



MLGW

Power Hour Community Meeting

October 29, 2019



Objectives

- *To provide clear understanding of our purpose, principles and direction*
- *To provide a high level update of MLGW's Service Improvement and Budget Plans*
- *To provide an overview of MLGW's Way Forward*
- *To explain the integrated resource plan (IRP)*

Thank You

- *For the opportunity to partner with you and serve your energy needs.*
- *For the opportunity to meet with you today to share a our plans.*
- *For the opportunity to hear your input regarding how we can improve.*



Mission

(Why we exist)

***To safely deliver services
that create and sustain
superior customer
experiences.***

Vision

(Where we're headed)

***To be the trusted provider of
exceptional customer value in the
communities we are privileged to serve.***



MLGW

Our Values – “The MLGW Way”

(Core principles that will guide us)

- **Safety** – We make working safely paramount...it is the most important thing we do. We seek to create and maintain a safe work environment for our people.
- **Integrity** – We seek to do the right things for the right reasons. We build trust among our people and with all of our stakeholders through honesty and ethical behavior.
- **Ownership** – We care about the MLGW enterprise and we act like owners. We treat the MLGW enterprise as we would our own and we operate with MLGW’s long-term success in mind. We pursue excellence and innovation and we are accountable for our decisions and behaviors.
- **Inclusion** – We serve customers who represent a variety of backgrounds. We are committed to including and developing a similar diversity among our teams and among those from whom we purchase products and services.
- **Compassionate Service** – We are committed to providing superior customer and people experiences. We do so with empathy, courtesy and efficiency and we serve our community with a similar passion.



The MLGW Way... *Forward*



MLGW

MLGW Way Forward...*The Plan*

- The goal was to ensure that MLGW delivers exceptional customer value in optimal ways.
- Our operations were benchmarked against similarly situated utilities; our major infrastructure was reviewed and assessed.
- We drew no lines around certain processes or functions to be excluded from this assessment...everything was on the table for consideration.



MLGW Way...Forward...The Plan (cont'd)

- **Part 1: *Baker Tilly*** reviewed MLGW's organizational structure, policies, and business segments, including key business functions and processes, to identify opportunities...
 - Increase efficiencies
 - Enhance productivity
 - Reduce unnecessary expenditures
 - Reduce overall operational costs
 - Improve asset utilization
 - Increase revenue
 - Enhance cash flow and cash position
- **Part 2: *HDR Engineering*** provided a condition assessment of MLGW's electric, gas, and water infrastructure, working in conjunction with MLGW engineering, operations, and construction staff. The objective of this assessment was to identify investments that deliver the greatest value to MLGW and its customers, comply with regulatory requirements, optimize the use of scarce resources, and mitigate risks.

MLGW Way...Forward...High Level Results

(Part 1)

Overall estimated phased in internal savings over the next 5 years of **\$91.7 million and \$40 million per year** ongoing thereafter

- Reduction in Staff (phased in over time) – 11-13% reduction, savings range from \$30 to \$36 million.
- Cost recovery for smart meter opt-outs - \$2.5 million (**NOT** in 2020 budget).
- Other opportunities:
 - Centralization of certain services in Human Resources
 - Leveraging Systems and Improving Supporting Processes
 - Inventory Level adjustments/reductions
 - Community Offices



MLGW Way Forward...High Level Results

(Part 2)

HDR Engineering performed a Risk Severity Analysis on MLGW's assets.

- The analysis assigned a score based on the frequency and impact of the potential system component failure.
- The overall analysis confirmed that MLGW's infrastructure needs are valid and the focus is on the correct areas.
- Examples of components that received high risk scores:
 - Substation equipment (transformers and circuit breakers)
 - Tree Trimming (reduce the cycle trim to 3 years and look at this more aggressive in back lots).
 - Gas regulatory work (cast iron, steel services, casings)
 - Water pumping stations equipment (main pumps, booster pumps, electrical safety issues)



Budget Plan



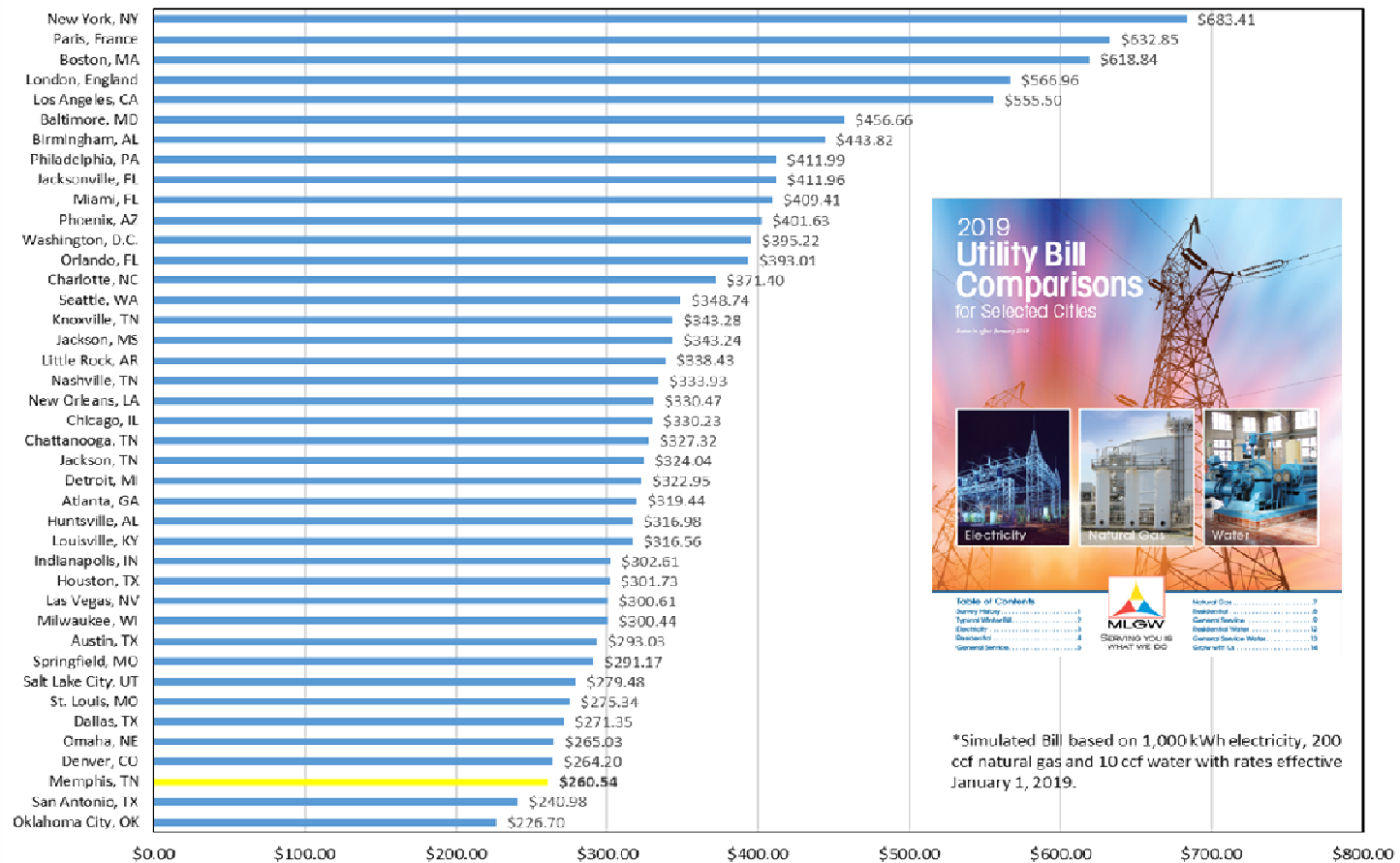
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Budget Schedule

- Preliminary presentation to MLGW Board, 10/10
- MLGW Board vote, 10/23 - **approved**
- MLGW City Council Committee, 11/5
- Full Council Meetings remaining for 2019 thereafter:
 - 11/19
 - 12/3
 - 12/17

Value Proposition – MLGW Bill vs. Others

National Residential Combined Bill Comparison*



Highlights of MLGW's budget plan

- Budget plan includes ~\$1 billion for improvements to our system over the next 5-years.
- New efficiencies/savings of over **\$90 million** have been incorporated into our 5-year plan with savings of **~\$40 million/year** included annually thereafter.
- Infrastructure upgrades remain a central focus and the study done by *Baker Tilly & HDR* confirms our need to move forward promptly with these upgrades.
- 5-year plan includes opportunities to help move our community forward including additional initiatives with the Smart Cities initiatives, LED street lighting and converting overhead to underground where feasible.



Budget Objectives and Value Proposition

- MLGW is dedicated to improving the customer experience...for all customers.
- We must modernize to improve reliability and resilience...Customers will see benefits from our efforts.
- The condition of our aging infrastructure dictates that we must make upgrades sooner than later.
- MLGW has low rates. Proposed improvements will contribute to the overall viability of our community.



Rate Request By Year

		2020	2021	2022	2023	2024	Total
Average Residential Bill Impact							
Electric		\$5.19	\$1.89	\$1.92	\$0.00	\$0.00	\$9.00
Gas		\$0.00	\$0.00	\$0.74	\$0.00	\$0.00	\$0.74
Water		\$2.23	\$1.19	\$0.91	\$0.00	\$0.00	\$4.33
Total		\$7.42	\$3.08	\$3.57	\$0.00	\$0.00	\$14.07
Division Revenue Request							
Electric		4.2%	1.5%	1.5%	0.0%	0.0%	7.2%
Gas		0.0%	0.0%	2.0%	0.0%	0.0%	2.0%
Water		15.0%	7.0%	5.0%	0.0%	0.0%	27.0%

- The 2020 increase would be effective in July. All other rate increases effective in January.
- The overall rate request is smaller than the 2019 request and provides greater customer value.
- The overall request for 5 years has decreased by \$4.51 per month (From \$18.58 to \$14.07, a **24% decrease.**)



Assistance Programs

- Extended Payment Plan
- Plus-1
- On Track
- Budget Billing
- PrePay
- Share the Pennies
- Holiday Bill Break
- Winter Moratorium
- AutoPay
- Power of Warmth
- Gift of Comfort
- Play it Cool
- Net Due Date Program
- Energy Smart Memphis
- Third Party Notification



Key 2020 Budget Items Summary

- Total Operating and Capital Expenditures Budget of \$1.9 billion
- Total O&M Budget of \$401.3 million
- Total Capital Expenditures budget of \$164.7 million
- Multi-year rate increase actions for 2020 through 2022 and minor rate tariff approvals with the 2020 increase being effective in July and the others in January.

Division	July 2020	January 2021	January 2022
Electric	4.2%, \$52,974,000* (percentage varies between Transmission Level Voltage Customers and other classes)	1.5%, \$19,743,000	1.5%, \$20,070,000
Gas			2.0%, \$4,354,000
Water	15.0%, \$14,065,000*	7.0%, \$7,562,000	5.0%, \$5,790,000

** Denotes the full year revenue. For 2020, the Division will not realize the full amounts.*



Service Improvement Plan



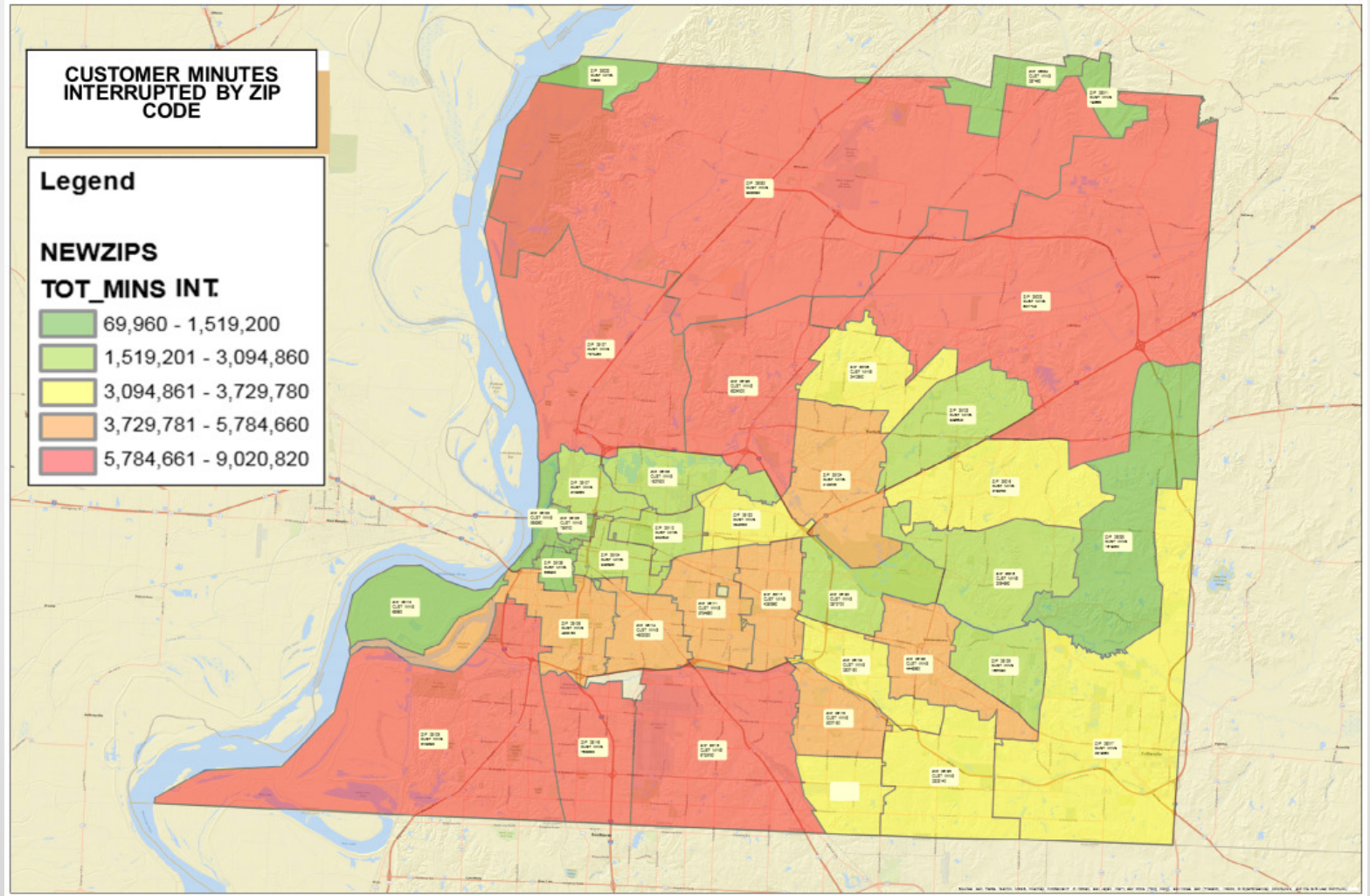
CUSTOMER MINUTES INTERRUPTED BY ZIP CODE

Legend

NEWZIPS

TOT_MINS INT.

	69,960 - 1,519,200
	1,519,201 - 3,094,860
	3,094,861 - 3,729,780
	3,729,781 - 5,784,660
	5,784,661 - 9,020,820

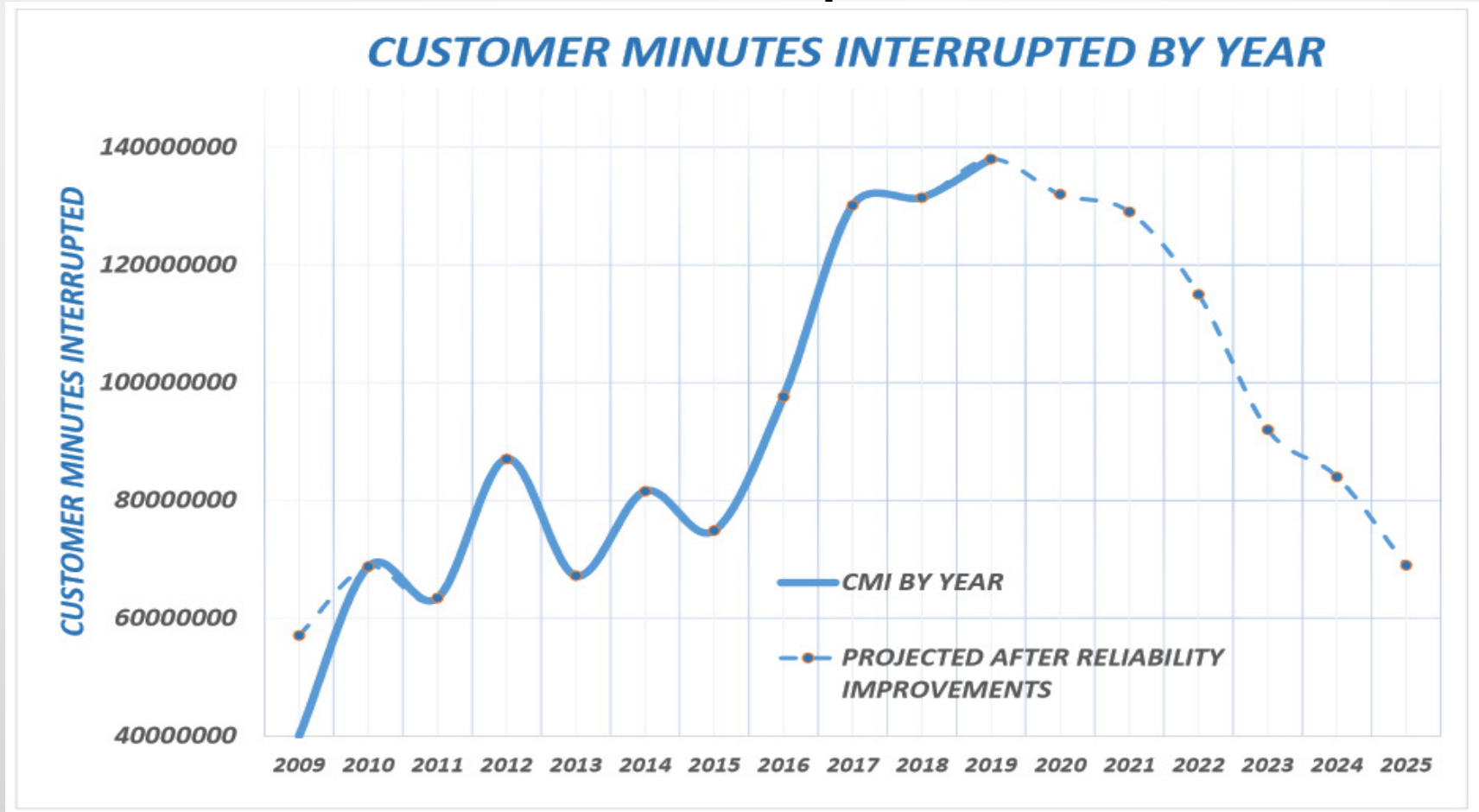


Electric System Modernization Needs

- Embarking on an electric reliability and modernization improvement plan
- The plan involves several components:
 - Substation circuit breakers and transformers
 - Tree trimming
 - Pole replacements
 - Cable retrofits (and strategic underground conversions)
 - Distribution Automation
 - Smart Cities (5G rollout)
 - LED street lighting

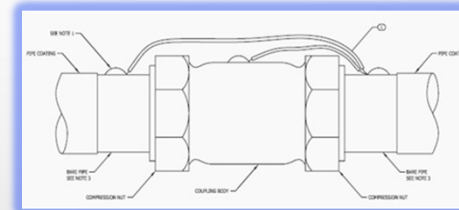


Customer Minutes of Interruption Before and After



Gas Regulatory Needs

- Cast Iron Program
- Steel Tap Replacement Program
- PVC Pipe Program
- Casing Mitigation Program



Water Infrastructure Needs Remain

- Rehabilitation of water pumping stations
- Construct new wells
- Distributed Process Control Systems
- Medium Voltage Circuit Breakers and Switchgear replacement



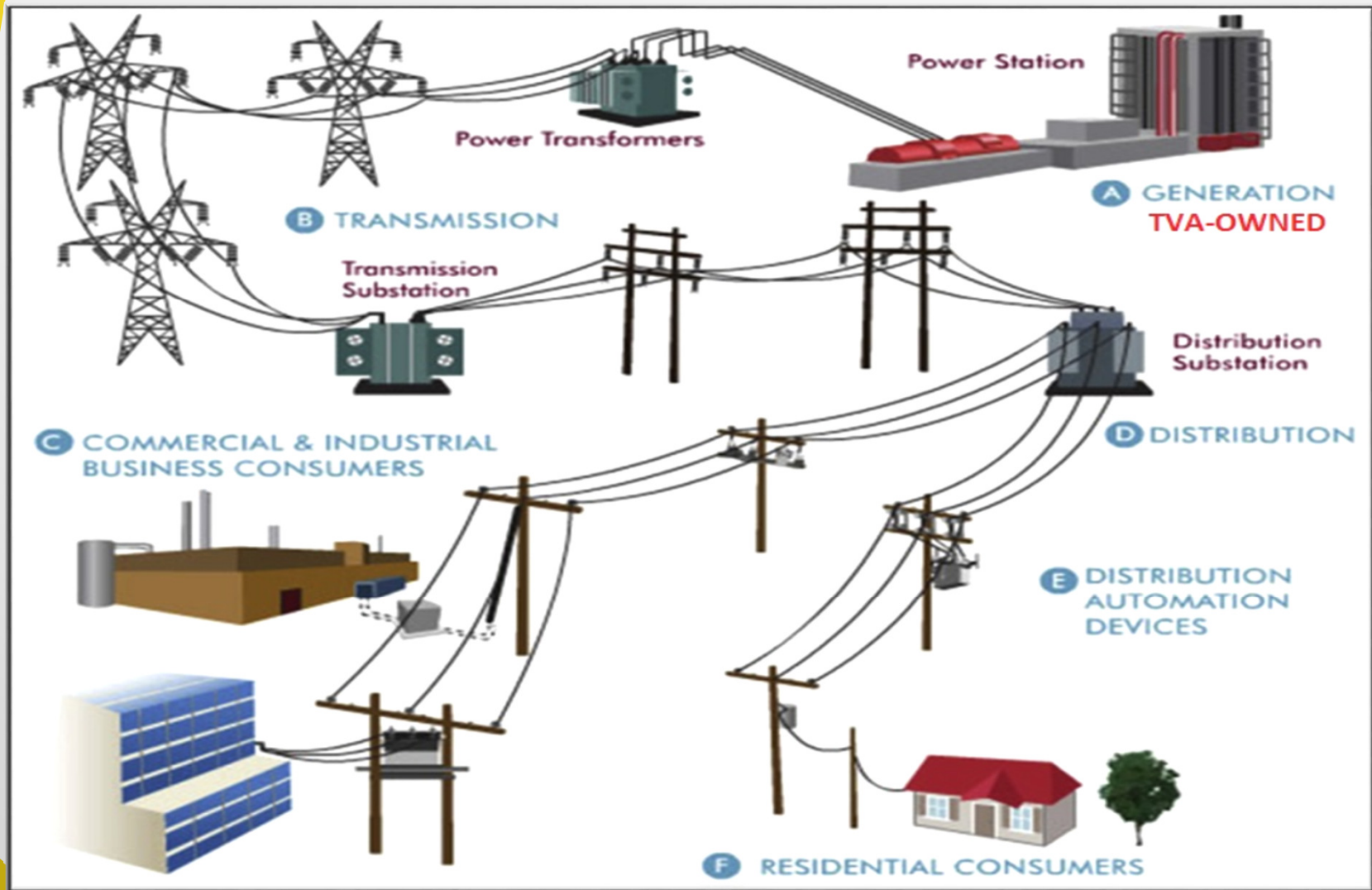
Budget & Service Improvement Summary

- This is the third year MLGW has proposed a multi-year service improvement plan.
- The previous proposals were not approved by the Memphis City Council.
- Budget plan includes ~\$1 billion for improvements to our system and increased maintenance spending over the next 5-years funded in part by debt and rate increases.
- New efficiencies/savings of over \$90 million have been incorporated into our 5-year plan with savings of ~\$40 million/year included annually thereafter.
- Infrastructure upgrades remain a central focus and a study done by *BakerTilly & HDR* confirms our need to move forward expeditiously with these upgrades.



Integrated Resource Plan (IRP) & Power Supply Advisory Team (PSAT)





MLGW Electric System



Integrated Resource Plan (IRP)

What is it?

- A comprehensive roadmap to meet forecasted energy demand using both supply and demand side resources to ensure reliable service to customers in the most cost-effective way
- Most commonly, 20 year planning horizon, with a detailed implementation plan for the first few years and a required update every two to three years
- Addresses risks and uncertainties inherent in utility industry
- 33 states - either by state statute or regulation - require utilities to file publicly available IRPs or their equivalent with their Public Utility Commission (PUC)



Power Supply Evaluation

- *PSAT Team assigned*
- *Current arrangement*
- *TVA dialogue*
- *Multiple studies*
- *Other options may be available*
- *Issues to consider*
- *Timeframe*
- *Overall goal*



Summary

- We have worked hard to find ways to add value at reasonable costs.
- In addition to efficiencies previously identified, additional efficiencies/savings of over **\$91 million** have been incorporated into our service improvement plan with savings of **~\$40 million/year** included annually thereafter.
- Infrastructure upgrades remain a central focus and will require both debt issuance and additional revenue.
- Our customers and our community have spoken regarding their concerns and we are listening.
- 5-year plan includes new opportunities to help move our community forward.
- We continue to evaluate our power supply options seeking to provide our customers with the best overall value (reliability, stable pricing, sustainability, etc.).



Questions?



MLGW
SERVING YOU IS
WHAT WE DO