



MLGW CEO 2024 Budget Presentation

October 4th, 2023

Good morning, Mr. Chairman and thank you for the opportunity to make this FY24 budget preview available to you today. Before I jump right into next year, I would like to say that in the nine months and three weeks that I have held the position as CEO of MLGW, our team has risen to historic challenges time and again for the customers we serve.

From the first in our history rolling blackouts caused by excessive demand on the Bulk Energy System; a water distribution crisis caused by so many burst fire protection systems because of the deeply cold polar vortex; to repeated, historic and extraordinarily violent storms that caused significant damage to our customers and our distribution system; impacts from decades of insufficient tree trimming progress and infrastructure investment; a metering and billing issue caused by manufacturing defects in meter registers and internal parts that delayed customer bills for 38,000 of our 1,014,000 meters; and now new challenges to the electric system's ability to keep pace with new demand for electricity.

Every day, I was proud to see our team stand in the breach and rise to the challenges before them. Despite the challenges and headwinds, they still made significant progress in those nine months, like:

- improving the hiring process so that we have people to do the work and hiring 385 people in the first 9 months of 2023 compared to 299 in all of 2022.
- transitioning streetlights to more efficient and brighter LEDs
- driving a dramatic improvement in call answer times and customer service at the call center
- hiring and deploying three new tree trimming contractors to get long overdue vegetation management underway.
- creating a new, open, and transparent model of accountability through our publicly available performance dashboard
- expending considerable legal and engineering effort to enable the City of Memphis' transformative plan for broadband.
- developing the north star to guide the organization for the next 20 years – the MLGW2045 strategic plan, and importantly:
- making real progress on improving and replacing outdated electric, gas, and water infrastructure where we are:
 - **On or ahead** of pace for wood pole replacement, underground cable replacement, and substation circuit breaker and transformer replacements

- **Complete with or on pace** for gas system main line replacement, Steel Tap replacement and Regulator station replacement
- And **complete with or on pace** for new production wells, lead service line replacement, pumping station rehabilitation and new digital process controllers

These challenges and achievements, external factors like inflation, onshoring, and the rapid pace of electrification, together with feedback and input from Mayors and elected representatives of our customers across the service area, have informed the budget proposal I am previewing today. There is clear consensus that the focus of effort in the 2024 budget and budgets over the next 5 years must be on reducing the frequency and duration of electric outages, meeting the growing community demand for the electricity we rely upon now and in the future, and maintaining the quality and reliability of water and gas utilities.

The FY24 budget will advance several bold initiatives and proposes a **significant** increase in spending to drive electric system reliability and resilience by

- Funding aggressive Tree Trimming
- Replacing outdated infrastructure
- Adding more in-house and contracted staff to do the work
- Modernizing the grid to a best-in-class standard
- For the very first time, adding electric battery storage to the system, and starting the feasibility work on building utility scale solar power.

- And for the first time since the 1950's, funding electric generation assets for reliability and to catalyze continued economic growth.

FY24 starts what will result in a multi-year program of \$1.2B of improvements to the Electric Distribution system aimed at reducing frequency and duration of electric outages and making our grid ready for the demands of tomorrow.

This budget also contains significant investments in Gas and Water systems to maintain their quality and reliability and is complemented by what we hope will be significant federal grant awards.

Memphis and Shelby County are seeing economic growth and increased interest from companies that want to locate their operations here. At the same time, continued growth across the southeast and the Tennessee Valley, the pace of electrification, and the on shoring of manufacturing means that TVA will need more generation than presently under construction, and that will take time to build. There will be a period of a few years in which large new loads will have to agree to interrupt their operations, if the system conditions require it, to protect the power supply to existing customer loads. This is known as the TVA Reliable Growth Plan.

For MLGW, ensuring we have sufficient, reliable power for all our customers, and enabling new, large-use customers to be served without interruption in the near term is critical to continuing economic development in our area. In 2024, MLGW

will begin the engineering necessary for the installation of up to 100MW of battery storage in the distribution system, which will provide an additional hedge of energy for the system.

Additionally, MLGW is allocating \$120M of funding in 2024 to secure aeroderivative turbine electric generators, generating more than 30MW per unit as a back up to the existing power system. Both measures will allow new, large customers like manufacturing firms to come onto MLGW's system without being subject to interruptions.

Continued inflationary pressure on the cost of goods and services, the addition of more personnel, and critical investments in grid modernization, electric generation and storage necessitates an acceleration of previously forecast electric rate increases. What was previously a 10.5% increase over three years starting in 2025 is now proposed as a 12% increase over three years starting in 2024. The customer impact will be about \$5 per month for electric service, with no increase in rates for gas and water. Despite this change, and even with the transformative investments we will be making, the customer impact will be about \$5 per month for electric service, with no increase in rates for gas and water, and our rates will remain among the most affordable and competitive in the nation.

I hope that when we bring this budget forward to you on October 18th for formal consideration that we can get your full support, and then full support from Memphis City Council.