

RETIREMENT SYSTEM
2006 ANNUAL REPORT



C O N T E N T S

Financial Highlights and Statistics	1
Letter from the Chairman and Vice Chairman	2
Board of Directors	3
Professional Advisors and Investment Managers	3
Plan Summary	4
Certification of Financial Statements	8
Report of Independent Auditors – TVA Retirement System	9
TVA Retirement System	10
Report of Independent Auditors – TVA Savings and Deferral Retirement Plan [401(k) Plan]	24
TVA Savings and Deferral Retirement Plan [401(k) Plan]	25
Contact Information	Back Cover

FINANCIAL HIGHLIGHTS AND STATISTICS

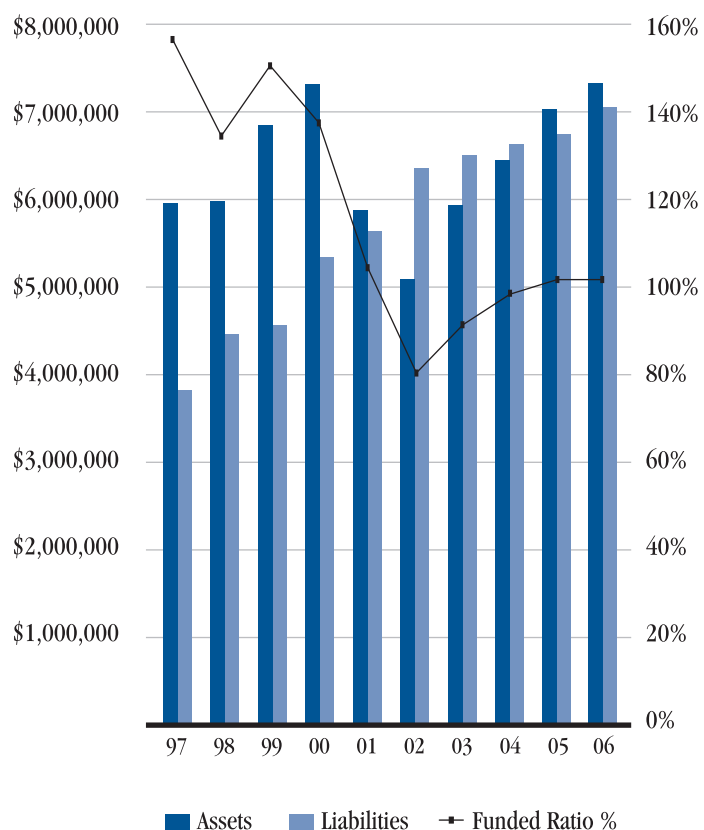
<i>(Dollars in thousands)</i>	2006	2005	Change	% Change
Net Assets Available for Benefits				
TVA Retirement System	\$ 7,549,792	\$ 7,241,443	\$ 308,349	4
TVA Savings & Deferral Retirement Plan [401(k) Plan]	<u>1,293,818</u>	<u>1,199,986</u>	<u>93,832</u>	8
Total	<u>\$ 8,843,610</u>	<u>\$ 8,441,429</u>	<u>\$ 402,181</u>	5
Net Assets Available for Benefits (Fixed Benefit Fund)	\$ 7,327,583	\$ 7,014,900	\$ 312,683	4
Accumulated Benefit Obligation (Fixed Benefit Fund)	\$ 7,056,900	\$ 6,770,000	\$ 286,900	4
Contributions				
Employer (all funds)	\$ 94,450	\$ 70,875	\$ 23,575	33
Employee (all funds)	\$ 104,959	\$ 104,085	\$ 874	1
Benefits and Withdrawals (all funds)	\$ 544,838	\$ 500,541	\$ 44,297	9
Number of Active Members	12,465	12,583	(118)	(1)
Number of Retirees	22,745	22,376	369	2

This summary is intended for informational purposes only.

FIXED BENEFIT FUND

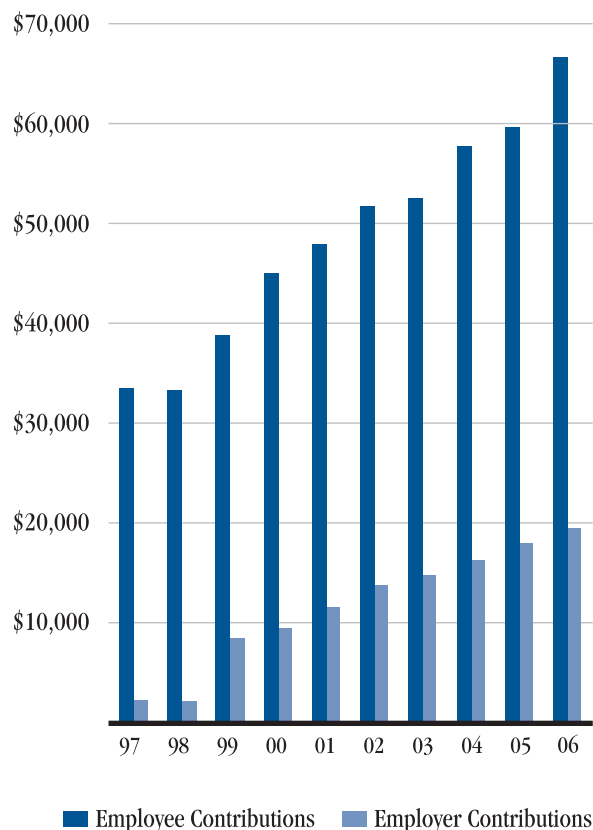
Market Value of Assets and Liabilities, and Funded Ratio

(in thousands)



401(K) PLAN CONTRIBUTIONS

(in thousands)



T O R E T I R E M E N T S Y S T E M M E M B E R S

The TVA Retirement System (TVARS) Board of Directors is pleased to submit the System's annual report as of September 30, 2006. The System's Fixed Benefit Fund assets, which were \$7.3 billion as of September 30, 2006, continued to do very well, earning an investment return of approximately 10 percent, which resulted in an increase in the ratio of assets to liabilities to 104 percent. During 2006, the TVARS Board continued to place the utmost importance on the System's ability to provide the benefits that are promised. For the year, the System provided \$450 million in benefits to approximately 22,000 retirees.

The TVARS Board has continued its asset allocation policy of investing 60 percent in equities and 40 percent in fixed income securities, while diversifying the System's assets within these broad categories.

Based upon the recommendation of the System's actuary, the TVARS Board approved and recommended to the TVA Board a contribution rate of \$75 million to the System for fiscal year 2007. The TVA Board approved this recommendation.

Other highlights include the following:

- Members may now access their investments in the Fixed and Variable Funds by using the Fidelity web site at www.netbenefits.com. Employees that choose to invest in the Variable Fund will also experience a savings resulting from lower mutual fund management fees with Fidelity as compared to the previous index fund option.
- The TVARS Board approved a cost of living increase of 3.43 percent for retirees' pension benefits and a 6.43 percent interest credit for cash balance benefit structure participants for calendar year 2007.
- Members can now access retirement information through our new web site, www.tvars.com.
- A Roth 401(k) option was added for employees eligible to participate in the 401(k) Plan.
- Leonard Muzyn, Fuel Supply Analyst, Fossil Power Group, was reelected by employees to serve as a Board director for a term ending October 31, 2009.
- The TVA Board appointed Phillip L. Reynolds, Vice President, Human Resources, to the TVARS Board, effective December 1, 2005.

Thank you for the trust and confidence you have placed in the TVARS Board over the years. We continue to be honored to work on your behalf and are pleased to provide you this report.

For the Board,



Clem C. Schonhoff
Chairman, Board of Directors
TVA Retirement System



Gretchen Thal
Vice Chairman, Board of Directors
TVA Retirement System

BOARD OF DIRECTORS

ELECTED BY MEMBERS

Floyd J. Johnson
Elected November 1, 1995

Leonard J. Muzyn
Elected November 1, 2003

Gretchen D. Thal
Elected February 3, 1997

APPOINTED BY TVA

Janet C. Herrin
Appointed May 16, 2005

John M. Hoskins
Appointed July 28, 2003

Phillip L. Reynolds
Appointed December 1, 2005

SELECTED BY OTHER DIRECTORS

Clem C. Schonhoff
Selected November 22, 2004

STANDING COMMITTEES

AUDIT
John M. Hoskins, Chair
Leonard J. Muzyn
Floyd J. Johnson

ELECTION
Janet C. Herrin, Chair
Phillip L. Reynolds
Gretchen D. Thal

INVESTMENT
Gretchen D. Thal, Chair
Janet C. Herrin
John M. Hoskins
Floyd J. Johnson
Leonard J. Muzyn
Phillip L. Reynolds
Clem C. Schonhoff

RETIREMENT
Leonard J. Muzyn, Chair
Janet C. Herrin
John M. Hoskins
Floyd J. Johnson

BOARD OFFICERS

Clem C. Schonhoff
Chairman

Gretchen D. Thal
Vice Chairman

Randy A. Snyder
Executive Secretary

Patrick D. Brackett
Assistant Secretary and
Assistant Treasurer

Sherry C. Kelly
Treasurer

Robert G. McCall
Assistant Treasurer

Pamela K. Ramsey
Assistant Treasurer

Sally R. Weber
Assistant Treasurer

PROFESSIONAL ADVISORS AND INVESTMENT MANAGERS

PROFESSIONAL ADVISORS

ACTUARY
Mercer Human Resource Consulting, Atlanta

AUDITORS
PricewaterhouseCoopers LLP, Knoxville
E.H. Johnson & Company, P.C., Knoxville

INVESTMENT CONSULTANT
Wilshire Associates Incorporated, Pittsburgh

LEGAL COUNSEL
Nicholas P. Goschy, Assistant General Counsel,
TVA, Knoxville
W. Colby Carter, Attorney, TVA, Knoxville

MASTER TRUSTEE
Mellon Bank NA, Pittsburgh

TRUSTEE - 401(k) PLAN
Fidelity Investments, Boston

MEDICAL ADVISOR
Anne S. Roberts, M.D., Knoxville

MEDICAL BOARD
Maurice S. Rawlings, M.D., Chairman, Chattanooga
Deborah D. Barton, M.D., Chattanooga
Robert W. Myers, M.D., Chattanooga

INVESTMENT MANAGERS

FIXED BENEFIT FUND
Abbott Capital Private Equity Partners IV, L.P.
Adams Street Partners
Alliance Capital Management L.P.
Barclays Global Investors, N.A.
BlackRock Financial Management Inc.
Bridgewater Associates, Inc.
David J. Greene and Company, LLC
Goldman Sachs Asset Management
HarbourVest Partners, LLC
IronBridge Capital Management, L.P.
MacKay Shields LLC
Mellon Bond Associates, LLP
Mellon Capital Management
Pacific Investment Management Company
Smith Breeden Associates Inc.
Taplin, Canida & Habacht
The Boston Company Asset Management, LLC
Wellington Management Company, LLP
Western Asset Management Company
Wilshire Associates Incorporated
W.R. Huff Asset Management Co., L.L.C.
WRH Partners Global Securities, L.P.
WRH Partners II, L.L.C.

VARIABLE FUND
Fidelity Investments
Mellon Capital Management

PLAN SUMMARY

Currently one of the largest pension plans in the nation, the TVA Retirement System provides retirement, disability, and death benefits for approximately 35,000 employees and retirees.

Established in 1939, the TVA Retirement System (System) is a defined benefit plan (Plan) covering most full-time and part-time annual employees. The System is a separate legal entity from TVA and is administered by an independent, seven-member Board of Directors. Three of the directors are appointed by TVA, and three are elected by and from the membership. A seventh director is selected by the other six. The System Board also has responsibility for administration of a defined contribution plan, the TVA Savings and Deferral Retirement Plan [401(k) Plan].

TVA contributes to the System such amounts as are necessary on an actuarial basis to provide the System with assets sufficient to meet TVA-financed benefit obligations to be paid to members. While members are not required to make contributions to the System, members are eligible to make voluntary contributions to the System's Fixed and/or Variable Funds unless they have transferred their funds to the 401(k) Plan after May 1, 2005. Members can also contribute to the 401(k) Plan, and TVA makes matching contributions to that plan.

RETIREMENT BENEFITS

A member's retirement benefit consists of a pension benefit derived from TVA's contributions and earnings on Plan assets and a Social Security benefit derived from both TVA's and the member's contributions. A member's retirement benefit may also include an annuity and/or a lump-sum benefit derived from the member's contributions to the Fixed and/or Variable Funds and the 401(k) Plan. The pension plus the annuity, if applicable, compose the TVA Retirement System retirement allowance. In addition, a supplemental benefit is provided to eligible retirees that may be used to help with the cost of medical insurance.

ORIGINAL BENEFIT STRUCTURE

The pension from the Original Benefit Structure is based on the member's years (to the nearest month) of creditable service, highest average base pay during any three consecutive years of creditable service, and a pension factor, less a Social Security offset.

Creditable service is the length of time spent as a member of the System. It also includes any annual leave forfeited after January 1, 1980, and, at the member's election, the total balance of any unused sick leave. Leave is counted hour

for hour for the first 1,000 hours and 2 hours for each hour in excess of 1,000 hours (2,080 hours equates to one year of creditable service). Forfeited annual leave and unused sick leave may be used in determining both the amount of the benefit and the eligibility for retirement. Creditable service may also include previous periods of membership in the System, certain military service, and some periods of leave without pay.

Members with at least five years of creditable service who are at least attained age 55 are always eligible to receive an immediate benefit. Vested members less than attained age 55 may also receive an immediate benefit unless they are terminated for cause. Members who have at least attained age 45 at retirement and whose age plus creditable service equals 80 or more receive the maximum pension factor of 1.3 percent. Vested members who are at least attained age 60 at the time they begin to receive their pension also receive the maximum pension factor even if they do not have 80 points.

CASH BALANCE BENEFIT STRUCTURE

The System implemented the Cash Balance Benefit Structure for employees who became members on or after January 1, 1996, with no prior Retirement System membership. Employees rehired by TVA after a break in service of 180 or more consecutive days and who have previous service as participants in the Original Benefit Structure are given an opportunity to participate in the Cash Balance Benefit Structure when they are rehired or at the time they become eligible for System membership.

The Cash Balance Benefit Structure provides a TVA-funded pension benefit based on the balance of the cash balance account established for each member and a conversion factor based on the member's age (to the nearest month). This cash balance account receives pay credits each pay period equal to 6 percent of compensation, as well as interest credits each month at the rate established by the Board each January 1. The interest rate is determined by calculating the percentage change of the 12-month average of the Consumer Price Index (CPI) for the period ending the previous October 31 over the preceding 12-month period, plus 3 percent. The System has established a minimum annual interest rate of 6 percent and a maximum annual interest rate of 10 percent for interest credits. The annual interest rate was 6.37 percent for calendar year 2006 and 6 percent for calendar year 2005.

PLAN SUMMARY

Cash balance service is the length of time spent as a member of the System. It does not include credit for unused sick leave, forfeited annual leave, or pre-TVA employment military service. Cash balance service may include previous periods of membership in the System and some periods of leave without pay.

Members with at least five years of cash balance service who are at least attained age 55 are always eligible to receive an immediate benefit. Vested members less than actual age 55 may also receive an immediate benefit unless they are terminated for cause.

SUPPLEMENTAL BENEFIT

If upon retirement a member meets the eligibility criteria, the member will receive a supplemental benefit regardless of the member's benefit structure. This benefit is provided to eligible retirees and eligible surviving spouses to assist with the cost of their medical insurance, although it is not required to be used to pay for medical insurance.

LEVEL INCOME PLAN

Regardless of the member's benefit structure, if a member chooses the level income plan, the System will increase the TVA pension payments until age 62, when early Social Security payments can begin. When the member reaches age 62, the level income plan increase stops and the member's TVA pension payments are permanently reduced. To be eligible for the level income plan, a member must be under age 62 and must have earned enough quarters of Social Security coverage at the time of retirement to be eligible for a Social Security benefit at age 62.

FIXED AND VARIABLE FUNDS AND 401(K) PLAN

During Employment

The Fixed and Variable Funds provide two after-tax investment options to members. These funds are available to members unless they have transferred their funds to the 401(k) Plan after May 1, 2005. The Fixed Fund earns a specified rate of interest set by the System's Board of Directors. The Variable Fund is invested in the Fidelity Spartan U.S. Equity Index Fund. Employees participating in the Variable Fund purchase shares in the Fidelity Spartan U.S. Equity Index Fund, which is invested in the stocks of companies included in the S&P 500 Composite Stock Price Index.

Members are also permitted to transfer their contributions between the Fixed Fund and the Variable Fund once per calendar month and may, at any time during employment, transfer their entire balance to the 401(k) Plan. Members

who transfer their funds to the 401(k) Plan after May 1, 2005, are no longer eligible to contribute to the Fixed and Variable Funds. Upon retirement, those who first became members before January 1, 1996, may transfer all or any portion of their after-tax balance(s) in the 401(k) Plan to the System to receive monthly payments.

In addition, members may elect to participate in the 401(k) Plan on a before-tax, after-tax, and/or Roth basis. TVA provides 401(k) Plan employer matching contributions for participating members. The amount of this match for Cash Balance Benefit Structure participants is 75 cents on every dollar contributed up to a maximum of 4.5 percent of fiscal year-to-date earnable compensation. The amount of this match for Original Benefit Structure participants is 25 cents on every dollar contributed up to a maximum of 1.5 percent of fiscal year-to-date earnable compensation. Members are vested in the TVA matching contributions after three years of actual Retirement System service. During employment, members are also permitted to roll over funds from certain other retirement plans and IRAs into the 401(k) Plan. Investment options available through the 401(k) Plan have varying degrees of risk and potential return.

In calendar year 2006, contributions to the Fixed Fund, Variable Fund, and 401(k) Plan, including TVA matching contributions, could not exceed the lesser of \$44,000 or 100 percent of calendar year-to-date compensation. Additionally, before-tax and/or designated Roth contributions could not exceed the annually published IRS maximum (\$15,000 for 2006). Employees who were age 50 or older were allowed to make additional before-tax and/or designated Roth contributions, allowing them to "catch up" on their retirement savings. For 2006, the catch-up amount was \$5,000 over and above contribution limits and could not begin until the before-tax and/or designated Roth contribution limit was reached. These IRS Roth limits will increase annually according to the Economic Growth and Tax Relief Reconciliation Act of 2001, as amended by the Pension Protection Act of 2006. Contributions to the Fixed Fund and/or the Variable Fund are limited by the Rules and Regulations of the Retirement System (Rules) to \$10,000 per calendar year.

After Retirement

Those who first became members before January 1, 1996, may receive a monthly annuity payment from the Fixed Fund, the Variable Fund, or both. Annuity payments from the Fixed Fund are based on a specified rate of interest set by the System's Board of Directors. Members who elect to receive an annuity payment from the Variable Fund will have their shares in the Fidelity Spartan U.S. Equity Index Fund redeemed and the proceeds used to purchase units

PLAN SUMMARY

in the Variable Fund. The monthly annuity payments will vary based on the value of these units. The investment strategy of the Variable Fund is the same as the Fidelity Spartan U.S. Equity Index Fund. Retired members may elect to transfer their entire fund balance(s) between the Fixed Fund and the Variable Fund once every 12 months.

Those who first became members on or after January 1, 1996, must withdraw or roll over their total balance from the Fixed and/or Variable Funds when their employment ends.

SOCIAL SECURITY

A retired member may be eligible to receive Social Security benefits at age 62, or earlier for disability. The Social Security Administration determines eligibility for Social Security benefits.

SURVIVOR OPTIONS

At Retirement

A member decides whether to take the maximum monthly retirement allowance during the member's lifetime, with nothing payable after death, or to take a reduced amount and provide benefits for a survivor.

Each of the various survivor options is the actuarial equivalent of the maximum retirement allowance. Married members who first become members of the System after January 1, 1990, must designate their spouse as beneficiary to receive a survivor benefit as specified by the Rules governing the defined benefit plan, or receive their spouse's written consent to select a different survivor option at retirement.

After Retirement

Retirees who marry or remarry after commencement of their retirement allowance may elect to designate their new spouse for either a 50 percent or 100 percent survivor benefit.

Retirees have 90 days from the date of such marriage or remarriage to elect this second survivor benefit. This election and actuarial reduction to the retirement benefit would be effective the first day of the month following the first anniversary of the marriage or remarriage. Previous survivor benefit elections remain in effect for any designated beneficiary whose life expectancy has been used as a factor in determining the amount of the retiree's benefit.

DISABILITY BENEFITS

A vested member may be retired on disability retirement if it is determined that the member cannot continue to work in the member's present position because of a physical or mental disability that is likely to be permanent and that

there is no other TVA position available for which the member is qualified and can perform with the member's medical restrictions.

DEATH BENEFITS

During Employment

The designated beneficiary or the estate of a member who dies during employment will receive the member's accumulated contributions, if applicable, and a benefit funded by TVA's contributions.

After Retirement

Upon the death of a member after retirement, the benefits payable (if any) depend upon the survivor option selected.

COST-OF-LIVING INCREASES

Eligible retirees receive cost-of-living increases on the pension portion of monthly benefits (exclusive of level income plan) in January following any year in which the 12-month average of the CPI exceeds by as much as 1 percent the CPI average for the preceding year. The amount of the adjustment is the percentage increase in the CPI, up to 5 percent in any one year. The System's Board may, with the approval of the TVA Board, apply an increase greater than 5 percent. The cost-of-living increase was 3.37 percent in calendar year 2006 and 2.42 percent in calendar year 2005.

Eligible retirees and beneficiaries on the retirement payroll on or before January 1 receive the cost-of-living increase. If an original benefit structure member retires after January 1, that member's pension will be at least as much as it would have been on January 1 with the cost-of-living increase if the member was eligible to retire on January 1.

The supplemental benefit will receive an annual cost-of-living increase until it reaches the maximum as specified in the Rules, at which time the cost-of-living increases will stop.

ADMINISTRATIVE EXPENSES

The System's Fixed Benefit Fund assets are used to pay for all eligible administrative expenses.

DOMESTIC RELATIONS ORDER

The System honors a Domestic Relations Order (DRO) that assigns a portion of the member's benefits to a former spouse if the DRO complies with the System's DRO procedures. DROs otherwise in compliance with those procedures are only effective if they are the result of a

P L A N S U M M A R Y

marriage that was terminated by a final order of divorce or annulment dated on or after January 1, 2003.

The DRO procedures allow a lump-sum distribution to a former spouse from a member's existing Fixed Fund, Variable Fund, and/or 401(k) Plan accounts. A DRO can also provide a recurring monthly benefit to a former spouse which begins upon the member's receipt of monthly retirement benefits. The payments continue only until the death of the member or former spouse. Survivor benefits are determined solely in accordance with System Rules and the member's beneficiary designations, and they cannot be affected in any way by a DRO.

TAX STATUS

The Internal Revenue Service (IRS) has determined and informed the System in March 2003 that the Plan and the 401(k) Plan are designed in accordance with the applicable sections of the Internal Revenue Code. The Plan and the 401(k) Plan have been amended subsequent to the receipt of the latest IRS determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan and the 401(k) Plan are currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in these financial statements.

RISKS AND UNCERTAINTIES

The Plan and the 401(k) Plan provide for various mutual fund investment options in stocks, bonds, and fixed income securities. Mutual funds are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect participants' account balances and the amounts reported in the statements of net assets available for plan benefits.

SYSTEM TERMINATION

In the event the Plan is terminated, the net assets of the Plan will be allocated generally to provide benefits in the following order: (1) benefits based upon members' contributions, (2) nonforfeitable benefits based upon TVA's contributions, and (3) if feasible, cost-of-living increases thereto.

This summary is intended to help members understand the System and its benefits under the Plan and the 401(k) Plan. The rules governing these plans, not this summary, are used to determine the benefits to which a member is entitled. For additional information about your Retirement System benefits, please contact Retirement Services at the location or numbers listed at the end of this report.

C E R T I F I C A T I O N O F F I N A N C I A L S T A T E M E N T S

Randy A. Snyder and Patrick D. Brackett individually certify that:

1. I have reviewed the Financial Statements of the Tennessee Valley Authority Retirement System.
2. Based on my knowledge, the information in the Financial Statements does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by the Financial Statements.
3. Based on my knowledge, the Financial Statements and other financial information included in the Annual Report fairly present in all material respects the financial condition, results of operations, and cash flows of the Tennessee Valley Authority Retirement System as of, and for, the periods presented in the Financial Statements.
4. The other officer of the Tennessee Valley Authority Retirement System listed below and I are responsible for establishing and maintaining disclosure controls and procedures for the Tennessee Valley Authority Retirement System and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Tennessee Valley Authority Retirement System is made known to us by others, particularly during the period in which these Financial Statements are being prepared;
 - b) evaluated the effectiveness of the Tennessee Valley Authority Retirement System's disclosure controls and procedures as of a date within 90 days prior to the date of the Financial Statements; and
 - c) disclosed in the Financial Statements any change in internal control over financial reporting that occurred during the year ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, the Tennessee Valley Authority Retirement System's internal control over financial reporting.
5. I and the other officer of the Tennessee Valley Authority Retirement System listed below have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Tennessee Valley Authority Retirement System's auditors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Tennessee Valley Authority Retirement System's ability to record, process, summarize, and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Tennessee Valley Authority Retirement System's internal control over financial reporting.

Date: April 19, 2007



Randy A. Snyder
Executive Secretary



Patrick D. Brackett
Manager, Retirement Investments

REPORT OF INDEPENDENT AUDITORS



PricewaterhouseCoopers LLP
Suite 280
2030 Falling Water Road
Knoxville TN 37922
Telephone (865) 769 2000
Facsimile (865) 769 2001
www.pwc.com

Report of Independent Auditors

To the Participants and Administrator of
The Tennessee Valley Authority Retirement System

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the financial status of Tennessee Valley Authority Retirement System Pension Plan (the "Plan") at September 30, 2006 and 2005, and the changes in its financial status for the year ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

Knoxville, Tennessee
April 30, 2007

TVA RETIREMENT SYSTEM

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

September 30, 2006 and 2005

(Dollars in thousands)	2006	2005
Assets		
Investments at fair value		
Corporate bonds	\$ 2,566,719	\$ 2,508,794
Common stocks	2,121,840	2,328,326
Commingled funds	1,520,778	1,036,444
Securities lending commingled funds (see Notes 4 and 16)	783,611	684,579
Cash equivalents	727,822	551,361
Government bonds	442,705	557,343
Limited partnerships	207,377	147,007
S&P 500 Stock Index Fund	103,538	110,139
Treasury bills and U.S. government notes held as futures collateral	70,681	69,508
Preferred stocks	25,459	24,972
Securities held as options collateral	1,592	382
Unrealized appreciation on forwards, options, and swaps	7,948	8,974
Total Investments at fair value	<u>8,580,070</u>	<u>8,027,829</u>
Receivables		
Due from broker	74,845	84,772
Interest and dividends	34,729	30,356
Other	554	542
Variation margin on futures contracts receivable	0	1,803
Total Receivables	<u>110,128</u>	<u>117,473</u>
Cash	<u>339</u>	<u>0</u>
Total assets	<u>8,690,537</u>	<u>8,145,302</u>
Liabilities		
Due to broker	339,881	198,275
Investment fees payable	6,800	5,424
Disbursements payable	3,654	6,382
Unrealized depreciation on forwards, options, and swaps	3,531	7,252
Other	2,368	1,947
Variation margin on futures contracts payable	900	0
Total payable	<u>357,134</u>	<u>219,280</u>
Liabilities to brokers for securities lending (see Notes 4 and 16)	<u>783,611</u>	<u>684,579</u>
Total liabilities	<u>1,140,745</u>	<u>903,859</u>
Net Assets Available for Benefits	<u>\$ 7,549,792</u>	<u>\$ 7,241,443</u>

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Fiscal Years Ended September 30, 2006 and 2005

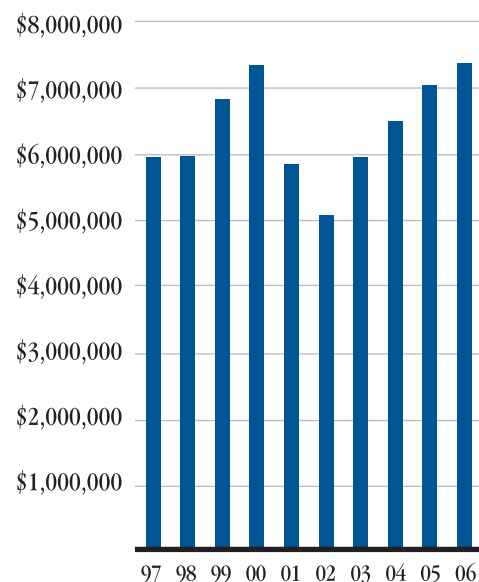
(Dollars in thousands)	2006	2005
Investment Income		
Net appreciation in fair value of investments	\$ 453,466	\$ 743,174
Interest	189,316	163,710
Dividends	50,914	53,296
	<u>693,696</u>	<u>960,180</u>
Less Investment Expenses		
	<u>30,135</u>	<u>31,069</u>
	<u>663,561</u>	<u>929,111</u>
Contributions		
TVA	75,026	53,168
Members	38,467	44,619
Transfers from 401(k) Plan	7,151	5,825
	<u>120,644</u>	<u>103,612</u>
Total increase	<u>784,205</u>	<u>1,032,723</u>
Benefits, Transfers, and Expenses		
Retirement benefits	448,490	421,800
Transfers to 401(k) Plan	14,355	11,423
Death benefits	5,103	4,035
Administrative expenses	4,577	4,353
Withdrawals	3,331	5,102
Total benefits, transfers, and expenses	<u>475,856</u>	<u>446,713</u>
Net increase	<u>308,349</u>	<u>586,010</u>
Net Assets Available for Benefits		
Beginning of year	7,241,443	6,655,433
End of year	<u>\$ 7,549,792</u>	<u>\$ 7,241,443</u>

The accompanying notes are an integral part of the financial statements.

FIXED BENEFIT FUND

Net Assets Available For Benefits

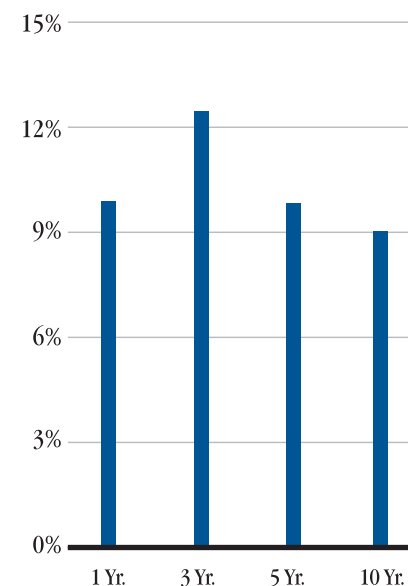
(in thousands)



This chart is unaudited and intended for informational purposes only.

FIXED BENEFIT FUND

Annualized Rate of Return



This chart is unaudited and intended for informational purposes only.

TVA RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

Note 1

GENERAL PLAN DESCRIPTION

The TVA Retirement System (System) is a defined benefit plan (Plan) covering most full-time and part-time annual employees. The System is administered by an independent, seven-member Board of Directors that also administers a defined contribution plan, the TVA Savings and Deferral Retirement Plan [401(k) Plan]. The System provides retirement, disability, and death benefits. There are two benefit structures within the Plan: the Original Benefit Structure and the Cash Balance Benefit Structure. New members hired on or after January 1, 1996, with no prior System membership, must participate in the Cash Balance Benefit Structure. Employees who were members of the System as of December 31, 1995, were given the opportunity to either participate in the Cash Balance Benefit Structure or to remain in the Original Benefit Structure.

There are two investment funds within the Plan: the Fixed Benefit Fund and the Variable Fund. TVA contributes to the Fixed Benefit Fund such amounts as are necessary on an actuarial basis to provide the System with assets sufficient to meet TVA-financed benefit obligations to be paid to members. Members have a choice of making contributions to the Fixed Fund within the Fixed Benefit Fund, the Variable Fund, or both, unless these funds were transferred to the 401(k) Plan on or after May 1, 2005. Members who have elected to make this transfer on or after May 1, 2005, are not eligible to make contributions to the Fixed Fund or the Variable Fund.

TVA's contributions are deposited in the Fixed Benefit Fund. Contributions in the Fixed Fund for those who first became members before January 1, 1996, were credited an annual rate of interest of 9 percent for the 2006 calendar year and 9.5 percent for calendar year 2005. Contributions in the Fixed Fund for those who first became members on or after January 1, 1996, or for members who transferred their Fixed and/or Variable Fund balance to the 401(k) Plan prior to May 1, 2005, were credited an annual rate of interest of 7.25 percent for the calendar year 2006 and 7 percent for 2005. Members' contributions to the Variable Fund are invested in an S&P 500 Stock Index Fund.

For participants in the Cash Balance Benefit Structure, TVA provided matching contributions of 75 cents on every dollar contributed to the 401(k) Plan on a before- and/or after-tax basis, with maximum matching contributions of 4.5 percent of fiscal year-to-date earnable compensation. Participants in the Original Benefit Structure received employer matching contributions of 25 cents on every dollar contributed to the 401(k) Plan on a before- and/or after-tax basis, with maximum matching contributions of 1.5 percent of fiscal year-to-date earnable compensation.

Benefits are provided in the form of a pension funded by TVA contributions and, if eligible, an annuity derived from the members' contributions. The Fixed Benefit Fund contains assets for funding of both the pension and fixed annuity with the net assets available for benefits being allocated between members' and TVA's contributions (see note on Net Assets Available for Benefits). The Variable Fund is discussed in Note 22.

A more detailed description of contributions, benefits, vesting, and funding is available from the TVA Retirement System.

Note 2

SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

Valuation of Investments

Mellon Bank serves as the Master Trustee (Trustee) of the Plan and accounts for the entire portfolio. As Trustee, Mellon Bank has entered into agency agreements on behalf of the Plan with Barclays Global Investors, State Street Bank, and Fidelity Investments. Mellon Bank obtains accounting information from these agents. Barclays Global Investors provides custody and management of funds that account for approximately 8.6 percent of the investments. State Street Bank provides custody and recordkeeping services for approximately 2.3 percent of the investments. Also, beginning in fiscal year 2006, Fidelity Investments provided management and recordkeeping services for the Variable Fund investment that accounts for approximately 1.2 percent of the investments (see Note 18).

Investment securities, other than debt securities, listed on either a national or foreign securities exchange or traded in the over-the-counter National Market System are generally valued each business day at the official closing price (typically the last reported sale price) on the exchange on which the security is primarily traded. If there are no current day sales, the securities are valued at their last quoted bid price. Other securities traded over-the-counter and not part of the National Market System are valued at their last quoted bid price. Debt securities (other than certain short-term obligations) are valued each business day by an independent pricing service or broker approved by the Trustee. The Plan's investments in any investment companies, unit investment trust, or similar investment funds are valued at their closing net asset values (or unit value) per share. Interests in private equity partnerships or other non-publicly traded private investment vehicles are valued at fair value by the Trustee, which generally is the Plan's pro rata interest in the net assets of these entities, as reported by the sponsors of such investment vehicles. Valuations may be modified by the Trustee, if necessary, to reflect the appropriate estimated

T V A R E T I R E M E N T S Y S T E M

fair value. Any other securities for which market quotations are not readily available are valued at their fair value as determined in good faith by the Trustee. There are inherent limitations in any estimation technique, and the amounts realized in a subsequent sale may differ from the amounts recorded. Such difference may be material. A summary of investments is provided at Note 11.

Cash and Cash Equivalents

The Plan considers all highly liquid securities with a maturity of less than three months to be cash equivalents.

Investment Income

The System presents in the Statements of Changes in Net Assets Available for Benefits the net appreciation (depreciation) in the fair value of its investments, which consists of both realized gains (losses) and the unrealized appreciation (depreciation) on those investments. Purchases and sales of securities are recorded on a trade-date basis. Gains and losses on the sales of investments are determined as the difference between sales proceeds and historical cost, which is determined by average cost. Interest income is reported on the accrual basis. Dividends are recorded on the ex-dividend date. Capital gain distributions are included in dividend income.

Tax Status

The Internal Revenue Service (IRS) has determined and informed the System in March 2003 that the Plan is designed in accordance with the applicable sections of the Internal Revenue Code. The Plan has been amended subsequent to the receipt of the latest IRS determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in these financial statements.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s). Actual results could differ from those estimates.

Reclassification

Certain reclassifications have been made to the financial statements for 2005 to conform to the 2006 financial statement presentation.

Note 3

DERIVATIVE FINANCIAL INSTRUMENTS

The Plan is party to derivative financial instruments, including

futures contracts, in its normal course of business. Under the derivative policy, investment managers may not use derivative financial instruments to fundamentally change the risk/return profile of their portfolios relative to their benchmarks. Additionally, these managers cannot invest in asset classes that are inconsistent with the benchmarks of their strategies. Derivative strategies are comparable to strategies employed by the managers in their individual portfolios. To some extent they expose the Plan to market and credit risk. The credit risks associated with these instruments are controlled through the evaluation and continual monitoring of the creditworthiness of the counter parties. In the event that a counter party fails to meet the terms of a contract or agreement, the Plan's exposure should be limited to the currency rate differential or futures contract differential. The Plan approves the use of derivatives by its managers on a case-by-case basis with written guidelines which are then monitored through regular financial reporting requirements, and, where appropriate, the Plan requires the managers to implement master netting agreements to further reduce counter party exposure. Such contracts and agreements have been executed with creditworthy counter parties. As such, the Plan considers the risk of nonperformance to be remote. Futures contracts are used as a substitute for a similar physical security. These financial instruments are held by the Trustee. Futures and options are listed on either a national or foreign securities exchange and generally valued each business day at the official closing price (typically the last reported sales price) on the exchange on which the security is primarily traded. Options are entered into for investment and hedging purposes. Interest rate swap contracts are priced at market using forward rates derived from the swap curve. The pricing is performed by third-party vendors. A summary of the Plan's open futures and options contracts/variation margin as of September 30, 2006 and 2005, is provided at Note 12. Also, a summary of interest rate swap contracts is provided at Note 13, and a summary of credit default swap contracts is provided at Note 14.

As part of its investment program, the Plan may utilize forward currency exchange contracts to a limited extent when deemed prudent by discretionary investment managers in connection with purchases and sales of securities. All commitments are marked to market daily at the applicable translation rates, and any resulting unrealized gains or losses are recorded. The notional amounts are not recorded in the Statement of Net Assets and are properly disclosed in Note 15. Realized gains or losses are recorded at the time the forward contract matures or by the delivery of the currency. The Plan will enter into forward contracts for investment and hedging purposes. A summary of the Plan's forward currency exchange contracts as of September 30, 2006 and 2005, is provided at Note 15.

TVA RETIREMENT SYSTEM

Due to the level of risk associated with certain investment securities and derivatives, it is at least reasonably possible that changes in the values of investment securities and derivatives will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

Note 4 SECURITIES LENDING

The Plan may lend portfolio securities to qualified institutions. Loans are secured by collateral at least equal to 102 percent (105 percent for international securities) of the market value of the securities loaned. The Plan generally receives cash as collateral for securities lending, but it may also receive investment grade securities or interest in tri-party accounts containing investment grade securities. Cash received is invested in a commingled fund of various short-term investments where the maximum weighted average maturity of the fund is 90 days and organized and managed by Mellon Global Securities Services (MGSS), which is limited to investment activities incidental to or in support of the securities lending program organized and managed by MGSS. The Plan does not have the right to sell or re-pledge securities or interest in tri-party accounts received as collateral. The Plan receives a portion of the income earned on the collateral and also continues to earn income on the loaned securities. Any gain or loss in the market price of the securities loaned that may occur during the term of the loan will be for the account of the Plan. The lending agent provides the Plan with indemnification against losses due to borrower default. The Plan bears the risk of loss only with respect to the investment of any cash collateral. A summary of securities currently out on loan and the related collateral is provided at Note 16.

Note 5 PRIVATE EQUITY INVESTMENTS

The asset allocation policy provides that 5 percent of the domestic equity allocation may be invested in private equity limited partnerships or other similar alternative investments but not to include holding title to real property. The 5 percent is measured as a percentage of the total investments. The private equity limited partnerships and other similar alternative investments are reported at market value, which is based on market quotations if available. For investments where no readily ascertainable market value exists, funds are valued by independent appraisals or investment management judgment.

The private equity managers recognize realized gains or losses when they receive income or dispose of an investment. The net realized capital gains or losses, which include management fees and fund expenses, are allocated to the partners in proportion to their commitments.

In fiscal year 2006, the private equity investments were 15 funds valued at \$207.4 million with commitments of \$590

million and 20.5 million in Euro dollars (\$26 million USD). In fiscal year 2005, the private equity investments were 10 funds valued at \$147 million with commitments of \$425 million and 20.5 million Euro dollars (\$26 million USD). Please see Note 6 on Commitments and Contingencies. Gains and losses from the foreign currency exchange are reflected in the statement of changes in net assets available for benefits.

Note 6 COMMITMENTS AND CONTINGENCIES

The Plan has made commitments to various limited partnerships. As of September 30, 2006, the commitments consisted of \$590 million and 20.5 million Euros (\$26 million USD) with capital outlays of approximately \$187.9 million and 1.2 million Euros (\$1.5 million USD). The remaining amount to be funded on capital commitments was approximately \$402.1 million and 19.3 million Euros (\$24.5 million USD). At September 30, 2005, the commitments consisted of \$425 million and 20.5 million Euro dollars (\$26 million USD). The capital outlays were approximately \$123.9 million and 410 thousand Euros (\$521 thousand USD) resulting in the remaining amount to be funded on capital commitments of approximately \$301.1 million and 20.1 million Euros (\$25.5 million USD). The investment partnerships request capital outlays as business opportunities arise.

Note 7 MEMBER CONTRIBUTIONS

Eligible members may voluntarily contribute to either the Fixed Fund, the Variable Fund, or both. Federal income tax is deferred on earnings until annuity payments start or withdrawals are made. Members are also permitted to transfer their contributions between the Fixed Fund and the Variable Fund once per calendar month and may, at any time during employment, transfer their entire balance to the 401(k) Plan. Members who transfer their balance to the 401(k) Plan on or after May 1, 2005, are no longer eligible to contribute to the Fixed Fund or the Variable Fund. Upon retirement, those who first became members before January 1, 1996, may transfer all or any portion of their after-tax balance in the 401(k) Plan to the Fixed Fund and/or Variable Fund to receive monthly payments.

Note 8 EMPLOYER CONTRIBUTIONS

The funding method for the System is established solely under the System's Rules and Regulations (Rules). The minimum required funding method calls for TVA's rate of contribution in a fiscal year to be not less than the sum of the normal contribution (the long-term annual weighted average cost of benefits excluding cost-of-living adjustments), the accrued liability contribution (an amortized portion of the System's deficit or surplus based on the value of benefits excluding cost-of-living adjustments), and a cost-of-living contribution (an amount to fund cost-of-living adjustments earned in the past and presently payable).

TVA RETIREMENT SYSTEM

Under the Rules, TVA may utilize a portion of a reserve account, which consists of contributions made by TVA in excess of the minimum required under the Rules, to offset the cost-of-living contribution component of the minimum required funding method. In addition, TVA's contribution rate for a fiscal year may be reduced or eliminated, upon the System Board's recommendation, if the market value of the System's assets exceeds the present value of accrued System benefits on the System's last valuation date.

Note 9

AMENDMENTS TO THE RULES AND REGULATIONS

For calendar year 2006, the Fixed Fund interest rate was reduced to 9 percent from 9.5 percent. The fixed interest rate will be reduced 50 basis points each year until it reaches a rate equaling the expected rate of return on Plan investments minus 50 basis points.

In May 2005, the System Board opened the Fixed and Variable Funds to members hired after January 1, 1996, and to members hired before January 1, 1996, who previously transferred their funds to the 401(k) Plan. The interest rate established by the System Board for the Fixed Fund for these newly eligible members is the expected rate of return on pension plan investments minus 50 basis points, which was 7.25 percent for calendar year 2006 and 7 percent for calendar year 2005. Members who transfer their fund balances to the 401(k) Plan on or after May 1, 2005, are no longer eligible to contribute to the Fixed and Variable Funds. At retirement, members hired after January 1, 1996, must either withdraw their balance in a lump sum or roll over their entire balance to another qualified plan. In the absence of direction as to the withdrawal or rollover of such funds from the member, the amounts shall remain in the member's account but will cease to receive interest 60 days after the employment termination date.

Under the Rules, contributions to the Fixed Fund and Variable Fund were limited to \$10,000 annually beginning in calendar year 2005. Total contributions to the Fixed Fund, Variable Fund, and 401(k) Plan, including TVA matching contributions, were subject to IRS limits of \$44,000 (excluding 401(k) catch-up contributions) or 100 percent of calendar year-to-date compensation in calendar year 2006.

Wages and salaries, in determining pension benefits at retirement, now include certain lump-sum payments made in lieu of base wage or salary increases for fiscal years 1998 through 2007. Wages and salaries also now include lump-sum payments for certain TVA performance incentive plans beginning in fiscal year 2000.

Note 10

ACTUARIAL ASSUMPTIONS

Accumulated benefits are those future periodic payments,

including single-sum payments, that are attributable under the System's provisions to the service members have rendered and contributions members have made. Accumulated benefits include benefits expected to be paid to (1) retired or terminated members or to their beneficiaries, (2) beneficiaries of members who have died, and (3) current members or their beneficiaries.

Pension benefits under the System's Original Benefit Structure are based on members' years (to the nearest month) of creditable service, highest average base pay during any three consecutive years of creditable service, and a pension factor, less a Social Security offset. Calculations of the accumulated pension benefits for active employees are based on their average compensation during the last three years ending on the valuation date.

Pension benefits under the System's Cash Balance Benefit Structure are based on pay credits and interest credits which accumulate over the members' cash balance service. Pay credits accumulate at a rate equal to 6 percent of members' compensation, and interest is credited each month at the rate established by the Board each January 1. The interest rate is determined by calculating the percentage change of the 12-month average of the Consumer Price Index (CPI) for the period ending the previous October 31 over the preceding 12-month period, plus 3 percent. The System has established a minimum annual interest rate of 6 percent and a maximum annual interest rate of 10 percent for interest credits. The interest rate was 6.37 percent in 2006 and 6 percent in 2005.

Benefits payable under all circumstances—retirement, death, disability, and termination of employment—are included to the extent they are deemed attributable to members' service rendered to the valuation date.

The actuarial present value of accumulated benefits is determined by the System's Actuary, Mercer Human Resource Consulting, and is that amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawals, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of September 30, 2006 and 2005, were:

- A. Actuarial Cost Method – Projected unit credit method.
- B. Life expectancy of participants – The 1983 Group Annuity Table for 2006 and 2005.
- C. Normal retirement age – 65 for 2006 and 2005.
- D. Interest rate – 7.75 percent annually for 2006 and 2005.
- E. Retiree cost-of-living increases – 2.5 percent annually for 2006 and 2005.

T V A R E T I R E M E N T S Y S T E M

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

ACCUMULATED BENEFITS

The estimated actuarial present value of accumulated benefits for the System payable from the Fixed Benefit Fund is as follows:

September 30, 2006 and 2005

(Dollars in thousands)	2006	2005
Vested benefits		
Retired or terminated participants	\$ 4,384,700	\$ 4,119,200
Active participants	<u>2,636,600</u>	<u>2,614,800</u>
Total	<u>7,021,300</u>	<u>6,734,000</u>
Nonvested benefits	<u>35,600</u>	<u>36,000</u>
Total estimated actuarial present value of accumulated benefits payable from the Fixed Benefit Fund	<u>\$ 7,056,900</u>	<u>\$ 6,770,000</u>

The changes in the estimated actuarial present value of accumulated benefits payable from the Fixed Benefit Fund are as follows:

Fiscal Years Ended September 30, 2006 and 2005

(Dollars in thousands)	2006	2005
Actuarial present value of accumulated benefits payable from the Fixed Benefit Fund at beginning of year	\$ 6,770,000	\$ 6,592,600
Increase during the year attributable to:		
Additional benefits accumulated and actuarial gains and losses	227,800	291,300
Change in assumptions	0	(171,700)
Interest due to decrease in the discount period	507,300	478,700
Benefits paid to participants	<u>(448,200)</u>	<u>(420,900)</u>
Actuarial present value of accumulated benefits payable from the Fixed Benefit Fund at end of year	<u>\$ 7,056,900</u>	<u>\$ 6,770,000</u>

Note 11 INVESTMENTS

The following summarizes the investments of the System at September 30, 2006 and 2005.

(Dollars in thousands)	2006	2005
Common stocks, at fair value		
Domestic		
Technology	\$ 297,416	\$ 289,368
Financial	291,669	250,947
Consumer Non-Durables	270,004	240,494
Health Care	194,688	205,710
Capital Goods	176,580	194,173
Energy	123,080	154,704
Other	94,342	73,140
Basic Industries	77,926	72,178
Utilities	68,415	58,288
Transportation	39,043	55,432
Consumer Durables	15,977	19,234
International		
Europe	252,980	377,417
Asia	153,473	239,033
Other Countries	66,247	98,208
Total Common stocks, at fair value	<u>2,121,840</u>	<u>2,328,326</u>
Corporate Bonds, at fair value		
Domestic		
Mortgage backed securities	803,242	630,411
Industrial	485,974	373,721
Financial	289,764	402,090
Asset backed securities	202,867	189,451
Utilities	122,186	122,158
Other	43,940	182,633
Convertible	4,835	10,795
International		
Europe	252,066	243,287
Canada	69,045	70,997
South America	19,215	25,865
Asia	17,480	22,791
Mexico	14,513	20,189
Other Countries	241,592	214,406
Total Corporate Bonds, at fair value	<u>2,566,719</u>	<u>2,508,794</u>
Commingled funds	1,520,778	1,036,444
Securities lending commingled fund	783,611	684,579
U.S. Government Bonds	442,705	557,343
Cash equivalents	727,822	551,361
Limited Partnerships	207,377	147,007
S&P 500 Stock Index Fund	103,538	110,139
Treasury Bills and U.S. Government Notes held as Futures Collateral	70,681	69,508
Preferred stocks, at fair value	25,459	24,972
Securities held as Options Collateral	1,592	382
Unrealized Appreciation on Forwards, Options and Swaps	<u>7,948</u>	<u>8,974</u>
Total Investments	<u>\$ 8,580,070</u>	<u>\$ 8,027,829</u>

T V A R E T I R E M E N T S Y S T E M

Note 12

DERIVATIVE FINANCIAL INSTRUMENTS

The following summarizes the futures and options contracts of the Fixed Fund at September 30, 2006 and 2005.

<i>(Dollars in thousands)</i>	2006		2005	
	Contracts Long (Short)	Unrealized Appreciation (Depreciation)	Contracts Long (Short)	Unrealized Appreciation (Depreciation)
Futures Contracts				
Equity Futures				
S&P 500 Index Futures	4,168	\$ (1,054)	5,016	\$ 1,932
Commodity Futures	936	127	319	(77)
International Index Futures	171	(10)	65	(61)
Subtotal Equity Futures	<u>5,275</u>	<u>(937)</u>	<u>5,400</u>	<u>1,794</u>
Foreign Currency Futures				
90 Day Eurodollar Futures	3,642	(61)	1,051	(271)
90 Day Sterling London Interbank Offer Rate Futures	546	(12)	124	(6)
90 Day Australian Bank Bill Futures	188	3	(181)	(5)
90 Day Bank Acceptance Futures	152	(0)	142	(8)
90 Day Euro Yen Futures	71	0	(488)	(21)
90 Day Euro Interbank Offer Rate Futures	(94)	554	(238)	1
Subtotal Foreign Currency Futures	<u>4,505</u>	<u>484</u>	<u>410</u>	<u>(310)</u>
Interest Rate Futures				
U.S. Treasury Notes Futures - 2 year	428	(20)	(277)	61
U.S. Treasury Long Bonds Futures	179	0	(60)	23
U.S. Treasury Notes Futures - 5 year	56	(2)	320	(80)
U.S. Treasury Notes Futures - 10 year	(991)	95	(512)	167
International Bond Futures	(326)	(520)	(474)	148
Subtotal Interest Rate Futures	<u>(654)</u>	<u>(447)</u>	<u>(1,003)</u>	<u>319</u>
Total Futures Contracts	<u>9,126</u>	<u>\$ (900)</u>	<u>4,807</u>	<u>\$ 1,803</u>
Option Contracts				
Written Options				
Foreign Currency Options				
90 Day Eurodollar Futures Options	(432)	\$ (222)	(79)	\$ (12)
Euro 2 Year Futures Option	(96)	6		
Euro 1 Year Futures Option	(80)	5	(32)	(10)
90 Day Sterling London Interbank Offer Rate Futures	(12)	(20)	(12)	(2)
Subtotal Foreign Currency Options	<u>(620)</u>	<u>(231)</u>	<u>(123)</u>	<u>(24)</u>
Interest Rate Options				
U.S. Treasury Notes Options - 10 year	(1,264)	(227)	(1,041)	(62)
Interest Rate Swaptions	(984)	(980)	(46)	0
U.S. Treasury Long Bonds Options	(682)	(115)	(322)	66
U.S. Treasury Notes Options - 5 year	(98)	(77)	(375)	(60)
Subtotal Interest Rate Options	<u>(3,028)</u>	<u>(1,399)</u>	<u>(1,784)</u>	<u>(56)</u>
Fixed Income Securities Options				
Federal National Mortgage Association Securities	(87)	(0)	0	0
Total Written Options	<u>(3,735)</u>	<u>\$ (1,630)</u>	<u>(1,907)</u>	<u>\$ (80)</u>
Purchased Options				
Foreign Currency Options				
90 Day Eurodollar Futures Options	137	\$ (48)	460	\$ (152)
Euro 1 Year Futures Option	96	(2)	32	(5)
Subtotal Foreign Currency Options	<u>233</u>	<u>(50)</u>	<u>492</u>	<u>(157)</u>
Interest Rate Options				
Interest Rate Swaptions	2,613	982	28	0
U.S. Treasury Long Bonds Options	180	176	117	(50)
U.S. Treasury Notes Options - 10 year	33	(1)	67	(9)
U.S. Treasury Notes Options - 5 year	823	471	505	(476)
Subtotal Interest Rate Options	<u>3,649</u>	<u>1,628</u>	<u>717</u>	<u>(535)</u>
Total Purchased Options	<u>3,882</u>	<u>\$ 1,578</u>	<u>1,209</u>	<u>\$ (692)</u>

T V A R E T I R E M E N T S Y S T E M

Note 13

INTEREST RATE SWAP CONTRACTS

The following summarizes the interest rate swap contracts of the Fixed Fund at September 30, 2006 and 2005.

(Dollars in thousands)		2006				
Counter Parties	Notional Amount	Pay/ Receive	Floating Rate Index	Fixed Rate	Maturity Date	Unrealized Appreciation (Depreciation)
Interest Rate Swaps						
Bank of America	(5,000,000)	Pay		10% AAA CMBS plus 7.5 bps	11/30/06	(5,000)
	5,000,000	Receive		10% AAA CMBS plus monthly spread	11/30/06	5,000
	(7,000,000)	Pay		AA CMBS plus 7.5 bps	11/30/06	(14,010)
	7,000,000	Receive		AA CMBS plus monthly spread	11/30/06	14,000
	(15,000,000)	Pay		10% AAA CMBS plus 5 bps	06/30/07	(15,000)
	15,000,000	Receive		10% AAA CMBS plus monthly spread	06/30/07	15,000
Barclays Capital	(1,000,000)	Pay	British Pound LIBOR		06/15/07	(2)
	1,000,000	Receive		5.00%	06/15/07	0
	(65,400,000)	Pay	3 month LIBOR		12/20/08	0
	65,400,000	Receive		5.00%	12/20/08	0
	(700,000)	Pay	Euro Dollars		10/15/10	0
	700,000	Receive		2.10%	10/15/10	5
	(3,000,000)	Pay	British Pound LIBOR		06/16/11	(19)
	3,000,000	Receive		5.00%	06/16/11	0
Bear Stearns	(11,299,986)	Pay	3 month LIBOR		03/21/07	(11,300)
	11,299,986	Receive	iShares MSCI Emerging Markets Index Fund		03/21/07	12,436
BNP Paribas	(1,000,000)	Pay	Euro Dollars		10/15/10	0
	1,000,000	Receive		2.09%	10/15/10	9
Deutsche Bank	(720,000)	Pay		4.08%	10/05/08	(720)
	720,000	Receive		4.65%	10/05/08	714
	(7,140,000)	Pay		4.11%	10/11/10	(7,143)
	7,140,000	Receive		4.71%	10/11/10	7,049
	(1,690,000)	Pay		3.42%	06/17/10	(1,690)
	1,690,000	Receive		4.31%	06/17/10	1,648
	(3,170,000)	Pay	3 month LIBOR		07/21/16	(3,153)
	3,170,000	Receive		5.69%	07/21/16	3,297
Goldman Sachs	(2,300,000)	Pay	3 month LIBOR		03/10/09	(2,300)
	2,300,000	Receive		4.36%	03/10/09	2,263
	(3,000,000)	Pay	3 month LIBOR		07/07/11	(3,000)
	3,000,000	Receive		5.71%	07/07/11	3,080
	(700,000)	Pay	3 month LIBOR		12/20/36	0
	700,000	Receive		5.00%	12/20/36	0
JP Morgan	(6,400,000)	Pay	Swiss Market Index		10/31/06	(5,191)
	6,400,000	Receive	Swiss LIBOR		10/31/06	5,347
Lehman Govt. Securities	(1,020,000)	Pay	3 month LIBOR		10/07/07	(1,020)
	1,020,000	Receive		4.60%	10/07/07	1,013
	(500,000)	Pay	British Pound LIBOR		09/20/09	(10)
	500,000	Receive		4.50%	09/20/09	0
Merrill Lynch	(1,900,000)	Pay	British Pound LIBOR		09/20/09	(39)
	1,900,000	Receive		4.50%	09/20/09	0
	(300,000)	Pay		4.00%	12/15/35	0
	300,000	Receive	British Pound LIBOR		12/15/35	1
Morgan Stanley	(2,100,000)	Pay	Euro Dollars		06/18/34	0
	2,100,000	Receive		6.00%	06/18/34	444
Wachovia Bank	(10,000,000)	Pay		8.5% AAA CMBS plus 5 bps	10/31/06	(10,013)
	10,000,000	Receive		8.5% AAA CMBS plus monthly spread	10/31/06	10,000
	(5,000,000)	Pay		8.5% AAA CMBS plus 5 bps	11/30/06	(5,007)
	5,000,000	Receive		8.5% AAA CMBS plus monthly spread	11/30/06	5,000
	(11,000,000)	Pay		10 % AAA CMBS plus 10 bps	11/30/06	(22,000)
	11,000,000	Receive		10 % AAA CMBS plus monthly spread	11/30/06	22,000
Totals	0					\$ 1,689

(Dollars in thousands)		2005				
Alex Brown and Sons	(1,690,000)	Pay		3.42%	06/17/10	\$ (1,690)
	1,690,000	Receive		4.31%	06/17/10	1,666
Bank of America	(300,000)	Pay	Canadian		12/16/19	0
	300,000	Receive		6.00%	12/16/19	6
Barclays Capital	(1,000,000)	Pay	British Pound LIBOR		06/15/07	0
	1,000,000	Receive		5.00%	06/15/07	10
	(700,000)	Pay	Euro Dollars		10/15/10	0
	700,000	Receive		2.10%	10/15/10	0
	(3,000,000)	Pay	British Pound LIBOR		06/16/11	0
	3,000,000	Receive		5.00%	06/16/11	116
BNP Paribas	(1,000,000)	Pay	Euro Dollars		10/15/10	(4)
	1,000,000	Receive		2.09%	10/15/10	0
Lehman Govt Securities	(500,000)	Pay	British Pound LIBOR		09/20/09	(1)
	500,000	Receive		4.50%	09/20/09	0
Merrill Lynch	(1,900,000)	Pay	British Pound LIBOR		09/20/09	(4)
	1,900,000	Receive		4.50%	09/20/09	0
	300,000	Receive		6.00%	06/18/34	10
Totals	300,000					\$ 109

TVA RETIREMENT SYSTEM

Note 14

CREDIT DEFAULT SWAP CONTRACTS

The following summarizes the credit default swap contracts of the Fixed Fund at September 30, 2006 and 2005.

<i>(Dollars in thousands)</i>		2006			
Counter Parties	Notional Amount	BUY/SELL Protection	Fixed Rate	Maturity Date	Unrealized Appreciation (Depreciation)
Bear Stearns	(195,455)	SELL		12/20/09	\$ (195)
	195,455		4.00%	12/20/09	203
	(483,330)	SELL		03/20/10	(483)
	483,330		1.05%	03/20/10	490
	(400,000)	SELL		06/20/10	(400)
	400,000		5.45%	06/20/10	425
	(570,000)	SELL		09/20/10	(570)
	570,000		1.75%	09/20/10	566
	(194,000)		(3.95%)	12/20/10	(202)
	194,000	BUY		12/20/10	194
Credit Suisse	(488,636)	SELL		12/20/09	(489)
	488,636		4.00%	12/20/09	509
	(100,000)	SELL		03/20/10	(100)
	100,000		1.14%	03/20/10	99
	(100,000)	SELL		09/20/10	(100)
	100,000		1.14%	09/20/10	101
	(60,000)		(2.15%)	02/25/34	(60)
	60,000	BUY		02/25/34	60
	(60,000)		(2.20%)	03/25/34	(60)
	60,000	BUY		03/25/34	60
	(60,000)		(1.37%)	06/25/34	(60)
	60,000	BUY		06/25/34	60
	(60,000)		(2.15%)	08/25/34	(60)
	60,000	BUY		08/25/34	60
	(60,000)		(1.37%)	10/25/34	(60)
	60,000	BUY		10/25/34	60
	(180,000)		(1.31% to 2.18%)	11/25/34	(179)
	180,000	BUY		11/25/34	180
	(90,000)		(1.33% to 2.08%)	12/25/34	(89)
	90,000	BUY		12/25/34	90
	(180,000)		(1.28% to 2.18%)	01/25/35	(179)
	135,000	BUY		01/25/35	135
	(270,000)		(1.31% to 2.08%)	02/25/35	(269)
	270,000	BUY		02/25/35	270
	(270,000)		(1.33% to 2.18%)	03/25/35	(269)
	270,000	BUY		03/25/35	270
	(150,000)		(1.28% to 2.15%)	04/25/35	(150)
	150,000	BUY		04/25/35	150
	(90,000)		(1.28% to 2.05%)	06/25/35	(90)
	90,000	BUY		06/25/35	90
	(90,000)		(1.28% to 2.05%)	09/25/35	(90)
	90,000	BUY		09/25/35	90
(90,000)		(1.28% to 2.05%)	10/25/35	(89)	
90,000	BUY		10/25/35	90	
(90,000)		(1.38% to 2.18%)	01/25/36	(89)	
90,000	BUY		01/25/36	90	
Deutsche Bank	(200,000)	SELL		09/20/10	(200)
	200,000		2.30 % to 2.32%	09/20/10	202
	(100,000)	SELL		03/20/15	(100)
Goldman Sachs	100,000		2.93%	03/20/15	82
	(1,494,000)		(0.85%) to (3.95%)	12/20/10	(1,508)
	1,494,000	BUY		12/20/10	1,494
	(485,715)	SELL		12/20/10	(486)
	485,715		2.00%	12/20/10	494
	(200,000)	SELL		06/20/11	(200)
	200,000		3.00%	06/20/11	203
	(2,300,000)		(0.75%) to 3.45%	06/20/11	(2,307)
	2,300,000	BUY		06/20/11	2,300
	(1,400,000)		(0.75%)	09/20/11	(1,401)
	1,400,000	BUY		09/20/11	1,400
	(1,200,000)		(0.75%)	12/20/11	(1,195)
	1,200,000	BUY		12/20/11	1,200
	(300,000)	SELL		06/20/16	(300)
300,000		2.97%	06/20/16	297	
(794,635)		(3.80%)	10/25/36	(828)	
794,635	BUY		10/25/36	795	
(598,250)		(3.80%)	10/25/45	(642)	
598,250	BUY		10/25/45	598	
Greenwich Capital	(3,200,000)	SELL		06/20/10	(3,200)
	3,200,000		2.08% to 4.75%	06/20/10	3,263
	(1,100,000)	SELL		09/20/10	(1,100)
	1,100,000		2.32%	09/20/10	1,113
	(777,144)	SELL		12/20/10	(777)
	777,144		2.00%	12/20/10	791
	(100,000)	SELL		03/20/11	(100)
	100,000		4.50%	03/20/11	110
	(4,200,000)	SELL		06/20/16	(4,200)
	4,200,000		3.00% to 5.00%	06/20/16	4,165
	(99,946)		(2.50%)	10/19/35	(98)
99,946	BUY		10/19/35	100	
(99,880)		(4.50%)	08/19/45	(98)	
99,880	BUY		08/19/45	100	

TVA RETIREMENT SYSTEM

Note 14

CREDIT DEFAULT SWAP CONTRACTS (continued)

The following summarizes the credit default swap contracts of the Fixed Fund at September 30, 2006 and 2005.

(Dollars in thousands)		2006			
Counter Parties	Notional Amount	BUY/SELL Protection	Fixed Rate	Maturity Date	Unrealized Appreciation (Depreciation)
Lehman Brothers	(194,000)		(3.95%)	12/20/10	(201)
	194,000	BUY		12/20/10	194
	(400,000)		(3.00%) to (3.45%)	06/20/11	(405)
Merrill Lynch	400,000	BUY		06/20/11	400
	(50,000)	SELL		09/20/10	(50)
	50,000		2.30%	09/20/10	51
Totals	(45,000)				\$ (34)

		2005			
Alex Brown and Sons	(200,000)	SELL		09/20/10	\$(200)
	200,000		2.30% to 2.32%	09/20/10	195
	(100,000)	SELL		03/20/15	(100)
Bear Stearns	100,000		2.93%	03/20/15	83
	(390,909)	SELL		12/20/09	(391)
	390,909		4.00%	12/20/09	405
	(500,000)	SELL		03/20/10	(500)
	500,000		1.05%	03/20/10	494
Chase Bank/Greenwich Capital	(1,984,000)	SELL		06/20/10	(1,984)
	1,984,000		3.60% to 5.45%	06/20/10	2,001
	(570,000)	SELL		09/20/10	(570)
	570,000		1.75%	09/20/10	543
	(2,000,000)	SELL		06/20/10	(2,000)
Credit Suisse	2,000,000		2.08%	06/20/10	1,960
	(1,200,000)	SELL		06/20/10	(1,200)
	1,200,000		4.75%	06/20/10	1,224
	(900,000)	SELL		12/20/10	(900)
	900,000		2.00%	12/20/10	893
	(488,636)	SELL		12/20/09	(488)
	488,636		4.00%	12/20/09	506
	(100,000)	SELL		03/20/10	(100)
	100,000			03/20/10	96
	(100,000)	SELL		09/20/10	(100)
Goldman Sachs	100,000		1.14%	09/20/10	99
	(60,000)		(2.15%)	02/25/34	(60)
	60,000	BUY		02/25/34	60
	(60,000)		(2.20%)	03/25/34	(60)
	60,000	BUY		03/25/34	60
	(60,000)		(1.37%)	06/25/34	(60)
	60,000	BUY		06/25/34	60
	(60,000)		(2.15%)	08/25/34	(60)
	60,000	BUY		08/25/34	60
	(60,000)		(1.37%)	10/25/34	(60)
	60,000	BUY		10/25/34	60
	(180,000)		(1.31%) to (2.18%)	11/25/34	(181)
	180,000	BUY		11/25/34	180
	(90,000)		(1.33%) to (2.08%)	12/25/34	(90)
	90,000	BUY		12/25/34	90
	(135,000)		(1.28%) to (2.18%)	01/25/35	(135)
	135,000	BUY		01/25/35	135
	(270,000)		(1.31%) to (2.08%)	02/25/35	(271)
	270,000	BUY		02/25/35	270
	(270,000)		(1.33%) to (2.18%)	03/25/35	(271)
270,000	BUY		03/25/35	270	
(150,000)		(1.28%) to (2.15%)	04/25/35	(150)	
150,000	BUY		04/25/35	150	
(90,000)		(1.28%) to (2.05%)	06/25/35	(90)	
90,000	BUY		06/25/35	90	
(90,000)		(1.28%) to (2.05%)	09/25/35	(90)	
90,000	BUY		09/25/35	90	
(90,000)		(1.28%) to (2.05%)	10/25/35	(90)	
90,000	BUY		10/25/35	90	
(90,000)		(1.38%) to (2.18%)	01/25/36	(90)	
90,000	BUY		01/25/36	90	
Merrill Lynch	(400,000)		(0.255%) to (0.2625%)	06/20/10	(400)
	400,000	BUY		06/20/10	400
	(500,000)	SELL		12/20/10	(500)
Merrill Lynch	500,000		2.00%	12/20/10	496
	(50,000)	SELL		09/20/10	(50)
	50,000		2.30%	09/20/10	49
	(900,000)		(.2642%)	06/20/15	(896)
900,000	BUY		06/20/15	900	
Totals	0				\$ (38)

T V A R E T I R E M E N T S Y S T E M

Note 15

FORWARD FOREIGN CURRENCY CONTRACTS

The following summarizes the forward foreign currency contracts of the Fixed Fund at September 30, 2006 and 2005.

<i>(Dollars in thousands)</i>	2006			2005		
	Settlement Date	USD Contract Amount	Unrealized Appreciation (Depreciation)	Settlement Date	USD Contract Amount	Unrealized Appreciation (Depreciation)
Currency Purchased						
Australian Dollar	12/14/06 12/20/06	\$ 41,574 4,152	\$ 236 70	10/04/05 12/15/05 12/21/05	\$ 13 3,358 499	\$ 0 (1) (3)
British Pound Sterling	10/19/06 12/14/06 12/20/06	358 3,921 44,371	5 40 548	10/03/05 10/04/05 12/15/05 12/21/05	30 31 4,724 51,696	0 0 54 1,948
Canadian Dollar	11/07/06 12/14/06 12/20/06	1,464 22,231 31,669	(6) (141) 274	10/13/05 12/15/05 12/21/05	499 37,420 52,830	(12) (739) (1,392)
Czech Koruna	12/20/06	601	7			
Chinese Yuan Renminbi	03/21/07	3,768	(7)	01/17/06 04/05/06 06/21/06	13,483 6,193 4,445	24 22 23
Danish Krone				10/04/05	27	0
Euro Monetary Unit	10/02/06 10/03/06 11/07/06 12/14/06 12/20/06	279 705 2,199 17,236 176,906	1 1 19 53 2,451	10/03/05 10/04/05 10/20/05 11/08/05 12/15/05 12/21/05	2,485 95 2,210 32,677 7,000 170,811	(4) 0 9 53 53 4,037
Hungarian Forint	12/20/06	467	6	10/03/05	241	0
Japanese Yen	11/15/06 12/14/06 12/20/06	310 5,751 14,618	9 27 181	10/03/05 10/04/05 12/15/05 12/21/05 01/10/06	113 182 35,841 1,406 1,011	0 0 1,192 44 21
Mexican New Peso	12/20/06	46	0			
New Taiwan Dollar				12/21/05	269	0
New Zealand Dollar	12/14/06 12/20/06	5,067 106	77 2	12/21/05	1,091	(4)
Norwegian Krone	12/14/06	40,952	(132)	10/04/05 12/15/05	90 48,361	0 1,934
South African Rand	12/20/06	536	64	12/21/05	140	(1)
South Korean Won	12/20/06	52	(1)	10/05/05	119	(1)
Swedish Krona	10/02/06 12/14/06 12/20/06	124 13,208 17,406	1 108 359	12/15/05 12/21/05	5,966 17,949	227 465
Swiss Franc	10/02/06 12/14/06 12/15/06 12/20/06	331 45,092 2,458 545	1 397 17 14	10/05/05 10/12/05 12/15/05 12/19/05 12/21/05	16 1,931 20,257 389 692	0 39 853 11 13
Thailand Baht	10/02/06 10/03/06	107 95	0 0			
U.S. Dollar	10/02/06 10/25/06 10/31/06 12/14/06 12/20/06 03/21/07 09/19/07	405 73,084 188 136,248 95,696 22,578 3,736	0 0 0 0 0 0 0	10/03/05 10/04/05 10/05/05 10/20/05 11/08/05 12/15/05 12/21/05 01/10/06 01/17/06 04/05/06 06/21/06 09/20/06	831 533 491 22 26,259 131,437 92,997 1,026 14,974 12,607 12,484 5,117	0 0 0 0 0 0 0 0 0 0 0 0
Totals		\$ 830,640	\$ 4,681		\$ 825,368	\$ 8,865

T V A R E T I R E M E N T S Y S T E M

Note 15 (continued)

FORWARD FOREIGN CURRENCY CONTRACTS

The following summarizes the forward foreign currency contracts of the Fixed Fund at September 30, 2006 and 2005.

<i>(Dollars in thousands)</i>	2006			2005		
	Settlement Date	USD Contract Amount	Unrealized Appreciation (Depreciation)	Settlement Date	USD Contract Amount	Unrealized Appreciation (Depreciation)
Currency Sold						
Australian Dollar	10/25/06 12/20/06	\$ 3,646 1,750	\$ (54) (37)	10/04/05 12/15/05 12/21/05	\$ 52 9,961 16,260	\$ 0 (17) 191
British Pound Sterling	10/25/06 12/14/06 12/20/06	17,263 74,988 5,001	(319) 183 (66)	10/04/05 12/15/05 12/21/05	262 74,194 10,525	0 (2,830) (187)
Canadian Dollar	10/25/06 12/14/06 12/20/06	5,270 5,711 1,339	10 27 (9)	12/21/05	7,335	118
Chinese Yuan Renminbi	03/21/07 09/19/07	22,578 3,736	(80) 7	01/17/06 04/05/06 06/21/06 09/20/06	14,973 12,606 12,484 5,117	(268) (128) (85) (6)
Czech Koruna	12/20/06	726	(14)	12/21/05	1,728	(74)
Danish Krone	10/25/06	521	(5)			
Egyptian Pound				10/03/05	111	(1)
Euro Monetary Unit	10/02/06 10/25/06 10/31/06 12/20/06	260 22,267 189 28,086	(1) (211) (1) (297)	10/03/05 10/20/05 11/08/05 12/15/05 12/21/05	17 22 26,259 20,393 5,386	0 (0) (261) (677) (129)
Hong Kong Dollar				10/03/05	506	(0)
Hungarian Forint	12/20/06	276	1	12/21/05	856	(24)
Japanese Yen	10/02/06 10/25/06 12/20/06	145 16,822 50,187	(1) (259) (1,094)	10/03/05 10/04/05 10/05/05 12/15/05 12/21/05 01/10/06	198 99 390 2,979 44,445 1,026	(1) (0) 1 (48) (1,297) (36)
Mexican New Peso	12/20/06	4,791	(38)	12/21/05	4,458	12
New Taiwan Dollar	12/20/06	845	(11)	12/21/05	1,045	(21)
New Zealand Dollar	12/14/06 12/20/06	37,921 2,353	793 64	12/15/05	12,928	(217)
Norwegian Krone	10/25/06 12/14/06	457 7,888	0 (23)			
Polish Zloty	12/20/06	2,493	(53)	12/21/05	1,710	37
Singapore Dollar	10/25/06	615	(3)			
South African Rand				12/21/05	1,164	(8)
South Korean Won	12/20/06	2,957	29	10/04/05 10/05/05 12/21/05	84 101 3,589	0 0 (53)
Swedish Krona	10/25/06 12/20/06	462 4,796	(9) (80)	12/15/05 12/21/05	1,915 4,724	(8) (144)
Swiss Franc	10/25/06 12/14/06 12/20/06	4,503 9,740 14,430	(42) (34) (240)	10/04/05 12/15/05 12/21/05	36 9,066 7,319	0 (75) (206)
U.S. Dollar	10/02/06 10/03/06 10/19/06 11/07/06 11/15/06 12/14/06 12/15/06 12/20/06 03/21/07	840 800 358 3,663 310 195,032 2,458 268,399 3,768	0 0 0 0 0 0 0 0 0	10/03/05 10/04/05 10/05/05 10/12/05 10/13/05 10/20/05 11/08/05 12/15/05 12/19/05 12/21/05 01/10/06 01/17/06 04/05/06 06/21/06	2,869 437 134 1,931 499 2,211 32,678 162,928 389 279,837 1,011 13,483 6,193 4,445	0 0 0 0 0 0 0 0 0 0 0 0 0 0
Totals		\$ 830,640	\$ (1,867)		\$ 825,368	\$ (6,442)

T V A R E T I R E M E N T S Y S T E M

Note 16

SECURITIES LENDING

As of September 30, 2006 and 2005, the Plan loaned securities having a fair value of approximately \$807.1 million and \$713.4 million, respectively, and received \$832.1 million and \$733.7 million, respectively, of collateral in the form of cash, interests in tri-party accounts and securities for the loans. The following tables summarize the securities loaned and the related collateral:

<i>(Dollars in thousands)</i>						
September 30, 2006	Fair Value Securities On Loan	Total Collateral	Collateral Percent	Fair Value of Collateral Cash	Collateral Tri-Party	Securities
U.S. Government	\$ 307,446	\$ 312,953	101.8%	\$ 290,993	\$ 18,738	\$ 3,222
Common stocks - domestic	266,363	279,306	104.9%	277,135		2,171
Corporate bonds	88,168	90,393	102.5%	90,393		
U.S. Government agency	81,462	83,131	102.0%	82,621	228	282
Common stocks - international	63,614	66,364	104.3%	42,469	2,721	21,174
Total	\$ 807,053	\$ 832,147	103.1%	\$ 783,611	\$ 21,687	\$ 26,849
September 30, 2005						
U.S. Government	\$ 373,721	\$ 380,479	101.8%	\$ 349,196	\$ 23,277	\$ 8,006
Corporate bonds	130,857	134,034	102.4%	133,869		165
Common stocks - domestic	106,821	112,140	105.0%	112,140		
Common stocks - international	69,273	73,155	105.6%	59,466	4,572	9,117
U.S. Government agency	32,736	33,888	103.5%	29,908	3,980	
Total	\$ 713,408	\$ 733,696	102.8%	\$ 684,579	\$ 31,829	\$ 17,288

Note 17

NET APPRECIATION OF INVESTMENTS

During 2006 and 2005, the System's investments (including investments bought, sold, as well as held during the year) appreciated in value as follows:

September 30, 2006 and 2005

<i>(Dollars in thousands)</i>	2006	2005
Common stocks	\$ 207,131	\$ 434,086
Commingled funds	162,178	199,119
Corporate bonds	(11,721)	134,822
Futures and Foreign Currency		
Forward Contracts	61,490	(47,932)
Other	34,388	23,079
Net appreciation	\$ 453,466	\$ 743,174

INVESTMENT HOLDINGS GREATER THAN 5 PERCENT

During 2006 and 2005, the System's investments greater than 5 percent of the Net Assets Available for Benefits were as follows:

September 30, 2006 and 2005

<i>(Dollars in thousands)</i>	2006	2005
Barclays Global Investors, All Country World Index excluding the United States Active International Equity Fund	\$ 616,200	\$ 431,393
Proprietary Fund	446,819	0
Total	\$ 1,063,019	\$ 431,393

Note 18

CHANGE IN RECORDKEEPING SERVICES

The Fixed and Variable Fund recordkeeping services were transferred to Fidelity Investments on August 1, 2006. For the Fidelity Spartan U.S. Equity Index Fund (the Variable Fund investment for active employees), Fidelity Investments also serves as an agent for Mellon Bank in the management of that fund. The recordkeeping services were provided by Affiliated Computer Services (ACS) from May 26, 2005, to July 31, 2006.

Note 19

ADMINISTRATIVE EXPENSES

The Plan paid administrative fees to the Trustee, Mellon Bank, of approximately \$2.0 million in fiscal year 2006 and approximately \$1.9 million in fiscal year 2005. The Plan also paid Fixed and Variable Fund recordkeeping expenses of approximately \$255 thousand in fiscal year 2006 and approximately \$281 thousand in fiscal year 2005.

Note 20

RELATED PARTY TRANSACTIONS

Mellon Bank is the Trustee of the Plan and therefore plan investments that are managed by Mellon Bank and its subsidiaries qualify as related party transactions. The investment management fees paid to Mellon Bank were \$5.9 million in fiscal year 2006 and \$5.1 million in fiscal year 2005.

Barclays Global Investors is an agent of Mellon Bank as Trustee of the Plan and therefore Plan investments with Barclays Global Investors qualify as related party transactions. The investment management fees paid to Barclays Global Investors were \$3.4 million in fiscal year 2006 and \$2.7 million in fiscal year 2005.

TVA RETIREMENT SYSTEM

State Street Bank is an agent of Mellon Bank as Trustee of the Plan and there were no investment management fees paid to it in fiscal year 2006 or 2005.

Fidelity Investments is the agent of the Fidelity Spartan Equity Index Fund for the Plan (see Note 18). Investment management fees are paid to Fidelity Investments by the participants for their Variable Fund investments in the Fidelity Spartan U.S. Equity Index Fund and not by the Plan.

Note 21 TERMINATION

In the event the Plan terminates, the net assets of the Plan will be allocated generally to provide benefits in the following order: (1) benefits based upon members' contributions (if applicable), (2) nonforfeitable benefits based upon TVA's contributions, and (3) if feasible, cost-of-living increases thereto.

Note 22 VARIABLE FUND

The Variable Fund is an investment option for eligible members of the Plan. The Employee Account was transferred to the Fidelity Spartan U.S. Equity Index Fund held by Fidelity

Investments on August 1, 2006. The Employee Account had been previously invested in the Dreyfus Basic S&P 500 Stock Index Fund. Members' contributions purchase shares at the net asset value of the fund on the date of contribution. If members, upon retirement or termination from employment, elect to withdraw the balance in their accounts, the shares in the mutual fund will be redeemed and the proceeds will be paid. Eligible retired members who elect to receive a monthly annuity benefit redeem shares in the Fidelity Spartan U.S. Equity Index Fund, and the proceeds are used to purchase units in the Retiree Account. This account is invested in a commingled trust fund with the underlying investment in stocks included in the S&P 500 Stock Index. The value of the members' units fluctuates with the value of the net assets in the Retiree Account. The value of the retiree units is also updated annually by an actuarial valuation.

These assets are maintained legally separate from the general assets of the Fixed Benefit Fund and are to be used for the Variable Fund benefit structure. Members can transfer their Variable Fund balance to the Fixed Benefit Fund at various times for the member to have the ability to choose a fixed benefit structure. Key financial data of the Variable Fund at September 30, 2006 and 2005, is as follows:

<i>(Dollars in thousands)</i>	2006	2005
Assets		
Commingled Funds	\$ 118,656	\$ 116,648
S&P 500 Stock Index Fund	103,538	110,139
Total Investments at fair value	<u>222,194</u>	<u>226,787</u>
Receivables	15	0
Total Assets	<u>222,209</u>	<u>226,787</u>
Liabilities		
Net Payable to the Fixed Benefit Fund	0	198
Securities Purchased	<u>0</u>	<u>46</u>
Total Liabilities	<u>0</u>	<u>244</u>
Net Assets	<u>\$ 222,209</u>	<u>\$ 226,543</u>
Investment Income		
Net Appreciation in fair value of investments	\$ 21,447	\$ 25,080
Dividends	<u>1,381</u>	<u>2,324</u>
Total Investment Income	<u>22,828</u>	<u>27,404</u>
Members' Contributions	<u>3,346</u>	<u>3,914</u>
Net Transfers for:		
Net transfers to Fixed Benefit Fund	14,676	29,050
Retirement benefits, withdrawals, and death benefits	14,319	15,076
Net transfers to 401(k) Plan	<u>1,513</u>	<u>604</u>
Net transfers	<u>30,508</u>	<u>44,730</u>
Net decrease	<u>\$ (4,334)</u>	<u>\$ (13,412)</u>

REPORT OF INDEPENDENT AUDITORS



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Report of Independent Auditors

To the Participants and Administrator of
Tennessee Valley Authority Savings and Deferral Retirement Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the financial status of Tennessee Valley Authority Savings and Deferral Retirement Plan (the "Plan") at September 30, 2006 and 2005, and the changes in its financial status for the year ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Knoxville, Tennessee
April 30, 2007

TVA SAVINGS AND DEFERRAL RETIREMENT PLAN [401(K) PLAN]

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

September 30, 2006 and 2005

(Dollars in thousands)	2006	2005
Assets		
Investments at fair value		
Equity funds	\$ 998,665	\$ 910,770
Bond funds	271,827	268,768
Participant loans	23,326	20,448
Net Assets Available for Benefits	<u>\$ 1,293,818</u>	<u>\$ 1,199,986</u>

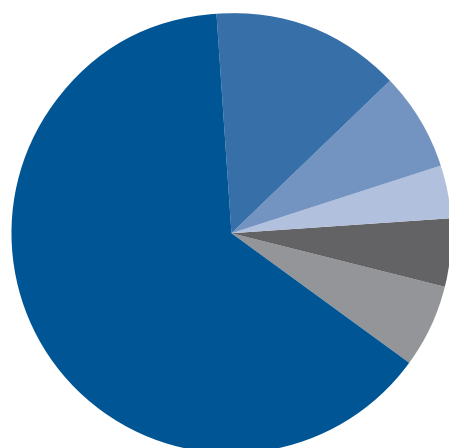
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Fiscal Years Ended September 30, 2006 and 2005

(Dollars in thousands)	2006	2005
Investment Income		
Net appreciation (depreciation)	\$ (11,249)	\$ 101,935
Dividends and interest	99,875	28,788
Contributions		
Members	66,492	59,466
TVA	19,424	17,707
Transfers from annuity funds	14,355	11,423
Total increase	<u>188,897</u>	<u>219,319</u>
Benefits, Withdrawals, and Transfers		
Benefits and withdrawals	87,914	69,604
Transfers to annuity funds	7,151	5,825
Total benefits, withdrawals, and transfers	<u>95,065</u>	<u>75,429</u>
Net increase	<u>93,832</u>	<u>143,890</u>
Net Assets Available for Benefits		
Beginning of year	1,199,986	1,056,096
End of year	<u>\$ 1,293,818</u>	<u>\$ 1,199,986</u>

The accompanying notes are an integral part of the financial statements.

401(K) PLAN ASSET ALLOCATION (September 30, 2006)

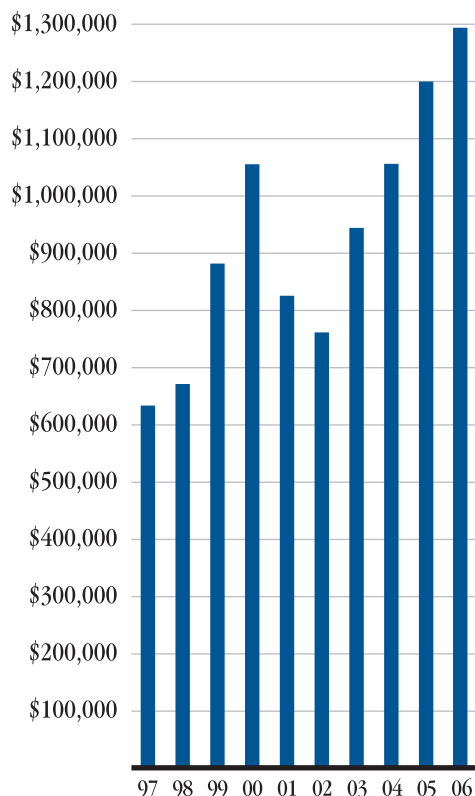


■ Domestic Stocks	64%
■ Managed Income Pool II	14%
■ Fixed Income	7%
■ Brokerage Account	4%
■ Freedom Funds	5%
■ International Stocks	6%

401(K) PLAN

Net Assets Available For Benefits

(in thousands)



These charts are unaudited and intended for informational purposes only.

TVA SAVINGS AND DEFERRAL RETIREMENT PLAN [401(K) PLAN]

NOTES TO FINANCIAL STATEMENTS

Note 1

GENERAL PLAN DESCRIPTION

The TVA Savings and Deferral Retirement Plan [401(k) Plan] is a defined contribution plan for members of the System funded by members' after-tax contributions and before-tax salary deferrals. Additionally, eligible members receive employer matching contributions provided by TVA. Investment options for the after-tax, before-tax, Roth and matching contributions are comprised of over 200 eligible funds. A detailed description of the 401(k) Plan and the various investment options offered is available from the TVA Retirement System.

Vesting

Participants who contribute to the 401(k) Plan are immediately vested in their own contributions and become vested in TVA matching contributions upon completion of three years of actual service. Actual service is defined as the length of time spent as a member of the TVA Retirement System, not including credit for unused sick leave, forfeited annual leave, or pre-TVA employment military service. Upon completion of this service requirement, a member may withdraw matching contributions only upon retirement, disability, or termination of TVA employment. Upon death, matching contributions may be withdrawn without regard to the vesting requirement.

Forfeitures

If a participant ceases to be an employee for any reason other than death prior to completing three years of actual service, the entire amount of that participant's matching contributions account is forfeited as of the termination date. Forfeitures are used to reduce TVA's matching contributions to the 401(k) Plan for the plan year in which forfeitures occur. The amount of forfeitures totaled \$192,894 in fiscal year 2006 and \$221,755 in fiscal year 2005.

Termination

In the event the 401(k) Plan terminates, the net assets will be distributed to members in proportion to their respective accounts in the 401(k) Plan. In the event the 401(k) Plan terminates, payment of nonforfeitable benefits based on contributions to participants' accounts will be assured.

Note 2

SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Financial Statements are prepared on the accrual basis of accounting.

Valuation of Investments

The assets of the 401(k) Plan are held by the Trustee, Fidelity Investments. The 401(k) Plan's investments in any investment companies, unit investment trust, or similar investment funds are valued at their closing net asset values (or unit value) per share. The Brokerage Link Fund allows participants to purchase other mutual funds not offered by the Trustee or investment securities. Investment securities, other than debt securities, listed on either a national or foreign securities exchange or traded in the over-the-counter National Market System are generally valued each business day at the official closing price (typically the last reported sale price) on the exchange on which the securities are primarily traded. If there are no current day sales, the securities are valued at their last quoted bid price. Other securities traded over-the-counter and not part of the National Market System are valued at their last quoted bid price. Debt securities (other than certain short-term obligations) are valued each business day by an independent pricing service or broker approved by the Trustee. The Managed Income Pool II investments are stated at cost plus accrued interest which approximates fair value. Any other securities for which market quotations are not readily available are valued at their fair value as determined in good faith by the Trustee. There are inherent limitations in any estimation technique, and the amounts realized in a subsequent sale may differ from the amounts recorded. Such difference may be material. A summary of investments is provided at Note 11.

Investment Income

The System presents in the Statements of Changes in Net Assets Available for Benefits the net appreciation (depreciation) in the fair value of its investments, which consists of both realized gains (losses) and the unrealized appreciation (depreciation) on those investments. Purchases and sales of securities are recorded on a trade-date basis. Gains and losses on the sales of investments are determined as the difference between sales proceeds and historical cost, which is determined by a moving average method. Interest income is reported on the accrual basis. Dividends are recorded on the ex-dividend date. Capital gain distributions are included in dividend income.

Tax Status

The Internal Revenue Service (IRS) has determined and informed the System in March 2003 that the 401(k) Plan is designed in accordance with the applicable sections of the Internal Revenue Code. The 401(k) Plan has been amended subsequent to the receipt of the latest IRS determination letter. However, the Plan administrator and the Plan's tax counsel believe that the 401(k) Plan is currently designed and operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in these financial statements.

TVA SAVINGS AND DEFERRAL RETIREMENT PLAN [401(K) PLAN]

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s). Actual results could differ from those estimates.

Note 3

AMENDMENTS TO THE PROVISIONS OF THE 401(K) PLAN

In fiscal year 2006, the Plan Provisions were amended to allow employees to designate some or all of their elective contributions as Roth 401(k) contributions rather than traditional, pre-tax elective contributions. The Roth 401(k) option applies only to employee contributions and not employer matching contributions.

During fiscal year 2005, the 401(k) Plan Provisions were amended to allow a lump-sum distribution when the participant is no longer employed by TVA and the account balance is less than \$1,000.

Employees who are age 50 or older were allowed to contribute a "catch up" on their 401(k) plan in compliance with the 2001 Economic Growth and Tax Relief Reconciliation Act. The calendar year 2006 limit was \$5,000 and was a before-tax deduction. In calendar year 2005, the limit was \$4,000.

The 401(k) Plan Provisions were also amended to change the definition of wages and salaries in calculating 401(k) Plan matching contributions. TVA matching contributions are now made on certain lump-sum payments made in lieu of base wage or salary increases for fiscal year 2007 as well as on base wage and salary. Matching contributions are also now made on lump-sum payments for certain TVA performance incentive plans beginning in fiscal year 2000.

Note 4

COMMITMENTS AND CONTINGENCIES

The 401(k) Plan had no existing commitments or contingencies at September 30, 2006 and 2005.

Note 5

CONTRIBUTIONS

After-tax

Contributions, subject to certain limitations, may be made by payroll deductions, cash payment, or transfer from other funds into the 401(k) Plan. A member may increase, decrease, transfer, or stop contributions at any time.

Before-tax

Salary deferrals are made through payroll deductions only. A member may increase, decrease, transfer, or stop contributions at any time.

Matching

Cash Balance Benefit Structure participants who contributed to the 401(k) Plan received employer matching contributions from TVA equal to 75 cents on every dollar contributed to the 401(k) Plan, with maximum matching contributions of 4.5 percent of fiscal year-to-date earnable compensation. Participants in the Original Benefit Structure received employer matching contributions from TVA of 25 cents on every dollar contributed, with maximum matching contributions of 1.5 percent of fiscal year-to-date earnable compensation.

In calendar year 2006, total contributions to the Fixed Fund, Variable Fund, and 401(k) Plan, including TVA matching contributions, could not exceed the lesser of \$44,000 or 100 percent of calendar year-to-date compensation.

Note 6

WITHDRAWALS

After-tax Contributions

Members are permitted to withdraw from any or all of the funds in the 401(k) Plan at any time. Upon retirement, participants in the 401(k) Plan who first became members of the System prior to January 1, 1996, are also permitted to transfer their funds to the System to receive monthly annuity payments.

Before-tax Contributions

Federal income tax rules restrict withdrawals from the 401(k) Plan while the member is still employed except for the following situations:

- If the member is over age 59½, salary deferral contributions may be withdrawn at any time.
- If the member is under age 59½, salary deferral contributions may be withdrawn only upon the Retirement System Board's approval and only upon a showing of financial hardship. Generally, the only financial needs considered to meet the definition of hardship are: (1) certain deductible medical expenses; (2) purchase of a principal residence; (3) post-secondary tuition and related educational fees; or (4) payments necessary to prevent eviction from or foreclosure on the participant's principal residence.

Members may receive the full balance of their funds upon retirement, disability, death, or termination, except that a retiree may defer distribution until no later than April 1 of

TVA SAVINGS AND DEFERRAL
RETIREMENT PLAN [401(K) PLAN]

the calendar year after the year in which he or she reaches age 70½. In addition, members may choose, after termination, to receive periodic installment payments from their balance.

Note 7

ADMINISTRATIVE EXPENSES

There were no recordkeeping expenses paid to the Trustee, Fidelity Investments, in fiscal years 2006 and 2005.

Note 8

RELATED PARTY TRANSACTIONS

Fidelity Investments is the Trustee of the 401(k) Plan, and therefore 401(k) Plan investments in shares of funds managed by Fidelity Investments qualify as related party transactions. Investment management fees are paid by the participants to Fidelity Investments for their investments in Fidelity Funds under the 401(k) Plan and not by the 401(k) Plan.

Note 9

LOANS

With certain limits, the 401(k) Plan permits loans to participants. Members may borrow a percentage of their

account balance (maximum \$50,000) for up to 5 years, or 10 years if the loan is to be used to purchase a primary residence. The loan interest rate is the Prime Rate plus 1 percent, which was 9 percent at September 30, 2006. Such interest is credited directly to the account of the member.

Note 10

NET APPRECIATION (DEPRECIATION) OF INVESTMENTS

During 2006 and 2005, the 401(k) Plan's investments (including investments bought, sold, as well as held during the year) appreciated or depreciated in value as follows:

September 30, 2006 and 2005

<i>(Dollars in thousands)</i>	2006	2005
Equity Funds	\$ (11,009)	\$ 102,294
Bond Funds	(240)	(359)
Net Appreciation (depreciation)	<u>\$ (11,249)</u>	<u>\$ 101,935</u>

TVA SAVINGS AND DEFERRAL
RETIREMENT PLAN [401(K) PLAN]

Note 11
INVESTMENTS

The net assets of all investment options as of September 30, 2006 and 2005, are as follows:

(Dollars in thousands)	2006	2005
Equity Funds		
Equity Funds Over 5% of total portfolio		
Fidelity Magellan*	\$ 207,138	\$ 218,934
Fidelity Growth Company*	82,829	85,063
Fidelity Equity Income Fund I*	89,062	82,093
Fidelity Contrafund*	67,648	59,731
Equity Funds Under 5% of total portfolio		
Brokerage Link Fund**	50,603	46,317
Fidelity Low Price Stock Fund*	34,345	35,914
Fidelity Puritan Fund*	29,484	29,285
Fidelity Dividend Growth*	26,761	28,628
Fidelity Growth & Income Fund*	25,405	27,446
Fidelity Freedom 2010 Fund*	24,329	20,915
Fidelity Freedom 2020 Fund*	21,807	15,892
Fidelity Over The Counter Portfolio*	20,955	22,487
Fidelity Diversified International Fund*	18,634	12,809
Fidelity U.S. Equity Index Fund*	18,148	17,945
Janus Worldwide Fund	16,349	16,380
Fidelity Freedom 2030 Fund*	15,032	11,307
Fidelity Leveraged Company Stock Fund*	15,007	12,008
Fidelity Balanced Fund*	14,665	9,389
Fidelity Latin America Fund*	12,436	3,293
Fidelity Select Energy*	9,707	8,134
Fidelity Canada*	8,578	4,779
Fidelity Mid-Cap Stock Fund*	7,490	4,541
Fidelity Value Fund*	6,980	5,237
Fidelity Select Gold*	6,694	2,998
Fidelity International Small Cap*	5,831	4,032
Fidelity Freedom 2040 Fund*	5,499	2,972
Fidelity International Growth and Income*	4,750	2,262
Fidelity Select Natural Gas*	4,681	7,245
Oakmark Equity and Income	4,553	3,526
Baron Growth	4,527	4,738
Fidelity Real Estate*	4,267	3,585
Fidelity Select Energy Services*	4,031	2,674
Fidelity Freedom 2015 Fund*	3,872	2,319
Fidelity Emerging Markets*	3,843	1,002
Other Fidelity Equity Funds*	81,365	38,915
Other Equity Funds	41,360	55,975
Total Equity Funds	998,665	910,770
Bond Funds		
Bond Funds Over 5% of total portfolio		
Fidelity Managed Income Pool II*	178,518	189,230
Bond Funds Under 5% of total portfolio*		
Fidelity Retirement Government Money Market Portfolio*	40,846	36,569
PIMCo Total Return	12,971	13,874
Fidelity Freedom 2000 Fund*	4,843	4,748
Other Fidelity Bond Funds*	30,578	20,318
Other Bond Funds	4,071	4,029
Total Bond Funds	271,827	268,768
Participant Loans	23,326	20,448
Net Assets Available for Benefits	\$ 1,293,818	\$1,199,986

* Denotes related party - see Note 8.

** The brokerage account option is not a mutual fund. The brokerage account option allows participants to purchase individual securities or other mutual funds not offered as one of the core 401(k) Plan investments.

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