission system via step-up transformers and an onsite switchyard. Each unit at the facility has its own step-up transformer and circuit breaker to the facility's 230-kV transmission bus. Power is then delivered to the Entergy electrical system via Entergy's 230-kV transmission line or to our electrical system via our 230/500-kV autotransformer to our 500-kV transmission line. The facility is served by a single natural gas interconnection from Texas Gas Transmission Corporation. The facility does not have black start capability. The term "facility" as used in this offering circular does not include the switchyard, any portion of the Entergy or TVA transmission system or other property or assets that are not necessary or useful in connection with the operation or support of the units of the facility.

As described above, the facility site consists of the real property, other than fixtures, underlying the facility. Public roads adjacent to the site provide ingress and egress to the facility site. For more information on the real estate arrangements relating to the facility site, see "Summary Description of the Lease and Other Transaction Documents – Ground Interest and Real Estate Arrangements."

Seven States currently owns a ninety percent undivided interest in the facility and we own the remaining ten percent undivided interest in the facility (other than portions that constitute real property, which portions are owned by the United States and have been entrusted to us, as agent of the United States, under the TVA Act). Seven States also currently owns a ninety percent undivided interest in the facility site. The remaining ten percent undivided interest in the facility site is owned by the United States and has been entrusted to us, as agent of the United States, under the TVA Act. Seven States currently leases its ninety percent undivided interest in the facility and the facility site to us pursuant to the existing lease.

Upon consummation of the payoff transaction, all obligations under the existing loans will terminate and any liens associated with the existing loans will be released. In addition, the existing lease and the existing joint ownership agreement between us and Seven States will be terminated and the parties thereto will have no further obligations or liabilities thereunder, except for our obligation to make any final payment under the existing lease and

certain mutual indemnification obligations, which will survive for a specified period. See "Summary Description of the Payoff Transaction – Payoff Transaction."

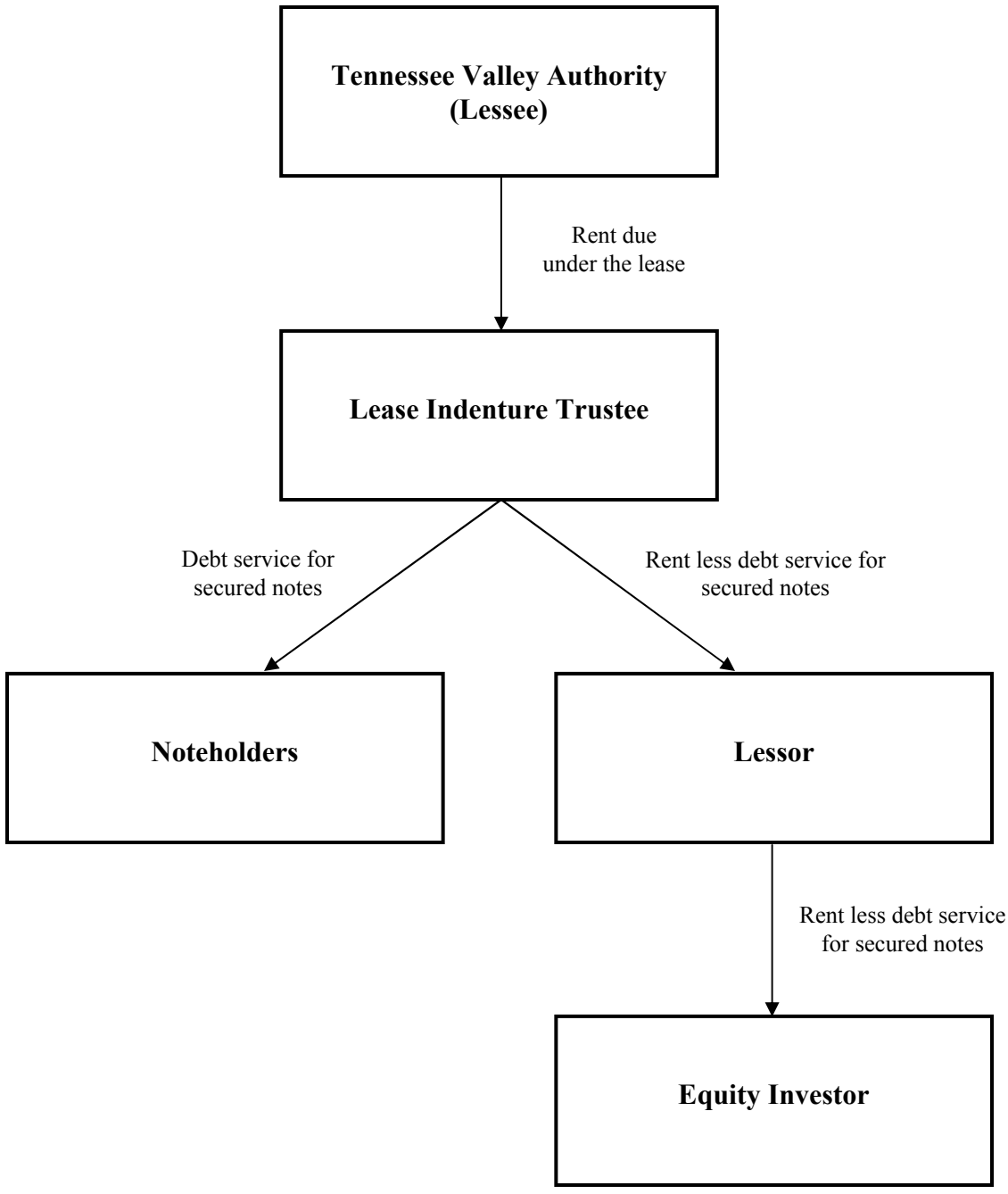
USE OF PROCEEDS

The aggregate proceeds from the sale of the secured notes will be $360,000,000. The lessor will use the proceeds from the sale of the secured notes, together with $40,000,000 of equity contributed by the equity investor to the lessor in respect of the equity investment, to lease the undivided interest from us for a one-time payment of head lease rent in an amount equal to $400,000,000.

We will use the head lease rent payment, together with additional amounts being transferred to us by Seven States, to pay in full all outstanding amounts owed by Seven States under the existing loans, the existing credit agreement and related agreements, for the benefit of our power program and to pay transaction expenses (including the underwriters discount and commission) associated with this offering and the overall transaction. An affiliate of J.P. Morgan Securities LLC, an underwriter in this offering, is a lender under the existing loans. Such affiliate will receive approximately $269.7 million of the aggregate proceeds from the sale of the secured notes.

FLOW OF FUNDS FOR DEBT SERVICE PAYMENTS OF THE SECURED NOTES

The following diagram illustrates the payment flows in the lease transaction among us, the lease indenture trustee, the noteholders, the lessor and the equity investor.



DESCRIPTION OF THE SECURED NOTES

The statements under this caption are a summary only. This summary may not contain all the information that is important to you. For additional or more specific information, refer to the secured notes, the lease indenture, and the other transaction documents. This summary makes use of terms defined in the participation agreement. Forms of the transaction documents may be obtained free of charge upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401, Attention: Treasury & Investor Relations, by sending an e-mail to investor@tva.com, or by calling 1-888-882-4975.

General

The lessor will issue secured notes in an aggregate principal amount of $360,000,000 under the lease indenture with Wilmington Trust Company, as the lease indenture trustee. The secured notes are scheduled to mature on August 15, 2033. Interest on the secured notes will accrue at a rate of 3.846% per year and will be payable semiannually in arrears on August 15 and February 15 of each year, commencing on February 15, 2014. Such interest payments will include any interest accrued from and including August 9, 2013, or the preceding interest payment date, as the case may be, to but excluding the applicable interest payment date. Interest will be computed on the basis of a 360-day year of twelve 30-day months. Payments of principal of and interest on the secured notes will be made on any applicable payment date to holders of the secured notes that are holders as of the close of business on the business day immediately preceding such payment date. If any day on which principal, premium, if any, or interest on the secured notes is payable is not a business day, payments to holders of secured notes will be made on the next succeeding business day with the same effect as if made on the date on which such payment was due. As used in this paragraph, the term "business day" shall mean any day other than a Saturday or Sunday or a day on which commercial banking institutions in Wilmington, Delaware, Knoxville, Tennessee, or the city and state in which the corporate trust office of the lease indenture trustee, the manager of the lessor or the manager of the equity investor are authorized or required by law or executive order to be closed. The secured notes will be issued in minimum denominations of $2,000 or integral multiples of $1,000 in excess thereof, and in fully registered form without coupons.

Persons owning a beneficial interest in the secured notes, referred to as "beneficial owners," will not be entitled to receive a definitive certificate representing such person's interest in the secured notes, except as described below under "– Book-Entry; Delivery and Form." Unless definitive certificates are issued under the limited circumstances described below, all references to actions by registered holders of secured notes, or noteholders, mean actions taken by DTC upon instructions from its participants, and all references made in this offering circular to distributions, notices, reports and statements to noteholders will refer, as the case may be, to distributions, notices, reports and statements to DTC or its nominee, Cede & Co. (or such other name as may be requested by an authorized representative of DTC), as the registered holder of the secured notes, or to DTC participants for distribution to beneficial owners in accordance with DTC procedures. See "– Book-Entry; Delivery and Form" below. You should consult with each bank or broker through which you hold a beneficial interest in a secured note for information on how you will receive notices and payments with respect to the secured notes.

Source of Payment and Security

Source of Payment

Our basic rent payments under the lease will be the principal source of payment for the principal of and interest on the secured notes. The term of the lease will commence on the closing date and is scheduled to expire coterminously with the final maturity of the secured notes.

Under the lease, we are unconditionally obligated to pay rent and other amounts to the lessor that will be sufficient for the lessor to pay the principal of and premium, if any, and interest on the secured notes when due and payable. However, the secured notes are not obligations of, or guaranteed by, us or the United States. In some circumstances described below, we may replace and exchange the secured notes for TVA power bonds (as defined under "– *Priority of Payments under the Bond Resolution*") issued under the Bond Resolution.

The payment schedule for the secured notes is structured to match in timing and amount the payment schedule for the basic rent payable by us under the lease. The initial aggregate principal amount of the secured notes is $360,000,000. Scheduled payments of principal of the secured notes, in the aggregate, are as follows:

Payment dates	Scheduled payments of principal of secured notes	Approximate cumulative percentage paid on the initial balance of the secured notes
February 15, 2014	$8,252,169.65	2%
August 15, 2014	8,641,618.87	5%
February 15, 2015	8,807,797.20	7%
August 15, 2015	8,977,171.14	10%
February 15, 2016	9,149,802.14	12%
August 15, 2016	9,325,752.84	15%
February 15, 2017	9,505,087.07	17%
August 15, 2017	9,687,869.89	20%
February 15, 2018	9,874,167.63	23%
August 15, 2018	10,064,047.87	26%
February 15, 2019	10,257,579.51	28%
August 15, 2019	10,454,832.77	31%
February 15, 2020	10,655,879.20	34%
August 15, 2020	10,860,791.76	37%
February 15, 2021	11,069,644.78	40%
August 15, 2021	11,282,514.05	44%
February 15, 2022	11,499,476.80	47%
August 15, 2022	11,720,611.74	50%
February 15, 2023	11,945,999.10	53%
August 15, 2023	6,567,473.71	55%
February 15, 2024	6,693,766.23	57%
August 15, 2024	6,822,487.36	59%
February 15, 2025	6,953,683.79	61%
August 15, 2025	7,087,403.13	63%
February 15, 2026	7,223,693.89	65%
August 15, 2026	7,362,605.52	67%
February 15, 2027	7,504,188.43	69%
August 15, 2027	7,648,493.97	71%
February 15, 2028	7,795,574.51	73%
August 15, 2028	7,945,483.41	75%
February 15, 2029	8,098,275.06	78%
August 15, 2029	8,254,004.88	80%
February 15, 2030	8,412,729.40	82%
August 15, 2030	8,574,506.19	85%
February 15, 2031	8,739,393.94	87%
August 15, 2031	8,907,452.48	90%
February 15, 2032	9,078,742.80	92%
August 15, 2032	9,253,327.02	95%
February 15, 2033	9,431,268.50	97%
August 15, 2033	9,612,631.75	100%

Payments under the lease in excess of the amounts needed to make required payments on the secured notes generally will be paid by the lease indenture trustee to the lessor for distribution to the equity investor and will not be available for distribution to the noteholders so long as no lease indenture event of default has occurred and is continuing.

Priority of Payments under the Bond Resolution

We have covenanted in the transaction documents to charge rates that, together with other monies available to us, will be sufficient to pay all charges relating to our power program (as defined in the Bond Resolution), including rent under our lease transactions with respect to our power properties (as defined in the Bond Resolution), including the lease. We are not subject to rate regulation by any federal or state governmental authority. The TVA Board has exclusive authority to establish the rates that we charge for power to our customers within the parameters established under the TVA Act, which includes the objective that power be sold at rates as low as feasible.

Under the Bond Resolution, payments of the costs of operating, maintaining and administering our power properties and payments to states and counties in lieu of taxes are made from the gross revenues of our power program. Amounts remaining after deducting such payments, together with the net proceeds from sale or disposition of any power facility or interest in any power facility, constitute net power proceeds. The Bond Resolution requires that net power proceeds be applied first to pay interest on bonds ("TVA power bonds"), bond anticipation obligations and other evidences of indebtedness, each issued under the Bond Resolution, which rank on a parity with TVA power bonds as to interest, to pay the principal due on TVA power bonds and other evidences of indebtedness issued under the Bond Resolution which rank on a parity with TVA power bonds as to principal and to satisfy sinking funds or similar obligations under any supplemental resolution under the Bond Resolution. The remaining net power proceeds may be used only for:

- required interest payments on any evidences of indebtedness under the Bond Resolution which do not rank on a parity with TVA power bonds as to interest;
- required payments of or on account of principal of any evidences of indebtedness which do not rank on a parity with TVA power bonds as to principal;
- minimum payments required to be made to the U.S. Treasury as required by the TVA Act; and
- investment in assets relating to our power program, additional reductions of our capital obligations and other lawful purposes relating to our power program.

Importantly, the Bond Resolution does not permit obligations issued thereunder to be accelerated following an event of default. In addition, we cannot be a debtor under the U.S. Bankruptcy Code or other federal or state debtor relief proceedings absent a change in federal law.

While we intend that scheduled periodic, basic rent payments under the lease be treated as costs of operating, maintaining and administering our power properties (as defined in the Bond Resolution), neither the TVA Act nor the Bond Resolution defines or clarifies what costs or activities constitute "operating, maintaining and administering" power properties for purposes of the Bond Resolution, and no court has construed this phrase. Therefore, no assurance can be given that a court would conclude that our payment of basic rent under the lease constitutes the costs of "operating, maintaining and administering" our power properties.

If our payments of scheduled periodic "basic" rent under the lease constitute costs of operating, maintaining and administering our power properties under the Bond Resolution, we would be obligated to pay basic rent out of gross revenues of our power program and prior to principal of and interest on TVA power bonds and other amounts referred to above that are payable out of net power proceeds. If our payments of basic rent do not constitute the costs of operating, maintaining and administering our power properties under the Bond Resolution, basic rent under the lease would constitute payments for "other lawful purposes" and thus would be payable on a parity with other amounts at the end of the priority of payments to be applied out of net power proceeds.

We do not believe that additional, or "supplemental," rent paid by us under the lease (which includes termination value) would constitute costs of operating, maintaining and administering our power program. As a result, we believe that supplemental rent will constitute payments for "other lawful purposes" and be payable on a parity with other amounts at the end of the priority of payments under the Bond Resolution to be applied out of net power proceeds.

Security

The secured notes will be secured by a lien on and first priority security interest in the rights and interests of the lessor in and to the collateral, which will include the lessor's interest in the undivided interest created by the head lease and the lessor's interest in the ground interest created by the ground lease which the lessor leases from us under the head lease and the ground lease, respectively, and the lessor's interests in the following:

- the participation agreement, the head lease, the lease, the ground lease, the ground sublease and the support agreement (collectively the "assigned agreements"), including the right to receive payments of basic rent, supplemental rent, termination value and other payments under the lease and condemnation, requisition and other awards and payments and all rights of the lessor to exercise any rights or options, make any determination or give or receive any notice, consent, waiver or approval or to take any other action under the assigned agreements, as well as rights, powers and remedies of the lessor, whether arising out of the assigned documents or by statute or at law or equity or otherwise;
- all rents (including basic rent and supplemental rent), issues, profits, royalties, products, revenues and other income of all property subject to the lien of the lease indenture, including payments or proceeds payable to the lessor with respect to the sale of the undivided interest or the ground interest (including after the termination of the lease);
- all moneys, securities and other investment property paid to or deposited with the lease indenture trustee under the lease indenture or any other assigned agreement;
- all restitution we are required to pay resulting from a determination that any of the assigned agreements are invalid;
- amounts paid or payable by us to the lessor under the participation agreement and any of the lessor's rights to enforce payment of those amounts;
- all other property, rights, and privileges of every kind, real, personal and mixed, tangible and intangible, now held or to be acquired by the lessor under the assigned agreements; and
- all proceeds of all of the foregoing.

The collateral will not include specified excepted payments, including the following:

- payments relating to indemnification by us of the manager of the lessor, the equity investor, the manager of the equity investor, any equity lender, any member of the equity investor (including a profits member for the purposes of the Code) (each, an "equity investor member"), the trust company or their respective successors and permitted assigns (other than the lease indenture trustee);
- reimbursement by us of the costs and expenses of the lessor, the equity investor, the manager of the lessor, the manager of the equity investor, any equity investor member, or any equity lender related to exercising their respective rights under the transaction documents;
- any insurance proceeds under any insurance maintained by the lessor or the equity investor in respect of the facility;
- amounts payable to the equity investor as the purchase price of its membership interest in the lessor in connection with any permitted sale or transfer of the equity investor's membership interest in the lessor under the transaction documents;
- amounts payable to the equity investor upon our exercise of a special lessee transfer (as defined under "Summary Description of the Lease and Other Transaction Documents – Early Termination of the Lease, Events of Loss, and Regulatory Events of Loss – *Special Lessee Transfer*") under the terms of the transaction documents;
- all fees expressly payable to the lessor, the equity investor, the manager of the lessor, the manager of the equity investor, or any equity lender under the transaction documents;
- amounts payable by us to the lessor in connection with a regulatory event of loss; and

- any payment of interest attributable to the foregoing payments.

The lessor also will reserve rights to cure specified lease events of default. The collateral will be subject to other rights of the lessor, including, among others, the right to demand and receive excepted payments (except for rights to pursue those payments as against the lease indenture estate), rights to adjust basic rent and termination value in accordance with the lease (so long as after any adjustments basic rent and termination values are sufficient to pay the principal of and interest on the secured notes) and rights to declare us to be in default with respect to any excepted payments (but not to exercise any remedies under the lease).

If no lease indenture event of default or significant lease default (as defined under "Summary Description of the Lease and Other Transaction Documents – Covenants – *Financing Modifications through the Lease*") has occurred and is continuing under the lease indenture, the lessor may exercise all of the rights of the lessor under the transaction documents, subject to specific exceptions (including with respect to amendments, waivers, modifications and consents under specified provisions of the transaction documents). The lessor's rights, however, will not include the right to receive payments of basic rent and certain other amounts due under the lease, all of which will be made directly to the lease indenture trustee until the secured notes are paid in full. For a description of other rights of the lessor, see "Summary Description of the Lease and Other Transaction Documents – Lease Events of Default."

Funds held from time to time by the lease indenture trustee under the lease indenture will be invested by the lease indenture trustee in permitted investments selected by the lease indenture trustee. The lessor is required to pay to the lease indenture trustee the amount of any loss resulting from any investment of these funds held by the lease indenture trustee.

Limitation of Liability

The secured notes are not obligations of, or guaranteed by, us, the equity investor, the manager of the equity investor, or the manager of the lessor. Neither the manager of the lessor, the equity investor, the manager of the equity investor or the lease indenture trustee, nor any of their respective affiliates, will be personally liable to any noteholder or, in the case of the manager of the lessor, the manager of the equity investor and the equity investor, to the lease indenture trustee for any amounts payable under any secured notes or, except as provided in the lease indenture, for any liability under the lease indenture. All payments of principal of and premium, if any, and interest on the secured notes (other than payments made by the lessor) will be made only from the assets subject to the lien of the lease indenture or the income and proceeds received by the lease indenture trustee relating to the transaction, including basic rent payable by us under the lease.

Redemption of Secured Notes

Redemption with Premium

The lessor is required to redeem the secured notes, in whole but not in part, at the principal amount of the secured notes being redeemed together with all accrued and unpaid interest, if any, on the secured notes being redeemed to the date of redemption plus a make whole premium (calculated as described in the second succeeding paragraph) in connection with a refinancing of the secured notes. See "Summary Description of the Lease and Other Transaction Documents – Covenants – *Optional Refinancings*."

The outstanding secured notes will also be redeemed, in whole or in part, at the principal amount of the secured notes being redeemed, together with all accrued and unpaid interest, if any, on the secured notes being redeemed to the redemption date, plus a make whole premium (calculated as described in the succeeding paragraph), upon our election to terminate the lease by exercising an early buy out or a partial early buy out (other than as a result of an event of loss (as long as, in connection with an event of loss caused by damage to or destruction of the facility, we certify that we have no current intention to rebuild the facility) or a regulatory event of loss) unless, in the case of redemption in whole, we elect to replace and exchange the secured notes for TVA power bonds issued under the Bond Resolution. See "– Exchange of Secured Notes" below for a description of the conditions to replace and exchange the secured notes for TVA power bonds issued under the Bond Resolution.

The make whole premium for any secured notes subject to redemption with a make whole premium is an amount equal to the discounted present value of the secured notes less the unpaid principal amount of such secured notes, except that the make whole premium will not be less than zero. For these purposes, the discounted present

value of any secured notes subject to redemption under the lease indenture will be equal to the discounted present value of all principal and interest payments scheduled to become due in respect of the secured notes after the date of such redemption, calculated using a discount rate equal to the sum of the yield to maturity on the U.S. Treasury security having a life equal to the remaining average life of the secured notes, *plus* 20 basis points. If there is no U.S. Treasury security having a life equal to the remaining average life of the secured notes, the discount rate will be calculated using a yield to maturity interpolated or extrapolated on a straight-line basis (rounding to the nearest calendar month, if necessary) from the yields to maturity for two U.S. Treasury securities having lives most closely corresponding to the remaining average life of the secured notes. The make whole premium will be determined by an investment banking institution of national standing in the United States selected by us (and reasonably acceptable to the lease indenture trustee). If the lessor or the lease indenture trustee does not receive notice of such selection within twenty days prior to a scheduled payment date or if a significant lease default under the lease has occurred and is continuing, the investment banking institution will be selected by the lease indenture trustee.

Redemption without Premium

The outstanding secured notes will be redeemed without premium in connection with our election to terminate the lease by exercising an early buy out in connection with an event of loss (as long as, in connection with an event of loss caused by damage to or destruction of the facility, we certify that we have no current intention to rebuild the facility) or a regulatory event of loss. In this case, the redemption price will be equal to the principal amount of the secured notes being redeemed, together with all accrued and unpaid interest, if any, on the secured notes being redeemed to the redemption date, without any premium.

The outstanding secured notes will be redeemed in whole in connection with our early buy out of the lease resulting from a regulatory event of loss. The outstanding secured notes also will be redeemed in whole in connection with our early buy out of the lease resulting from an event of loss relating to the entire facility, and will be redeemed in part in connection with our early buy out of the lease resulting from an event of loss relating to less than all of the units of the facility. For a description of the conditions that would allow us to exercise an early buy out resulting from an event of loss or a regulatory event of loss, see "Summary Description of the Lease and Other Transaction Documents – Early Termination of the Lease, Events of Loss, and Regulatory Events of Loss – *Events of Loss*" and "– *Regulatory Events of Loss*." Under the lease, we may elect to replace and exchange the secured notes for TVA power bonds issued under the Bond Resolution in connection with an early buy out. As a result, the secured notes would not be redeemed if we elect to effect a replacement and exchange of the secured notes in connection with an early buy out resulting from an event of loss or a regulatory event of loss. See "– Exchange of Secured Notes" below for a description of the conditions under which we may replace and exchange the secured notes for TVA power bonds issued under the Bond Resolution.

Lease Indenture Events of Default

An event of default under the lease indenture (each, a "lease indenture event of default") will consist of any of the following:

- a lease event of default occurs subject to respective grace or cure periods applicable to lease events of default, except that our failure to pay any amount of the equity portion of basic rent (as defined under "Summary Description of the Lease and Other Transaction Documents – Lease Term, Rent and Termination Values") will not constitute a lease indenture event of default if the lease event of default is waived by the lessor, and so long as our failure to make that payment is not the fourth consecutive or seventh cumulative failure to pay any amount of the equity portion of basic rent;

- the lessor fails to pay principal, premium (if any) and interest or any other amounts due with respect to the secured notes or the lease indenture that continues unremedied for five business days (other than a failure resulting from a lease event of default);

- the lessor fails to perform or observe any of its covenants, obligations or agreements under the lease indenture (other than a failure to pay amounts when due as described under the preceding bullet) or the lessor or the manager of the lessor fails to perform or observe any of their respective covenants, obligations or agreements under the transaction documents, or the equity investor fails to perform or observe any of its covenants, obligations or agreements under the transaction documents (other than

any equity note purchase document), in each case in any material respect, and this failure continues unremedied for a period of thirty days after receipt by such party of written notice of such failure; *provided, however*, that if such failure is not capable of being remedied within the thirty-day period, such thirty-day period will be extended for up to an additional 180 days, if such party diligently pursues a remedy and such failure is reasonably capable of being remedied within such extended period;

- specified representations or warranties made by the lessor, the manager of the lessor or the equity investor in the participation agreement will prove at any time to have been incorrect as of the date made in any material respect and continue to be material and unremedied for a period of thirty days after the receipt by the lessor, the manager of the lessor or the equity investor, as applicable, of written notice of the inaccuracy*; provided, however*, that if such breach is not capable of being remedied within the thirty-day period, the thirty-day period will be extended for up to an additional 180 days, if such party diligently pursues such remedy and such incorrectness is reasonably capable of being remedied within such extended period; and

- customary events of bankruptcy and insolvency, whether voluntary or involuntary, or other similar events occur with respect to the equity investor or the lessor.

Acceleration, Rescission and Remedies

Subject to rights of the lessor and the equity investor described below, if a lease indenture event of default has occurred and is continuing, the lease indenture trustee may exercise specified rights and remedies available to it. These remedies include, if a lease event of default has occurred and is continuing, one or more of the remedies with respect to the undivided interest and ground interest afforded to the lessor by the lease or the other transaction documents for lease events of default. See "Summary Description of the Lease and Other Transaction Documents – Lease Events of Default."

The lease indenture trustee's remedies may be exercised by the lease indenture trustee without the consent of or any required action by the lessor and the equity investor. A sale of the lessor's rights in the undivided interest and the ground interest, upon the exercise of the lease indenture trustee's remedies, will be free and clear of any rights of those parties (other than applicable rights of redemption provided by law). No exercise of any remedies by the lease indenture trustee, however, may affect our rights under the lease unless a lease event of default has occurred and is continuing under the lease.

If a lease indenture event of default occurs and is continuing, the lease indenture trustee in its discretion may, and at the direction of a majority in interest of the noteholders will, declare, by written notice to the lessor and the equity investor, the unpaid principal of and accrued interest and premium, if any, on the secured notes immediately due and payable, except that no declaration or notice will be required in the case of a lease indenture event of default or a lease event of default resulting from the commencement of bankruptcy, liquidation or similar proceedings of the lessor, the equity investor or us, respectively. In that case, the principal of and interest and premium, if any, on the secured notes will automatically become due and payable immediately. If no lease indenture event of default exists (other than one caused by a lease event of default), however, the lease indenture trustee will not be permitted to declare the unpaid principal amount of the secured notes, together with interest and premium, if any, on the unpaid principal amount, immediately due and payable unless the lease indenture trustee is also permitted to exercise remedies intended to dispossess us of our interest in the undivided interest under the lease. See "Summary Description of the Lease and Other Transaction Documents – Lease Events of Default."

If a lease indenture event of default caused by a lease event of default has occurred and is continuing and no other lease indenture event of default exists, the lease indenture trustee may not exercise any remedy under the lease indenture to divest the lessor of its ownership interest in any of the collateral, unless the lease indenture trustee is entitled to exercise one or more remedies under the lease intended to dispossess us of our interest in the undivided interest under the lease. The lease indenture trustee must also have commenced the exercise of one or more of the dispossessory remedies permitted in the lease and be using good faith efforts to exercise those remedies (and not merely asserting a right or claim to do so). So long as no lease indenture event of default (other than a lease indenture event of default caused by a lease event of default) has occurred and is continuing, neither the lease indenture trustee nor any holder of secured notes may take affirmative action to divest the lessor of its interest in:

- the lease and its right to assert claims thereunder; or

- any portion of the collateral (other than the lease and rights to assert claims thereunder) prior to the time at which it is necessary to deliver to a third party the lessor's ownership interest in such collateral pursuant to a sale or other disposition of such collateral, provided that the lessor has delivered to the lease indenture trustee, promptly upon request, all instruments of title (or of other interest) and other documents required to be delivered to the lease indenture trustee to enable the lease indenture trustee to obtain possession of all or any part of the collateral, which instruments and documents will be held by the lease indenture trustee for release and delivery at, or immediately prior to, a sale or disposition to a third party.

If a lease indenture event of default caused by a lease event of default has occurred and is continuing and no other lease indenture event of default exists, the lease indenture trustee may not exercise remedies under the lease indenture unless it has given at least ten days' notice of the lease indenture event of default to the lessor, the equity investor, and the equity lenders. Furthermore, if a lease indenture event of default caused by a lease event of default has occurred and is continuing, the lease indenture trustee may only exercise the remedy that requires us to pay FMV net termination value (as defined below) with the consent of holders of the secured notes holding not less than seventy-five percent of the unpaid principal amount of the secured notes. See "Summary Description of the Lease and Other Transaction Documents – Remedies."

If a lease event of default has occurred that permits the lessor to dispossess us of our interest in the undivided interest under the lease and the lessor (or the lease indenture trustee acting as its assignee) elects to exercise the remedies that provide for dispossession, and we are required to pay amounts in respect of termination value, we may elect to pay those amounts in three equal annual installments together with interest, subject to certain conditions. See "Summary Description of the Lease and Other Transaction Documents – Termination Payment Term Out." If the secured notes remain outstanding, we will pay these annual installments to the lease indenture trustee.

If, at any time after acceleration of the secured notes has occurred under the lease indenture:

- all amounts of principal, premium, if any, and interest which are then due and payable in respect of all the secured notes other than as a result of the acceleration are paid in full, together with interest on all overdue principal and (to the extent permitted by applicable law) overdue interest at the rate or rates specified in the secured notes, and an amount sufficient to cover all costs and expenses of collection incurred by or on behalf of the holders of the secured notes (including counsel fees and expenses and all expenses and reasonable compensation of the lease indenture trustee); and

- every other lease indenture event of default is remedied,

then, a majority in interest of the holders of the secured notes may, by written notice or notices to the lessor, the lease indenture trustee and us, rescind and annul the acceleration and any related declaration of default under the lease and their respective consequences. No rescission and annulment will extend to or affect any subsequent lease indenture event of default or impair any resulting right; no rescission and annulment will require any holder of a secured note to repay any principal or interest paid as a result of the acceleration; and no rescission or annulment will be effective unless the lease and the other transaction documents will continue to be in full force and effect or will be reinstated (to the extent terminated prior to the reinstatement).

Lessor Cure Rights

If we fail to make a payment of basic rent due on any rent payment date (as defined under "Summary Description of the Lease and Other Transaction Documents – Lease Term, Rent and Termination Values"), and our failure does not constitute the fourth consecutive failure to pay basic rent, or the seventh cumulative failure to pay basic rent, the lessor may (but need not) pay the lease indenture trustee an amount equal to the principal of and premium, if any, and interest on the secured notes then due (otherwise than by declaration of acceleration) on the relevant rent payment date, together with any interest due as a result of the delayed payment. The lessor, however, will not be permitted to pay those amounts if a lease indenture event of default other than a lease indenture event of default resulting from a lease event of default has occurred and is continuing or the lease indenture trustee has

commenced the exercise of remedies under the lease. The payment of those amounts by the lessor will be deemed for purposes of the lease indenture to cure any lease indenture event of default that arose or would have arisen from our failure to pay basic rent. If any lease event of default relating to our failure to pay supplemental rent has occurred and is continuing and no lease indenture event of default (other than one resulting from a lease event of default) has occurred and is continuing, and if the lease indenture trustee has not commenced the exercise of remedies under the lease, the lessor may (but need not) cure the lease event of default.

Lessor's Right to Purchase Secured Notes

The lessor has the right to purchase the secured notes outstanding under the lease indenture, without any premium (except as described below), at a price equal to the outstanding principal amount of those secured notes, together with accrued and unpaid interest to the date of purchase, if any, and all sums which, if any payments after a lease indenture event of default under the lease indenture was then applicable, the holders of those secured notes would have been entitled to be paid before any payments were made to the lessor, if all of the following circumstances occur:

- a lease indenture event of default in consequence of a lease event of default, has occurred and is continuing without the acceleration of the secured notes or the exercise of any remedy under the lease by the lease indenture trustee intended to dispossess us of our interest in the undivided interest under the lease and our interest in the ground interest under the ground lease, or the lease indenture trustee has provided us and the lessor written notice that it intends to exercise remedies available under the lease indenture intended to divest the lessor of its interest under the head lease, or us of our interest under the lease, in the undivided interest as the result of the occurrence of a lease indenture event of default or a lease event of default;

- no lease indenture event of default (other than solely as the result of the occurrence of a lease event of default) has occurred and is continuing under the lease indenture; and

- the lessor has notified the lease indenture trustee in writing of its intention to purchase the secured notes.

If the lessor's purchase of the secured notes occurs within 180 days of a lease indenture event of default caused by a lease event of default (but without the lease indenture trustee notifying us that it intends to exercise dispossessory remedies or the secured notes being accelerated), the purchase price will include a premium equal to the make whole premium. See "– Redemption of Secured Notes – *Redemption with Premium*" above.

Modification of the Transaction Documents

The lease indenture trustee may, without the consent of the holders of the secured notes, enter into any supplemental lease indenture or execute any amendment, modification, supplement, waiver or consent with respect to any other transaction document to:

- evidence the succession of another person as manager of the lessor or to evidence the succession of a successor as the lease indenture trustee under the lease indenture, the removal of the lease indenture trustee or the appointment of any separate or additional lease indenture trustee or trustees, in each case in accordance with the terms of the lease indenture, and to define the rights, powers, duties and obligations conferred upon any separate lease indenture trustee or trustees or co-trustees;

- correct, confirm or amplify the description of any property at any time, subject to the lien of the lease indenture, or to convey, transfer, assign, mortgage or pledge any property to or with the lease indenture trustee;

- provide, in accordance with the lease indenture, for any evidence of the creation and issuance of any additional secured notes in accordance with the lease indenture or supplemental lease indenture and to establish the form and terms of such additional secured notes issued in connection with any refinancing or supplemental financing (see "– Refinancing the Secured Notes and Additional Secured Notes" below);

- cure any ambiguity in, to correct or supplement any defective or inconsistent provision of, or to add to or modify any other provisions and agreements in, the lease indenture or any other transaction document, in any manner that will not, in the judgment of the lease indenture trustee, materially adversely affect the interests of the noteholders;

- grant or confer upon the lease indenture trustee for the benefit of the noteholders any additional rights, remedies, powers, authority or security which may be lawfully granted or conferred and which are not contrary to or inconsistent with the lease indenture;

- add to the covenants or agreements to be observed by us or the lessor and which are not contrary to the lease indenture, to add lease indenture events of default for the benefit of the noteholders or surrender any right or power of the lessor; or

- effect the replacement and exchange, refinancing or refunding of any or all of the secured notes by us, in a manner consistent with the lease indenture.

The lease indenture trustee may enter into any supplemental lease indenture or execute any amendment, modification, supplement, waiver or consent with respect to the lease indenture or any other transaction document, without the consent of the holders of the secured notes, so long as the supplemental lease indenture, amendment, modification, supplement, waiver or consent will not, in the judgment of the lease indenture trustee, materially adversely affect the interests of the noteholders. An amendment, modification, supplement, waiver or consent will be presumed not to materially adversely affect the interests of the noteholders if the lease indenture trustee is furnished with written evidence from one or more nationally recognized rating agencies then rating the secured notes that their respective ratings of the secured notes will not be withdrawn or reduced as a result of the supplemental lease indenture, amendment, modification, supplement, waiver or consent. However, the failure to qualify for this presumption will not create any presumption to the contrary or be used to question the judgment of the lease indenture trustee. These rights of the lease indenture trustee to amend, modify, supplement, consent or waive the provisions of the lease indenture or any other transaction document may not be used to amend, modify, supplement, consent or waive the lease indenture or any other transaction document in a manner that is permitted only with the consent of the noteholders described in the following paragraph.

Except as described in the preceding two paragraphs, the lease indenture trustee will not be permitted to agree to any supplement to or amendment of the lease indenture or consent to any amendment, modification or supplement of any transaction document or deliver any written waiver with respect to any transaction document, without the consent of the holders representing a majority of the outstanding principal amount of the secured notes. In addition, the consent of the holders representing one hundred percent of the outstanding principal amount of the secured notes will be required to:

- modify the definition of the term "majority in interest of noteholders" in the transaction documents or reduce the percentage of noteholders required to take or approve any action under the lease indenture;

- change the amount or the time of payment of any amount owing or payable with respect to any secured notes or change the rate or manner of calculation of interest or premium payable with respect to any secured notes;

- alter or modify the provisions of the lease indenture relating to the manner of payment or the order of priorities in which distributions will be made as between the noteholders and the lessor and the remedies available to the lessor under the lease;

- reduce the amount (except to any amount as will be sufficient to pay the aggregate principal of and interest on all the secured notes) or extend the time of payment of basic rent or termination value, except as expressly provided in the lease, or change any of the circumstances under which basic rent or termination value is payable; or

- consent to any assignment of the lease if we would be released from our obligation to pay basic rent or termination value or otherwise release us from our obligations to pay basic rent or termination value or change the absolute and unconditional character of those obligations.

Except as described in the preceding three paragraphs, the lease indenture trustee may not execute any amendment, modification, supplement, waiver, or consent with respect to any transaction document.

In connection with the execution and delivery of any amendment or supplement, the lease indenture trustee will be entitled to receive an opinion of counsel that such amendment or supplement is permitted by the lease indenture and an officer's certificate of the lessor that all conditions precedent to the execution and delivery of such amendment or supplement have been satisfied.

Refinancing the Secured Notes and Additional Secured Notes

Additional notes of the lessor ("additional secured notes") may be issued from time to time in connection with a refinancing or for the purpose of financing modifications of the facility through the lease. Prior notice of and a request for the authentication of the issuance of additional secured notes, legal opinions, and officer's certificates related to defaults, satisfaction of conditions, and the sufficiency of basic rent must be delivered to the lease indenture trustee in connection with a refinancing of the secured notes and any additional secured notes or the issuance of any additional secured notes. See "Summary Description of the Lease and Other Transaction Documents – Covenants – *Optional Refinancings*" and "– *Financing Modifications through the Lease*," respectively.

Exchange of Secured Notes

Unless a significant lease default (as defined under "Summary Description of the Lease and Other Transaction Documents – Covenants – *Financing Modifications through the Lease*") or lease event of default has occurred and is continuing after giving effect to an exchange of the secured notes for TVA power bonds, upon the termination of the lease in whole (but not in part) as a result of our election of an early buy out of the lease (including in connection with an event of loss or a regulatory event of loss) in accordance with the terms of the lease, we may, at our option, in lieu of paying the debt portion of the termination value, replace and exchange the secured notes with TVA power bonds which are issued under the Bond Resolution. To effect this exchange and replacement, we will execute and deliver to each holder of the secured notes a TVA power bond in exchange for the secured notes in an aggregate outstanding principal amount and with identical maturity, interest rate (which will be calculated in the same manner as the interest payable with respect to the secured notes being exchanged), amortization schedule, and premium (including the make whole premium), if any, as the secured notes being exchanged. No later than the date of the exchange, and subject to our delivery of replacement TVA power bonds to the lease indenture trustee, acting as exchange agent, the holders of the secured notes will be required to tender their secured notes to the lease indenture trustee in exchange for TVA power bonds then held by the lease indenture trustee. Upon the lease indenture trustee's receipt of the secured notes being replaced and exchanged, the lease indenture trustee will cancel the secured notes. Subject to these conditions, upon the date of the exchange, the lessor will be released and discharged without further act from all obligations and liabilities assumed by us; the lien of the lease indenture upon the lessor's interest in the undivided interest and any other collateral will be deemed released; and the equity investor and the lessor will be deemed released from any and all future obligations in respect of the secured notes and the other transaction documents. In connection with the replacement and exchange, we will be obligated to pay the equity portion of the termination value to the lessor in connection with the equity investment. As a condition to the replacement and exchange of the secured notes, the lease indenture trustee will receive:

- an opinion of counsel reasonably acceptable to the lease indenture trustee to the effect that, among other things, no regulatory approval is required (or if any regulatory approval is necessary or required, that the same has been duly obtained and is in full force and effect) and that the TVA power bonds issued in connection with a replacement and exchange are duly authorized, executed and delivered and constitute our legal, valid and binding obligations, enforceable against us in accordance with their terms;

- an opinion of counsel reasonably satisfactory to the lease indenture trustee to the effect that the replacement and exchange of the secured notes with TVA power bonds will not result in a direct or indirect holder of the secured notes (including any beneficial owner) being subject to U.S. federal income tax on a different amount, in a different manner or at a different time as would have been the case if such exchange had not occurred, unless we have delivered a copy of an IRS private letter ruling to that effect or delivered a tax indemnity undertaking for the benefit of the holders of the secured notes, in each case reasonably satisfactory to the lease indenture trustee; and

- confirmation from the nationally recognized rating agencies then rating TVA power bonds that the TVA power bonds issued in connection with the replacement and exchange will have no lower ratings than the ratings then assigned to outstanding TVA power bonds.

If we elect to effect an exchange of the secured notes, the lease indenture trustee will provide notice to each holder of the secured notes whose notes are being redeemed or exchanged at the noteholder's registered address at least twenty days but not more than sixty days before the exchange date. The notice will include the date of the exchange, a detail of any other amounts due and owing by us under the transaction documents, the name and address of the lease indenture trustee, a statement that the secured notes must be surrendered to the lease indenture trustee to be exchanged for TVA power bonds and that, unless we fail to deliver TVA power bonds to the lease indenture trustee together with the opinions and other items described above, the interest on the secured notes will cease to accrue on the date of the exchange.

Lease Indenture Trustee

Wilmington Trust Company will be the lease indenture trustee under the lease indenture. If a lease indenture event of default occurs and is continuing, any sums held or received by the lease indenture trustee may be applied to the payment of obligations incurred by the lease indenture trustee prior to any payments to the noteholders. The lease indenture will provide that the lease indenture trustee will not be answerable or accountable under any circumstances, unless for its own willful misconduct, gross negligence or simple negligence in the handling of funds and except for liabilities on account of representations, warranties or covenants made by it in its individual capacity. The lease indenture will further provide that, in the case of any lease indenture event of default, the lease indenture trustee will exercise the rights and remedies vested in it by the lease indenture and will use the same degree of care in its exercise as a prudent person would exercise or use in the circumstances in the conduct of its own affairs.

Defeasance of Secured Notes

The secured notes may be defeased under the lease indenture prior to redemption or maturity. A secured note will be deemed to have been paid if there shall have been deposited with the lease indenture trustee either cash in an amount sufficient, or U.S. government obligations, the principal of and interest on which when due (and without any reinvestment), will provide cash in an amount sufficient, in either case together with any other amounts held by the lease indenture trustee, to pay when due the principal of and premium, if any, and interest due and to become due on such secured note on or prior to the redemption date or maturity date, as the case may be, of such secured note. An independent public accountant will establish the sufficiency of the defeasance by the delivery of a certificate. If any secured notes do not mature or are not redeemed within the next forty-five days, the lease indenture trustee is required to have been given irrevocable written instructions to give notice, as soon as practicable, of defeasance to the holders of such secured notes that such secured notes have been deemed to have been paid and stating that the maturity or redemption date on which amounts are to be available for payment of principal of and premium, if any, and interest on the secured notes. Any amounts on deposit (including principal and interest payments on any U.S. government obligations) with the lease indenture trustee for the purposes described in this paragraph may not be withdrawn and may not be used for any purpose other than, and are required to be held in trust for, the payment of principal of and premium, if any, and interest on such secured notes, except that cash received from principal and interest payments on any U.S. government obligations deposited with the lease indenture trustee will be reinvested in accordance with the lease indenture. Any defeased secured note that is deemed paid will, with limited exceptions, no longer be secured by the lease indenture or entitled to the benefits of the lease indenture estate or the lease indenture. The lessor must deliver an opinion of counsel in connection with any defeasance reasonably acceptable to the lease indenture trustee to the effect that the defeasance of the secured notes will not result in a holder of such secured notes being subject to U.S. federal income tax on a different amount, in a different manner or at a different time as would have been the case if such defeasance had not occurred and all conditions to defeasance have been complied with.

Release of the Lien of the Lease Indenture

If a component of the facility is replaced or removed because it is surplus or obsolete and not necessary for the operation of the facility in accordance with the lease, the lien of the lease indenture in the lessor's interest in that component will be released without any further act of any person. In connection with the release, the lease indenture

trustee will, upon written request and by appropriate instrument, release such interest in the component from the lien of the lease indenture. The lessor's interest in any component of the facility that is used to replace a component of the facility will automatically become subject to the lien of the lease indenture. See "Summary Description of the Lease and Other Transaction Documents – Covenants – *Use, Maintenance, and Removal and Replacement of Components*" for a description of lease provisions relating to components of the facility.

If we are at any time entitled under the lease to acquire or have transferred to us a relevant portion of the facility, the lessor's interest in that relevant portion will automatically and without any additional act of any person be released from the lien of the lease indenture. The lease indenture trustee will, upon written request and by appropriate instrument, release the relevant portion from the lien of the lease indenture, so long as any amounts then due and payable under the lease indenture have been paid to the person entitled to those amounts. See "Summary Description of the Lease and Other Transaction Documents – Early Termination of the Lease, Events of Loss, and Regulatory Events of Loss" for circumstances where we may be entitled to have a relevant portion of the facility transferred to us.

If we are at any time entitled under the lease to acquire or otherwise have the undivided interest transferred to us, the lease indenture trustee will release the lease indenture estate from the lien of the lease indenture and will execute and deliver, as directed in writing by us or the lessor, an appropriate instrument releasing the lease indenture estate from the lien of the lease indenture, so long as any amounts then due and payable under the lease indenture have been paid to the person entitled to those amounts.

If we are at any time entitled under the ground lease to release a portion of the ground interest, the lease indenture trustee will release such portion of the ground interest from the lien of the lease indenture and will execute and deliver, as directed in writing by us or the lessor, an appropriate instrument releasing such portion of the ground interest from the lien of the lease indenture, so long as any amounts then due and payable under the lease indenture have been paid to the person entitled to those amounts.

Book-Entry; Delivery and Form

The secured notes will be represented by one or more global certificates, in definitive fully registered form without interest coupons and registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC. All payments made by us under the lease to the lease indenture trustee (as assignee of the lessor) will be in immediately available funds and will be transferred to DTC in immediately available funds.

Secondary trading in long-term notes and debentures of corporate issuers generally is settled in clearinghouse or next-day funds. The secured notes will trade in DTC's Same-Day Funds Settlement System until maturity, and secondary market trading activity in the secured notes will therefore be required by DTC to settle in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity in the secured notes.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered under the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("direct participants") deposit with DTC. DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly ("indirect participants"). DTC has a

rating of AA+ from Standard & Poor's Ratings Services. The DTC rules applicable to its participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of secured notes under the DTC system must be made by or through direct participants, which will receive a credit for the secured notes on DTC's records. The ownership interest of each actual purchaser of each secured note (a "beneficial owner") is then in turn to be recorded on the direct and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the secured notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the secured notes, except in the event that use of the book-entry system for the secured notes is discontinued.

SO LONG AS CEDE & CO. (OR ANY OTHER NOMINEE REQUESTED BY DTC) IS THE REGISTERED OWNER OF THE SECURED NOTES, AS NOMINEE FOR DTC, REFERENCES HEREIN TO THE NOTEHOLDERS OR REGISTERED OWNERS OR OWNERS OF THE SECURED NOTES SHALL MEAN CEDE & CO. (OR SUCH OTHER NOMINEE), AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS.

To facilitate subsequent transfers, all secured notes deposited by direct participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or another nominee as may be requested by an authorized representative of DTC. The deposit of the secured notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the secured notes. DTC's records reflect only the identity of the direct participants to whose accounts the secured notes are credited, which may or may not be the beneficial owners. Direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the secured notes unless authorized by a direct participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to an issuer as soon as possible after the "record date." The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose account securities, such as the secured notes, are credited on the record date (identified in a listing attached to the omnibus proxy).

Redemption notices will be sent to DTC. If less than all of the secured notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in the issue to be redeemed.

Principal of and interest on the secured notes will be paid to Cede & Co., or another nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit direct participants' accounts upon DTC's receipts of funds and corresponding detail information from an issuer in accordance with direct participants' respective holdings shown on DTC's records. Payments by direct and indirect participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name." These payments will be the responsibility of direct participants and indirect participants only and not of DTC, the lessor, the lease indenture trustee or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of distributions to Cede & Co. (or another nominee as may be requested by an authorized representative of DTC) is the responsibility of the lease indenture trustee. Disbursement of these payments to direct participants shall be the responsibility of DTC. Disbursement of these payments to the beneficial owners shall be the responsibility of direct participants and indirect participants.

DTC may discontinue providing its services as depository of the secured notes at any time by giving reasonable notice to us or the lease indenture trustee. Under these circumstances, if a successor depository is not obtained, the secured notes are required to be delivered and printed. Under the lease indenture, the secured notes will remain in book-entry form, except that if DTC or any successor depository is no longer able to act as, or is no longer satisfactorily performing its duties as, securities depository for the secured notes, the lease indenture trustee

may, at its discretion, designate a substitute securities depository for DTC and reregister the secured notes as directed by the substitute securities depository or terminate the book-entry registration system and reregister the secured notes in the names of the beneficial owners of the secured notes provided to it by DTC.

We have provided the description of the operations and procedures of DTC in this offering circular solely as a matter of convenience. These operations and procedures are solely within the control of DTC and are subject to change by DTC from time to time. Neither we, nor the underwriters, nor the lease indenture trustee will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations, and you are urged to contact DTC or its participants directly to discuss these matters. The information in this section "– Book-Entry; Delivery and Form" concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy of the information contained in this section "– Book-Entry; Delivery and Form."

SUMMARY DESCRIPTION OF THE PAYOFF TRANSACTION

The statements under this caption are a summary only. This summary may not contain all the information that is important to you. For additional or more specific information, refer to the purchase and sale agreement (as defined below) and the other transaction documents.

Payoff Transaction

Seven States currently owns a ninety percent undivided interest in the facility and we own a ten percent undivided interest in the facility, other than portions of the facility that constitute real property, which portions are owned by the United States and have been entrusted to us, as agent of the United States, under the TVA Act. Seven States also currently owns a ninety percent undivided interest in the facility site and the remaining ten percent undivided interest in the facility site is owned by the United States and has been entrusted to us, as agent of the United States, under the TVA Act.

Seven States currently leases its ninety percent undivided interest in the facility and the facility site to us pursuant to the existing lease. Seven States financed the purchase of its undivided interest in the facility and the facility site using the proceeds of the existing loans.

On or prior to the closing date, we will enter into a purchase and sale agreement with Seven States (the "purchase and sale agreement"). Pursuant to the purchase and sale agreement, we will acquire all right, title and interest in and to Seven States' ninety percent undivided interest in the facility and, as agent of the United States, acquire fee title to Seven States' ninety percent undivided interest in the real property related to the facility, including, but not limited to, the facility site. In consideration for the transfer by Seven States of its undivided interest in the facility and the real property related to the facility site, including, but not limited to, the facility site, under the purchase and sale agreement, we will pay in full all outstanding amounts owed by Seven States under the existing loans, the existing credit agreement and related agreements using the proceeds from the head lease rent payment and additional amounts being transferred to us by Seven States.

Upon consummation of the payoff transaction, all obligations under the existing loans will terminate and any liens associated with the existing loans will be released. In addition, the existing lease and the existing joint ownership agreement between us and Seven States and other related agreements will be terminated and the parties thereto will have no further obligations or liabilities thereunder.

SUMMARY DESCRIPTION OF THE LEASE AND OTHER TRANSACTION DOCUMENTS

The statements under this caption are a summary only. This summary may not contain all the information that is important to you. For additional or more specific information, refer to the lease and the other transaction documents.

Head Lease

We will retain title to the facility, including the portions of the facility that constitute real property, which portions are owned by the United States and have been entrusted to us, as agent of the United States, under the TVA Act, and, as agent of the United States, the facility site in connection with the transaction. We will lease the undivided interest to the lessor (as "head lessee") under a long-term head lease for a term beginning on the closing date and ending approximately on the thirty-first anniversary of the closing date. In exchange, the head lessee will make a one-time payment to us of head lease rent on the closing date. The head lessee will surrender to us its interest in the head lease upon an early buy out of the lease in whole (as described below), upon the expiration of the lease term where the undivided interest is returned to us or upon expiration or termination of the head lease by its terms. If the lease is terminated in part with respect to a partial early buy out, the head lease will terminate with respect to the relevant portion of the undivided interest subject to the partial early buy out on the same date as the relevant portion of the undivided interest is no longer subject to the lease. At any time after the expiration of the lease in circumstances where we are required to deliver possession of the undivided interest to the lessor, or after a termination of the lease as provided under "– Remedies" below, the head lessee, at its option, may also elect to terminate the head lease without any obligation or liability to us.

Lease Term, Rent and Termination Values

The lease will be executed and delivered by, and will be binding on, and enforceable against, us and the lessor on and as of the closing date. The term of the lease will commence on the closing date and will be coterminous with the maturity of the secured notes. However, if a significant lease default has occurred prior to the scheduled expiration of the lease term and is continuing on such date, the term of the lease will be extended until such time as either the significant lease default has been cured and all relevant amounts due and payable by us under the lease and other transaction documents have been paid or we have delivered possession of the undivided interest to the lessor in accordance with the terms of the lease.

As noted above, scheduled periodic rent payable under the lease is referred to as "basic rent." During the lease term, basic rent will be paid on each August 15 and February 15 (the "rent payment dates"), commencing on February 15, 2014 and ending on August 15, 2033. The amount of basic rent payable on each rent payment date will be listed in a schedule to the lease. Basic rent will be further subdivided on this schedule into the "basic rent (debt portion)," which will correspond in amount and timing to the principal and interest payments due on the secured notes, and the remainder of basic rent which will constitute the "equity portion of basic rent." These amounts are designed to be sufficient for the lessor to pay both the principal of and interest on the secured notes when due and payable and to distribute to the equity investor amounts at least sufficient to permit the equity investor to pay the principal of and interest on the equity investor notes when due and payable. We will make basic rent payments directly to the lease indenture trustee for so long as the secured notes are outstanding. Upon receipt of basic rent payments, the lease indenture trustee will first pay any principal and interest due on the secured notes issued under the lease indenture. As long as no event of default has occurred and is continuing, the lease indenture trustee will then distribute remaining amounts to the lessor for distribution in accordance with the limited liability company agreement of the lessor.

Under the lease and other transaction documents, we may also be obligated to make additional payments from time to time, referred to in this offering circular as "supplemental rent." Supplemental rent includes any and all amounts, liabilities and obligations (other than basic rent) that we assume, agree to or are required to pay under the lease and the other transaction documents (whether or not identified as supplemental rent) to the lessor or any other person. Supplemental rent includes termination value (as described below) and our payment (if any) of make whole premium with respect to the secured notes and equity breakage with respect to the equity investment.

The lease will also contain a schedule listing termination values that will correspond to monthly termination dates. As described in more detail below, we will be required to pay these termination values or

amounts determined with reference to termination values in connection with an early buy out of the lease (including resulting from events of loss and regulatory events of loss). We will also be required to pay termination values or amounts determined with reference to termination values in connection with a termination of the lease resulting from an event of default and the exercise of remedies by the lessor or the lease indenture trustee. With respect to each termination date, the corresponding termination value is intended to be an aggregate amount equal to the sum of the outstanding principal amount of the secured notes as of such date and accrued but unpaid interest on such principal amount, *plus* the outstanding principal amount of the equity investor notes as of such date and the accrued but unpaid interest on such principal amount. We will refer to these two amounts as the "debt portion of the termination value" and the "equity portion of the termination value," respectively, in this offering circular.

Basic rent and termination values will be adjusted to reflect, among other things:

- a reduction in basic rent in connection with a partial termination of the lease following a partial early buy out (including, but not limited to, an early buy out resulting from a partial event of loss);

- a reduction in basic rent in connection with the prepayment by the equity investor of one or more of the equity investor notes in connection with a regulatory event of loss, as described under "– Early Termination of the Lease, Events of Loss, and Regulatory Events of Loss – *Regulatory Events of Loss*" below; and

- a reduction or an increase in basic rent to reflect the principal amount, amortization and interest rates of any additional secured notes issued as a result of a redemption or refinancing of the secured notes or the issuance of additional secured notes in connection with the financing of modifications under the terms of the lease. See "Description of the Secured Notes – Redemption of Secured Notes – *Redemption with Premium*" and "– Covenants – *Financing Modifications through the Lease*."

Any adjustment of basic rent will be determined in a manner to ensure that basic rent payable under the lease is sufficient to pay the principal of and interest on the secured notes (after taking into account any refinancing or additional secured notes, as applicable) and to preserve a return on the equity investment. Adjustments of basic rent will result in corresponding adjustments to termination values. Adjustment of basic rent and termination values will be subject to verification under procedures described in the lease at the request of the lessor.

Payment Priority and Rate Covenant

The Bond Resolution sets forth a priority of payments to be made out of our gross power proceeds and our net power proceeds, which are our power proceeds remaining after deducting from our gross power proceeds the costs of operating, maintaining and administering our power properties and payments to states and counties in lieu of taxes, plus the net proceeds from sale or disposition of any power facility or interest in any power facility. We intend that basic rent payments under the lease will be treated as costs of operating, maintaining and administering our power properties payable out of gross power proceeds for purposes of the Bond Resolution. No assurance, however, can be given that a court would conclude that basic rent constitutes a cost of operating, maintaining and administering our power properties. We believe that supplemental rent will not be treated as a cost of operating, maintaining and administering our power properties. For more information on the priority of payments under the Bond Resolution, see "Description of the Secured Notes – Source of Payment and Security – *Priority of Payments under the Bond Resolution*." We have covenanted to charge rates that, together with other monies available to us, will be sufficient to pay all charges relating to our power program, including rent under our lease transactions with respect to our power properties, including the lease.

Ground Interest and Real Estate Arrangements

Under the TVA Act, we hold title to real property owned by the United States and entrusted to us, as agent of the United States. On the closing date under the ground lease, we will lease to the lessor the ground interest. As described above, the "ground interest" consists of a ninety percent undivided interest in the facility site, together with (i) all rights under applicable law as a tenant in common of the facility site with us as owner/holder of the remaining ten percent undivided interest (or any successor, assignee or lessee of our ten percent undivided interest in the facility site), as the rights of a tenant-in-common are modified by the ground lease, and, following termination of the ground sublease, the support agreement, and (ii) the right to nonexclusive possession with us as owner/holder of

the remaining ten percent undivided interest (or any successor, assignee or lessee of our ten percent undivided interest) in the facility site.

The ground lease will have a term that is coterminous with the term of the head lease (but will be subject to termination upon our exercise of our early buy out option as described in this offering circular or transfer of the lessor's interest in the undivided interest to us at the end of the term of the lease). See "– Head Lease" above.

Under the ground lease, we will reserve some rights relating to the ground interest. These rights include, among others, our right to sell or convey an interest in, easements in or leasehold interests in all or a portion of the facility site, subject to some conditions. Our right to effect any such sale or conveyance must be expressly subject to the interests of the lessor, as ground lessee under the ground lease, and must not materially impair the use or operation of, or the ability to maintain, improve or rebuild, the facility. Any property, interest, right of way, easement or leasehold interest so sold, granted, released, leased or conveyed by us will no longer be a part of the ground interest and will be deemed to be released from the scope of the ground lease and any lien of the ground lease on the ground interest upon the recordation of appropriate instruments. Any grant, sublease, assignment, encumbrance or conveyance by the lessor will expressly provide that the lessor's interest under the ground lease is subject to these release rights.

We also reserve the right, subject to some conditions, to use the ground interest in connection with the use, operation and maintenance of any relevant portion of the facility (as defined below) released from the lease as a result of an early buy out of the lease, if any, and any other facilities that we construct on or adjacent to the facility site so long as this use does not conflict with the provisions of the support agreement or the head lease or the use of the undivided interest, or the operation or maintenance of the facility as contemplated thereby.

We further reserve the right to use the ground interest during the term of the ground lease to evaluate, monitor, test, remedy or remediate any environmental conditions at the facility site or violations of environmental law. If we exercise such rights following the expiration or early termination of the ground sublease term, so long as the ground lease has not expired or been terminated, we are required to coordinate any excavation, remediation or similar activities on the facility site relating to the ground interest with the lessor. We are also required to use commercially reasonable efforts to cause that work to be undertaken in a manner so as to minimize interference with the operation and maintenance of the facility to the extent consistent with the requirements of the United States Environmental Protection Agency or any other applicable governmental entity and our obligations under applicable law, including any environmental laws. In addition, from and after the expiration of the term of the ground sublease, while we are required to give reasonable advance notice to the lessor prior to commencing any excavation, remediation or similar activities relating to the ground interest which could reasonably be expected to interfere with the operation or maintenance of the facility in any material way, we are only required to give prompt notice in the case of an emergency where health or property is at risk.

We also reserve the right, subject to some conditions and limitations, to construct, own and operate, or grant another person or entity the right to construct, own and operate, additional gas turbine units, electric generating units or other facilities of any nature adjacent to the facility site. This right includes our right to construct or install additional facilities such as sanitary sewers, storm drains, water and gas mains, waste disposal systems, electric power lines and telephone and telecommunication lines on, under, across or over the facility site as may be reasonably necessary or advisable for the commercial operation of the additional facilities so long as such construction or installation does not materially impair the use, operation or maintenance of the facility as contemplated by the transaction documents.

Rent payable under the ground lease will be offset against rent payable under the ground sublease, as described below, during the ground sublease term. After the expiration or early termination of the ground sublease, the rent payable by the lessor under the ground lease will be the fair market rental value (as defined in the ground lease) of the ground interest. After the expiration or early termination of the ground sublease, the lessor will have the right to offset against the rental payments under the ground lease amounts (other than amounts disputed in good faith by us) then due and payable by us to the lessor under the transaction documents.

On the closing date, we will sublease the ground interest from the lessor. The sublease of the ground interest will have a term commencing on the closing date and ending on the last day of the term of the lease (including upon early termination of the lease). However, if a significant lease default (as defined under "– Covenants – *Financing Modifications through the Lease*" below) has occurred and is continuing on or prior to the scheduled expiration of the ground sublease term, the term of the ground sublease will be extended until the significant lease default has been cured and all relevant amounts due and payable by us under the lease and other transaction documents have been paid or we have delivered possession of the undivided interest and the facility site to the lessor in accordance with the lease. Thus, the ground sublease may terminate before the ground lease if the lease is terminated early or the undivided interest is not returned to us upon expiration of the lease as a result of the exercise of dispossessory remedies under the lease.

Covenants

Use, Maintenance, and Removal and Replacement of Components

We will covenant to cause, at our cost and expense, the facility to be maintained in accordance with prudent industry practice (as defined below). We also will covenant not to operate the facility other than in compliance with all applicable laws of any governmental authority having jurisdiction, although we may contest, in good faith and by appropriate proceedings, the validity or applicability of such laws. We also will make or cause to be made all necessary repairs, renewals and replacements of the facility in accordance with prudent industry practice. Nothing in the lease or other transaction documents will require us to operate the facility. However, if we do operate the facility, the facility will be operated in accordance with prudent industry practice.

In the ordinary course of maintenance, service, repair or testing, we may, at our own cost and expense, remove or cause or permit to be removed any component of the facility. We will cause any removed component to be replaced by a replacement component that is free and clear of all liens (other than liens on the ten percent undivided interest in the facility and the facility site not subject to the transactions contemplated hereby and other permitted liens, as defined under "– *Liens*" below) and in as good an operating condition as that of the component replaced (assuming that the component replaced was maintained in accordance with the lease). Upon incorporation into the facility, each replacement component will automatically be deemed a part of the facility for all purposes of the lease and the head lease, and an undivided interest equal to ninety percent (the "lessor's percentage interest") in the component will become subject to the lease, the head lease and, so long as the lien of the lease indenture has not been terminated or discharged, the lien of the lease indenture, and be deemed a part of the undivided interest for all purposes of the head lease and the lease. However, if we determine that a component of the facility is surplus or obsolete and not necessary for the operation of the facility in accordance with the lease, we may remove or cause to be removed such surplus or obsolete component without replacing the removed component. Any removed (and replaced) component and any surplus or obsolete component that has been removed will no longer be subject to the head lease, the lease or the lien of the lease indenture.

For purposes of the lease and the other transaction documents, "prudent industry practice" means, at a particular time, either any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry with respect to facilities similar in nature to the facility, or any of the practices, methods and acts which, in the exercise of reasonable judgment at the time the decision was made, could have been expected to accomplish the desired result at the lowest reasonable cost consistent with good business practices, reliability, safety and expedition. "Prudent industry practice" is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts.

Modifications and Improvements

We are required, at our cost and expense, to make or cause or permit to be made all modifications, alterations, additions or improvements to the facility as are required by applicable law or any governmental entity having jurisdiction (collectively, "required modifications"). We may in good faith and by appropriate proceedings contest the validity or applicability of such law in any reasonable manner subject to specified limitations. We may, at our own cost and expense and without the consent of any other person, make or cause or permit to be made all modifications, alterations, additions or improvements to the facility as we consider desirable in conducting our business (collectively, "optional modifications"). Required modifications and optional modifications are referred to collectively in this offering circular as "modifications."

We will retain title to all modifications. The lessor's percentage interest in all required modifications, all modifications that cannot be removed without causing material damage to the facility that cannot be readily repaired ("non-severable modifications") and all modifications financed through the lease will automatically upon incorporation of such modifications into the facility become subject to the head lease, the lease, and, so long as the lien of the lease indenture has not been terminated or discharged, the lien of the lease indenture, and will be deemed a part of the undivided interest for all purposes of the head lease and the lease.

Optional Refinancings

During the term of the lease and so long as no significant lease default (as defined under "– *Financing Modifications through the Lease*" below) or lease event of default has occurred and is continuing, we will have the right to require the lessor to redeem or refinance the secured notes, in whole but not in part, through the issuance of additional secured notes subject to specified conditions in the lease indenture and the participation agreement. In connection with such a refinancing,

- the additional secured notes may not have a final maturity that is later than the last day of the lease term, unless the equity investor consents to a later date;
- the additional secured notes must be in amounts sufficient to redeem all of the secured notes;
- appropriate adjustments to basic rent and termination value will be made to ensure that the amounts of basic rent and termination value are sufficient to pay principal of and interest on the additional secured notes when the principal and interest become due and payable; and
- appropriate legal opinions must be delivered.

For more information about the redemption price of the secured notes, see "Description of the Secured Notes – Redemption of Secured Notes – *Redemption with Premium*."

Financing Modifications through the Lease

Upon our request, the lessor and the lease indenture trustee agree to cooperate with us to finance up to ninety percent of the cost of any non-severable modifications or required modifications, and, with the consent of the manager of the lessor, any severable modifications, through the issuance of additional secured notes under the lease indenture. These additional secured notes will rank *pari passu* with the secured notes and any additional secured notes then outstanding. The equity investor will have the opportunity, but not the obligation, to provide up to ten percent of the funds required to finance up to ninety percent of the cost of the modification by making an additional equity investment in the lessor, but we will not be obligated to accept such additional equity investment.

The lessor's obligation to finance modifications, however, will be subject to, among others, the following conditions:

- such additional secured notes will not have a final maturity date that is later than the last day of the term of the lease unless the equity investor consents to a later date;
- basic rent and termination values will be appropriately adjusted in accordance with the lease to ensure that basic rent payments and termination values will be sufficient to pay principal of and interest on the additional secured notes when the principal and interest become due and payable;
- no significant lease default or lease event of default will have occurred and be continuing unless the modifications are being constructed in order to cure such lease event of default;
- such additional secured notes will be issued in an amount not less than $10 million and will not exceed ninety percent of the cost of the modification being financed; and
- appropriate legal opinions will be delivered.

As used in this offering circular, a "significant lease default" means any of the following: a failure by us to pay basic rent or termination value after the same is due and payable; a failure by us to pay supplemental rent due and payable under the transaction documents (other than excepted payments and termination value) in excess of $250,000 after the same is due and payable, except to the extent such amounts are the subject of a good faith dispute and have not been established to be due and payable; or customary events of bankruptcy, insolvency, whether voluntary or involuntary, or other similar events with respect to us which are, or with the passage of time would be, a lease event of default.

Sublease

We may further sublease our interest in the undivided interest under the lease without the consent of the lessor, the manager of the lessor, the lease indenture trustee, the equity investor, the equity lenders or the manager of the equity investor under the following conditions:

- the sublessee must be a solvent corporation, partnership, business trust, limited liability company or other person or entity that is not subject to bankruptcy proceedings, and that is, or has engaged a third party that is, experienced in the operation of facilities similar to the facility;
- the sublease must be subject to and subordinated to the head lease, the lease, the ground lease and the ground sublease;
- all terms and conditions of the lease and the other transaction documents must remain in effect and we must remain fully and primarily liable for our obligations under the transaction documents;
- no significant lease default or lease event of default will have occurred and be continuing at the time of such sublease;
- the sublease prohibits further subletting; and
- the lien of the lease indenture will not be impaired by the sublease.

We will be responsible for paying all reasonable documented out-of-pocket expenses of the lessor, the equity investor, the manager of the equity investor, the manager of the lessor and the lease indenture trustee in connection with such sublease.

Assignment

We may not assign our interest in the undivided interest under the lease and our ground interest under the ground sublease and be released from our obligations under the lease and the transaction documents without the consent of the lessor and, so long as the lien of the lease indenture has not been terminated or discharged, the lease indenture trustee.

Insurance

If we are rated less than BBB+ by Standard & Poor's Ratings Services or Baa1 by Moody's Investors Service, Inc., we will maintain (or cause to be maintained) property and commercial general liability insurance coverage for the facility customarily carried by other operators of similar facilities of comparable size as the facility and against such loss, damage or liability and with such deductibles as are customarily insured against. If we are required to maintain liability insurance, it will name the lessor, the equity investor, the equity lenders, and, so long as the lien of the lease indenture has not been terminated or discharged, the lease indenture trustee as additional insureds. Any property insurance required to be maintained will name the lease indenture trustee as a loss payee for claims in excess of $20 million and such amounts will be paid to us as and when needed to pay or reimburse us for any costs to repair the damage to which such claim relates. The balance of these proceeds, if any, will be paid to us upon completion of such repairs, or applied at our direction to pay termination value or any other amounts payable by us in connection with an early buy out in connection with an event of loss.

Notwithstanding the previous paragraph, if we are insuring other gas-fired, combined cycle generating facilities similar to the facility which we own or lease or are self-insuring for third-party liability in connection with our operation of other facilities owned or leased by us, we will provide property damage or third party liability insurance coverage with respect to the facility with terms comparable to the insurance maintained by us for those other gas-fired, combined cycle generating facilities.

Liens

We will agree not to, directly or indirectly, create, incur, assume or suffer to exist any liens or other encumbrances on the undivided interest or the ground interest or any portion thereof or our interest in any transaction document, except for permitted liens and encumbrances which include, but are not limited to, the following:

- our interests and the interests of the equity investor, the lessor and the lease indenture trustee under any of the transaction documents;
- liens of the lessor, the equity investor and the lease indenture trustee described below;
- subject to some conditions, liens for taxes not delinquent or being contested in good faith in appropriate proceedings;
- materialmen's, mechanics', workers', repairmen's, employees' or other like liens arising in the ordinary course of business for amounts either not delinquent or being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on our books if required by generally accepted accounting principles and such proceeding will not involve any danger of the sale, forfeiture or loss of any part of the undivided interest or ground interest;
- liens arising out of judgments or awards against us with respect to which at the time an appeal or proceeding is being prosecuted in good faith and will not involve any danger of the sale, forfeiture or loss of any part of the undivided interest or ground interest;
- our reserved rights in the ground interest and release rights in respect of the facility site set forth in the ground lease;
- utility rights of way and easements; and
- specified other encumbrances specified on the closing date.

The equity investor, the manager of the equity investor, the lessor, the manager of the lessor, the trust company and the lease indenture trustee will agree not to, directly or indirectly, create, incur, assume or suffer to exist any lien or other encumbrance on the facility, the facility site, or the lessor estate, and with respect to the lessor, the manager of the lessor, the trust company, the undivided interest or the ground interest, arising as a result of the following:

- claims against or any act or omission of such person or any equity lender that is not related to, or is in violation of, any transaction document or the transactions contemplated thereby or that are in breach of any covenant or agreement of such person or any equity lender;
- taxes against such person, any equity lender or any affiliate of such person that are not indemnified by us under the transaction documents of such person; or
- claims against or affecting such person, any equity lender or any affiliate of such person arising out of the voluntary or involuntary transfer by such person (other than transfers required by the transaction documents), (i) with respect to the equity investor, the manager of the equity investor, the equity lenders and the trust company, of any portion of the equity investor's membership interest in the lessor, (ii) with respect to the lessor, the manager of the lessor and the trust company, of any portion of the

interest of the trust company, the manager of the lessor, or the lessor in the lessor's interest in each of the undivided interest, the ground interest and the support agreement, other than pursuant to the transaction documents, and, (iii) with respect to the lease indenture trustee, of any portion of the interest of the trust company or the lease indenture trustee in the lessor estate, other than pursuant to the transaction documents.

None of the equity investor, the manager of the equity investor, the manager of the lessor, the lessor and the trust company will be in breach of this covenant so long as it is diligently contesting the imposition or existence of such lien and such lien or contest will not present any material risk of the sale, foreclosure or loss of, or loss of priority of the lien on, the lessor estate or any part of the lessor estate or to our rights or, so long as the lien of the lease indenture has not been terminated or discharged, the rights of the lease indenture trustee, under the transaction documents.

The lessor, the manager of the lessor and the trust company also will each agree not to, directly or indirectly, create, incur, assume or suffer to exist any lien or other encumbrance on the facility, the undivided interest, the facility site, the ground interest or the lessor estate arising as a result of taxes against or affecting the trust company, the manager of the lessor or the lessor, or any affiliate of such person that is not related to, or is in violation of, the transaction documents or the transactions contemplated thereby.

The lease indenture trustee also will agree not to, directly or indirectly, create, incur, assume or suffer to exist any lien or other encumbrance on the facility, the facility site or the lessor estate arising as a result of taxes against or affecting the lease indenture trustee, or any affiliate thereof that is not related to, or that is in violation of, the transaction documents or the transactions contemplated thereby.

Early Termination of the Lease, Events of Loss, and Regulatory Events of Loss

Early Buy Out of the Lease

We may elect to exercise an early buy out of the lease in whole, with respect to the entire undivided interest, or in part, with respect to only a relevant portion of the undivided interest (as defined below). We may exercise an early buy out at any time, including after an event of loss or regulatory event of loss and during the occurrence and continuance of a significant lease default (as defined under "– Covenants – *Financing Modifications through the Lease*" above) or lease event of default if the lease has not been terminated by the lessor. In connection with a regulatory event of loss, we may exercise an early buy out of the lease in whole but not in part. If we elect to buy out the lease, we will pay the lessor the following:

- the applicable termination value (or portion of the termination value if we exercise a partial early buy out with respect to a relevant portion of the undivided interest) on the relevant termination date;
- any supplemental rent then due and payable;
- any basic rent due on or before the date of the early buy out; and
- other than in respect of an early buy out in connection with an event of loss or a regulatory event of loss (subject to the last paragraph of this section "– *Early Buy Out of the Lease*"), the make whole premium due on the secured notes and the equity breakage due in respect of the equity investment.

Upon payment of these amounts:

- basic rent will cease to accrue, in whole, in the case of an early buy out with respect to the entire undivided interest, or in part, in the case of a partial early buy out with respect to a relevant portion of the undivided interest;
- our obligations under the lease will terminate, in whole, in the case of an early buy out with respect to the entire undivided interest, or in part, in the case of a partial early buy out with respect to a relevant

portion of the undivided interest (except for our obligations under the transaction documents that expressly survive termination of the lease);

- the lease and the head lease will terminate, in whole, in the case of an early buy out with respect to the entire undivided interest, or in part, in the case of a partial early buy out with respect to a relevant portion of the undivided interest;

- the lessor will, at our cost and expense, execute and deliver to us a release or termination of the lease, in whole, in the case of an early buy out with respect to the entire undivided interest, or in part, in the case of a partial early buy out with respect to a relevant portion of the undivided interest;

- the lessor will transfer to us (on an "as is," "where is" and "with all faults" basis) the lessor's interest in the undivided interest under the head lease, in the ground interest under the ground lease and in the support agreement, in whole, in the case of an early buy out with respect to the entire undivided interest, or in part, in the case of a partial early buy out with respect to a relevant portion of the undivided interest; and

- the lessor will discharge the lien of the lease indenture, in whole, in the case of an early buy out with respect to the entire undivided interest, or in part, in the case of a partial early buy out with respect to a relevant portion of the undivided interest.

In connection with an early buy out resulting from an event of loss, a "relevant portion" of the facility will be the unit or units of the facility suffering an event of loss (as described under "– *Events of Loss*" below) or the unit or units of the facility that are subject to our election to exercise an early buy out, in either case with respect to a termination of the lease with respect to less than the entire undivided interest. The "relevant portion" of the undivided interest is the lessor's percentage interest in the relevant portion of the facility that is subject to an early buy out. In connection with an early buy out with respect to the entire undivided interest, we may also elect to replace and exchange the secured notes for TVA power bonds issued under the Bond Resolution as described under "Description of the Secured Notes – Exchange of Secured Notes." If we elect to replace and exchange the secured notes, we will remain obligated to pay the equity portion of the applicable termination value to the lessor for distribution to the equity investor.

For an early buy out to be considered an early buy out in connection with an event of loss or a regulatory event of loss, we must certify that our early buy out is in connection with one of the following:

- a regulatory event of loss or an event of loss resulting from the seizure, condemnation or taking of or requisition of title to the facility (as described under "– *Events of Loss*" below); or

- an event of loss related to loss of or damage to the facility or an insurance settlement based on total loss (as described under "– *Events of Loss*" below) and we have no current intention to rebuild the facility or the relevant portion of the facility affected by the event of loss.

If we deliver this certificate, then the early buy out will constitute an early buy out of the lease in connection with an event of loss or a regulatory event of loss, and we will not be required to pay the lessor the make whole premium on the secured notes or equity breakage in respect of the equity investment.

Events of Loss

The following events or occurrences will constitute an "event of loss" with respect to any unit or units of the facility:

- loss of a unit or units or use of a unit or units due to destruction or damage to such unit or units or the common facilities that is beyond economic repair or that renders such unit or units permanently unfit for normal use;

- damage to the unit or units or the common facilities that results in an insurance settlement with respect to such unit or units on the basis of a total loss, or an agreed constructive loss or a compromised total loss of such unit or units; and

- seizure, condemnation, confiscation or taking of, or requisition of title to or use of, all or substantially all of a unit or units or the common facilities by a governmental entity, which in the case of a requisition of use prevents us from operating or maintaining all or substantially all of the facility, such unit or units, or the facility site for a period of 365 days or more following exhaustion of all permitted appeals or an election by us not to pursue such appeals.

We will promptly notify the lessor and, so long as the lien of the lease indenture has not been terminated or discharged, the lease indenture trustee of any damage to, or other event with respect to, any portion of the facility which we reasonably anticipate will cause an event of loss. If an event of loss occurs we must, no later than eighteen months thereafter, notify the lessor and, so long as the lien of the lease indenture has not been terminated or discharged, the lease indenture trustee, that we elect to either terminate the lease (in whole or in part) by exercising an early buy out of the lease, or, subject to specified conditions, rebuild or replace the facility or a relevant portion of the facility. We may only elect to rebuild or replace the facility or the relevant portion of the facility in connection with an event of loss other than a seizure, condemnation, confiscation, taking or requisition of the facility. We may only elect to terminate the lease with respect to a relevant portion of the undivided interest if the unit or units not suffering an event of loss will continue to be, or will be, commercially viable in accordance with prudent industry practice. We may elect to terminate the lease regardless of whether we rebuild the facility. If we fail to make this election, we will be deemed to have elected to terminate the lease, in whole, if the event of loss relates to the entire facility, or in part, if the event of loss relates to a relevant portion of the facility. We will be required to pay a make whole premium and equity breakage in connection with a termination with respect to an event of loss resulting from damage to or destruction of the facility if we do not make the certification that we have no current intention to rebuild the facility (as described under "– *Early Buy Out of the Lease*" above).

If we elect, or are deemed to have elected, to terminate the lease by electing to effect an early buy out of the lease, in whole or in part, then on the relevant termination date we will be obligated to pay the corresponding termination value (or portion of the termination value if the event of loss only relates to a relevant portion of the facility) and other amounts then due and owing as described under "– *Early Buy Out of the Lease*" above. If we elect to rebuild or replace the facility or affected units, we must begin doing so as soon as reasonably practicable after notifying the lessor and, if applicable, the lease indenture trustee of such election and in any event within thirty-six months after the event that caused such event of loss. We must proceed diligently with rebuilding or replacing the facility, and within thirty days of the rebuilding or replacement of the facility, we agree to complete the documentation that evidences that such rebuilding or replacement is subject to the head lease, the lease and the lien of the lease indenture.

Regulatory Events of Loss

A regulatory event of loss means the following: a condition or circumstance where, if elected by the lessor, the equity investor or one or more affected equity lenders (by notice to us) within twelve months of obtaining knowledge of the event or circumstance causing a regulatory event of loss, the lessor, the equity investor or such affected equity lender or equity lenders become subject to rate of return regulation or other applicable public utility law or regulation of a governmental authority that, in the reasonable opinion of the lessor, the equity investor or such affected equity lender or equity lenders, is materially burdensome to the lessor, the equity investor or such affected equity lender or equity lenders and cannot be remedied by cooperation among the parties and the taking of reasonable measures to alleviate the source or consequence of any such regulation or law.

Despite the immediately preceding paragraph, a regulatory event of loss will not have occurred if:

- the relevant regulation or law is not applicable solely as a result of the participation of the lessor, the equity investor or such affected equity lender or equity lenders in the transactions contemplated by the transaction documents and instead is a result of other investments, loans, or other business activities of the lessor, the equity investor or such affected equity lender or equity lenders or their affiliates or the nature of properties or assets owned, held or otherwise available to the lessor, the equity investor or such affected equity lender or equity lenders or their affiliates;

- the relevant regulation or law is applicable because the lessor, the equity investor or such affected equity lender or equity lenders or their affiliates failed to perform routine, administrative or ministerial actions which would not have a material adverse consequence on the lessor, the equity investor or such affected equity lender or equity lenders or their affiliates; or

- the lessor, or the equity investor or such affected equity lender or equity lenders would continue to be subject to such law or regulation even if the lessor terminated the head lease and the lease and transferred possession of the undivided interest to us, the equity investor disposed of its membership interest or such affected equity lender or equity lenders disposed of its or their equity investor notes.

We agree to cooperate with the lessor, the equity investor and such affected equity lender or equity lenders to take reasonable measures to alleviate the source or consequence of such regulatory event of loss at the cost and expense of the party requesting cooperation.

If a regulatory event of loss occurs, within sixty days of receiving notice of the regulatory event of loss, we must elect one of the following:

- If the event or occurrence giving rise to the regulatory event of loss would be alleviated by transferring to us one or more equity investor notes, we may purchase the equity investor notes on the next succeeding termination date. The purchase price will be an amount equal to the product of the equity portion of the termination value as of such termination date *multiplied by* the percentage of applicable equity investor notes being purchased. Upon payment, those equity investor notes will be transferred by appropriate instruments of transfer without representations (other than that the note is free and clear of any liens) to us or another person designated by us.

- If the event or occurrence giving rise to the regulatory event of loss would be alleviated by transferring one or more equity investor notes to another person, we may pay the equity lender holding the equity investor note on the next succeeding termination date the amount, if any, by which (i) the equity portion of the termination value, *multiplied by* the applicable percentage of the equity investor notes being purchased, *exceeds* (ii) the net proceeds of the sale of the equity investor note received by the equity lender holding the equity investor note. If we elect to make this payment, then the holder of the applicable equity investor note will sell the equity investor note in such manner, to such person or entity and at such price as we direct, at our cost and expense. If such sale does not occur on or before the next succeeding termination date, then we will be deemed to have elected to purchase the equity investor note as provided in the preceding bullet.

- If the event or occurrence giving rise to such regulatory event of loss would be alleviated by causing the equity investor to prepay one or more of the equity investor notes, we may cause the equity investor to prepay the applicable equity investor notes by paying to the lessor for distribution to the equity investor for prepayment of such equity investor notes on the next succeeding termination date an amount equal to the equity portion of the termination value, *multiplied by* the applicable percentage of the equity investor notes being purchased. As a result, the equity portion of basic rent and termination value will be reduced by the product of the equity portion of basic rent or termination value, as applicable, *multiplied by* the applicable percentage of the equity investor notes being purchased. We may only make an election under this paragraph if the aggregate outstanding amount of equity investor notes being prepaid under this paragraph is less than a majority of the aggregate outstanding amount of equity investor notes of the equity investor.

- If the event or occurrence giving rise to such regulatory event of loss would be alleviated by transferring the membership interests of the lessor in whole or in part to another person or entity, we may pay the equity investor on the next succeeding termination date the amount, if any, by which the equity portion of termination value *exceeds* the net proceeds of the sale of membership interests of the lessor received by the equity investor. If we elect to make this payment, then the equity investor will sell the membership interests of the lessor in such manner, to such person or entity (which, subject to applicable law, may be us) and at such price as we direct, at our cost and expense. If such sale does not occur on or before the next succeeding termination date, then we will be deemed to have elected to

purchase the membership interests of the lessor and will pay the equity investor an amount equal to the equity portion of the termination value, in which case the equity investor will transfer all of its right, title and interest in the membership interests of the lessor to us or our designee by appropriate instruments of transfer without representations to us or any other person.

- We may terminate the lease (in whole but not in part) by electing an early buy out of the lease as described under "– *Early Buy Out of the Lease*" above.

Special Lessee Transfer

We may, in connection with our exercise of an early buy out of the lease in whole, in lieu of paying the equity portion of termination value, upon not less than thirty days' written notice to the equity investor and the lease indenture trustee, require all of the equity investor's membership interests in the lessor to be transferred to our designee on the applicable termination date specified in such notice (a "special lessee transfer"). Any such special lessee transfer will be subject to the membership interest transfer restrictions applicable to the equity investor in the participation agreement.

If we elect to exercise such special lessee transfer option, we will pay the equity investor the sum of the following: the equity portion of termination value due on such termination date, *plus* any unpaid equity portion of basic rent due on or before such termination date, *plus* equity breakage, *plus* all rent payments then due and payable to the equity investor on such termination date. Upon payment of these amounts, we will cease to have any liability to the equity investor with respect to the transaction documents, except for obligations (including indemnity obligations) that expressly survive under the transaction documents or have accrued but are unpaid, and the equity investor will transfer its membership interest in the lessor to our designee.

At the time of the special lessee transfer, the following must be satisfied:

- The equity investor and the equity lenders must not suffer any economic detriment as a result of such special lessee transfer (as compared to the economic detriment had we exercised our right to an early buy out in accordance with the lease).

- The lease indenture trustee must receive an opinion from legal counsel reasonably acceptable to the lease indenture trustee to the effect that following the special lessee transfer, our obligations under the lease remain our legal, valid and binding obligations and the special lessee transfer does not adversely affect the payment priority of basic rent under the Bond Resolution.

- The lease indenture trustee must receive an opinion from legal counsel reasonably acceptable to the lease indenture trustee, addressed to the lease indenture trustee, to the effect that the special lessee transfer would not result in a holder of the secured notes (including any beneficial owner) being subject to U.S. federal income tax on a different amount, in a different manner or at a different time as would have been the case if such exchange had not occurred unless we have delivered a copy of an IRS private letter ruling to that effect or delivered a tax indemnity undertaking for the benefit of the holders of the secured notes, in each case reasonably satisfactory to the lease indenture trustee.

- The rating agencies that then rate the secured notes must confirm that such special lessee transfer will not result in the secured notes having a rating less than the rating of the secured notes immediately prior to such special lessee transfer.

- We will pay all reasonable costs and expenses of the transaction parties (including reasonable attorneys' fees and disbursements) in connection with any special lessee transfer.

Subsequent to a special lessee transfer, the lease will continue in full force and effect in accordance with its terms.

Lease Events of Default

Events of default under the lease will include only the following events (each, a "lease event of default"):

- We fail to make a payment of basic rent or termination value after the same is due and such failure has continued for five business days after the same becoming due and payable.

- We fail to pay any amount of supplemental rent (other than termination value and, unless the equity investor declares a default with respect to excepted payments, excepted payments) after such supplemental rent is due and such failure has continued for a period of thirty days after our receipt of written notice of such default from the manager of the lessor, the lessor or the lease indenture trustee.

- We fail to perform or observe in any material respect any covenants, obligations or agreements to be performed by us under the lease, participation agreement, ground lease, ground sublease or head lease and that failure continues for sixty days after receipt by us of written notice of such failure from the manager of the lessor (acting at the direction of the equity investor) or the lease indenture trustee, except that if such failure cannot be remedied within such sixty-day period, the period within which to remedy such failure will be extended for up to an additional 270 days so long as we diligently pursue a remedy and such failure is capable of being remedied within such additional 270-day period. However, in the case of our obligation to maintain the facility in accordance with prudent industry practice and in compliance with applicable law, if, to the extent and for so long as a test, challenge, appeal or proceeding is prosecuted in good faith by us, our failure to comply with such requirement will not constitute a lease event of default if such test, challenge, appeal or proceeding does not involve any material risk of foreclosure, sale, forfeiture or loss of, or imposition of a lien on, the undivided interest, the impairment of the use, operation or maintenance of the facility in any material respect, or any criminal liability being incurred by, or any material adverse effect on the interests of, the manager of the lessor, any noteholder, the equity investor, the equity lenders, the manager of the equity investor, the lessor, or the lease indenture trustee, including, subjecting the equity investor, any equity lender or the lessor to regulation as a public utility under applicable law. In addition, in the case of our maintenance obligation under the lease, if the noncompliance is not of a type that can be immediately remedied, the failure to comply will not be a lease event of default if we are taking all reasonable action to remedy such noncompliance and if, but only if, such noncompliance will not involve any material risk described in the immediately preceding sentence.

- Any representation or warranty made by us in the transaction documents (other than the equity note purchase documents) proves to have been incorrect in any material respect when made and continues to be material and unremedied for a period of sixty days after receipt by us of written notice of such incorrectness from the equity investor or the lease indenture trustee. However, if such condition cannot be remedied within such sixty-day period, then the period within which to remedy such condition will be extended up to an additional 270 days, so long as we diligently pursue such remedy and such condition is reasonably capable of being remedied within such additional 270-day period.

- A customary event of bankruptcy, insolvency or other similar event has occurred with respect to us.

- We repudiate or disaffirm the validity or enforceability of the lease, the head lease or the ground lease.

Remedies

Upon the occurrence and continuance of any lease event of default, the lessor may, at its option, declare the lease to be in default by written notice to us (except that the lease will automatically be in default if a bankruptcy default occurs). The lessor may at any time thereafter, so long as we have not remedied all outstanding lease events of default, exercise one or more of the remedies set forth in the lease, either at law or in equity, including seeking specific performance of our obligations under the lease and the other transaction documents by appropriate court actions, or recovering damages for breach of our obligations under the transaction documents, including recovery of all rent then due and unpaid. However, in connection with such action or actions, except as provided in the paragraph immediately below, the lessor may not seek termination of the lease or any other transaction document,

dispossession of the undivided interest or acceleration of amounts not yet due and payable under the lease or any other transaction document.

On a date no earlier than 180 days after the occurrence of a lease event of default resulting (in whole or in part) from a failure by us to pay basic rent or termination value or make any payment of supplemental rent under the transaction documents (other than excepted payments unless the equity investor declares a default with respect to excepted payments) when due and payable, as described in the first and second bullets under "– Lease Events of Default" above, or immediately upon the occurrence of a lease event of default relating to customary events of bankruptcy, insolvency or similar events with respect to us or repudiation by us of the head lease, the lease, or the ground lease, as described in the fifth and sixth bullets under "– Lease Events of Default" above, and for so long as such event of default has not been remedied, the lessor may, subject to applicable law, undertake any of the following:

- The lessor may terminate the lease, by written notice to us, whereupon all our right to the possession and use of the undivided interest will cease and terminate, and may demand that, at our expense, we deliver possession of the undivided interest to the lessor in accordance with the return provisions of the lease; and the lessor may then hold, possess and enjoy the undivided interest, free from any of our rights under the lease, or the rights of any of our successors or assigns, to use the undivided interest for any purpose whatsoever.

- The lessor may sell its interest in the undivided interest, the ground interest and the support agreement at a public or private sale, as the lessor may determine, free and clear of any of our rights and without any duty to account to us with respect to such sale or for the proceeds of such sale (unless the lessor elects to exercise its rights under the last bullet in this paragraph and as required by applicable law). In the case of a sale, our obligation to pay basic rent for any subsequent periods will terminate (except to the extent that basic rent is to be included in computations relating to the remedies in the fourth and fifth bullets below in this paragraph if the lessor elects to exercise its rights under those bullets).

- The lessor may hold, keep idle or lease to others the undivided interest as the lessor in its sole discretion may determine, free and clear of any of our rights under the lease and without any duty to account to us with respect to its action or inaction or for any proceeds with respect thereto. However, our obligation to pay basic rent due for any subsequent periods will be reduced by the net proceeds, if any, received by the lessor from subleasing the undivided interest to any person other than us.

- Whether or not the lessor has exercised, or thereafter at any time exercises, any of its rights under the first bullet in this paragraph, the lessor may specify, by written notice to us, a termination date that is not earlier than thirty days after the date of such notice and require us to pay on the termination date any unpaid basic rent due on or before the termination date, any supplemental rent due and payable as of the termination date, plus, as liquidated damages for loss of a bargain and not as a penalty (in lieu of the basic rent due after the termination date), an amount equal to the excess, if any, of the termination value computed as of the applicable termination date over the fair market sales value of the lessor's interest in the undivided interest, the ground interest and the support agreement as of the applicable termination date (the "FMV net termination value"). Upon payment of the FMV net termination value, the lease and our obligation to pay basic rent for any periods subsequent to the date of such payments will terminate.

- If the lessor sells its interest in the undivided interest, the ground interest and the support agreement pursuant to the second bullet in this paragraph, the lessor may demand that we pay, and we will pay, to the lessor, as liquidated damages for loss of a bargain and not as a penalty (in lieu of the basic rent due after the date of such sale), an amount equal to (i) any unpaid basic rent and supplemental rent due on or before the date of such sale, (ii) if that date is not a termination date, the daily equivalent of basic rent for the period from the preceding termination date to the date of such sale, and (iii) the amount, if any, by which the termination value for the undivided interest computed as of the termination date next preceding the date of such sale or, if such sale occurs on a rent payment date or a termination date then computed as of such date, exceeds the proceeds of the sale of the lessor's interest in the undivided interest, the ground interest and the support agreement net of all the costs and expenses incurred by or on behalf of the lessor or the lease indenture trustee in connection with or otherwise attributable to

such sale (the "sale net termination value"). Upon payment of such amount, the lease and our obligation to pay basic rent for any periods subsequent to the date of such payment will terminate.

Termination Payment Term Out

As set forth in the fourth and fifth bullets in the second paragraph under "– Remedies" above, we may be required to pay either the FMV net termination value or the sale net termination value as a result of specified events of default related to our failure to pay basic rent or other supplemental rent or bankruptcy events. We refer to these amounts, as applicable, as "net termination value." If the lessor elects the remedies in the fourth or fifth bullet in the second paragraph under "– Remedies" above, and we are required to pay net termination value (along with other amounts due and owing as a result of an event of default), we may elect (by notice to the lessor, the manager of the lessor and the lease indenture trustee, given as described below) to pay the lessor the net termination value in three equal installments payable on the first, second and third anniversaries of the date of such notice (each a "term-out payment date"). We will also be required to pay interest on the net termination amount accruing from the date on which the net termination value was due and payable at a rate on the debt portion of the net termination value equal to the "debt rate" and at a rate on the equity portion of the net termination value equal to 6.95%.

To determine the "debt rate," the debt portion of the net termination value will be divided proportionally into amounts corresponding to each of the secured notes and any series of additional secured notes. Such amounts will be determined by multiplying the debt portion of net termination value by a fraction the numerator of which is the outstanding principal amount of the secured notes or series of additional secured notes, as applicable, and the denominator of which is the aggregate outstanding principal amount of the secured notes and each series of additional secured notes. The debt rate with respect to each portion of the debt portion of net termination value will be the interest rate of the secured notes or any series of additional secured notes that corresponds to each such portion of the debt portion of net termination value *plus* 2%.

We may only elect to pay net termination value in installments within thirty days of the lessor's notice of its intent to exercise the remedies set forth in the fourth or fifth bullet in the second paragraph under "– Remedies" above, as applicable, and upon delivery of a notice in which we certify that the issuance of "evidences of indebtedness" under the Bond Resolution is legally impossible or commercially unreasonable at such time in an amount sufficient to pay net termination value when due. Upon the delivery of this notice, we must pay the net termination value as provided above, and the lease and our obligation to pay basic rent for any periods subsequent to the date of the delivery of our notice will terminate.

If we fail to timely deliver the notice of our election to pay the net termination value in installments, fail to certify that the issuance of evidences of indebtedness under the Bond Resolution remains legally impossible or commercially unreasonable concurrently with our payment of an installment then due and payable on any term-out payment date or fail to pay any installment of the net termination value then due and payable within ten business days of the applicable term-out payment date, then in each case any unpaid net termination value will immediately become due and payable and the lessor may exercise any remedies available to it in accordance with applicable law. Our obligation to pay net termination value will survive termination of the lease.

So long as the lien of the lease indenture has not been discharged, we will pay all installments of net termination value to the lease indenture trustee. Under the lease indenture, if the amounts we pay with respect to an installment of net termination value equal or exceed the amounts that we are required to pay, the lease indenture trustee will pay to each holder of the secured notes, ratably and without preference, an amount equal to the debt portion of the net termination value in the proportion that the aggregate amount of secured notes held by a holder and any unpaid interest thereon bears to the aggregate unpaid principal amount of the secured notes and the aggregate unpaid interest thereon. The lease indenture trustee will then pay the lessor, for distribution to the equity investor, the equity portion of the net termination value with any excess to be held by the lease indenture trustee as security.

If the amounts we pay with respect to an installment of net termination value are less than the amounts that we are required to pay, the lease indenture trustee will pay to each holder of the secured notes, ratably and without preference, an amount equal to the debt portion of the net termination value in the proportion that the aggregate amount of secured notes held by a holder and any unpaid interest thereon bears to the aggregate unpaid principal amount of the secured notes and the aggregate unpaid interest thereon. The lease indenture trustee will then pay the

lessor the balance, except that if the relevant term-out payment date relates to the first or second installment of net termination value, the lease indenture trustee will hold the balance of the net termination value payment as security for the payment of all the remaining installments and will only be required to pay such balance to the lessor if the lease indenture trustee fails to begin exercising dispossessory remedies within ninety days from receipt of such payment under the lease indenture.

Lessor's Right to Perform

Subject to the provisions of the last sentence of this paragraph, if we fail to make any payment required to be made under the lease or to perform or comply with any other obligations under the lease and such failure continues for ten days after notice of our failure, the lessor or the equity investor may make such payment or perform or comply with such obligation in a reasonable manner. If we fail to make any payment of basic rent when due, and if such failure will not constitute the fourth consecutive such failure or the seventh cumulative failure, the lessor may, at its option, subject to the terms of the lease indenture, pay to the lease indenture trustee an amount equal to the principal of and premium, if any, and interest on the secured notes then due together with any past due interest, and such payment will be deemed to have cured any lease indenture event of default that would have otherwise arisen.

Support Agreement

On the closing date, we will enter into an agreement with the lessor referred to as the "support agreement," which is designed to provide the lessor (or its assignee or transferee or any other person having possession or control of the facility, subject to certain conditions) and TVA, as owner of a ten percent undivided interest in the facility (together, the "facility users" and individually, a "facility user") the additional rights and services that are necessary for the facility users to operate and maintain the facility in the event that the lease is terminated and possession of the undivided interest is returned to the lessor or its designee. The support agreement will allow a majority of the facility users to designate us as operator of the facility during that period and will also establish our obligations as operator, if so designated, to operate and maintain, modify, insure, schedule and provide access to the facility, as well as the facility users' share of costs in connection with the operation and maintenance of the facility by us. In connection with the operation of the facility under the support agreement, we will also agree in the support agreement to provide transmission service over our transmission facilities to points of interconnection in accordance with our then effective TVA Transmission Service Guidelines or successor tariff of general applicability governing transmission services over our transmission system. We will also agree, subject to specified conditions, to enter into an interconnection agreement pursuant to which we will provide the facility users with interconnection service over our transmission system. In addition, we will agree, at the request of the lessor, subject to the facility remaining connected to Entergy's transmission system, and other specified conditions, to provide assistance to the lessor and the other facility users in negotiations with Entergy for purposes of entering into an interconnection agreement to provide for interconnection of the facility with Entergy's or its successor's transmission system. If at any time we cease to be the operator of the facility, we will use commercially reasonable efforts to transfer, sublicense or otherwise convey to the facility users the right to use any and all intellectual property in our possession which is necessary for the operation and maintenance of the facility, subject to any restrictions on our ability to transfer, sublicense or otherwise convey such intellectual property.

The support agreement will terminate upon the expiration or earlier termination of the ground lease or, if earlier, the final shutdown of the facility in accordance with the terms set forth in the support agreement.

Effect of the Federal Bankruptcy Code

As a wholly-owned corporate agency and instrumentality of the United States, we may not be a debtor for purposes of the Bankruptcy Reform Act of 1978. As a result, a claim for damages in the event of a default by us under the lease is not subject to the claims limitations imposed by the Bankruptcy Reform Act of 1978.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain U.S. federal income tax considerations generally applicable to holders of the secured notes that acquire their secured notes in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date of this offering circular, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the "IRS") with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further and except as otherwise provided under this section "Certain U.S. Federal Income Tax Considerations," the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders (as defined below)), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their secured notes as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their secured notes pursuant to this offering for the issue price that is applicable to such secured notes (i.e., the price at which a substantial amount of the secured notes are sold to the public for money) and who will hold their secured notes as "capital assets" within the meaning of Section 1221 of the Code.

As used in this section "Certain U.S. Federal Income Tax Considerations," "U.S. Holder" means a beneficial owner of a secured note that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state of the United States (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source, or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used in this section "Certain U.S. Federal Income Tax Considerations," "Non-U.S. Holder" generally means a beneficial owner of a secured note (other than a partnership) that is not a U.S. Holder. If a partnership holds secured notes, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding secured notes, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the secured notes (including their status as U.S. Holders or Non-U.S. Holders).

U.S. Holders

Contingent Payments

In certain circumstances the lessor may be required to redeem the secured notes, in whole but not in part, by paying the aggregate principal amount plus accrued and unpaid interest plus a make whole premium. See "Description of the Secured Notes – Redemption of Secured Notes – *Redemption with Premium.*" Under U.S. Treasury Regulations regarding notes issued with original issue discount ("OID"), if based on all the facts and circumstances as of the date on which the secured notes are issued there is a remote likelihood that a contingent redemption option will be exercised, it is assumed that such redemption will not occur. The lessor believes for this purpose, that as of the expected issue date of the secured notes, the likelihood of such events occurring is remote. The lessor's determination is not binding on the IRS, and if the IRS were to challenge this determination, U.S. Holders may be required to accrue income on secured notes that they own in excess of stated interest, and to treat as ordinary income rather than capital gain any income realized on the taxable disposition of secured notes before the resolution of the contingency. In the event that any of these contingencies were to occur, it would affect the timing and character of the income that such U.S. Holders recognize. U.S. Holders should consult their tax advisors regarding the potential application to the secured notes of the contingent payment debt instrument rules and the consequences of those rules.

Interest

Interest on the secured notes will not be exempt from federal taxation. If you are a U.S. Holder, interest paid on a secured note will be includible in your gross income as ordinary interest income in accordance with your usual method of tax accounting.

Sale, Exchange, or Retirement

If you are a U.S. Holder, upon the sale, exchange or retirement of a secured note, you will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or retirement, other than accrued but unpaid interest which will be taxable as such, and your adjusted U.S. federal income tax basis in the secured note. A U.S. Holder's adjusted U.S. federal income tax basis in a secured note generally will equal the cost of the secured note to such U.S. Holder. Any such gain or loss generally will be capital gain or loss. If you are a noncorporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to the gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if your holding period for the secured notes exceeds one year. The deductibility of capital losses is subject to limitations.

As noted under "Description of the Secured Notes – Exchange of Secured Notes," if no significant lease default (as defined under "Summary Description of the Lease and Other Transaction Documents – Covenants – *Financing Modifications through the Lease*") or lease event of default has occurred and is continuing after giving effect to the assumption, upon the termination of the lease as a result of the election by us of any early buy out of the lease, or an event of loss or a regulatory event of loss (as defined above), we will have the option to assume the lessor's obligations under the lease indenture, including the secured notes, on a fully recourse basis by exchanging TVA power bonds for the secured notes, but any such assumption is conditioned on the lease indenture trustee receiving an opinion of our counsel reasonably satisfactory to the lease indenture trustee to the effect that the replacement and exchange of TVA power bonds for the secured notes would not result in a direct or indirect holder of the secured notes (including any beneficial owner) being subject to U.S. federal income tax on a different amount, in a different manner or at a different time as would have been the case if such exchange had not occurred unless we have delivered a copy of an IRS private letter ruling to such effect or delivered a tax indemnity undertaking for the benefit of the holders of the secured note (as further described in the lease indenture), in each case reasonably satisfactory to the lease indenture trustee.

For tax years beginning after December 31, 2012, certain non-corporate U.S. beneficial owners of secured notes will be subject to a 3.8% tax on the lesser of (1) the U.S. beneficial owner's "net investment income" (in the case of individuals) or "undistributed net investment income" (in the case of estates and certain trusts) for the relevant taxable year and (2) the excess of the U.S. beneficial owner's "modified adjusted gross income" (in the case of individuals) or "adjusted gross income" (in the case of estates and certain trusts) for the taxable year over a certain threshold (which in the case of individuals will be between $125,000 and $250,000, depending on the individual's circumstances). A U.S. beneficial owner's calculation of net investment income generally will include its interest income on the secured notes and its net gains from the disposition of the secured notes, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. beneficial owner that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of this tax to your income and gains in respect of your investment in the secured notes.

Non-U.S. Holders

Subject to the discussion below under the headings "– Foreign Account Tax Compliance Act" and "– U.S. Backup Withholding Tax and Information Reporting," if you are a Non-U.S. Holder that is not (i) a controlled foreign corporation, as such term is defined in the Code, which is related to Southaven Combined Cycle Generation LLC through stock ownership, (ii) a person owning, actually or constructively, ten percent or more of the capital or profits interests in Southaven Combined Cycle Generation LLC or (iii) a bank which acquires its secured note in consideration of an extension of credit made under a loan agreement entered into in the ordinary course of business, payments of principal of, and interest on, any secured note to you will not be subject to U.S. withholding tax provided that you are the beneficial owner of the secured note and you provide certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "U.S. Backup Withholding Tax and Information Reporting," or an exemption is otherwise established.

Subject to the discussion below under the headings "– Foreign Account Tax Compliance Act" and "– U.S. Backup Withholding Tax and Information Reporting," if you are a Non-U.S. Holder, any gain realized by you upon the sale, exchange or retirement of a secured note generally will not be subject to U.S. federal income tax, unless such gain is effectively connected with your conduct of a trade or business in the United States; or if you are an individual, you are present in the United States for 183 days or more in the taxable year of such sale, exchange or retirement and certain other conditions are met.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the Code ("FATCA") impose a thirty percent U.S. withholding tax on certain types of payments made to foreign entities. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in U.S. withholding tax being imposed on payments of interest and principal under the secured notes and sales proceeds of the secured notes held by or through a foreign entity. U.S. Treasury Regulations provide that FATCA withholding generally will apply to (i) payments of interest made after June 30, 2014, (ii) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2016, and (iii) certain foreign pass-thru payments received with respect to debt obligations held through foreign financial institutions after the later of December 31, 2016 and the date that final regulations defining the term foreign pass-thru payments are issued. The term foreign financial institution is defined very broadly for this purpose, and includes any foreign entity that accepts deposits in the ordinary course of a banking or similar business; as a substantial portion of its business, holds financial assets for the account of others; or is engaged, or holds itself out as being engaged, primarily in the business of investing, reinvesting or trading in (or in interests in) securities, partnership interests or commodities. However, the FATCA provisions do not apply to debt obligations issued on or prior to June 30, 2014, such as the secured notes. Therefore, the FATCA provisions only would apply to payments under the secured notes if there were a significant modification of the secured notes after June 30, 2014. Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

U.S. Backup Withholding Tax and Information Reporting

U.S. information reporting and "backup withholding" requirements apply to certain payments of principal of, and interest on, the secured notes, and to proceeds from the sale, exchange, redemption, retirement or other disposition of a secured note, to certain noncorporate holders of secured notes that are United States persons. Under current U.S. Treasury Regulations, payments of principal of and interest on any secured note to a holder that is not a United States person will not be subject to backup withholding tax requirements if the beneficial owner of the secured note or a financial institution holding the secured note on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the secured notes that are not United States persons and copies of such owners' certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS under applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is twenty-eight percent.

In addition, if the foreign office of a foreign "broker," as defined in applicable U.S. Treasury Regulations, pays the proceeds of the sale of a secured note to the seller of the secured note, backup withholding and information reporting requirements will not apply to such payment provided that such broker derives less than fifty percent of its gross income for specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (i) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.441-1(c)(2)) who, in the aggregate hold more than fifty percent of the income or capital interest in the partnership or (ii) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a secured note will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. office of a broker of the proceeds of a sale of a secured note, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

THE FOREGOING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF SECURED NOTES IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO ANY TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF SECURED NOTES, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

CIRCULAR 230: UNDER 31 C.F.R. PART 10, THE REGULATIONS GOVERNING PRACTICE BEFORE THE IRS (CIRCULAR 230), SOUTHAVEN COMBINED CYCLE GENERATION LLC AND ITS TAX ADVISORS ARE (OR MAY BE) REQUIRED TO INFORM PROSPECTIVE INVESTORS THAT:

- **ANY ADVICE CONTAINED HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER;**

- **ANY SUCH ADVICE IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE SECURED NOTES AND THE TRANSACTIONS DESCRIBED HEREIN; AND**

- **EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

CERTAIN ERISA CONSIDERATIONS

Any person who intends to use "plan assets" (as discussed below) to purchase the secured notes should consult with its counsel with respect to the potential consequences of such investment under the fiduciary responsibility provisions of ERISA, and the prohibited transaction provisions of ERISA and the Code.

ERISA and the Code impose requirements on employee benefit plans, certain other retirement plans and arrangements, including individual retirement accounts and annuities, and any entity holding the assets of any such plan, account, or annuity (such as a bank common investment fund or an insurance company general or separate account) that are subject to Title I of ERISA or Section 4975 of the Code (collectively, the "Plans"). Generally, a person who exercises discretionary authority or control with respect to the assets of a Plan will be considered a fiduciary of the Plan under ERISA. Before investing in a secured note, a Plan fiduciary should determine whether such investment is permitted under the Plan document and the instruments governing the Plan and is appropriate for the Plan in view of its overall investment policy and the composition and diversification of its portfolio, taking into account the limited liquidity of the secured notes.

In addition, Section 406 of ERISA and Section 4975(c) of the Code prohibit a wide range of transactions ("Prohibited Transactions") involving the assets of a Plan and persons who have specified relationships to the Plan ("parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code). Thus, a Plan fiduciary considering an investment in the secured notes should also consider whether such investment might constitute or give rise to a Prohibited Transaction under ERISA or Section 4975 of the Code for which no exemption (as discussed below) is available.

Under Section 2510.3-101 of the U.S. Department of Labor (the "DOL") regulations, as modified by Section 3(42) of ERISA (the "DOL Regulations"), in general, when a Plan acquires an equity interest in an entity and such interest does not represent a "publicly offered security" or a security issued by an investment company registered under the Investment Company Act of 1940, as amended, the Plan's assets include both the equity interest and an undivided interest in each of the underlying assets of the entity, unless it is established that either the entity is an "operating company" or equity participation in the entity by benefit plan investors is not "significant." In general, an "equity interest" is defined under the DOL Regulations as any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and that has no substantial equity features. Although there is no direct authority on point, we believe that the secured notes should not be treated as equity interests in the lessor under the DOL Regulations.

A Prohibited Transaction could be treated as exempt under ERISA and Section 4975 of the Code if the secured notes were acquired, held or disposed of pursuant to and in accordance with one or more statutory or administrative exemptions. Among the administrative exemptions (each, a "Prohibited Transaction Class Exemption" or "PTCE") are PTCE 75-1, Part II (an exemption for principal transactions involving securities between Plans and registered broker dealers (such as the initial purchaser)), PTCE 84-14 (an exemption for transactions determined by "qualified professional asset managers"), PTCE 90-1 (an exemption for transactions involving insurance company pooled separate accounts), PTCE 91-38 (an exemption for certain transactions involving bank collective investment funds), PTCE 95-60 (an exemption for transactions involving insurance company general accounts) and PTCE 96-23 (an exemption for transactions determined by an "in-house asset manager"). In addition to the class exemptions listed above, there is a statutory exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for Prohibited Transactions between a Plan and a person or entity that is a party in interest or disqualified person to such Plan solely by reason of providing services to the Plan (other than a party in interest or disqualified person that is a fiduciary, or its affiliate, that has or exercises discretionary authority or control or renders investment advice with respect to the assets of the Plan involved in the transaction); provided that there is adequate consideration for the transaction. These exemptions, however, generally do not afford relief from the prohibitions on self dealing contained in Section 406(b) of ERISA and Section 4975(c)(1)(E) or (F) of the Code. In addition, there can be no assurance that any of these administrative exemptions will be available with respect to any particular transaction involving the secured notes. Thus, a Plan fiduciary considering an investment in the secured notes should consider whether the acquisition, the continued holding, or the disposition of a secured note might constitute or give rise to a nonexempt Prohibited Transaction.

Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions or the Prohibited Transaction provisions of ERISA or Section 4975 of the Code, may nevertheless be subject to state or

other federal laws or rules that are substantially similar to the foregoing provisions of ERISA and the Code ("Similar Laws"). Fiduciaries of any such plans should consult with their counsel before purchasing a secured note.

Any insurance company proposing to invest assets of its general account in the secured notes should consider the extent to which such investment would be subject to the requirements of ERISA in light of the U.S. Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank* and the enactment of Section 401(c) of ERISA. In particular, such an insurance company should consider the retroactive and prospective exemptive relief granted by the DOL for transactions involving insurance company general accounts in PTCE 95-60 and the final regulations issued by the DOL under Section 401(c) of ERISA.

Each person who acquires or accepts a secured note or an interest in a secured note will be deemed by such acquisition or acceptance to have represented, warranted and agreed that (a) either: (i) no "plan assets" of any Plan or any governmental or church plan that is subject to any Similar Laws have been or will be used to acquire such secured note or an interest in a secured note; or (ii) the acquisition and disposition of such secured note or interest in a secured note are exempt from the Prohibited Transaction restrictions of ERISA and Section 4975 of the Code pursuant to one or more Prohibited Transaction Class Exemptions, or another applicable prohibited transaction exemption, or will not constitute a Prohibited Transaction under ERISA and Section 4975 of the Code (or, in the case of any governmental or church plan, will not constitute a violation of any Similar Laws) and (b) it will not transfer such secured note or an interest in a secured note otherwise than to a person that is deemed to make the same representations, warranties and agreements set forth in this sentence with respect to its acquisition and disposition of such secured note or interest in a secured note.

A Plan fiduciary (and each fiduciary for a governmental or church plan subject to rules similar to those imposed on Plans under ERISA) considering the purchase of secured notes should consult its tax and/or legal advisors regarding the circumstances under which the assets of the lessor would be considered "plan assets" under the DOL regulations, the availability, if any, of exemptive relief from any potential Prohibited Transaction and other fiduciary issues and their potential consequences.

UNDERWRITING

Subject to the terms and conditions set forth in the underwriting agreement (the "underwriting agreement"), among us, the lessor, as issuer, and the underwriters, the underwriters have agreed, severally and not jointly, to purchase, and the lessor has agreed to sell to them, the principal amount of secured notes indicated below:

Underwriter	Principal amount of secured notes
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$144,000,000
J.P. Morgan Securities LLC	$126,000,000
Morgan Stanley & Co. LLC	$90,000,000
Total	$360,000,000

The underwriting agreement provides that the obligations of the underwriters to pay for and accept delivery of the secured notes are subject to approval of specified conditions precedent. The underwriters are committed to purchase all of the secured notes if any are purchased.

The underwriters have advised us and the lessor that they propose initially to offer the secured notes at the public offering price set forth on the cover page of this offering circular, and may offer the secured notes to dealers at such price less a concession not in excess of 0.35% of the principal amount of such secured notes. After the initial offering, the public offering price, concession and other selling terms may be changed.

The following table shows the underwriting discount and commission to be paid to the underwriters by us in connection with the offering.

	Price to public[(1)]	Discount and commission to the underwriters	Net proceeds[(1)]
Per secured note	100%	0.60%	99.40%
Total	$360,000,000	$2,160,000	$357,840,000

(1) Plus accrued interest, if any, from August 9, 2013, to date of delivery.

The secured notes are a new issue of securities with no established trading market and they will not be listed on any securities exchange. No assurance can be given as to the liquidity of, or the existence of a trading market for, the secured notes. See also "Risk Factors – *There is no existing market for the secured notes and there is no assurance that an active trading market will develop for the secured notes.*"

The underwriters have advised us and the lessor that they intend to make a market in the secured notes, but are not obligated to do so and may discontinue making a market at any time, without notice. In order to facilitate the offering of the secured notes, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the secured notes. Specifically, the underwriters may overallot in connection with the offering, creating a short position in the secured notes for their own accounts. In addition, to cover overallotments or to stabilize the price of the secured notes, the underwriters may bid for, and purchase, the secured notes in the open market and may impose penalty bids. Such transactions may be effected in the over-the-counter market or otherwise and may include short sales and purchases to cover positions created by short sales. Any of these activities may stabilize, maintain or otherwise affect the market price of the secured notes above independent market levels. The underwriters are not required to engage in these activities and may end any of the activities at any time without notice.

In relation to each member state of the European Economic Area which has implemented the prospectus directive (as defined below) (each, a "relevant member state"), each underwriter has represented, warranted, and agreed to and with us and the lessor that, with effect from and including the date on which the prospectus directive is implemented in that relevant member state (the "relevant implementation date"), such underwriter has not made and

will not make an offer of secured notes to the public in that relevant member state, except that it may, with effect from and including the relevant implementation date, make an offer of secured notes to the public in that relevant member state:

(a) at any time to any person or entity which is a qualified investor as defined in the prospectus directive;

(b) at any time to fewer than 100 or, if the relevant member state has implemented the relevant provision of the 2010 PD amending directive (as defined below), 150, natural or legal persons (other than qualified investors as defined in the prospectus directive), subject to obtaining the prior consent of the underwriters; or

(c) at any time in any other circumstances which do not require the publication by us and the lessor of a prospectus pursuant to Article 3(2) of the prospectus directive;

provided that no such offer of secured notes shall require us, the lessor or any underwriter to publish a prospectus pursuant to Article 3 of the prospectus directive. The expression an "offer of secured notes to the public" in relation to any secured notes in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the secured notes to be offered so as to enable an investor to decide to purchase or subscribe the secured notes, as the same may be varied in that relevant member state by any measure implementing the prospectus directive in that relevant member state; the expression "prospectus directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD amending directive, to the extent implemented in the relevant member state), and includes any relevant implementing measure in each relevant member state; and the expression "2010 PD amending directive" means Directive 2010/73/EU.

In relation to the United Kingdom, each underwriter has represented, warranted, and agreed to and with us and the lessor that such underwriter (i) has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000, as amended (the "FSMA") and the rules and regulations thereunder with respect to anything done by them in relation to the secured notes in, from or otherwise involving the United Kingdom, and (ii) has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by them in connection with the issue or sale of any secured notes in circumstances in which Section 21(1) of the FSMA does not apply to us and the lessor.

We have agreed to indemnify the underwriters against certain civil liabilities or to contribute to payments the underwriters may be required to make in respect of such civil liabilities.

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities or instruments of ours or of the lessor. If any of the underwriters or their affiliates have a lending relationship with us or the lessor, certain of those underwriters or their affiliates routinely hedge, and certain other of those underwriters or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities or the lessor's securities, including potentially the secured notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the secured notes offered hereby. The underwriters and their affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

An affiliate of one of the underwriters is a lender under the existing loans and borrowings under the existing loans are being partially repaid with the head lease rent payment. See "Use of Proceeds."

LEGAL MATTERS

Certain legal matters, including the validity of the secured notes, will be passed upon for us by Ralph E. Rodgers, Esq., Executive Vice President and General Counsel of TVA, or Clifford L. Beach, Jr., Esq., Associate General Counsel, Finance and Corporate Contracts, for TVA, and Orrick, Herrington & Sutcliffe LLP, New York, New York. Certain legal matters will be passed upon for the lessor by Hunton & Williams LLP, New York, New York and Morris James LLP, Wilmington, Delaware. The validity of the secured notes will be passed upon for the underwriters by White & Case LLP, New York, New York.

This Page Intentionally Left Blank

This Page Intentionally Left Blank

PRINCIPAL EXECUTIVE OFFICE OF TVA

400 West Summit Hill Drive
Knoxville, TN 37902
U.S.A.

PRINCIPAL EXECUTIVE OFFICE OF THE LESSOR

c/o Wilmington Trust, National Association
1100 North Market Street
Wilmington, DE 19890
U.S.A.

LEASE INDENTURE TRUSTEE

Wilmington Trust Company
Rodney Square North
1100 North Market Street
Wilmington, DE 19890
U.S.A.

U.S. TAX AND LEGAL ADVISORS TO TVA

Orrick, Herrington & Sutcliffe LLP
51 West 52nd Street
New York, NY 10019
U.S.A.

LEGAL COUNSEL FOR TVA

Ralph E. Rodgers, Esq.
Executive Vice President and General Counsel
Clifford L. Beach, Jr., Esq.
Associate General Counsel, Finance and Corporate Contracts
Tennessee Valley Authority
400 West Summit Hill Drive
Knoxville, TN 37902
U.S.A.

LEGAL ADVISORS TO THE UNDERWRITERS

White & Case LLP
1155 Avenue of the Americas
New York, NY 10036
U.S.A.

AUDITORS TO TVA

Ernst & Young LLP
Republic Centre
633 Chestnut Street, Suite 1500
Chattanooga, TN 37450
U.S.A.