Magellan – In The Know: Episode 47

Data Centers and Beyond: WEC Energy powering regional US growth

Announcement (00:00):

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Host (00:16):

This is In The Know, a monthly investment podcast brought to you by Magellan Asset Management.

Gale Klappa (00:20):

Not all data centres are alike, but what we're seeing now is an explosion of data centre construction to support the expanded consumer applications for AI. To give you an example, one data inquiry that you might make through your PC using AI requires so much more computational capacity and ability, that basically to support that, that one inquiry using AI requires 10 times more electricity than just going on Google today and looking up, "Where's Milwaukee, Wisconsin?" for example.

Host (00:56):

That's Gale Klappa, the chairman of America's WEC Energy Group, one of the country's most important utilities, spelling out the extraordinary opportunity in electricity demand emerging in the US. Welcome to Magellan In The know. In this episode, Gale Klappa is in discussion with Magellan portfolio manager, Jowell Amores, and Jim Paetsch, the vice president of Milwaukee 7, a regional economic development entity in the state of Wisconsin. Together they explore the anticipated transformation of the power utility sector and its critical role for industry giants like Microsoft and other hyperscale companies empowering their operations. It's an enlightening conversation about the future of power generation and the opportunity it presents for investors. But first, here's a warm welcome from Jowell Amores.

Jowell Amores (01:55):

Welcome to our podcast, Magellan In The Know. I'm Jowell Amores, one of the portfolio managers in the infrastructure team here at Magellan. I'm joined by Gale Klappa, who makes his second appearance on our podcast. Gale is chairman of WEC Energy, one of the largest investor-owned utilities in the US, serving gas and electric customers across Wisconsin, Illinois, Michigan, and Minnesota. Welcome back, Gale, and thanks for making the time.

Gale Klappa (02:20):

Delighted to be here.

Jowell Amores (02:22):

Our other guest today is Jim Paetsch, who is the executive director of M7, which is the economic development agency responsible for the southeastern section of Wisconsin. Jim oversees the agency's efforts in engaging with and attracting new companies to establish themselves in the region. I'm sure I

haven't done much justice to M7, so, Jim, can you briefly tell our audience a bit more about the organisation?

Jim Paetsch (02:46):

Yeah, happy to Jowell, and thanks so much for the invite to join you and Gale here today. Milwaukee 7, we're a regional economic development entity that serves all of southeastern Wisconsin. We're very creative. The 7 in our name to the seven counties that comprise the region, so it's the city of Milwaukee, then all of the adjacent surrounding areas. So a lot of different things that M7 does, but really the fastball for the organisation, and it's been true since we were founded in 2005, it's corporate attraction and expansion. It's not future land stuff. It's thinking about companies that are what we call locationally active, so they are in the marketplace thinking about where they're going to place jobs and capital investment. We want to compete for as many of those deals as we can, and ultimately, it's about winning.

Jowell Amores (03:31):

Thanks, Jim. Thanks for joining us and making the time as well. Now, the reason why we've invited Gale back onto the podcast is to talk about the resurgence of investor interest in the US regulated utility space, which appears to be at the start of a super cycle of growth. Now, this is being driven by the projected growth in electricity demand, which has been largely flat over the last two decades, but is estimated or at least projected to increase by 80% by 2050. Now, data centres, many have heard, have generated most of this attention. But what's been overlooked has been the other sources of growth, and that is the return of manufacturing in the US and electrification, companies and states and the country looking to hit net zero targets. Now, these mega trends are driving demand growth, which equates to earnings growth for the regulated utilities that we're invested in.

(04:22):

Now, why is this important for our investors? Well, we think it's important to point out there are different ways to benefit from the growth in AI and data centres and, perhaps more importantly, benefit from other growth drivers in the space, all with a low-risk approach. Also wanted to substantiate this growth for our audience. Our infrastructure strategy is invested in US regulated utilities, as I mentioned, and these are expected to grow earnings by 6% to 8% per annum and grow dividends at the same rate, at least over the next five years. Maybe we start off with Gale here. Now, Gale, there's a corridor in WEC's service territory. It's called the I94 corridor. Could you tell our listeners a bit about this corridor? What is it? Why is it so important, and what makes it so unique for the company and the region?

Gale Klappa (05:08):

I'd be delighted to, Jowell, and thank you again for having us. Just to maybe put together a verbal picture for all of our listeners, there's a stretch of interstate highway which we call the I94 corridor. It spans about 45 miles from the city of Milwaukee to the Illinois state line. That area, if you look back in history, historically had been farmland and smaller residential communities. Those communities and much of that farmland sit along the shores of Lake Michigan. The area also has modern infrastructure now and great access to airports: to the south, O'Hare International Airport, to the north, Mitchell International Airport here in Milwaukee. The region also has really great access to world-class universities and to technical colleges. With all of that put together, the resources, the infrastructure, the availability of land, with all of that put together, this area literally has become one of the hottest growth areas for investment by industrial companies and large commercial companies, one of the hottest growth areas literally in the United States. I hope that helps to paint a picture for you, Jowell.

Jowell Amores (06:19):

Yeah, it does. Thanks, Gale. Maybe switching over to Jim. Jim, you've been one of the architects for the development of this particular area. What did you envision? What was your mandate under M7?

Jim Paetsch (06:31):

Sure. Any number of different things that we look at, but at the end of the day, what we're really interested in doing, Jowell, is we're interested in finding locations for companies that make sense, so we look at the core assets all around the region. As Gale mentioned, the I94 corridor essentially connects us to Chicago. So you've got all the assets that are there that Gale mentioned.

(06:52):

But the other really important one is workforce. So if you put together the concentration of talent that you have, and especially for manufacturing talent, so for us, we're looking at, on the white collar side, a lot of engineering talent, technical talent. Then given the manufacturing pedigree that we have in this region that we've had for a century that still is very strong today, we're also looking at technical talent that would be on a production floor. So especially for companies that are looking for scale in labour, that's an area where not only can you draw workforce from the Milwaukee area and that corridor, but you can also draw labour up from northeastern Illinois.

(07:31):

That corridor, we sort of think about it, as we thought strategically about this back in the late 2000s, essentially it's a play to draw us closer to Chicago. So if you look at southeastern Wisconsin, we're a place of scale. We have about two million people that reside here. But then you look at Chicago, big global mega city just to our south, we often joke they're our favourite southern suburb, but they've got about nine million people. So when you put the two together, you're talking about really a mega-region. That corridor is where we have seen a lot of that start to play out.

Gale Klappa (08:06):

Jowell, just to add on to something important that Jim said, a number of years ago, the United [inaudible 00:08:12] Study, which kind of forecast years ahead to what would become the next major super cities in the world, and this corridor connecting Milwaukee and Chicago was really identified as one of the most highest potential to become the next super city in the world, again, because of all of the attributes that Jim mentioned to you and the tremendous access that we have to both population to universities and to talent.

Jowell Amores (08:39):

Fantastic. Now, maybe if we get into the drivers of growth in electricity, WEC seems to be the beneficiary of all those drivers that I've mentioned. Maybe we start off with the main one, and that being data centres. So data centres are expected to drive about 50% of the long-term growth for US electricity demand. We've heard a lot about them, but some of our listeners may not actually know what these facilities look like. Can you describe it for us? Give us a sense of the size of the facilities.

Gale Klappa (09:11):

I think probably the easiest way, Jowell, to answer that question is to use the word huge. They're tremendously long, not high in terms of number of floors but three or four floors, longer than several football fields. These data centres are packed with servers and chips. They basically become computational buildings that support access, that support data, that support searches.

(09:37):

I think, Jowell, and actually someone was asking me this just the other day, why is data centre demand so different today in terms of the need for electricity than, say, the data centres that were built even

five years ago? Not all data centres are alike, but what we're seeing now is an explosion of data centre construction to support the expanded consumer applications for AI. To give you an example, one data inquiry that you might make through your PC using AI requires so much more computational capacity and ability, that basically to support that, that one inquiry using AI requires 10 times more electricity than just going on Google today and looking up, "Where's Milwaukee, Wisconsin?" for example. So that, I think, puts it in stark contrast, that the expanded consumer and business use of AI really drives tremendous computational requirements and, therefore, much greater demand for electricity.

Jowell Amores (10:42):

Jim, when you spoke with Microsoft in attracting them to the area, what were the key ingredients or elements they needed for a data centre? What are the developers looking for?

Jim Paetsch (10:53):

There's any number of different factors. There's probably no site in the country that can check every last box, but we're trying to check as many possible boxes as we can, whether it's a data centre, whether it's an advanced manufacturer, or for that matter, if it's a financial services company. So certainly the power, that's something that there's timing risk if we don't have the power available or if we don't have a pathway to deliver that power. So that's certainly an important component of things that Microsoft looked at.

(11:22):

Another factor that's really important, if you think about something of this scale, so Gale had given you a hint here of how large this is going to be. Microsoft owns about 1,350 acres today in Mount Pleasant, which is a suburb of Milwaukee, and the site matters. It's not something where we can go to a company and say, "Well, if I can line up four different owners and if I can get this guy to sell who maybe hasn't shown an interest in selling in the past, then maybe I have a project." Companies see risk when they hear that. So for us to be able to secure a mega project like this, a hyperscale data centre of the scale that Microsoft is planning, we have to have the ability to deliver the land site. It's super important.

(12:06):

Another factor I think that's important... Microsoft, Brad Smith was here with President Biden last month to announce the scale of some of the things that they were talking about. One of the things that Brad mentioned was that this will employ 2,000 people. These are terrific jobs within the data centre. There's a **Host** of different functions and occupations that we would expect them to have. But the bottom line is recruiting 2,000 people is not easy. That's not just true of a data centre. That's going to be true of any kind of operation. So they have to be convinced that we can find the labour. We can either draw people from outside our region to take these jobs, or much more likely, we can train up our workforce so that they're qualified and prepared to take jobs with a company like Microsoft.

(12:51):

The last thing I'll say that I think was pretty important to Microsoft was just the general business climate. Wisconsin recently enacted a sales tax exemption for equipment that goes in data centres. It's going to be important not just to a company like Microsoft but pretty much any of the hyperscalers. The fact that we had that incentive in place, I think that really spurs development. It's all those things put together and some other things, too. But I think those were probably, Jowell, the primary factors that drove that location decision.

Jowell Amores (13:21):

I've seen it myself personally, and I think huge is an understatement even to that extent. Now, bringing in the likes of the Microsoft or any of these large developers into an area is certainly a massive

challenge, but one might argue that actually servicing the data centre is just as big of a challenge. Gale, when you think about the requirements of the data centre, both from an electricity standpoint and from an infrastructure standpoint, how does WEC approach this challenge? What are the actual challenges?

Gale Klappa (13:54):

I think, Jowell, you can wrap up the actual challenge really in one word. In our conversation, which has been ongoing on a very regular basis multiple times a week with Microsoft, our conversations all revolve around reliability. The reliability requirements that Microsoft appropriately insists upon for continuous supply of electricity without interruption, the reliability requirements that they're expecting are actually greater than any other industrial customer we've ever served before. We are in the 99.9-something percent reliability to begin with, but they want reliability about four digits beyond the 99. So when you understand how big a challenge that is, the first thing you think about is... By the way, this is 24/7 reliability and 24/7 on-demand energy. So one has to think about, how do you buttress the generation network?

(14:59):

For us, and I can put it into a couple of different statistics for you... Again, Microsoft is saying through the period 2024, '25 and '26, they intend to invest $3.3 billion in building up the first phase of their operational data centre complex. To basically meet that growth in demand from that investment by Microsoft plus all of the other economic growth we're seeing in that I94 corridor, we have added to our capital investment plan 1400 megawatts of new power generation capacity. We were already planning to expand our system to begin with both a mix of renewables and efficient natural gas-fired generation. But now we've added, as I say, another 1400 megawatts to our five-year plan. That would be 2024 through 2028.

(15:52):

Our total capital planning, our total capital investment for the period 2024 through 2028 has now gone up to $23.7 billion. That includes basically $9.5 billion dollars for new power generation. That, Jowell, would basically grow our asset base as a company by about 8.1% a year on average over that five-year period through 2028 and should drive earnings share growth in the 6.5% to 7% range each year. But essentially, we're needing to add a mix of renewables and to make sure reliability is there so that on demand we can assure reliability.

Jowell Amores (16:34):

What's been interesting is, and correct me if I'm wrong, the likes of the Microsofts of the world and the developers of these large data centres have come out and said, "We want these data centres to be fueled by renewable sources." Now we've seen a transition to that statement or an adjustment to that statement being low emissions. So that would suggest that, given the needs of these data centres, gas has to be a factor in that. Is that fair to say, Gale, in terms of, again, ensuring that reliability?

Gale Klappa (17:06):

I think that's very fair to say. But what I would describe as our situation here in terms of Microsoft, that Microsoft is very, very interested in lowering emissions. In fact, they have some of the most aggressive goals for zero CO2 emissions for the long term of any company in the world. What they recognise is that to maintain the reliability they need, they have to rely on our system at least in the early going. Then I suspect we will add more and more renewables along the way to supplement, to complement, and even as offsets to existing fossil fuel generation using natural gas. So renewables are not out of the mix at all. They just have to become a growing part of the mix over time.

(17:51):

The other thing that I think you might be interested in is that, and I've heard Brad Smith, the president of Microsoft mention this, that longer term, not in the next five years, not necessarily even in the next 10, but longer term, they believe that small modular nuclear reactors may be a partial answer to where Microsoft and the rest of the world want to get in terms of low emissions.

Jowell Amores (18:16):

Presumably, would that be something that you'd entertain or at least explore within your service territory given the demands that we're looking at?

Gale Klappa (18:24):

Yes, but not in the near term. As you know, the reliability requirements we have are so significant that we don't build serial number one. We're not going to be at the bleeding edge of a brand new technology. But if small modular reactors continue to develop, they certainly could be part of our longer-term solution.

Jowell Amores (18:43):

Again, with the data centres, it's not just the generation aspect that involves the utility. There are other parts to that when it comes to the infrastructure. Can you tell us a little bit more about what's involved from a utility point of view in terms of being able to deliver that amount of power?

Gale Klappa (19:01):

Absolutely. There's no question, we look first at generation, but then you have to get the energy to the site. So the next thing we look at in terms of significant investment need is transmission. So as we will continue to work with Microsoft, there will be a very significant amount of investment put into the building of additional transmission in the southeastern Wisconsin area directly into the Microsoft site, if you will. So we need very much to strengthen and grow the transmission network in southeastern Wisconsin, largely for Microsoft because of the huge new demand, but also for the other companies that are expanding here and have plans to continue to grow here. Our company, as you know, is 60% owner of American Transmission Company, one of the largest transmission organisations in the United States. So there will be continuing increases in the need for investment and transmission as we go forward here.

Jowell Amores (19:58):

Now, one last thing before we move on, Gale. Now, when Microsoft had announced their initial investment of over a billion dollars into establishing their first phase of their data centre build-out, I initially looked at that and thought that was a huge challenge. That is a huge challenge for you to meet in terms of delivering that amount of power for that data centre. Now more recently, they've announced that they will now be investing in an additional $2 billion, taking their total investment to $3.3 billion in the area. How much harder is that challenge for you in terms of delivering even more power to that particular facility in the second phase or third phase, whatever it might be?

Gale Klappa (20:42):

Well, it's a great question, and probably within the next 12 months we can give you a very specific answer. When Brad Smith was here to make the announcement... You're absolutely right. They're talking about the first phase of their construction at this particular site being $3.3 billion, and they call it the first phase. Brad Smith and Microsoft are great believers in what they call under-promising and over-delivering. You might know somebody like that, Jowell.

Jowell Amores (21:09):

I know a couple.

Gale Klappa (21:12):

Microsoft is actually working now on their next phases. So what I would speculate with you is that when we roll out our new five-year capital plan, which will run now through 2029, you likely will see additional investments beyond what we've already announced in both power generation and transmission. That's, I think, what we're going to see down the road. It's a challenge, but it's a great opportunity for us. When you think about not only the benefits to our company but the benefits to this region in terms of the strength of the economy, in terms of, as Jim and I have talked about, planning Wisconsin's flag in the digital economy with incredibly successful companies, this is really a game changer for the future of the state of Wisconsin. So I'm excited about it, not only just for the challenge and for the opportunity, but also for the tremendous opportunity that it's going to give to the economy of the state of Wisconsin to really thrive and continue to grow.

Jowell Amores (22:12):

There are other aspects to all this, and I'm thinking about the other stakeholders for the utility. Specifically, I'm thinking about the residential customers. Now, obviously when you bring in a large new customer, the first question amongst your residential customers is, "What does this mean for my bill?" How does that come into play? Is that a risk for you as a utility? I suspect there's conversations to be had with the regulators in and around that.

Gale Klappa (22:39):

Well, it's a great question, Jowell. I will say this, the spade work that we and Microsoft have done together have, I think, really answered that question very well upfront before it became any kind of a major issue. A little bit of background. There are a couple of other states in the US that have actually offered highly subsidised electric rates to attract data centres to their region. We have not done that. Microsoft has been very clear upfront from the very first days of their discussions with the M7, with the governor's office, with the state economic development group, Microsoft has been very clear upfront that they will pay their fair share. They do not look for, they do not expect a subsidised electric rate. So what we're working with Microsoft on is a very specific rate, but it will look like the rates that we have in place for some of the other very large industrial and commercial customers that we serve.

(23:40):

Just to give you an example, Microsoft will pay basically what we call CONE. They will pay the cost of new entry for a generation plant for whatever their demand is. There will be a component of the electric rate that charges them for the cost of new entry for a new generation plant. They will pay an appropriate level of transmission costs related directly to their demand for transmission. Energy will be a pass-through, just like all of our other major industrial customers, where we say to those customers, "You will get the best hourly price in the Midwest power market for the energy component itself." So there will be a generation piece of the component of the rate, there will be a transmission piece component of the rate, there will be an energy pass-through, and then an administrative charge. All of that will be very transparent so that the regulator, the governor's office, everyone involved, including our company and Microsoft will understand that there is no subsidisation here for residential customers.

Jowell Amores (24:43):

Now, more importantly and perhaps more pertinent to our listeners here, what does this mean for WEC shareholders? When we think about the growth and the returns, I'm interested to understand whether there's duration in that growth or if it's just a flash in the pan. Is this a short-term growth spurt, or is it

longer than that? Then maybe second to that, what are the risks for WEC and other utilities in the same situation when it comes to data centres? What do we need to think about?

Gale Klappa (25:14):

Well, as usual, Jowell, you've nailed the question about what does this really mean long-term for a company like ours. Looking at all of the evidence and all of the information, we're convinced that the kind of developments we're talking about, the data centre development but also all this other growth that we're seeing in the I94 corridor, we're convinced that what this does is lengthen and strengthen our long-term growth rate. As we mentioned to you, we expect earnings per share growth 6.5% to 7% a year through our forecast period, 2024 through 2028. But we're absolutely convinced that this is anything but a flash in the pan but basically everything we're seeing on the ground. Jowell, as you know, we don't put things in our capital budget that we don't actually know are going to happen. There's no white space. There's no dreaming. It's real stuff. So we're convinced that what we're seeing is going to actually lengthen and strengthen our long-term growth rate.

(26:15):

I will say this, another thing that I would look at just from a strictly business standpoint related to all of the data centre development around the country is, are these companies building to spec? That's almost like a residential home subdivision. Are builders building a spec house with nobody to buy it for sure? That is not how Microsoft is approaching this world. They're basically in catch-up mode in terms of the need for data centre capacity to catch up with customer demand for artificial intelligence applications. Essentially when you talk to them, they're saying they are in catch-up mode. So I think the risk of this being a one-time flash in the pan is quite low.

Jowell Amores (26:58):

Thanks, Gale. That's fascinating indeed. Clearly given the pace of construction there, it surely does look like they are playing catch up to some degree. Now, maybe if we move on to the other aspects of this, what some are calling the super cycle of growth, wanted to talk about on-shoring or re-shoring, as some might say, and the return of manufacturing and production back to the US. As I mentioned, data centres are only driving half of the projected long-term demand growth. Now the other large driver is manufacturing growth, and supply chains and manufacturing are coming back to North America. Bringing Jim back into the conversation, how is this playing out for the I94 corridor?

Jim Paetsch (27:42):

We started to see that the supply chain issue was of concern to companies that are here in southeastern Wisconsin that are making products. We saw it pre-COVID, so we started to see this in 2018 and 2019 that companies were concerned about these global supply chains and the bottlenecks that were in there in different ways. Then COVID came along, and that really accelerated it. So that's when I think it rose up to [inaudible 00:28:08] public consciousness, just the issues that we had as a country in terms of the things that our manufacturers were trying to do, and how do we service customers here in the United States? We've got supply chains that are that widespread. So we had already seen some de-risking that had happened. We now think that we're really positioned well to take advantage of that. Because if you look at, again, the pedigree that we have here in southeastern Wisconsin, we're a good landing spot. We're a place where we have the workforce that's available. A lot of our education institutions are really centred on generating manufacturing talent and then creating training for that same talent.

(28:50):

So that trend line, I don't think we're headed back to what it looked like in the 1940s where you've got half of our workforce that's directly involved in manufacturing. There's been a number of different productivity advancements over the years. Automation is here to stay. As a matter of fact, we think that

that's going to even continue to accelerate. But we also think that that re-shoring that you referenced, it's going to create a lot of opportunities for us. The other thing that we love about it is these jobs that are coming back tend to be high-value employment jobs. So these are the kinds of jobs that it's not someone who's putting part A into slot B 10,000 times a day. This tends to be work that's much more higher value, and as a result, the compensation is higher. That's how we build regional prosperity. It's through high-value employment.

Jowell Amores (29:42):

When we spoke the other month, there was something interesting that you had said in terms of why Wisconsin looks attractive, and that was in and around the low probability of natural disasters.

Jim Paetsch (29:54):

Yeah, absolutely. We have this slide, and I remember, Jowell, I would show this slide back in the late 2000s. It was a map of the United States that had different zones where natural disasters were likely to occur. You had earthquakes that were in California. You had hurricanes coming in through the Gulf. I used to show that slide, and almost invariably people laughed. It just would elicit laughter in ways like, "Well, what's next, Jim? Are you going to show me where the plague is coming and where locusts are coming?"

(30:24):

Nobody laughs anymore. When we show that slide, there's almost always something going on in our country in which people and businesses are being affected by natural disasters. So this is a really important component of our value proposition. It's essentially that we can pretty much promise that we're going to be able to deliver a lack of disruption for a long period of time. Occasionally, I get people tell me, "Well, it snows there in the winter time." It's like, "Well, yeah, we plough the snow, we go to work, our kids go to school, we call it Tuesday." So that part of that risk proposition for us, it really has become an interesting discussion, and we think we've got a competitive advantage there.

Gale Klappa (31:07):

Jowell, if I could add onto that, because Jim is really underscoring an important point. Two things. One, I learned firsthand how important to an international investor making that company's very first investment in North America, anywhere in North America, how important this lack of disruption and the confidence in the lack of disruption is. That's with Haribo, the German candy manufacturer. The fact that they were going, for the first time, think about this, for the first time outside of the European countries they're in, making a $300 to $400 million investment in the US, they want to make sure it's standing and operating two years from now. So the fact that we could show them that we are not earthquake prone, we are less susceptible to natural disasters, it was a huge factor.

(31:55):

Then recently, Jowell, as you know, wildfires and utility exposure to wildfires has become a large issue. One of the things that we're adding to our presentation to potential companies that want to invest somewhere in the US is that based on Federal Energy Management Association, the federal energy management, the FEMA group, based on their assessment, Wisconsin has among the lowest wildfire risks of anywhere in the United States. So all of those things factor into confidence in making an investment in this region.

Jowell Amores (32:30):

I suspect, going back to data centres again, that's perhaps what makes Wisconsin an attractive location. If they're looking for close to 100% reliability of power, I suspect that they'll want 100% reliability of access to the data centre as well.

Gale Klappa (32:47):

Absolutely. Yeah, earthquakes are not good for data centres.

Jowell Amores (32:51):

I imagine. How much more growth can you expect out of this trend, particularly in that area? How long can this last?

Jim Paetsch (33:00):

We see it as a virtuous cycle. What I mean by that is there's two factors that work well together. The first one, which is really foundational, it's creating economic opportunity. What I mean by that is we want to have a lot of opportunity for our current residents, and we stack those opportunities one after another. Then we have the ability to draw more talent from outside. So economic development, when you put aside the corporate attraction side of it, you put aside the businesses, it's really a people game. It's about whether or not you can have the talent that can continue to meet the labour needs that your companies have. They really sort of layer and build on one another. So we don't look at this and say, "Okay, well, it's our job then to attract engineers from Texas, or it's our job to bring software developers from San Jose." We love those people here. When they want to come to southeastern Wisconsin, we absolutely want to have them.

(33:58):

But that's not the goal. The goal is really we want to be a talent destination within the Midwest. Can we draw people up from Illinois? Our net migration numbers from Chicagoland and from the state of Illinois are off the charts net positive. We're drawing people as well from Indiana, from Ohio, from Michigan. That's the goal. These are people who have, I would call them, Midwestern sensibilities. They're used to cold weather in the wintertime, so I don't have to explain that part to them as well. So we just like this idea that we can become that in the Midwest. It's a long game, Jowell. It's one where we thought about this probably 15, 20 years ago, and we're going to stay on this pathway because ultimately that's what's going to drive prosperity.

Gale Klappa (34:43):

There are plenty of land opportunity beyond the technology park where Microsoft and Foxconn are operating, beyond the area where Haribo and others are. So there's still a great opportunity in terms of land availability. That, as Jim said earlier, is a very key element in selection process is to make sure that basically you can put together sizable tracks of land to be able to expand and to be able to locate.

Jowell Amores (35:09):

Thanks, Gale. Now maybe moving on to the other growth driver I had mentioned, and that's the electrification. Most people would relate that to electric vehicles. Now, electrification is, as I said, the other key driver for total growth of US electricity demand. We've seen a number of articles recently about installing EV penetration. Is that the case for Wisconsin and all other US regions from what you see, Gale?

Gale Klappa (35:36):

Jowell, I would say that penetration and market share for electric vehicles, particularly in Wisconsin, has been on a very slow growth trajectory to begin with. There's a fair amount of anxiety related to how operable an EV is going to be in the wintertime in particular in Wisconsin. Having said that, I was surprised the other day by the updated statistics that we just saw. You may remember us talking about the number of electric vehicles registered in the state of Wisconsin in 2021, just three years ago, and it was just under 10,000, just under 10,000 EVs registered and licenced in Wisconsin in 2021. The latest number is actually 23,000. So we've seen a doubling, more than a doubling, if you will, of EV penetration in Wisconsin in just three years. Now, putting that in perspective, that's less than one half of 1% of all the cars on the road. So we're very much at the infancy in terms of penetration and market share for electric vehicles.

(36:44):

Now, the state of Wisconsin has a very effective Department of Transportation. That department, after an extensive study, is projecting, believe it or not, 300,000 EVs by the end of 2030 in the state of Wisconsin. That's very aggressive in my mind. But to put all that in perspective, as we continue to inch forward with the number of EVs on the road in Wisconsin, just think about this, Jowell, every two EVs equates to the demand of one new household. So there's significant growth ahead here.

Jowell Amores (37:17):

That's something that I had overlooked, and I've seen that statistic before. I guess you can see why EVs are a big driver of overall demand growth. Then over the next 10 years, where do you see EVs, particularly in your service territory as well as the rest of the country, Gale?

Gale Klappa (37:35):

Well, in our service area, I would be surprised, but there are folks who know a lot more than I do, if we achieved the 300,000 EVs in Wisconsin by the end of 2030, but doubling since 2021, that's a pretty impressive statistic. So I think we're going to continue to see growth. It's hard to predict exactly at what pace we're going to see that growth, but I do think we're going to continue to see penetration of EVs, greater market share for EVs. I would suspect that the faster growth will be in the warmer climates. But I still see us moving forward.

(38:11):

As a matter of fact, there's a lot of effort underway right now to make EV charging more accessible. The federal government has allotted to each of the states a certain number of EV ability to add fast chargers along interstate highways. The state of Wisconsin just recently awarded a number of companies dollars to help put in fast EV charging at places like convenience stores, where people pull in not only to fill up with gas, but also to get snacks or Slurpees or whatever you'd like to get. So I think the infrastructure availability is a big driver here, no pun intended, and it's continuing to improve.

Jowell Amores (38:51):

So dealing with that range anxiety that are holding back some to purchase an EV?

Gale Klappa (38:57):

Exactly.

Jowell Amores (38:59):

Well, I think that wraps it up for our conversation. I'd like to thank you again, Gale, for coming onto our podcast and, Jim, for sharing some of your valuable insights. Were there any last comments that you wanted to make?

Gale Klappa (39:11):

Other than we appreciate always being with you doing this podcast. I will say that I've never been more confident in the long-term future of our company, the long-term future for carbon-free electricity. As you said earlier, I think we're entering into a period of super-cycle growth here that we haven't seen, at least in this industry, since the widespread adoption of air conditioning back in the 1960s. It's really an exciting time. Honestly, I couldn't be prouder of what Jim Paetsch and the Milwaukee 7 are doing and achieving to help grow the economy here, help strengthen the economy, and again, deliver a really bright future.

Jowell Amores (39:49):

Thanks, gentlemen. Thanks for your time today.

Jim Paetsch (39:52):

Thank you, Jowell.

Gale Klappa (39:52):

Take care.

Host (39:54):

That was Magellan portfolio manager, Jowell Amores, in conversation with the chairman of America's WEC Energy Group, and Jim Paetsch, the executive director of the Milwaukee 7 Regional Development Agency. We trust you've enjoyed this episode. For more information on previous episodes, visit magellangroup.com.au/podcast, where you can also sign up to receive our regular investment insights programme. Thanks for listening.