

PRESS RELEASE

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MPW Staff Present 2021 Operating Budgets, Address Customer Input on Power Supply

At the October meeting, the Muscatine Power and Water Board of Trustees received feedback from a small number of customers about recently announced plans for transitioning away from coal for their power generation needs. Customers applauded MPW for their recommendations to retire coal units and expand their renewable energy portfolio. They also made comments and requested consideration about the potential option to construct a combined heat and power (CHP) gas-fired unit.

At this meeting, the Board also reviewed the Utility's 2021 Operating Budgets and 10-Year Financial Projections (2021-2030) for the Electric, Water and Communications Utilities.

The Budgets show expenses maintaining at recent years' levels to complete large maintenance projects and fund major capital projects to support community betterment, as well as investments in system reliability.

"The 2021 budget assumptions are designed to meet the growing needs of the community at the lowest possible cost, support our strategic plan and achieve financial targets," said General Manager Gage Huston. "The budgets reflect ongoing efforts to keep expenses at adequate levels while still maintaining our core values of safety, customer service and reliability. Our Electric and Water utilities plan significant capital improvement investments aimed at maintaining long-term reliability and improving the customer experience. The Communications Utility is nearly finished with the Fiber to the Home (FTTH) project, so capital expenditures will be lower but still necessary at levels to ensure infrastructure continues to support customer demand. The great part is that MPW is able to make these large investments while still forecasting very modest rate adjustments."

The 2021 Budget includes these major utility projects:

Electric Utility

- Line 106 161 kV Transmission Line Design and Construction – This multi-year project will construct a new, northern route 161 kV transmission line to supplement two current high voltage transmission lines that route to the south of Muscatine, providing operational flexibility and enhanced system reliability. This investment in infrastructure will ensure electric service reliability for decades. Total project cost, including line design, engineering fees and construction is budgeted at \$17.3 million with \$13.4 million budgeted in 2021. MPW is partnering and cost-sharing this project with Central Iowa Power Cooperative (CIPCO) of Des Moines, who is covering an extension of MPW's portion of the line at no additional cost to Muscatine. Construction is scheduled to begin in 2021.
- City of Muscatine Corridor Revitalization Projects – The Electric Utility will participate in and support the City's multi-year corridor projects for Grandview Avenue and Park Avenue. Capital expenditures for the Grandview Avenue Project total \$990,000, with \$751,000 budgeted for 2021, to move electric services underground and replace traffic signals and streetlights. Another \$149,100 has been budgeted in 2021 to support traffic signal upgrades for Park Avenue, with a total project cost of \$301,300.

Water Utility

- West Hill Project – In conjunction with the City of Muscatine's West Hill Sewer Separation Project, the Water Utility evaluates the condition, and replaces as necessary, aging water infrastructure. A total of \$232,000 has been included in the 2021 budget to install new water main, minimizing potential main breaks and saving restoration costs in the future.
- West Hill Pumping Station Upgrade – The original 1965 electrical components will be replaced with a new 480-volt motor control center and electrical service, improving the reliability of the pumping station. Total cost budgeted – \$443,000.
- City of Muscatine Corridor Revitalization Project – As part of the Grandview Avenue Project, the Water Utility will upgrade water distribution system components and water main alignments. When completed, approximately 16 valves and 8 fire hydrants will be replaced. To complete this project, a little over \$130k has been budgeted for 2021. Total project cost — \$245,700.

Communications Utility

- FTTH – This substantial investment honors the 1997 voter mandate of having state-of-the-art communications services and enhances Muscatine's competitiveness to attract business and industry as well as the quality of life for current residents. Expenditures for completion of the project in 2021 are budgeted at \$479,400.

Shared Services

- Customer Information/Billing System (CIS) – The current billing system has been in place for 25+ years and will no longer be supported by the developer. A new, robust CIS system is vital to maintain the reliability of our operations and will offer an enhanced customer experience. Planned expenditures for the CIS Project total

\$2.2 million with \$1.4 million budgeted for 2021. MPW currently provides billing and collection services for the City of Muscatine for sewer and sanitation charges for a small fee. City staff have and will continue to be engaged to determine their interest in continuing to have MPW provide this service at adjusted rates.

A 10-year financial projection was also given to the Trustees for review at Tuesday's meeting. Utility staff laid out a comprehensive plan of major infrastructure projects and enhanced service offerings for Muscatine community residents in the coming years.

"Looking ahead several years gives the Utility, and ultimately our customers, a vision for how MPW is investing in our community's future for continued growth and prosperity," said Huston. "Our goal is to have utility rates below state and national averages wherever possible, while benefiting from high service reliability delivered with outstanding local customer service."

Electric Utility

With completion of a power supply study earlier in the year, the Electric Utility 10-year projection reflects future changes for MPW's generating units. Units 7, 8, and 8A (Plant 1) are assumed to be retired in 2022, with decommissioning costs included in the planning period. Thirty megawatts (30 MW) of photovoltaic solar generation is assumed to be added in 2023. And finally, Unit 9 is assumed to run through the entire planning period, while MPW continues to evaluate feasibility and costs for its replacement with a combined heat and power (CHP) natural gas unit. If MPW moves forward with a CHP unit, Unit 9 would be retired completing the Utility's transition from coal-fired power generation.

Capital expenditures total \$120 million through 2030, driven by transmission and substation costs for Line 106 and to accommodate Plant 1 retirement and solar generation resource additions and environmental compliance projects (effluent limit guidelines and cooling water intake modifications) for Unit 9.

Although \$120 million is a significant number, these types of expenditures are expected in the capital-intensive energy industry. These investments, like a similar \$250 million investment to build Unit 9 in the late 1970s, position MPW to meet the community's energy needs reliably and as cost effectively as possible for decades to come. With this investment, and prior to making a decision about a possible CHP unit, the Electric Utility is projected to remain debt free through the 10-year projection period with rate adjustments slightly higher than the 2% planned in last year's projection (increasing to 3.2% through 2030). Rates are projected to remain competitive with state and national averages.

Water Utility

The 10-year projection for the Water Utility is like those of the previous years. The utility's revenues deliver a margin preserved by annual rate increases implemented over the past several years. For the 10-year planning period, annual rate adjustments between 2% and 4% are projected and will be fine-tuned upon completion of a Cost of Service Study. MPW's water rates continue to benchmark favorably, even with the anticipated increases.

Capital expenditures are budgeted for \$2.3 million in 2021 and then average \$2.0 million per year the rest of the planning period. No future borrowing is anticipated in the 10-year projection.

Communications Utility

The Communications Utility will be completing its multi-year FTTH Project in 1Q2021. The utility shows a healthy annual operating margin; however, due to the significant capital investment for the FTTH project, depreciation expenses drive net income negative in 2021 before rebounding to positive net income 2022-2030. End-of-Year cash balance averages \$6.2 million over the planning period.

Rates of video (cable TV) services continue to be driven primarily by drastic increases demanded by programmers, including popular cable and local networks. MPW works very hard to negotiate programming increases at the lowest possible cost, but programmers continue to demand large increases at the expense of customers. Despite these continued rate increases from content providers, communications services remain competitive. Their value is further enhanced by the local customer services MPW offers. Pricing for internet and phone services is expected to remain stable.

Capital expenditures average \$1.6 million for the planning period based on projects including the completion of the FTTH project, normal replacement of equipment and infrastructure, and replacement of the customer information/billing system. The bond refinancing in 2020 and a final planned refinancing in January 2021 are scheduled to be paid off in 2027 and no additional borrowing is anticipated in the forecast.

“As a not-for-profit organization, all income generated from consumers and outside revenue streams is reinvested into infrastructure and operations, as well as capital improvement projects outlined in the 10-year projection,” said Director of Finance and Administrative Services, Mark Roberts. “These efforts provide for community betterment now, but also serve to minimize financial disruptions when possible emergency maintenance costs arise.”

Staff provided an update on the FTTH Project. The project is on track for a final completion in 1Q2021. “As of today, we have just over 80% of customers installed on the new fiber system with less than 2,000 customers remaining to be converted. We anticipate installs completing in early first quarter and the project will come in on budget with no additional requests for a budget increase. It’s taken a long time, but we feel very good about where we are,” stated Erika Cox, Director of Customer and Technology Experience.

In other Board action:

- A public meeting for the 2020 Annual Operating Budgets was set for November 19, 2020 at 5:28 p.m.
- The 10-year Financial Projections were received and placed on file.

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Muscatine Power and Water (MPW) is a customer-driven, not-for-profit municipal utility, established by the community for the purpose of serving the community responsively, competitively, and responsibly. MPW provides reliable electricity, high quality water, and state-of-the-art communications services, including internet, video and phone services, to homes and businesses throughout the Muscatine community at rates below state and national averages with outstanding customer service. MPW is locally controlled and operated for the benefit and betterment of the community.