



# RFP



## Request for Proposals Joint Session June 9, 2022

1. What is MLGW's current business model? If MLGW were to leave TVA, would the business model change?

*TVA is the complete package in terms of electrical power supply. MLGW manages its electrical transmission and distribution system within Memphis and Shelby County.*

*Changing our business model would mean more transmission investment and more requirements to manage those resources. For instance, interconnecting with Midcontinent Independent System Operator (MISO), would mean managing that transition and the additional operational aspects even if MLGW is not the owner of a generating facility.*

2. As MLGW looks at investments in the future, did you consider the cost of doing business going forward such as adding new staff with new skill sets?

*Both the Integrated Resource Plan (IRP) and the Request for Proposal (RFP) factored in costs to transition to a different business model; however, these costs need to be revisited more intensely and with more detail if MLGW's business model changes.*

3. Based on the information received during the RFP joint session, has MLGW simplified the information into a digestible way to the community?

*We are working as hard as we can to make it easy to understand.*

4. How much would it cost MLGW (for building or having built on its behalf) transmission facilities?

*\$1.2 billion.*

5. What's the (financial) number for the type of generation that MLGW would need?

*MLGW would do a Purchase Power Agreement (PPA) which means allowing a third party to build it. We would rent it from them. Otherwise, it would require billions of dollars of upfront investment in generation and solar assets which also adds significant additional risks and regulatory requirements for MLGW.*

6. How much is MLGW carrying on its books right now as it relates to debt?

*MLGW's Electric Division currently has about \$314 million in debt.*

7. Would MLGW's Electric Division take on four times as much in additional debt, versus what you have right now? Is the debt service built into the electric rates?

*That's correct. The potential future incremental debt would also need to be included in the future electric rates.*

8. If MLGW has an outside entity build the generation, there may be an agreement for 20 years. But would the fate of our rate payers be tied to the profitability, the quarterly earnings and expectations of a for-profit organization after that certain period?

*That is true. At the end of every contract, there is a risk concerning the future. We try to anticipate, prepare, manage and plan accordingly. But we can't put a dollar value on that today.*

9. Is there negotiating room in TVA's 20-year Long-Term Purchasing Agreement (LTPA)?

*My understanding is the LTPA is non-negotiable.*

10. We've heard from the press that surrounding communities (i.e., Germantown, Arlington, Millington) could go back to TVA in the event MLGW left TVA. How much of a reality is that? What would it take for something like that?

*Those communities have franchise agreements with MLGW. They might have the option to do something different, but it may be expensive for them. MLGW would need to have conversations about that.*

11. Some customers worry about going potentially into a 20-year agreement with TVA. All these other agreements are going to be 20-plus year as well, aren't they?

*The agreements timeframes vary. For example, in the RFP process, we asked for a minimum term of 15 years for solar. We received solar proposals for up to 30 years. For thermal generation, we asked for a minimum of 20 years; we received thermal generation offers for 25-30 years.*

12. MLGW must give TVA a five-year notice if it intends to leave TVA. What is the realistic timeframe for MLGW to bring all these projects to fruition and switch to another power supplier?

*With power plants, a five-year engineering permitting construction time is reasonable. The issue is on the transmission side. It is \$1.2 billion. In addition to building two*

*major crossings over the Mississippi River, we would deal with engineering, site locations, routing and environmental issues. Five years is not a reasonable timeframe for building out a transmission system. Seven to eight years is probably more reasonable to get all those facilities constructed. We just can't, on Jan. 1, 2028, unplug from TVA and plug into MISO.*

13. What about MLGW's operational expenses? When would MLGW start hiring new people (under a Power Purchase arrangement)? When would you begin to realize any meaningful savings?

*We must consider an extreme amount of front-end loaded costs before realizing any meaningful savings.*

14. For example, if MLGW finances and then takes possession of the transmission line, who's responsible for the repairs and maintenance on an ongoing basis?

*That's MLGW's responsibility. If they're going to own it, they must operate and maintain it. Those costs were factored into the levelized cost figures shown utilizing the \$1.2 billion in capital outlay, debt service, operations and maintenance expense. That's all worked into our pricing model.*

15. If MLGW were to hypothetically score TVA against the proposals from the full requirement specs, is there a way to score TVA as a bidder?

*TVA would score extremely high. They're proven, capable, viable and credit worthy. They have a strong track record of performance. The only thing we'd be complaining about is just exactly how much the cost is.*

16. Have we looked at any potential savings if MLGW were able to negotiate a larger percentage of renewables (in TVA's Long-Term Purchasing Agreement) – from 5% to 10 or 15%?

*No effort has been made to actively engage with TVA to change its current language and negotiate a larger percentage for renewables. Why should TVA give an extra benefit to one party and then not give it to every other of its 150 wholesalers? That would be a problem.*

17. How did MLGW determine the discount rate going forward?

*We're consistent with what the Integrated Resource Plan did. We made the same assumption and used 3.5% as the discount rate.*

18. Without tax-based incentives and discounts, is that the reason why TVA is building gas versus solar plants?

*I don't want to speak specifically for TVA, but the way the Solar Investment Tax Credit benefit works, you must be a taxable entity. Those only flow to non-public entities. Public entities, such as TVA, don't get any tax benefits for solar. What I'm assuming is that they are contracting with third-parties who can take advantage of those benefits.*

19. Is it correct that MLGW is unable to use any TVA lines if MLGW chose to leave TVA? If federal laws change, how would that change this dynamic?

*That is correct. MLGW can't use TVA's transmission lines. If Congress were to act and "bring the fence down" on where TVA operates, MLGW could request that TVA wheel that power from MISO. Additionally, TVA does not have an extra 2,400 megawatts of import capacity and that import capacity would be necessary to wheel to MLGW. So, TVA, MLGW or a third-party would still have to build a substantial transmission facility.*

20. Would it benefit the national power grid if MLGW were to position itself properly?

*The bigger question is why TVA doesn't integrate with MISO? I assume TVA has studied it.*

21. Why isn't TVA integrating into the MISO marketplace now?

*MISO and TVA are very different. MISO is a marketplace of utilities. TVA is not integrated with the MISO market. When TVA says they are getting power from MISO, that could mean that they're doing a bilateral deal with Entergy, or with the Arkansas Electric Cooperative. TVA can buy and sell power from Southern Company, Duke and PJM because they have a border with them. TVA is right in the middle of everything so they can do bilateral transactions with various utilities. That is not the same as putting your utility company into MISO like Entergy has done. It's a whole different system.*

22. Is this process as fair and transparent as it needs to be? It sounds like you're leaning toward TVA. Will those individuals who have made other proposals be allowed to present them to the public?

*Chris Dawson with GDS: GDS gave you unbiased objective information. If I've tried to lean you in a certain way, I apologize. My job is not to do that. You know why? I don't make the decision. I don't have to live with the consequences. You do.*

*MLGW President & CEO J.T. Young: The role that GDS had in the process was to aggregate the arrangements that would be beneficial to all customers. All the bids, just as we do with contracts, will become public once we have an intent to award or*

*make a recommendation to the City Council. That does not mean there will be a final decision. There's still going to be time for comments and questions.*

23. In August, once the recommendations are presented, will those bidders be allowed to present to the public and explain their proposals?

*If there's a question about wanting to get a particular bidder to speak to any group, that's up to the group asking the question. Bidders can do whatever they wish, once that's open.*

24. How much time will the city council's consultant have to review the information that MLGW has currently?

*There is no time constraint regarding when a final decision must be made. The board can decide to take six months or six years.*

25. (To GDS) Have you ever worked in a setting where it was this complicated and had to decide to leave the given arrangement?

*In the 1990s, I worked with Bristol Virginia Utilities. Because of the work we did at GDS, it allowed Bristol to walk away from TVA starting in 1996-97. They had a wonderful opportunity that we helped negotiate. We led them to a successful transition for seven years. When that contract ended in 2004, they saved a lot of money relative to the TVA rates. The marketplace changed (oil and natural gas prices escalated). Does anybody know where Bristol is today? TVA. They came back. We helped them leave. We helped them negotiate those complex situations. We gave them objective unbiased information to make a great decision.*

26. Does GDS have any contracts with TVA?

*No, we don't. We've done some work for TVA in the past on energy efficiency potential studies, but nothing related to transmission or power supply. We have no current business arrangements with TVA.*

27. When we look at the municipalities outside of Memphis, there are infrastructure costs associated in those municipalities; if we leave but they stay, what will happen to those capital costs?

*There would be some discussion between the parties about what happens with the infrastructure that's in their areas and how those costs would be allocated.*

28. Did we compare those savings of staying where we are right now to those different scenarios?

*We followed the IRP process: What is the best deal I could get with TVA from an economics perspective, not necessarily terms and conditions? If we go down the Long-Term Purchasing Agreement route (with TVA), relative to what we have today – it could be \$30 million to \$40 million a year in benefits.*

29. Regarding the current transmission lines (within Shelby County), TVA owns those transmission lines, correct?

*TVA provides to MLGW four points of delivery. There's some mixed ownership there. TVA owns the 500 Kilobyte network.*

30. The only way MLGW can get out of the (TVA) monopoly is to own the (power transmission) lines. We must make the federal government say TVA has to let those lines be used. Is that correct?

*That is correct.*

31. What did the proposals reveal regarding reliability? Is MISO somehow inferior to TVA in terms of reliability?

*No. Both MISO and TVA must abide by the same set of reliability standards.*

32. What caused the outage issues in Texas?

*The temperatures were record setting cold that they've not experienced in 50 to 60 years. Gas supplies, gas valves and pipelines froze. Texas had not winterized its utilities like other states. The generation wasn't there for that cold weather period. In Texas, they're not prepared for cold weather. Their whole economy is built around that. It'll be interesting to see where Texas goes from this and what lessons they learn.*

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