Memorandum from the Office of the Inspector General

August 26, 2026

Michelle R. Ray

REQUEST FOR FINAL ACTION – EVALUATION 2026-17631 – MITIGATION OF ORIGINAL EQUIPMENT MANUFACTURER RELIANCE RISK

The Tennessee Valley Authority's (TVA) Enterprise Risk Management (ERM) business unit (BU) focuses on identifying and prioritizing enterprise risks. Annually, ERM leads the preparation of an enterprise risk portfolio, which includes risks across TVA, to aid leadership in strategic and business planning processes. Each BU includes their specific risks in the portfolio and documents the probability of occurrence, financial impact, and actions to manage the risk. TVA Generation included Original Equipment Manufacturer (OEM) reliance risk in its fiscal year (FY) 2026 ERM risk portfolio. The risk description stated that Generation is heavily dependent on OEM support for both new construction and the existing fleet. According to TVA, this reliance presents financial and reliability risks due to uncertainty with proven design and emerging technical issues that impact the reliability of the generation fleet. There were eight actions to address the risk included in the risk portfolio and all were ongoing. Due to the reliance on OEMs, we performed an evaluation of the risk mitigation actions.

We determined that TVA is taking actions to mitigate OEM reliance risk and considers the impact of ongoing actions, however the risk probability and impact have significantly increased since 2023 and TVA has not added any new actions to address this increase. According to ERM and Generation personnel, they meet annually to conduct risk portfolio workshops and discuss current and potential risks. During these workshops, they discuss changes to risks to determine if the probability of occurrence, financial impact, or action plans should be adjusted. Since FY 2023, the OEM reliance risk probability of occurrence increased from 30 percent to 55 percent while the financial impact rose from $100 million to $300 million. Generation personnel indicated that this increase is driven by greater use of the same OEM as the gas fleet expands. TVA's FY 2026 risk portfolio had eight action plans associated with the OEM reliance risk and all were ongoing, however these actions do not address the cause of the increase in the probability of occurrence and financial impact, identified by management.

We recommend the Vice President, Generation Technical Support, consider additional action plans to address the increasing probability of occurrence and financial impact of the OEM reliance risk. In response to our draft report, TVA management agreed with our recommendation and provided planned action to address the recommendation. See the Appendix for TVA management's complete response.

BACKGROUND

TVA's ERM BU focuses on identifying and prioritizing enterprise risks. Annually, ERM leads the preparation of an enterprise risk portfolio, which includes risks across TVA, to aid leadership in strategic and business planning processes. Each BU includes their specific risks in the portfolio and documents the probability of occurrence, financial impact, and actions to manage the risk. TVA Standard Programs and Processes (SPP) 13.017, *Enterprise Risk Management*, states ERM and TVA business partners go through a dedicated process annually to update their risk portfolios, identify new risks, assess the severity of risks based on probability and impact, and update the actions they utilize to manage the risk. TVA Generation included OEM reliance risk in its FY 2026 ERM risk portfolio. The risk description stated that Generation is heavily dependent on OEM support for both new construction and the existing fleet. According to TVA, this reliance presents financial and reliability risks due to uncertainty with proven design and emerging technical issues that impact the reliability of the generation fleet. Since FY 2023, the OEM reliance risk probability of occurrence has risen from 30 percent to 55 percent while the financial impact has risen from $100 million to $300 million.

In FY 2026, the action plans for addressing the OEM reliance risk included eight ongoing actions such as upgrading internal control systems and software, collaborating with other utilities for lessons learned, and evaluating alternative options for future generation construction. Due to the reliance on OEMs, we performed an evaluation of the risk mitigation actions.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our evaluation was to determine if TVA took planned actions and is measuring the impact of completed actions for the ERM portfolio risk OEM reliance. The scope included the OEM reliance risk. To achieve our objective, we:

- Reviewed TVA-SPP-13.017, *Enterprise Risk Management*, for information related to ERM processes and requirements.
- Interviewed TVA personnel to understand the process of determining the action plans and their status, probability of occurrence, and financial impact.
- Identified the risk action plans and obtained documentation to support the status of each action.
- Reviewed documentation and conducted interviews to determine how TVA is measuring the impact of each action plan.

This evaluation was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

FINDING

We determined that TVA is taking actions to mitigate OEM reliance risk and considers the impact of ongoing actions, however the risk probability and impact have significantly increased since 2023 and TVA has not added any new actions to address this increase.

TVA's FY 2026 risk portfolio had eight action plans associated with the OEM reliance risk and all were ongoing. According to ERM and Generation personnel, they meet annually to conduct risk portfolio workshops and discuss current and potential risks. During these workshops, they discuss changes to risks to determine if the probability of occurrence, financial impact, or action plans should be adjusted.

Since FY 2023, the OEM reliance risk probability of occurrence increased from 30 percent to 55 percent while the financial impact rose from $100 million to $300 million. According to Generation personnel, this was a result of the expanding gas fleet becoming more reliant on the same OEM. They indicated the risk would continue to increase if TVA becomes more reliant on the same OEM. However, TVA's ongoing actions do not address the cause of the increase in the probability of occurrence and financial impact, identified by management.

RECOMMENDATION

We recommend the Vice President, Generation Technical Support, consider additional action plans to address the increasing probability of occurrence and financial impact of the OEM reliance risk.

TVA Management's Comments – TVA management agreed with the recommendation and stated they will consider additional action plans to address the increasing probability and financial impact of the OEM risk. See the Appendix for TVA's complete response.

Auditor's Response – We agree with TVA management's planned action.

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This report is for your review and final action. Your written comments, which addressed your management decision and actions planned, have been included in the report. Please notify us when final action is complete. In accordance with the Inspector General Act of 1978, as amended, the Office of the Inspector General is required to report to Congress semiannually regarding evaluations that remain unresolved after 6 months from the date of report issuance.

If you have any questions or wish to discuss our observations, please contact Lindsay J. Denny, Director, Evaluations – Operations at (865) 633-7349. We appreciate the courtesy and cooperation received from your staff during the evaluation.

Greg Stinson

Greg Stinson
Assistant Inspector General
(Audits and Evaluations)

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cc: See page 4

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OIG File No. 2026-17631

August 21, 2026

Greg Stinson, WT 2C-K

REQUEST FOR COMMENTS – DRAFT EVALUATION 2026-17631 – MITIGATION OF ORIGINAL EQUIPMENT MANUFACTURER RELIANCE RISK

We would like to thank Kenneth H. Sims and Lindsay Denny for their diligence and support to optimize Generation by identifying opportunities for the mitigation of original equipment manufacturer reliance risk.

In response to the recommendations provided in your draft report dated July 30, 2026, we provide the following comments and responses.

Recommendations

1. We recommend the Vice President, Generation Technical Support, Consider additional action plans to address the increasing probability of occurrence and financial impact of the OEM reliance risk.

   Response
   Generation Technical Support agrees with this recommendation and will consider additional action plans to address the increasing probability of occurrence and financial impact of the OEM compliance risk.

Thank you for allowing us to provide these comments. Please contact us if you have any questions.

Michelle Ray
Vice President
Generation Technical Support

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OIG File No. 2026-17631