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2020 Electric Budget and Rate Plan Alternative

(Including Infrastructure & Power Supply Financing Update)

January 21, 2020

(All dollars in Thousands unless otherwise noted)

** The numbers presented exclude all non-cash Pension and OPEB expense related to GASB 68 and GASB 75.*

Electric Rate Alternative Proposal Summary

(In accordance with MLGW Board action on 12/18/19)

- Reduces the July 2020 increase and increases the 2021 to achieve similar financial requirements and service improvement results.

Alternative Proposal		2020	2021	2022	2023	2024	Total
Average Residential Bill Impact							
Electric		\$3.70	\$3.36	\$1.92	\$0.00	\$0.00	\$8.98
Division Revenue Request							
Electric		3.0%	2.7%	1.5%	0.0%	0.0%	7.2%

Item #22

Original Proposal		2020	2021	2022	2023	2024	Total
Average Residential Bill Impact							
Electric		\$5.19	\$1.89	\$1.92	\$0.00	\$0.00	\$9.00
Division Revenue Request							
Electric		4.2%	1.5%	1.5%	0.0%	0.0%	7.2%

- The 2020 increase would be effective in July. All other rate increases effective in January of the effective year.
- The overall rate request is smaller than the 2019 request and provides greater customer value.

Electric Budget Summary and Projections

Category (\$000s)	2020B	2021P	2022P	2023P	2024P
Operating Revenue	\$1,305,691	\$1,360,426	\$1,382,632	\$1,384,681	\$1,386,733
O&M Expense	\$223,978	\$229,648	\$232,954	\$237,682	\$238,044
Purchased Power and Gas	\$1,023,188	\$1,023,188	\$1,023,188	\$1,023,188	\$1,023,188
Depreciation & Amortization	\$60,878	\$63,922	\$67,118	\$70,474	\$73,998
PILOT & Taxes	\$49,894	\$55,353	\$58,084	\$60,950	\$63,959
Total Operating Expense	\$1,357,938	\$1,372,111	\$1,381,344	\$1,392,294	\$1,399,189
Other Income	\$39,968	\$40,319	\$40,674	\$41,032	\$41,394
Debt Expense	\$10,569	\$10,408	\$14,845	\$14,265	\$13,631
Change in Net Position	(\$22,848)*	\$18,226	\$27,117	\$19,153	\$15,304
** Total Capital Expenditures	\$109,974	\$120,487	\$156,311	\$143,571	\$107,659
Total Operating & Capital Budgets	\$1,467,912	\$1,492,598	\$1,537,655	\$1,535,865	\$1,506,848

*** Due to July implementation and reduced rate increase. **Five year CapEx total of \$638 million.**



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Financing for Short-Term Infrastructure Projects

VS

Long-Term Power Supply Needs

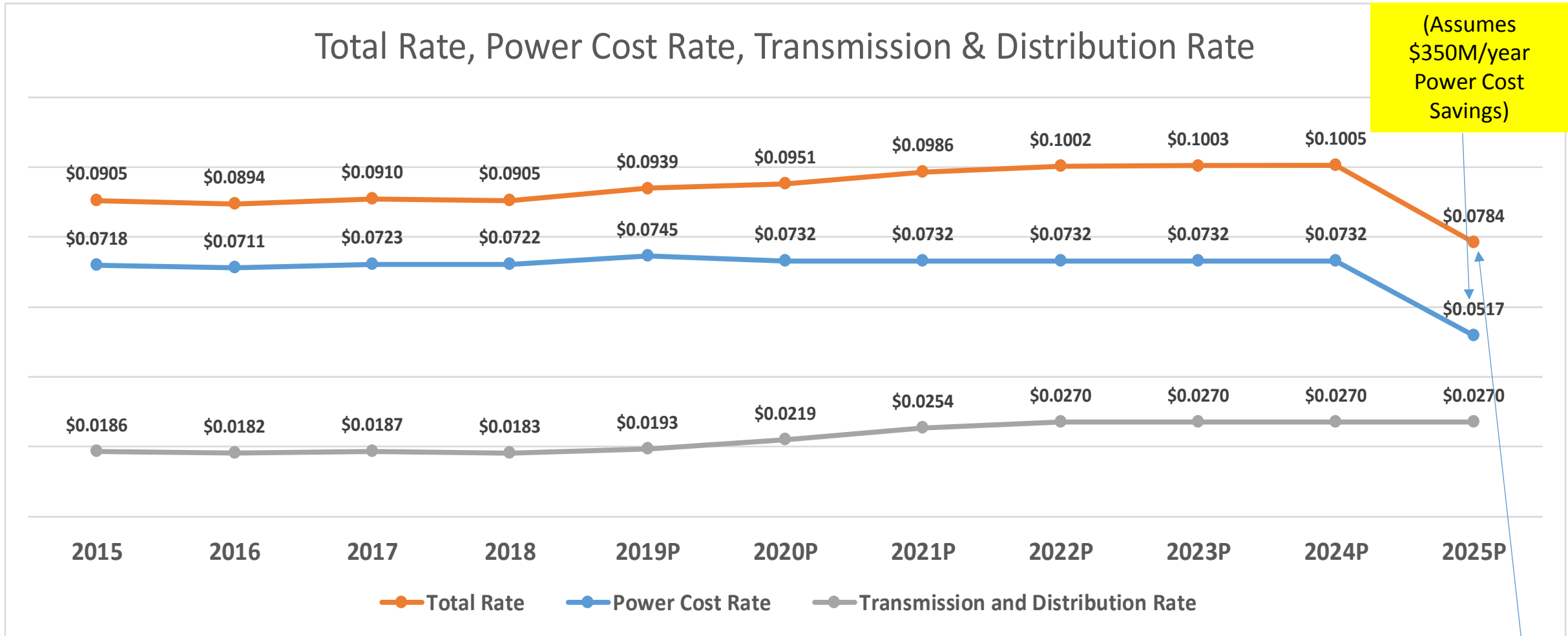
Accounting and Rates for Infrastructure and Power Supply

- The Electric Division capital improvements in our plan pertain to the installation and/or upgrades of Substation and Distribution (S&D) equipment. Such equipment is accounted for separately from any assets related to Generation and/or Power Production (MLGW does not currently own or operate any Generating plants).
- MLGW's current rate setting process distinguishes between our S&D costs and our wholesale cost for TVA Purchased Power.
- This electric rate request and plan are related to the S&D system. It does *not* include any facilities that we would have to install in order to change power suppliers.
- The rates and wholesale costs for our power supply are automatically passed through to customers whether it goes up or down and we contemplate that this would continue into the future regardless of how the future power supply needs are met.

Power Cost Pass-Through History & *Illustrative* Projections

Total Rate, Power Cost Rate, Transmission & Distribution Rate

(Assumes \$350M/year Power Cost Savings)



*When power cost savings are realized, the affect will be passed through to customers via total rate.

Consolidation of S&D Infrastructure & Power Supply Financing

- Councilman Warren asked about the possibility of MLGW borrowing all the capital funding requirements and deferring debt service until potential power supply savings were realized. This was based on information contained in a slide deck provided by a financing entity.
- This debt service deferral period was assumed to be five years because MLGW's TVA power supply contract notice period is five years.
- The TVA contract notice period of five years is a minimum, and it is possible that any potential savings from a power supply switch may take more than five years to be realized.

Consolidating Infrastructure & Power Supply Debt is Inappropriate

- Our capital Substation and Distribution projects are relatively short-term and discrete (~3-18 months each). Power supply infrastructure investments would likely be much longer (~3-5 years or more).
- The assumed debt service deferral period of five years would violate State Law (Revenue Bond Law [TCA 7-34-101] and Local Government Public Obligations Act [TCA 9-21-101]) for the proposed S&D projects.
- The assumed debt service deferral period of five years would also violate Federal Law [Section 1.148-6(d)(3)(ii)(3) of the Internal Revenue Code] for municipal tax-exempt bonds for the proposed S&D Projects.
- Any “kicking the can down the road” financing arrangement related to the proposed S&D projects will cost customers more and will be looked upon unfavorably by the Rating Agencies.
- Even if MLGW could participate in the alternative financing proposal as stated, the deferral of debt service would cost customers an additional **\$197.3 million** due to the timeframe limitations of our projects vs. the 5-year timeframe assumed.

In Closing...

- Our Electric Division Budget and Service Improvement Plan (Item #22) includes **\$638** million for urgently needed, discrete project improvements on our system and its increased maintenance spending over the next 5-years funded in part by internal savings, debt and rate increases.
- 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 across the three divisions.
- Our alternative proposal provides a reduction in the magnitude of requested rate increase for 2020.
- Consolidating debt for Distribution/Substation improvements & Power Supply investments is *not* appropriate.
- Monthly or quarterly progress updates on projects and efficiencies will be made and posted electronically.
- ***“Neglecting the essential system is no longer an option – **serious failures** are on the brink of occurring at an increasingly rapid pace and schedule. The ability to successfully apply temporary repairs rather than permanent fixes diminishes significantly with each passing day.”*** (Source: Part 2 – The MLGW Way...Forward – October 21,2019 – HDR Engineering)



Questions?



Appendix

Sources and Uses Comparison

Electric Division Sources and Uses:	Alternative	Original	No Increase
Sources:			
Change in Net Position	\$56,848	\$64,957	(\$340,070)
Depreciation & Amortization	\$326,350	\$326,350	\$326,350
Debt Issuance	\$326,000	\$320,000	\$630,000
Total Sources	\$709,198	\$711,307	\$616,280
Uses:			
Capital Expenditures	\$638,001	\$638,001	\$638,001
Retirement of Debt	\$69,042	\$68,373	\$98,771
Total Uses	\$707,044	\$706,374	\$736,772
Increase (Decrease) in Working Capital	\$2,155	\$4,933	(\$120,492)

Summary recommendations from HDR Engineering report

*“Major investments in infrastructure rehabilitation, renewal and replacement were limited by the desire to keep rates at or below industry averages...However, the result of deferred investment on infrastructure renewal and replacement in the aging systems has now created **urgent** needs for investment to meet MLGW’s continued reliable utility service.”*

*“This report recommends taking **immediate** action to begin implementing improvements to the systems...If the Board and City are unwilling to accept such investments, many important projects and programs will be deferred. Doing so will almost certainly result in infrastructure failures, an increase to the overall implementation cost and ever more likelihood of a failure that could result in serious consequences for residents, customers and businesses...”*

*“Neglecting the essential system is no longer an option – **serious failures** are on the brink of occurring at an increasingly rapid pace and schedule. The ability to successfully apply temporary repairs rather than permanent fixes diminishes significantly with each passing day.”*

Source: Part 2 – The MLGW Way...Forward – October 21,2019 – HDR Engineering