

PROPOSED BOARD RESOLUTION
(Executive Compensation)

WHEREAS on December 18, 2023, the Board approved the creation of an Executive Compensation Task Force (Task Force) to conduct a review of executive compensation and required the Task Force to complete its review and make recommendations to the People and Governance Committee (Committee) in advance of the Board's May 2024 meeting;

WHEREAS the Task Force completed its review and made its recommendations to the Committee during an executive session portion of the Committee's meeting on April 18, 2024;

WHEREAS in a memorandum dated April 29, 2024, a copy of which is filed with the records of the Board as Exhibit 05/09/24D (Memorandum), the Chair of the People and Governance Committee, on behalf of the Committee, recommends approval of various items that were presented to the Committee by the Task Force;

WHEREAS the Board concurs with the recommendations of the Committee, and the Board applauds the Task Force for its significant efforts in completing its review as required by its charter; and

WHEREAS to the extent that the Task Force did not maintain minutes or otherwise comply with any specific procedural obligations under the terms of its charter, the Board excuses the Task Force due to the sensitive nature of its work and the significant effort that was required to complete its review in such a short period of time;

BE IT RESOLVED, That the Board approves the recommendations numbered 1 through 9 as outlined in the Memorandum;

RESOLVED further, That the Board hereby specifically approves the *TVA Employee Compensation* Board Practice, attached as Exhibit 1 to the Memorandum;

RESOLVED further, That the Board hereby specifically approves the amended Executive Severance Plan, Executive Annual Incentive Plan, Long Term Incentive Plan, Deferred Compensation Plan, Restoration Plan, and Supplemental Executive Retirement Plan, attached as collective Exhibit 2 to the Memorandum;

RESOLVED further, That the Board hereby specifically approves the amended Compensation Plan, attached as Exhibit 3 to the Memorandum; and

RESOLVED further, That the Board hereby specifically approves the use of templates, substantially in the form of Exhibit 4 to the Memorandum.

**Approved by TVA Board of
Directors**

May 9, 2024

JLG

Assistant Secretary

EXHIBIT 05/09/24D

April 29, 2024

People and Governance Committee

Board of Directors**SUBJECT**

People and Governance Committee (Committee) recommendations for changes to TVA's existing compensation processes and programs as presented by the Executive Compensation Task Force as described in recommendations 1-9 noted in this memorandum. The Committee accepts for further attention the considerations presented in items 10-14 over the next year as it considers compensation matters in FY25 and FY26 cycles and beyond.

BACKGROUND

From time to time, boards undertake an in-depth review of compensation programs to determine whether updates or changes should be made for the benefit of the organization. On December 18, 2023, the TVA Board approved the creation of Task Force to conduct such a review of executive compensation with an obligation to complete its review and make recommendations to the Committee. With assistance from management and the support of an independent compensation consultant, Meridian Compensation Partners, the Task Force completed its review and provided its recommendation to the Committee during an executive session on April 18, 2024.

During its meeting with the Committee, the Task Force explained that it has gained a better understanding of the Board's broad authority with respect to compensation matters, and presented recommendations based on four focus areas:

- Board governance and oversight with respect to compensation matters;
- CEO participation in TVA's Executive Severance Plan;
- Process used by management to communicate compensation-related matters to the Committee and other Board members and payouts available to the CEO under certain plans; and
- Longer-term recommendations for a more robust analysis of TVA's compensation philosophy, to be considered for possible changes for future compensation cycles.

With those categories in mind, the Task Force made certain specific recommendations to the Committee (Recommendations 1-9), and the Committee voted to approve recommending that the Board adopt nine of the Task Force's recommendations, to be effective immediately, at its May 9, 2024, meeting. The Committee also approved the Task Force's request that the Committee continue to evaluate five additional considerations with the understanding that the results of the Committee's evaluations will not result in any additional changes prior to the FY 2025 compensation cycle.

RECOMMENDATIONS FOR APPROVAL AT THE MAY 9, 2024, BOARD MEETING

Based on its review of the materials presented by the Task Force, the Committee recommends for approval at the Board's May 9 meeting the following specific actions numbered 1-9 to be effective immediately upon approval by the Board.

RECOMMENDATIONS 1 AND 2, BELOW, RELATE TO THE TASK FORCE'S PROPOSALS CONCERNING CHANGES TO GOVERNANCE AND OVERSIGHT

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- 1. Adopt a new Board Practice to include all compensation delegations in one location with specific amendments to existing delegations.** The Task Force reviewed all existing compensation delegations in order to make recommendations to improve clarity, ensure appropriate Board oversight of compensation, and to avoid situations where a CEO can make changes to supplemental compensation plans in which the CEO is a participant.

To eliminate any confusion, and to ensure that the Board maintains control over certain critical functions related to compensation, the Task Force recommended, and the Committee concurs, that the Board should adopt a new *TVA Employee Compensation Board Practice*, a copy of which is attached as **Exhibit 1**, to include all compensation delegations. This Board Practice, which is consistent with the Board's use of the Board Practice system and like current Board Practices in which the Board specifically delegates or retains authority over certain matters, will replace and supersede all prior Board delegations related to Compensation matters including, but not limited to, the document titled Compensation Delegations. To further implement these changes, certain conforming amendments are needed in all current compensation plans in which the CEO is a participant to ensure that the Board maintains authority of supplemental compensation plans where the CEO is a participant. These amended plans are included as collective **Exhibit 2**.¹

- 2. Revise Compensation Plan to add specific guidance for compensation consultant (and make conforming edits consistent with recommendation 1).** The Task Force informed the Committee, and the Committee agrees, that the independent compensation consultant must maintain independence and work at the direction of the Committee, while maintaining a professional and cooperative relationship with TVA management. To reinforce this requirement, which is typically included in the Committee's contract with its compensation consultant, the Task Force recommended, and the Committee concurs, that TVA include specific expectations for the Committee's compensation consultant in the Board's Compensation Plan. Additionally, the Compensation Plan must be revised to eliminate any prior delegations consistent with recommendation 1, above. The amended Compensation Plan, which included the Task Force's proposed language and other conforming edits, is included as **Exhibit 3**.

RECOMMENDATIONS 3 THROUGH 6, BELOW, RELATE TO THE CEO'S PARTICIPATION IN TVA'S EXECUTIVE SEVERANCE PLAN

Based on its review, the Task Force determined that most entities of similar size and complexity to TVA maintain some form of executive severance plan. Accordingly, the Task Force recommended, and the Committee concurs, that the Board should retain such a plan. However, the Task Force proposed four changes to the plan with respect to the CEO's participation, and the Committee concurs with the Task Force's recommendations. With respect to items 4 and 5, below, the Task Force determined that the CEO's severance payment benefit is unnecessarily

¹ These five plans include the Executive Severance Plan, Executive Annual Incentive Plan, Long Term Incentive Plan, Deferred Compensation Plan, Restoration Plan, and Supplemental Executive Retirement Plan.

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high to attract and retain a qualified CEO based on currently available information and the Task Force's view of the important role that public service should play for TVA's CEO. All of the recommendations included in items 3 through 6 below are addressed in the amended Executive Severance Plan, which is included as part of collective Exhibit 2.

- 3. Any action regarding the Executive Severance Plan applicable to the CEO should be approved by the Chair of the Committee with concurrence from the Board Chair.** This item specifically incorporates the changes in delegation referenced in item 1, above.
- 4. Reduce severance multiple from 1.5 to 1.0 for CEO.**
- 5. Include annual salary only in calculation of cash separation payment applicable to the CEO, removing target Executive Annual Incentive Plan (EAIP) opportunity from formula.** The CEO would still be eligible for a prorated amount under existing EAIP, in accordance with the terms of that plan.
- 6. No change to the Continuation Healthcare Benefits provisions as applicable to the CEO.** Under the amended plan, the CEO is eligible for the Continuation Healthcare Benefit based on the new 1.0 multiple (see item 4, above).

RECOMMENDATIONS 7 THROUGH 9, BELOW, RELATE TO THE PROCESS USED BY THE COMMITTEE AND BOARD TO ESTABLISH, MONITOR, AND APPROVE PAYOUT OF CEO COMPENSATION, AND ESTABLISH A NEW CAP ON CEO BENEFITS UNDER CERTAIN PLANS

- 7. Require management to use a template, showing a range of possible payouts, when discussing CEO compensation with the Committee (and other Board members as appropriate).** Based on the Task Force's review of materials previously used to brief the Committee on (1) the target annual compensation offered to the CEO at the start of a new fiscal year and (2) payouts to the CEO at the end of the fiscal year, the Task Force concluded, and the Committee concurs, that the Committee members and other Board members, as appropriate, need to be provided information depicting the range of total annual compensation that could be awarded to the CEO and the range of the Board's authority to exercise discretion to adjust certain payouts for performance based compensation.

The Task Force has developed simple templates that succinctly summarize the ranges of compensation and the Board's authorities with respect to payouts, and the Task Force recommends, and the Committee concurs, that the Committee require management to utilize those templates in all discussions concerning setting or paying CEO compensation. Sample templates, based on FY 2024 compensation, are attached hereto as collective **Exhibit 4**.

- 8. Require management to provide a quarterly update (beginning with the second fiscal quarter) to the Committee on how current scorecard performance is impacting CEO performance-based compensation opportunities under the EAIP and LTIP.** Utilizing the template model included as part of Exhibit 4, each quarter

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management should provide the Committee with an estimate of the payout of total annual CEO compensation based on TVA's forecasted performance under Board-approved EAIP and LTIP measures and goals.

9. **Re-establish 150% as the maximum payout for the CEO under LTIP and EAIP for FY 2024 and beyond.** In 2022, the maximum payout percentage under TVA's short and long-term incentive was increased from 150% of the target to 200%. While this decision was in line with advice the Committee received from its independent compensation consultant based on the existing peer benchmarking data, the Task Force recommends, and the Committee concurs, that a 200% payout opportunity for the CEO is inconsistent with TVA's public power mission based on currently available information. Accordingly, the Task Force recommends, and the Committee concurs, that the Board re-establish the maximum payout available to the CEO as 150%, as reflected in the amended Executive Annual Incentive Plan and Long-Term Incentive Plan, included as part of collective Exhibit 2.

CONSIDERATIONS FROM THE TASK FORCE THAT THE COMMITTEE WILL TAKE UNDER ADVISEMENT IN ANTICIPATION OF THE FY 2025 COMPENSATION CYCLE AND BEYOND.

10. **The Committee will work with its independent compensation consultant and strategically review certain issues as the Committee considers broader changes to TVA's compensation structure for FY25 and beyond.** Based on its review, the Task Force concluded that use of templates (as described in items 7 and 8, above) will assist Directors in understanding CEO pay structure and anticipate end-of-year pay approvals. Nonetheless, the Task Force recognizes, and the Committee agrees, that numerous components of pay complicate the total payout report in financial reports and media. Further, current benchmarking data supports TVA's use of "pay-for-performance" compensation, but there are specific elements of TVA's compensation philosophy that the Committee should consider in preparation for future compensation cycles. These issues include:
 - a. Is TVA using the correct competitive benchmarks?
 - b. Is TVA's compensation philosophy appropriately positioned relative to those benchmarks, especially focused on target opportunity under EAIP and LTIP?
 - c. Is TVA using the appropriate short- and long-term measures and goals for CEO and other executives?
 - d. Is TVA using the appropriate "fixed" grants under long-term incentive plans?
 - e. Can TVA "simplify" its compensation program while maintaining a competitive pay package?
11. **After the Board's review of TVA's strategic elements, the Committee will work with its independent compensation consultant to consider changes to the EAIP (annual) and LTIP (long-term) measures and goals.** In considering changes, the Committee will take into account the following objectives:
 - a. Simplification – the Committee will consider the viability of focusing its metrics on three priority areas, including Safety (~20%-30%), Operational Reliability (~30%-40%), and Financial Health (~30%-40%);

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- b. Target setting methodology – the Committee will consider whether TVA utilizes the right methodology in determining what constitutes the threshold, target, and stretch outcomes for each measure and goal; and
- c. Reconsider “modifier” approach – the Committee will consider switching to mathematical ranges to guide the Board’s end-of-year payout discretion as opposed to subjective modifiers.

12. The Board Chair and Committee Chair, in setting the CEO’s individual performance goals for FY 2025 and beyond, should retain the current quantitative goals and add “Renewable and Storage MWs Added” to Operational Excellence. The Task Force believes that the Committee should consider ways for the CEO to be measured on performance against expressed renewable goals or targets, as consistent with existing operational metrics and applicable laws and other Board policies and strategies.

13. The Board Chair and Committee Chair, in setting the CEO’s individual goals for FY 2025 and beyond, should consider revising the qualitative goals (and update them annually) to reflect categories of core competencies needed for TVA success and the value proposition that resonates with TVA Board and TVA stakeholders. While not exhaustive, the Task Force recommends that the Committee consider the following four qualitative goals that can be measured on a 1-5 scale:

- a. Leadership effectiveness (e.g., strategic planning, team culture);
- b. Credibility with stakeholders including Board, customers, government officials, and other Valley stakeholders;
- c. Operational effectiveness (e.g., safety, reliability and availability of transmission and generation, project completion, and environmental performance); and
- d. Financial success (e.g., rate competitiveness, adherence to financial plan).

14. The Committee should work with its independent compensation consultant and review certain issues with respect to the CEO position. This review should include the following:

- a. Ensure TVA’s compensation philosophy is consistent with those utilized by similarly complex entities of similar sizes while also reflecting TVA’s public service mission;
- b. Review TVA’s current compensation peer group and benchmarking methodology for the CEO and determine whether it provides the best available comparison, including a review of the following:
 - i. Determine appropriate revenue scope—review recent change to use a different revenue scope based on retail revenue plus credits; and
 - ii. Determine appropriate weighting of peer group and data sources—review current approach of 50/50 weighting of proxy peer data and survey data; and
- c. Determine the appropriate target compensation within the peer group for the CEO.

Based on the Task Force’s recommendations, the Committee will consider items 10-14, above, and determine whether further changes are needed to TVA’s Compensation Plan or the various supplemental plans that provide benefits to the CEO. The Committee will then make

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recommendations to the Board to implement any changes the Committee deems necessary and appropriate.

RECOMMENDED ACTION

The Committee recommends the full Board approve all items listed in paragraphs numbered 1-9, to be effective immediately upon approval by the Board. Specifically, the Committee recommends that the Board approve (1) the *TVA Employee Compensation Board Practice* attached as **Exhibit 1**, (2) the revised executive compensation plans attached hereto as collective **Exhibit 2**, (3) the revised Compensation Plan attached as **Exhibit 3**, and (4) the use of templates substantially in the form of **Exhibit 4**, unless and until the Board alters TVA's compensation program to such an extent that the templates are no longer useful, in which case similar templates will be developed to achieve the same purpose.

On its own, and without Board action at this time, the Committee will take under advisement the items listed above in paragraph numbered 10-14 in anticipation of the FY 2025 compensation cycle and beyond. Based on its review, the Committee either will make changes or propose changes for the Board's consideration, all in accordance with the new delegations in the *TVA Employee Compensation Board Practice*.

Additionally, the Committee expresses its appreciation to the members of the Task Force: Task Force Chair Beth Harwell and Directors Bobby Klein and Wade White for their vast work over the last months on this topic. We recognize and endorse the scope and activities of this special purpose advisory group and appreciate their time and service. The Task Force has completed its work and is dissolved.



Brian Noland
Chair, People and Governance Committee

Attachments

cc: Joe Ritch
Beth Harwell
Bobby Klein
Wade White

Documents not exempted from disclosure under the Freedom of Information Act have been publicly disclosed on a Current Report on Form 8-K filed May 9, 2024 ([8-K filed May 9 2024](#)), or on TVA's website ([Compensation Board Practice](#))