



# Memphis Light Gas and Water 2026 Budget

# 2026 Budget – Bottom Line Up Front

- The 2026 proposed Budget funds all work and investments necessary to continue improving service for our customers.
- The proposed 2026 Budget is smaller than the 2025 Budget.
- MLGW does not propose any new rate increases in the 2026 Budget.

# 2026 Budget Overview

- Overall budget decrease (O&M and capital) relative to 2025
- No rate increases proposed for FY 2026 for Gas and Water Divisions.
- Continued focus on improving reliability and resiliency through investments in system.
- ~3% increase to operating budget driven by an increase in the mandatory contribution to employee pension fund (~\$10M), increased medical costs, increased cost of materials, and a modest wage increase to maintain a competitive workforce.
- Funds ~2700 employees, adds 36.5 FTE
- Total Regular Labor increase of \$10.4 million or 3.9%

# 2026 Budget Overview *(continued)*

- Total O&M Growth of 2.6% or \$15.3 million higher than last year's budget.
- Total capital expenditures 24.04% or \$91.9 million lower than last year's budget driven by delayed construction of the Allen Pumping Station, completion of a large gas transmission pipeline project, and alternate direction with the planned DER solution.
- Continuation of the investment successes of the Renewal & Replacement Infrastructure (r2I) plan that are helping to improve reliability and resiliency and increasing electric capacity to serve through strategic substation expansion projects.
- The budget funds regularly and reoccurring preventive maintenance items for all three divisions, the next four-years and replacements, new initiatives, and continued reliability and resiliency.

# 2026 Budget Overview - Electric

- Continues the great progress we have made in improving our electric system reliability and readiness.
- We are ahead of pace with tree trimming, and this budget continues vegetation management, robust preventive maintenances, funds the second of our 5-year infrastructure replacement plans, and continues progress to drive grid modernization
- The Renewal and Replacement of Infrastructure (r2i) programs have exceeded their substation circuit breaker and transformer replacement goals and continue to support expansion of electric system capacity
- Our first ever energy storage solution is scheduled to start construction in 2026, and we will get underway with buildout of a new state-of-the-art operations center that will control our electric, gas, and water systems
- This budget also continues to fund the 5-G communications system buildout to strategically enable grid modernization that improves reliability and resilience.



# 2026 Budget Overview – Gas & Water

- This budget funds the continued modernization of our water production, treatment and distribution system with significant investments in improving filtration at 5 of our 10 treatment plants, drilling new wells to increase production for times when we really need additional water, and starting the process to construct an all-new Allen Pumping Station that will serve our customers for the next 50+years.
- This budget allows us to continue the increased pace of lead service line replacements that was already underway, while continuing to facilitate replacement of lead service lines on both the public and private side of the meter.
- We have completed a 5-mile upgrade of extra high-pressure transmission line that assures uninterrupted supply for our customers. The 2026 Budget will continue to assure uninterrupted supply by upgrading 12” extra high pressure transmission pipeline at Democrat Rd, while continue to make significant progress in assuring the safety and integrity of our systems, from improvements at our gate stations and LNG plant all the way through to our end user customer with our gas steel tap replacement program.
- Additionally, this budget includes the ability to build out the new Systems Operations facility.

# 2026 Budget Overview – Staffing & Facilities

- To support this work, with this funding we will continue the expansion of the North Service Center which will ultimately house more efficient fleet, heavy equipment, and transformer maintenance function and allow us to dispose of property that has a higher and better use in the heart of downtown's medical district.
- This budget also funds a complement of approximately 2,700 full and part time employees and the contracted partners to help us do the work. Though the Division and IBEW are currently in negotiations, this budget plans for a moderate COLA (*final amount subject to negotiations*) for both represented and non-represented employees keeping us competitive.

# 2026 Budget Details



**MLGW**

# 2026 All Division Summary

Category (\$ in Thousands)	Electric	Gas	Water	Total
Operating Revenue	\$1,822,613	\$321,523	\$128,193	\$2,272,329
Purchased Power and Gas	\$1,282,660	\$178,744	\$0	\$1,461,404
Operations & Maintenance (O&M) Expense	\$344,782	\$134,411	\$122,050	\$601,243
Depreciation & Amortization	\$75,048	\$25,210	\$13,497	\$113,755
PILOT and Taxes	\$64,085	\$21,603	\$5,516	\$91,204
Total Operating Expense	\$1,766,575	\$359,968	\$141,064	\$2,267,607
Total Capital Expenditures	\$192,655	\$39,242	\$58,491	\$290,388
Total Operating & Capital Budgets	\$1,959,230	\$399,210	\$199,555	\$2,557,995
<b>Change in Net Position</b>	<b>\$82,007</b>	<b>(\$38,966)</b>	<b>(\$14,300)</b>	<b>\$28,741</b>

# 2026 Electric Division Summary

Operating margin is \$78.0 million higher than last year's budget primarily due to 4% rate increase (\$61.9m), increased sales and new large loads (\$12.6m) and an increase in the Streetlight Fee (\$2.4m)

Power costs are projected to be higher due to increased sales and new large loads

Change in net position variance (net income) is \$46.2 million higher driven by higher operating margin offset by higher operating expenses.

Capital expenditures are \$37.4 million lower than last year

Category	2024 Actual	2025 Projected	2025 Budget	2026 Budget
Operating Revenue	\$1,491,978	\$1,641,140	\$1,636,877	\$1,822,613
Power Cost	\$1,084,669	\$1,174,874	\$1,174,874	\$1,282,660
Operating Margin	\$407,309	\$466,266	\$462,003	\$539,953
<b>Operating Margin Variance</b>			<b>\$77,950</b>	<b>Increase</b>
O&M	\$286,665	\$318,826	\$335,702	\$344,782
Depreciation & Amortization	\$73,902	\$72,000	\$68,820	\$75,048
PILOT & Taxes	\$51,137	\$59,891	\$54,090	\$64,085
Total Operating Expense	\$411,704	\$450,717	\$458,612	\$483,915
<b>Expense Variance</b>			<b>\$25,303</b>	<b>Increase</b>
Other Income	\$56,043	\$70,700	\$52,648	\$53,228
Debt Expense	\$11,053	\$14,649	\$20,203	\$27,259
Change in Net Position	\$40,595	\$71,600	\$35,836	\$82,007
<b>Change in Net Position Variance</b>			<b>\$46,171</b>	<b>Increase</b>
Capital Expenditures	\$162,710	\$160,000	\$230,029	\$192,655
<b>Total Operating &amp; Capital</b>	<b>\$1,659,083</b>	<b>\$1,785,591</b>	<b>\$1,863,515</b>	<b>\$1,959,230</b>

# 2026 Gas Division Summary

- Operating margin is \$0.322 million higher than last year's budget primarily due to increases in transportation customer and LNG sales
- Change in net position variance (net income) is \$9.0 million lower driven by higher operating expenses coupled with lower other income
- Capital expenditures are \$35.4 million lower than last year

Category	2024 Actual	2025 Projected	2025 Budget	2026 Budget
Operating Revenue	\$236,641	\$278,908	\$278,908	\$321,523
Gas Cost	\$99,692	\$136,451	\$136,451	\$178,744
Operating Margin	\$136,950	\$142,457	\$142,457	\$142,779
<b>Operating Margin Variance</b>			<b>\$322</b>	<b>Increase</b>
O&M	\$107,739	\$127,466	\$134,175	\$134,411
Depreciation & Amortization	\$26,542	\$23,627	\$23,627	\$25,210
PILOT & Taxes	\$17,245	\$19,943	\$17,174	\$21,603
Total Operating Expense	\$151,526	\$171,037	\$174,976	\$181,224
<b>Expense Variance</b>			<b>\$6,248</b>	<b>Increase</b>
Other Income	\$10,425	\$5,975	\$5,975	\$2,802
Debt Expense	\$3,691	\$3,395	\$3,441	\$3,323
Change in Net Position	(\$7,842)	(\$25,999)	(\$29,985)	(\$38,966)
<b>Change in Net Position Variance</b>			<b>(\$8,981)</b>	<b>Decrease</b>
Capital Expenditures	\$27,793	\$68,243	\$74,677	\$39,242
<b>Total Operating &amp; Capital</b>	<b>\$279,011</b>	<b>\$375,731</b>	<b>\$386,104</b>	<b>\$399,210</b>

# 2026 Water Division Summary

- Operating revenue is \$1.7 million lower than last year's budget primarily due to reduced customer sales (\$0.8m) and an expected increase in uncollectibles (\$0.8m)
- Change in net position variance (net income) is \$9.4 million lower driven by higher operating expenses and lower other income.
- Capital expenditures are \$19.1 million lower than last year's budget due to delay of the Allen Pumping Station construction

Category	2024 Actual	2025 Projected	2025 Budget	2026 Budget
Operating Revenue	\$134,617	\$129,941	\$129,941	\$128,193
<b>Operating Revenue Variance</b>			<b>(\$1,748)</b>	<b>Decrease</b>
O&M	\$104,782	\$110,274	\$116,078	\$122,050
Depreciation & Amortization	\$14,474	\$12,320	\$12,320	\$13,497
PILOT & Taxes	\$5,339	\$5,452	\$5,400	\$5,516
Total Operating Expense	\$124,595	\$128,045	\$133,798	\$141,064
<b>Expense Variance</b>			<b>\$7,266</b>	<b>Increase</b>
Other Income	\$7,748	\$2,237	\$2,237	\$1,595
Debt Expense	\$3,345	\$3,318	\$3,318	\$3,025
Change in Net Position	\$14,425	\$815	<b>(\$4,938)</b>	<b>(\$14,300)</b>
<b>Change in Net Position Variance</b>			<b>(\$9,362)</b>	<b>Decrease</b>
Capital Expenditures	\$34,772	\$50,000	\$77,568	\$58,491
<b>Total Operating &amp; Capital</b>	<b>\$159,367</b>	<b>\$178,045</b>	<b>\$211,366</b>	<b>\$199,554</b>



# 2026 Electric Capital Budget

# Targeted Infrastructure Replacements

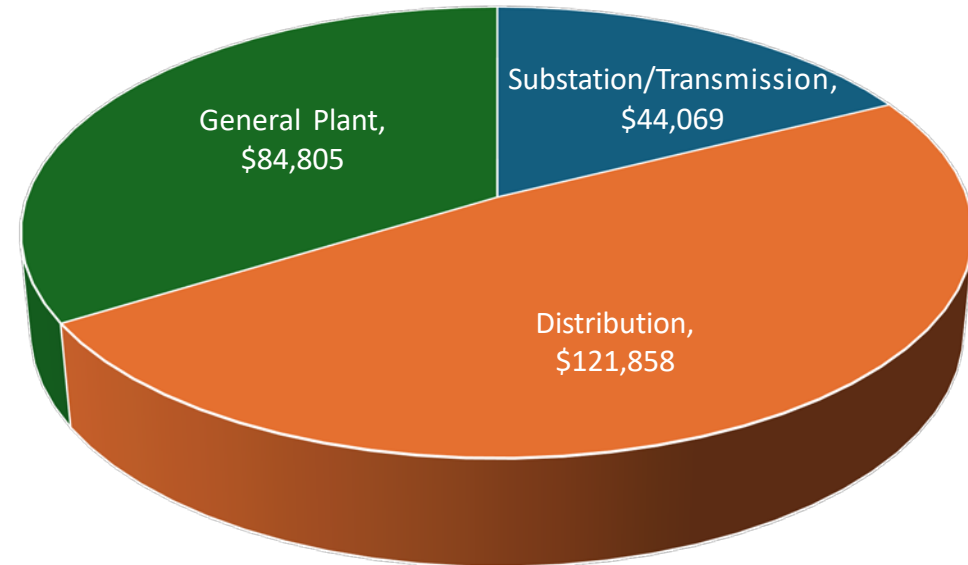
- Substation Transformer Replacement – 2 substation transformers
  - 161/115kV transformer – Sub32
  - 161/23kV transformer – Sub 74
- Substation Breaker Replacement – 12 at various locations
- Substation RTU & Electromechanical Relay Change Outs
  - Substations 45, 47, 61, & 64
- Underground Cable Replacement – 90,000 ft
- Distribution Pole Replacement/Trussing – 2,500 poles

# Electric Capital Highlights

## Electric Capital Highlights

Installation & Various Upgrades of Substations	\$26,805
Data Processing Equipment Upgrades	\$21,727
Communication Towers & Telecommunication Network	\$20,800
Extensions to Serve New Customers - UG Apts. & Commercial	\$19,192
Replacement of Underground Cable	\$16,800
Building & Structure Upgrades	\$16,187
Purchase of Trans. & Power Operated Equipment	\$15,862
Replacement of Distribution Transformers	\$15,000
Distribution Automation	\$15,000
Substation Transformer & Circuit Breaker Replacements	\$12,700
New Electric Circuits	\$11,700
Utility Monitoring Upgrades	\$6,659
Line Reconstruction	\$8,875
Transmission Line Upgrades	\$4,564
Security Automation Video & Alarm System	\$2,088
Electric Meters	\$1,501

## Electric Capital



Excludes Delayed Cost Allocation



# 2026 Gas Capital Budget

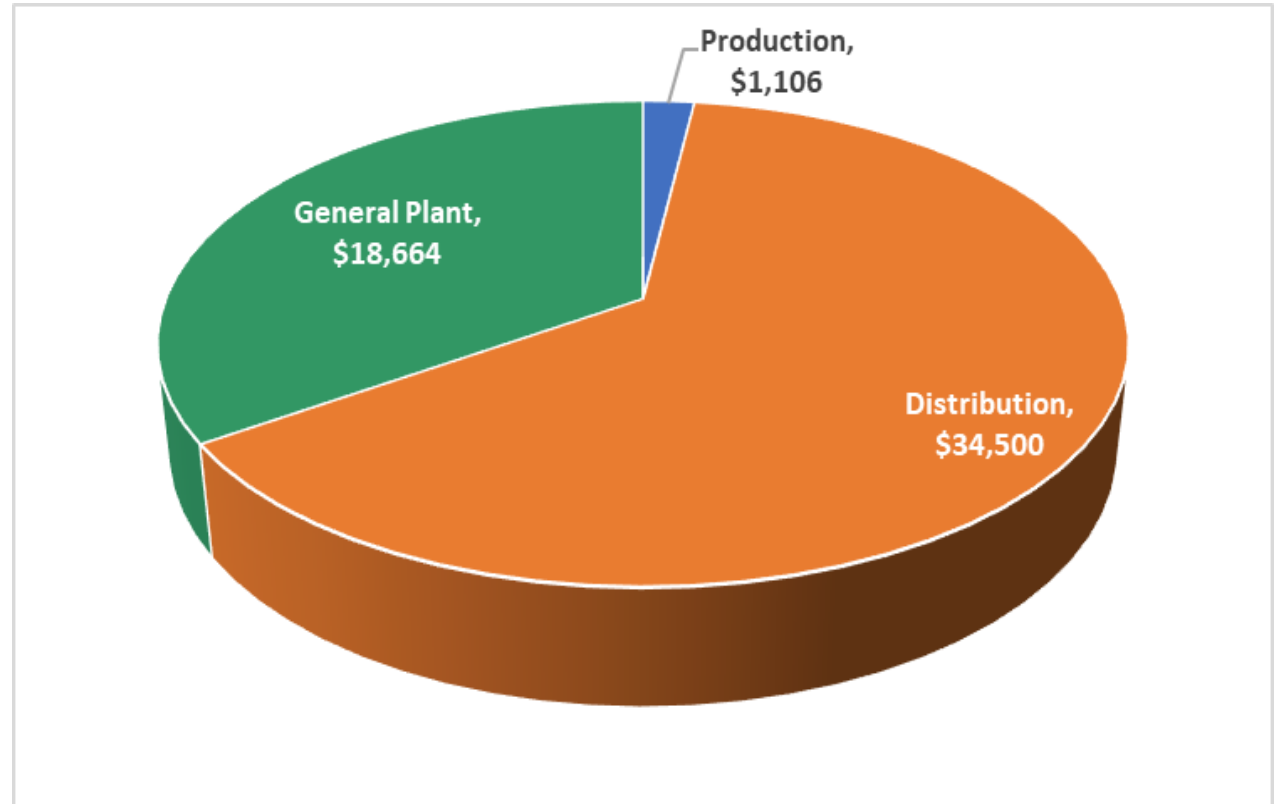
# Targeted Infrastructure Replacements

- Transmission Integrity Management Program (TIMP)
  - 1,000 feet of 12” CWSXHP pipeline replacement
- Distribution Integrity Management Program (DIMP)
  - Steel tap couplings replacement – 1,000 services /year
- Regulator Station Replacement – 2 stations/year
- LNG Plant – replacement of Variable Frequency Drive (VFD) and Fire Hazard Panel
- Build out of new Engineering/Operations/SCADA facility

# Gas Capital Highlights

## Gas Capital Highlights

Building Upgrades	\$8,830
Extensions to Serve New Customers	\$8,241
Purch. of Trans. Equip. & Power Operated	\$8,350
New Gas Main & Gas Main Service Replacement	\$9,379
Purchase of Meters	\$8,455
Relocations of Mains - Street Improvements	\$4,615
LNG Processing Facility Upgrades	\$1,106
Pipeline Integrity Management	\$750
Regulator Station Upgrades	\$670
Security Automation Upgrades	\$450



Excludes Delayed Cost Allocation



# 2026 Water Capital Budget

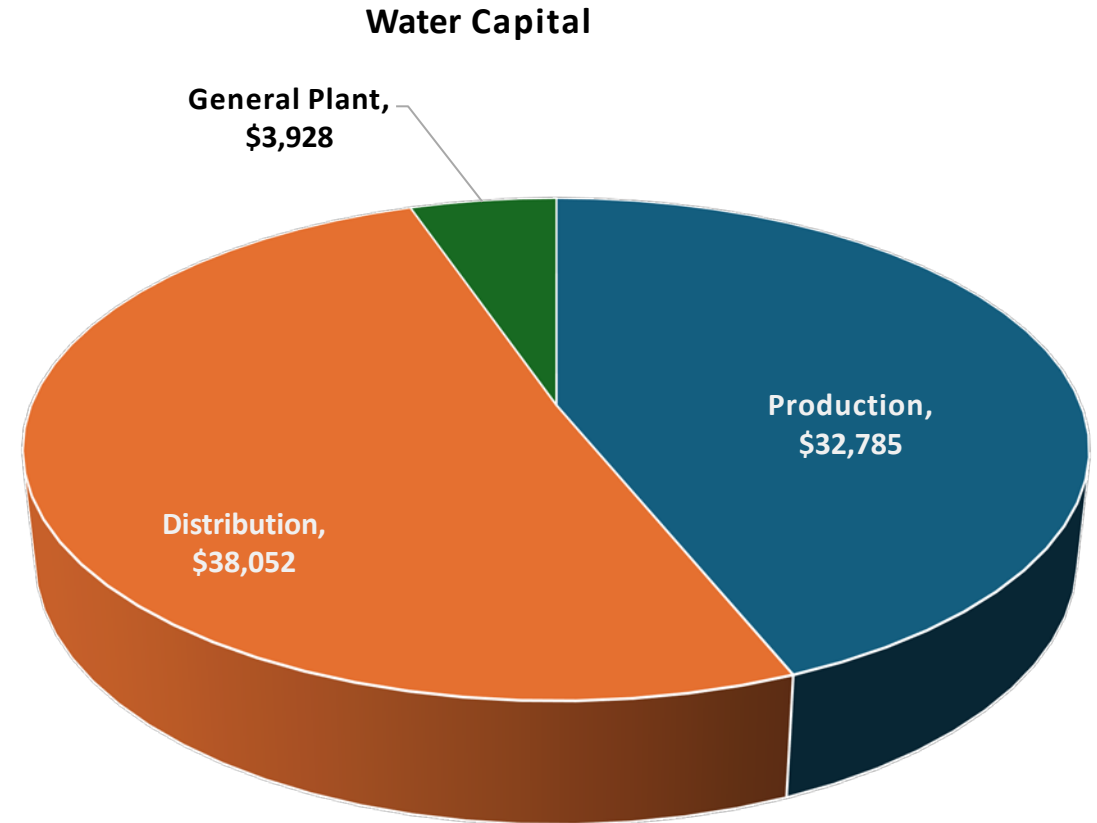
# Targeted Infrastructure Replacement

- Pumping Station Upgrades
  - Filter Media upgrade at 5 pumping stations
  - Generator upgrades at 2 pumping stations
  - Pump, Motor, VFD, Transformers, Valves & Switchgear upgrades
- Production Wells, drilling 6 new wells
- Lead Service Replacement
  - MLGW Distribution side lead service lines, inspect/replace 1,500 services /year
  - Customer side lead service lines, inspect/replace 450-500 with ARPA funding and ten-year replacement plan using state revolving funding (SRF)

# Water Capital Highlights

## Water Capital Highlights

Various Pumping Station Upgrades	\$33,870
Various Production Well Upgrades	\$10,650
Lead Service Replacement	\$10,530
Purchase of Meters	\$10,039
Building & Structure Upgrades	\$4,990
Relocations of Mains - Street Improvements	\$4,350
Extensions to Serve New Customers	\$3,555
Underground Storage Reservoir	\$2,500
Purch. of Trans. Equip. & Power Operated	\$2,642
New Water Main	\$2,499



Excludes Delayed Cost Allocation

# 2026 Total Capital Expenditures

## Electric Division

2026 Budget	\$192,655
2025 Budget	\$230,029
Dollar Change	(\$37,374)
Percentage Change	-16.2%

## Gas Division

2026 Budget	\$39,242
2025 Budget	\$74,677
Dollar Change	(\$35,435)
Percentage Change	-47.5%

## Water Division

2026 Budget	\$58,491
2025 Budget	\$77,568
Dollar Change	(\$19,077)
Percentage Change	-24.6%

## All Divisions

<b>2026 Budget</b>	<b>\$290,388</b>
<b>2025 Budget</b>	<b>\$382,274</b>
<b>Dollar Change</b>	<b>(\$91,886)</b>
<b>Percentage Change</b>	<b>-24.0%</b>

## CapEx Budget Comparison



The 2026 CapEx budget includes grant contributions of ...

- \$2 M in Electric
- \$28 M in Water

# 2026 Budget Schedule

- Preliminary presentation to MLGW Board, 10/1
- MLGW Board approval, 10/15
- MLGW City Council Committee presentation, 11/4
- MLGW City Council Committee Budget Hearing, TBD
- Full City Council vote, 11/18

(subject to ratification of negotiations outcome)

# 2026 Budget Summary

- The 2026 proposed Budget funds all work and investments necessary to continue improving service for our customers.
- The proposed 2026 Budget is smaller than the 2025 Budget.
- MLGW does not propose any new rate increases in the 2026 Budget.



# Questions