

**OFFICE OF THE CITY COUNCIL**

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**Special Committee on the Potential Sale of JEA Meeting Minutes**

**April 5, 2018**

**3:30 p.m.**

**Topic:** Potential sale of the JEA

**Location:** City Council Chamber, 1st floor, City Hall – St. James Building, 117 West Duval Street

**In attendance:** Council Members John Crescimbeni (Chair), Greg Anderson, Danny Becton, Aaron Bowman, Lori Boyer, Anna Lopez Brosche, Garrett Dennis (arr. 3:40), Al Ferraro, Reginald Gaffney, Bill Gulliford, Jim Love, Joyce Morgan, Matt Schellenberg

**Excused:** Council Members Reggie Brown, Doyle Carter, Tommy Hazouri, Sam Newby

**Also**: Paige Johnston, Jody Brooks, John Phillips - Office of General Counsel; Kyle Billy, Phillip Peterson, Jeff Rodda - Council Auditor’s Office; Staci Lewis – Legislative Services Division; Jeff Clements – Council Research Division; Paul McElroy, Mike Hightower, Nancy Kilgo, Jordan Pope - JEA

**Meeting Convened**: 3:31 p.m.

Council Member Crescimbeni called the meeting to order and the attendees introduced themselves for the record. The topic of the meeting was answers to numerous questions posed at the previous special committee meeting. Mr. Crescimbeni said that he had met with Chief Administrative Officer Sam Mousa, clarified the Special Committee’s expectations regarding administration’s role with regard to the study process, and the Special Committee’s and the Council Auditor’s information needs will be met by the administration upon request.

JEA responses – Paul McElroy

Mr. McElroy distributed and discussed a binder containing responses to a number of questions posed at the committee’s last meeting. With regard to the JEA’s obligations to the Plant Vogtle nuclear power plant under construction in Georgia, he stated that the JEA’s long history of importing electrical power from sources in Georgia, which averages over 20% of JEA’s sources per year in recent years and has been much higher (60%+) in years past. He described the decision factors that were in place in 2008 when the decision was made to invest in Plant Vogtle to meet projected power needs under the expected constraints of a mandate to move toward carbon-neutral fuels. A reduction in electric demand in recent years and into the foreseeable future and a substantial drop in the price of natural gas have substantially changed the calculus for JEA’s generation needs and the attractiveness of nuclear power as a fuel source. The outlook for carbon dioxide regulation at the state and federal levels has also changed substantially between 2008 and 2018, with proposed draconian regulations on coal-powered plants failing to be adopted as appeared very likely at one time.

Council Member Schellenberg asked for information on JEA’s futures contracts for power acquisition. Mr. McElroy reported that the Georgia Public Service Commission recently voted 5-0 to have all the participants in Plant Vogtle share in the cost overruns, after the PSC staff recommended that Georgia Power assume most of the costs. In response to a question from Council Member Becton about JEA’s future environmental liabilities, Mr. McElroy said that he can provide the committee with a list of all documented liabilities. The JEA’s long-term environmental concerns include future CO2 reduction initiatives (the rest of the world leads the U.S. in mandating carbon reductions, and other regions of the U.S. lead the Southeast). Mr. McElroy feels that JEA is in a good place with regard to meeting potential future carbon reduction mandates. JEA’s agreement to purchase power from Plant Vogtle does not have a cap on construction costs (although the primary companies involved in the construction do have a cap of another $1 billion, after which they could pull the plug on the project). Mr. McElroy feels the contract for power from Plant Vogtle will be good in the long run from the perspectives of power stability and carbon reduction purposes, despite the fact that the power delivered may not be the least expensive option available at the time.

In response to a question from Council Member Gulliford about national trends in generating capacity and demand, Mr. McElroy said that the answer varies widely by region. Regions that were early adopters of renewable power (wind, solar) are carrying heavy start-up costs and their prices are higher than regions primarily fueled by natural gas. He anticipates that the long-term trend will be toward heavy reliance on solar power backed up by natural gas. In response to another question, Mr. McElroy said that JEA’s power purchase obligations to Plant Vogtle end 20 years after power begins being produced, although the expected lifespan of the plant is 40 years. In response to a question from Chairman Crescimbeni about whether JEA could re-sell its Plant Vogtle power to other users, Mr. McElroy said that it could re-sell to a municipal utility. In response to a question from Council Member Boyer about whether the JEA has any options to void its Plant Vogtle contract, Mr. McElroy said that he would prefer to answer that question in private meetings. He said that Plant Vogtle was originally anticipated to provide no more than 10% of JEA’s power needs; because of reduced demand it will eventually provide approximately 13% of need.

In response to a question from Council President Brosche about the major factors behind the falling growth rate in power sales, Mr. McElroy said that increasing energy efficiency and conservation are the major factors, along with the shift to a service economy from a manufacturing economy. These factors have been more pronounced than was anticipated in 2008. In response to a question from Council Member Anderson about the widely reported future liability on Plant Vogtle of $1.2 billion, Mr. McElroy explained how that figure was calculated in the PFM report as a share of future construction costs for the plant, which would accrue as a share of debt service even if the plant never produces power. Council Member Bowman said that he would meet privately with JEA to discuss cost overruns, whether the contract has any opt-out provisions, and whether any other participating utilities have attempted to get out of their contracts with Plant Vogtle. Mr. McElroy provided details about how often nuclear plants are refueled and how long they are licensed. He also reported that federal energy efficiency standards for appliances will continue to require improvements for several more years, so electric consumption rates will likely continue to decline.

Council Member Dennis questioned why a case seems to be made by some that JEA faces a dire future when Mr. McElroy has agreed that the electric utility industry is constantly changing and JEA has always successfully adapted to those changes and continued serving its customers well. Mr. McElroy agreed to provide information about JEA’s responses to major market and regulatory changes over the years. In response to a question from Council Member Ferraro, Mr. McElroy described the three principal owners of Plant Vogtle (two municipal/co-op utilities and one investor-owned) and the cost-sharing arrangement among those principal partners and other participating utilities such as JEA. Mr. Ferraro expressed concern that Plant Vogtle might eventually open as a non-nuclear plant (i.e. if the nuclear construction is abandoned and a natural gas plant constructed in its place), in which case the JEA would lose all the environmental benefits it expected to achieve from an investment in nuclear power.

The committee was in recess from 4:44 to 4:53 p.m.

Council Member Love pointed out that JEA’s CEO in 2008 was a mechanical engineer and made the best decision possible at the time, given the information available at the time, to invest in Plant Vogtle. In response to a question from Council Member Morgan about whether there will always be a need for electric and water/sewer utilities versus individual home-based systems, Mr. McElroy agreed that for the foreseeable future, centralized utility companies will be providing a majority of the electric and water and sewer services to homes and businesses. Chairman Crescimbeni read into the record an e-mail he received from a St. Johns County resident of the Nocatee development who praised the quality and timeliness of JEA’s service.

Council Auditor responses – Kyle Billy

Mr. Billy distributed and discussed the answers to several questions posed to his office by the special committee at prior meetings. The purchase price to each respective county of JEA’s water and sewer assets in Nassau County is $44.66 million and in St. Johns County is $217.97 million. Jordan Pope of the JEA said that the Nassau County assets are a stand-alone system operated by JEA. The St. Johns County system is interconnected with the Jacksonville system, and the cost and process to bifurcate those two systems in the event of a sale is unknown. Council Member Boyer expressed interest in knowing how utility assets are valued in other counties (based on physical assets, income approach, etc.) to compare with how JEA is valued in Jacksonville. Regarding IOUs challenging their property valuations for tax purposes, Mr. Billy reported that the properties for which Florida Power and Light challenged values in 2016 in several surveyed counties were not the same properties challenged in 2017. He briefly described the origin and differences in the basis for charging the Public Service Tax and the franchise fee and described how the franchise fee is applied to electric customers with regard to the $2.4 million cap on franchise fee charges. Mr. Billy reviewed a chart showing the estimated net proceeds from sale of the electric and water/sewer systems separately, taking into account a range of potential sale proceeds and the varying debt levels and other obligations applying to each side of the utility.

Update on independent advisor to the Special Committee – Council President Brosche

President Brosche reported that the Jessie Ball duPont fund has contracted with the Public Utility Research Center at the University of Florida to conduct an independent analysis of the potential sale of JEA, utilizing a scope of services developed by a subcommittee of the Special Committee and approved at a previous meeting. The contract provides for monthly progress reports, a first draft report after three months, final draft report after 4 months and a final report 5 months after contract inception. Ted Kury of the Public Utility Research Center has offered to appear at a committee meeting if desired. Chairman Crescimbeni announced that a representative of the Jacksonville Civic Council will appear at the special committee meeting next week to discuss its plans to conduct its own study of JEA privatization.

Public Comment

Bert Sparks has never come across a JEA customer who felt that selling the utility was a good idea. It seems pointless to go through this exercise since customers are happy with the service.

Raymond Olan-Diaz said that he didn’t understand why the City administration was uncooperative with the special committee’s information requests. He understands that the Mayor and Chief Administrative Officer are not promoting a sale of the JEA and it appears the City Council is not interested either. If that’s the case, why bother with a drawn out study process? Someone must be pushing this proposal.

Valerie Gutierrez, IBEW, said that the JEA employees who met with Mayor and CAO this week did so as individuals and do not represent the views of the IBEW. She believes the tone of the meeting was misrepresented in the media. Council Member Ferraro said that Mayor Curry has indicated his interest in meeting with representatives of IBEW. Ms. Gutierrez said she believes the mayor should meet with all unions, not just IBEW.

Fred Riens said that Jacksonville will not get the full revenue from a sale of JEA – Nassau and St. Johns Counties have substantial JEA assets in their counties and will get a share of the proceeds.

Council Member Ferraro said that the investigation process needs to go forward at least for the purpose of determining JEA’s financial future and liabilities, and how that might affect JEA pensioners. Council Member Dennis noted that 2 bills are on the City Council agenda next week to adopt positions in opposition to selling JEA. Chairman Crescimbeni thanked the JEA, Council Auditor’s Office and Legislative Services Division for their hard work to date in this process.

Future items

* Schellenberg – information on JEA’s existing power purchase agreements
* Dennis –information on JEA’s responses to major market and regulatory changes from 1972 - present
* Ferraro – what would it cost JEA to immediately get out of its Plant Vogtle obligations entirely
* Boyer – how are utilities valued by property appraisers in other counties versus how JEA is valued in Jacksonville by our Property Appraiser

Next meeting – April 12th at 3:30 p.m. (be alert for a possible time change to accommodate the long agenda).

**Meeting Adjourned**: 5:39 p.m.

Jeff Clements, Council Research Division

4.10.18 Posted 9:00 a.m.