



December 8, 2023

Jason Mumpower
Tennessee Comptroller of the Treasury
The Capitol Building
Nashville, Tennessee 37243

Dear Comptroller Mumpower,

I am writing to advise you that in the recently approved MLGW 2024 budget I have deliberately planned for the MLGW Gas Division to experience three successive years of negative net position at the end of years 2024, 2025, and 2026.

Because of successful hedging strategies and profitable liquid natural gas sales to commercial customers, and despite aggressive spending on capital improvements to the system, MLGW has accumulated 263 days of operating expense in cash on hand, significantly more than the GFOA recommendation of 90-days. It is our intent, as expressed by the approval of MLGW's Board of Commissioners and Memphis City Council, to keep base gas rates flat for our customers over the next three years while simultaneously maintaining the financial health of the utility. We will do this by balancing revenue from gas sales with a deliberate operations and capital spending plan to defer and avoid rate increases for our customers, but to land with 170+ days balance of cash on hand at the end of the period, when we will reassess whether a rate action is then necessary. We believe this to be much preferable than the alternatives: reducing operating and capital expenditures to yield a positive net position; using cash on hand to temporarily lower rates for a year but then raise rates back up in the next year; or to simply impose an unnecessary rate increase solely for the purpose of yielding a positive net position.

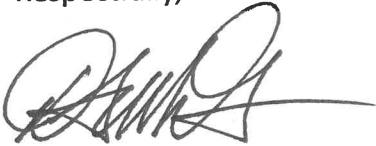
You can find a high-level summary of our proposed budget for 2024 that forecasts our projected change in net assets immediately below:

Gas Division - Budget 2024	2022	2023	2024	2025	2026
Ending Cash & Investments	157,664	184,728	171,509	144,983	131,634
Days Cash of OpExp	183	263	235	194	171
Debt Service Coverage	5.15	7.89	4.84	4.56	4.00
Change in Net Assets (Net Income)*	3,907	1,218	(19,698)	(24,106)	(31,543)
Capital Expenditures	\$17,999	\$48,400	\$33,911	\$43,679	\$24,177
O&M Expenditures	\$96,993	\$103,817	\$130,597	\$135,844	\$142,488
Rate Increase %	2.0%				
Rate Increase Revenue	\$4,354				
Debt Issuance					
Average Residential Bill Impact	\$0.74				

The plan we are advancing in the 2024 budget and the forecast budget for the next two years carefully balances affordability for our customers, many of whom have a high energy burden despite our lowest in the nation combined utility bill, with the financial position of the Utility. We assert that though our action will result in successive years of negative net position, MLGW will remain compliant with accepted industry and general accounting principles, if not the underlying intent of the law. In fact, the plan demonstrates exactly the kind of fiscal discipline and customer service that customers/ratepayers should expect from a high performing utility.

We will present our audited financials in accordance with the statute, and while this year's report will not show any successive years of negative net position, I wanted to share this plan with you so that there are no surprises in the coming years, and to make the Tennessee Board of Utility Regulation aware of this before they feel compelled to take any action. Although technically meeting the definition of "financial distress" under the statute, we believe this deliberate plan is prudent and fiscally responsible. I look forward to discussing this with you and your team at the next opportunity.

Respectfully,

A handwritten signature in black ink, appearing to read 'D. McGowen', with a long horizontal flourish extending to the right.

D. A. McGowen
220 S. Main St
Memphis, TN 38103