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July 1, 2023_

VIA EMAIL

The Honorable JB Smiley, Jr.
Memphis City Council
Super District 8-1

Dear Councilman Smiley,

Thank you for your letter with your additional questions. We appreciate the opportunity to assist Mayor Strickland and City Council in understanding a very complicated process and analyses. Please see EnerVision's response to each of your questions beginning on the following page of this letter.

We hope that our answers satisfy your questions. Please let us know if there is anything else you may require. You can contact me at 678-910-1122 (mobile) or elaine.johns@enervision-inc.com (email).

Best wishes for a great July 4th celebration and a quick recovery from the recent storms.

Sincerely,

A handwritten signature in black ink that reads "Elaine Johns".

Elaine Johns
President/CEO
EnerVision, Inc.

cc: Ms. Mary Ellen Cole, Partner, EnerVision, Inc.
All City Council
Mayor Jim Strickland

EnerVision's Responses to Councilman JB Smiley's Letter Dated June 21, 2023

1. In your report, you referenced that you had difficulty getting Memphis Light, Gas and Water to supply all necessary backup information to allow you to properly evaluate the bid conclusions reached by MLGW/GDS. Question: is there still information you have requested that has still not been provided? At the meeting, Mr. McGowen seemed to imply that MLGW would not turn over data detailing the estimated \$327 million of higher cost because they are “internal working papers.”

EnerVision's answer: EnerVision did not receive GDS' Transmission scorecards or MLGW's “engineering review” which resulted in the \$327 million transmission cost increase. MLGW has since indicated that no specific “engineering review” document exists, and that the transmission costs were a culmination of discussions and various calculations (“internal working papers”). EnerVision has not received supporting data for the line-item transmission costs outlined by MLGW.

2. Has EnerVision ever seen a public utility elsewhere use “the internal working papers” rationale or a similar justification to without data from the public?

EnerVision's answer: It is common to rely on internal book values and calculations for financial reports; however, it is unclear why this would hinder the availability of more granular detail upon further request. We expected that such significant cost changes be specifically documented and readily available.

3. In your opinion, is this information essential to your analysis and are you aware of any reason why this information should not be made available to you and/or the public?

EnerVision's answer: EnerVision's estimated savings include the \$327 million transmission cost increase. MLGW's engineering review was essential for EnerVision to be able to fully validate the estimated transmission costs. Since EnerVision was not able to validate the costs, our analysis was limited to assuming that the \$327 million was reasonable and necessary. EnerVision is not aware why the engineering review could not be shared for the purposes of our assessment.

4. Are there companies that will build and manage transmission lines/gas/other energy producing plants for Memphis and in turn lease these lines or plants, preventing the city from needing to go into debt? Is it not a fact that GDS even suggested this as a preferred option?

EnerVision's answer: Yes, various companies can build, manage, and lease the transmission lines/gas/other energy producing plants on behalf of Memphis. Since those third-party companies are the owners, they would have the responsibility of ongoing maintenance and regulatory compliance, which is not a small undertaking. On the other hand, MLGW would be paying for transmission service and, as GDS stated, would not receive MISO rate of return on the transmission assets.

GDS noted in a Commercial Appeal article on March 31, 2021, to “focus on finding companies that would build and operate the natural gas plants and the transmission lines and Memphis would lease the assets. He [Dawson] said this approach would allow MLGW to take on less debt.”¹ However, in its June 9, 2022, MLGW RFP Update Presentation,² GDS provided its perspective of why ownership was in the best interest of MLGW: 1.) Because MLGW's cost of financing is lower than what a third party would charge to own, operate, and maintain the transmission facilities, and transmission owners in MISO earn a rate of return which is projected as higher than MLGW's borrowing cost, and 2.) Owning the transmission keeps MLGW's options open to future alternate power suppliers.

Both options have merit, which is why EnerVision's recommendation is to receive bids for this type of service (leasing) in addition to the arrangement outlined in the RFPs (own) to evaluate both options side-by-side with real market information. The “right” answer may be somewhere in between.

5. In your opinion, did the RFP allow this kind of solution to be considered?

EnerVision's answer: The Transmission RFP sought only proposals for building transmission. The Renewables & Other RFP technically allowed for all other solutions which included third-party transmission ownership and leasing.

¹ “MLGW sends Memphis power supply bidding contract back to City Council. The bidding could start this spring”, March 31, 2021, Samuel Hardiman, Memphis Commercial Appeal, <https://www.commercialappeal.com/story/news/2021/03/31/mlgw-power-supply-bid-out-tennessee-valley-authority/4818803001/>

² “RFP Broadcast” June 9, 2022, <https://www.youtube.com/live/fYbXjG9OHac?feature=share>

6. Were TVA transmission costs detailed in the RFP analysis?

EnerVision's answer: Yes, both EnerVision and GDS estimated TVA transmission costs in the RFP analyses.

7. Page 32 of your report says EnerVision did not receive completed scorecards for the transmission RFP from GDS. Have you still not received the completed scorecards? Could this make a difference in your analysis?

EnerVision's answer: We did not receive completed Transmission scorecards. We do not believe this would change the results of our report; however, the scorecards were a part of our purpose to validate the GDS process; it was our charge to opine GDS' process. We received many of the GDS documents for validation late in our process; we did have access to the Transmission costs and scope from the bids, but not the scorecards.

8. What documents from NERC "reliability standards and compliance requirements" did MLGW or GDS provide to support their position that MLGW has a \$54.7 million obligation to reimburse TVA for Allen switchyard changes? Does EnerVision agree that NERC's regulations require this?

EnerVision's answer: EnerVision did not receive any documents supporting the charge for MLGW reimbursing TVA for the Allen switchyard changes; thus, we could not make an assessment.

9. Is it possible that after reviewing the information from the eight questions above, that you may conclude that the actual savings could be higher than the minimum of the \$49 million per year that you projected?

EnerVision's answer: Yes, it is possible that the actuals savings could be higher than \$49 million per year considering today's natural gas prices and forecast.

10. Please describe what you mean by the following statements:

- "Bidders must be confident that MLGW intends to execute a contract given a viable alternate solution, otherwise they may not dedicate time and effort to provide meaningful bids to future RFPs."

EnerVision's answer: A power supply bid for 100% load requirements is no small task to assemble and can be hundreds of pages long. Potential bidders will not want to put in the effort to respond to an RFP if they do not believe they have a reasonable chance of winning a contract. This RFP process and evaluation generated a fair amount of skepticism. Some seemed to believe the process was just an "exercise," which could deter potential future bidders.

- "...the Transmission RFP should be revised to fit the transmission needs required by the power supply options, not necessarily defined for MLGW ownership and open to alternative transmission solutions."

EnerVision's answer: A transmission solution should align with the generation solutions offered by the market. MLGW transmission ownership may or may not be the best option.

- "The limited number of(thermal) responses triggers concern on whether the RFP should be re-evaluated and/or reconstructed to encourage more competitive options for consideration."

EnerVision's answer: MLGW received only three bids in response to their Thermal RFP. In our experience, this number seems low for a Thermal RFP and should indicate to MLGW to re-evaluate their approach.

11. Considering today's environment, not that of six months ago, when gas prices were much higher and the National Energy Act had not been passed by Congress, is it possible that Memphis could realize significantly more than the minimum \$49 million a year minimum savings you projected, particularly if we had a more open and inviting RFP?

EnerVision's answer: It is possible that Memphis could realize more savings than \$49 million per year, especially with lower natural gas prices and forecasts with RFPs. The renewal of the federal tax credits should provide additional savings on any renewable portions of an RFP. In addition, the recent influx of federal grant opportunities should be attractive to bidders with MLGW benefiting. However, we cannot say that there certainly would be additional savings.

12. If the RFP was restructured to be more open and transparent, is it possible and/or probable that there would be more bidders who could drive savings even higher?

EnerVision's answer: Certainly, a more open and transparent RFP process could attract more bidders which would likely be in MLGW's favor. Again, we cannot guarantee if savings will increase given the many factors impacting costs.

13. Since the data that was relied upon in last RFP came from a four-year-old assumptions pre Covid, do you think a new RFP is now appropriate and do you see any disadvantages to doing an RFP at this time?

EnerVision's answer: A new RFP would provide updated market pricing and utilize a refreshed natural gas price forecast which could very well be appropriate to pursue. However, an RFP can take significant time and resources, so it is appropriate to define a clear process and all necessary assumptions before releasing a new RFP.

14. If MLGW was unwilling to do an RFP at this time, is there anything else that could be done to test the range of savings that could be obtained in today's market environment and find a better idea of true costs of transmissions?

EnerVision's answer: Conducting an RFI (Request for Information) or a Wholesale Power Market Study could be good alternatives to performing a formal RFP. An RFI is strictly intended to provide market intelligence; such process is shorter than a formal RFP, requiring less resources and time. The market will be asked to provide enough data for MLGW to understand possible future outcomes yet will understand that a transaction may not be executed. If results are attractive, MLGW could shortlist the proposals and enter into detailed discussions with the shortlisted bidders. An RFI is a good indicator of how current forecasted market conditions compare to forecasted TVA costs.

A Wholesale Power Market Study relies on publicly filed wholesale power transactions by surrounding utilities and power marketers. This Study gives an indication of current and past wholesale power transactions surrounding Memphis, it provides competitive intelligence to current situation, though, not necessarily future.

15. Having had the opportunity to look back on the RFP process, what are the most important changes you would recommend that would improve the process next time?

EnerVision's answer: EnerVision would recommend a process conducted that is clear, succinct, and less restrictive. This will expedite results and allow MLGW to receive market-driven solutions. Another key aspect is transparency with the City, customers and community. This will instill greater trust in the process, allowing MLGW to determine what it feels is best for its customers. Lastly, any evaluation must be consistently comparative (apples-to-apples) to reach fair and legitimate results. All bids should incorporate the same assumptions dated on the same day and time. Specifically, consistency to such assumptions as natural gas price forecasts, MISO capacity rate forecasts, interest rates and such are essential for consistent comparisons when conducting economic analyses.