

An aerial photograph showing a large industrial facility, likely a power plant, with several tall cooling towers emitting thick white plumes of steam. To the right of the plant is a vast solar farm with rows of photovoltaic panels stretching across a green field. The background shows a mix of greenery and industrial infrastructure under a clear sky.

Factors Leading to a New Strategic Plan

COJ City Council Workshop
December 9, 2019

JEA®

Improving Lives. Building Community.

INTRODUCTION

Review of History

Ryan Wannemacher – CFO at JEA

Understanding past decisions and the market trends facing JEA is critical to enabling good decision making on future strategy.

Review BOD Studies

Melissa Dykes – President & COO at JEA

In April 2018, JEA's new leadership took a highly transparent approach to inform its stakeholders and gain alignment on how to measure what matters – Customer Value, Community Value, Environmental Value and Financial Value.

Overview of factors historically impacting JEA

MAJOR FACTORS

A number of factors impact JEA over the short and long term. However, there are three major factors of the past two decades that have forever changed JEA and the markets in which it operates.

Debt & Financial Management

From 2000 – 2009, JEA borrowed money betting on continued growth of energy and water sales.

Market Policies and Technology Disruption

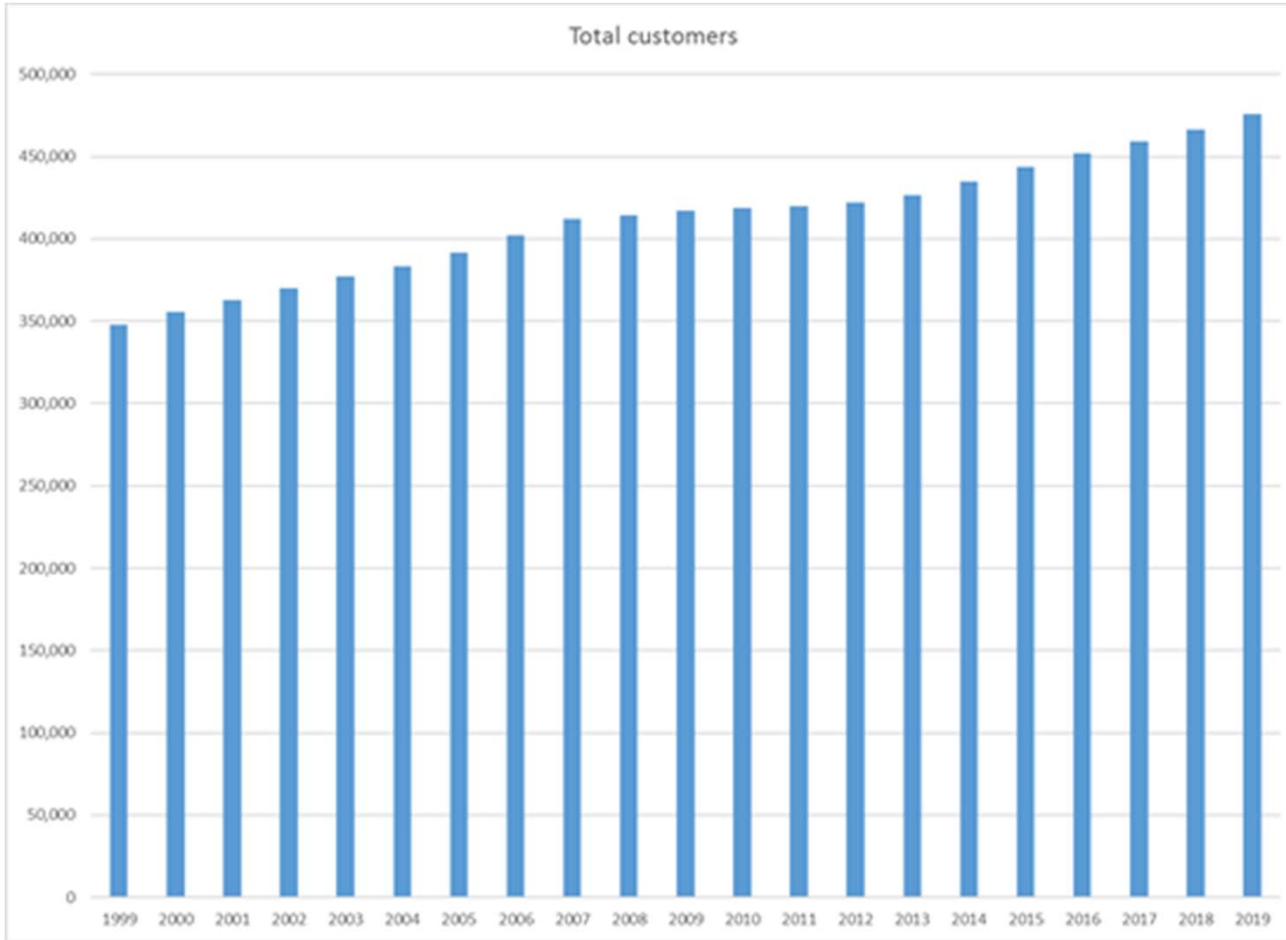
A combination of federal policies and emerging high-tech industries enabled customers to alter their energy and water consumption behaviors (e.g. Energy Efficiency, Distributed Generation - Solar, Storage - Batteries, Water Efficiency - Low flow & Electrification).

Plant Vogtle

A business decision driven by the threat of carbon legislation was poorly executed in the form of an 'uncapped' hell-or-high water contract in a nuclear plant in GA. 12 years later the project is 200+% over budget (\$30+B vs. \$14B) and 6-8 years behind schedule.

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JEA's electric system has seen consistent customer growth

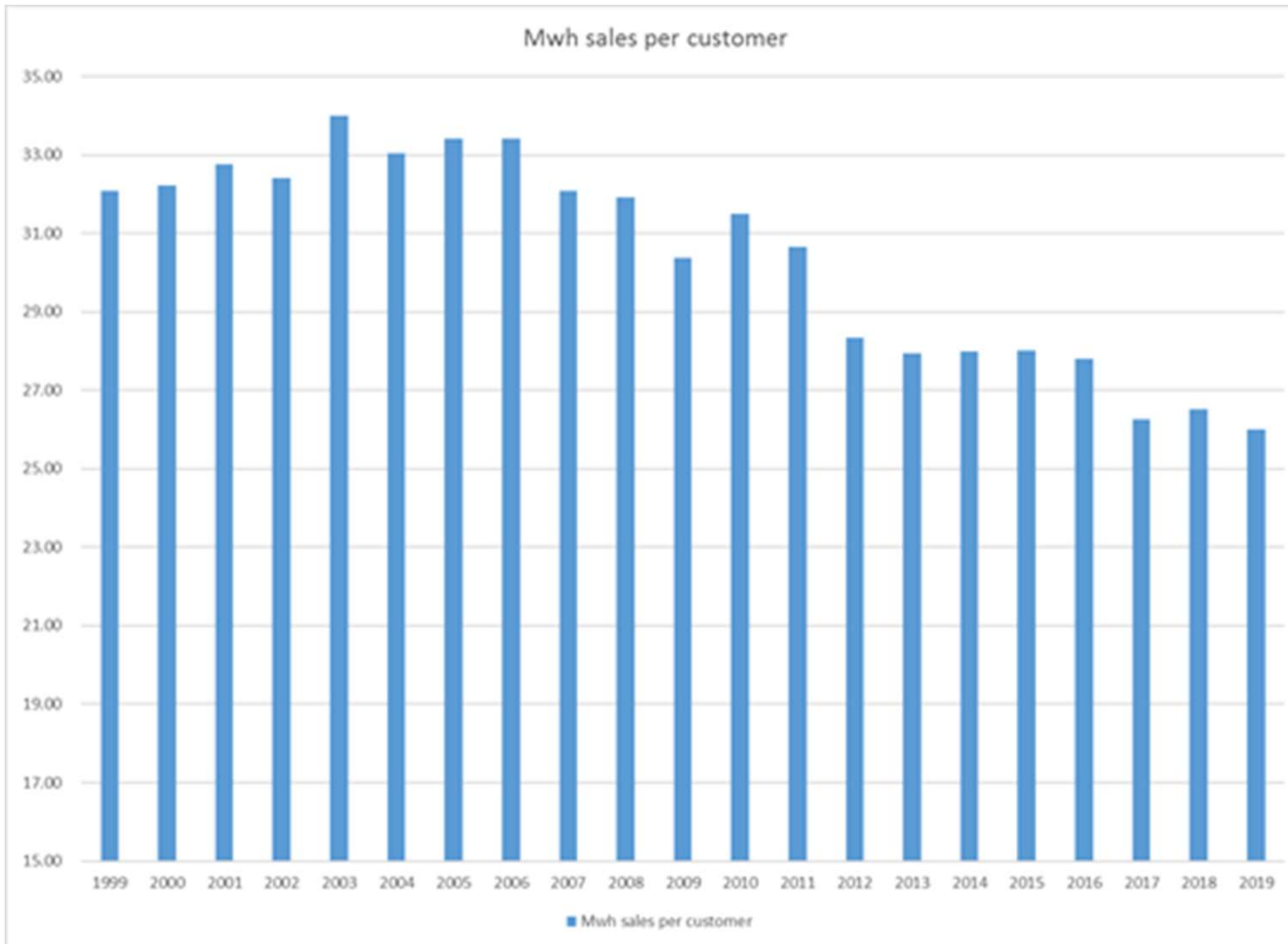


**1999 to 2019 JEA added
127,000 accounts**

- **1999 – 348,072**
- **2019 – 475,786**

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JEA's sales per customer began falling in 2006

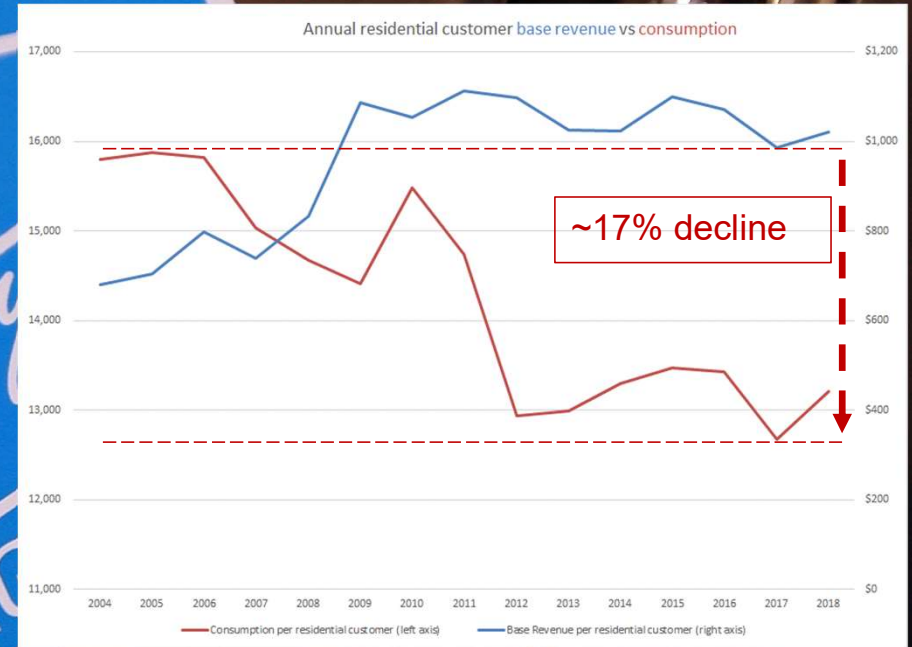


2006 to 2019 Sales per customer were 29% higher in 2006 vs 2019

- **2006 – 33.42 Mwh per customer**
- **2019 – 25.99 Mwh per customer**

Weather normalized sales per customer have fallen every year since 2006

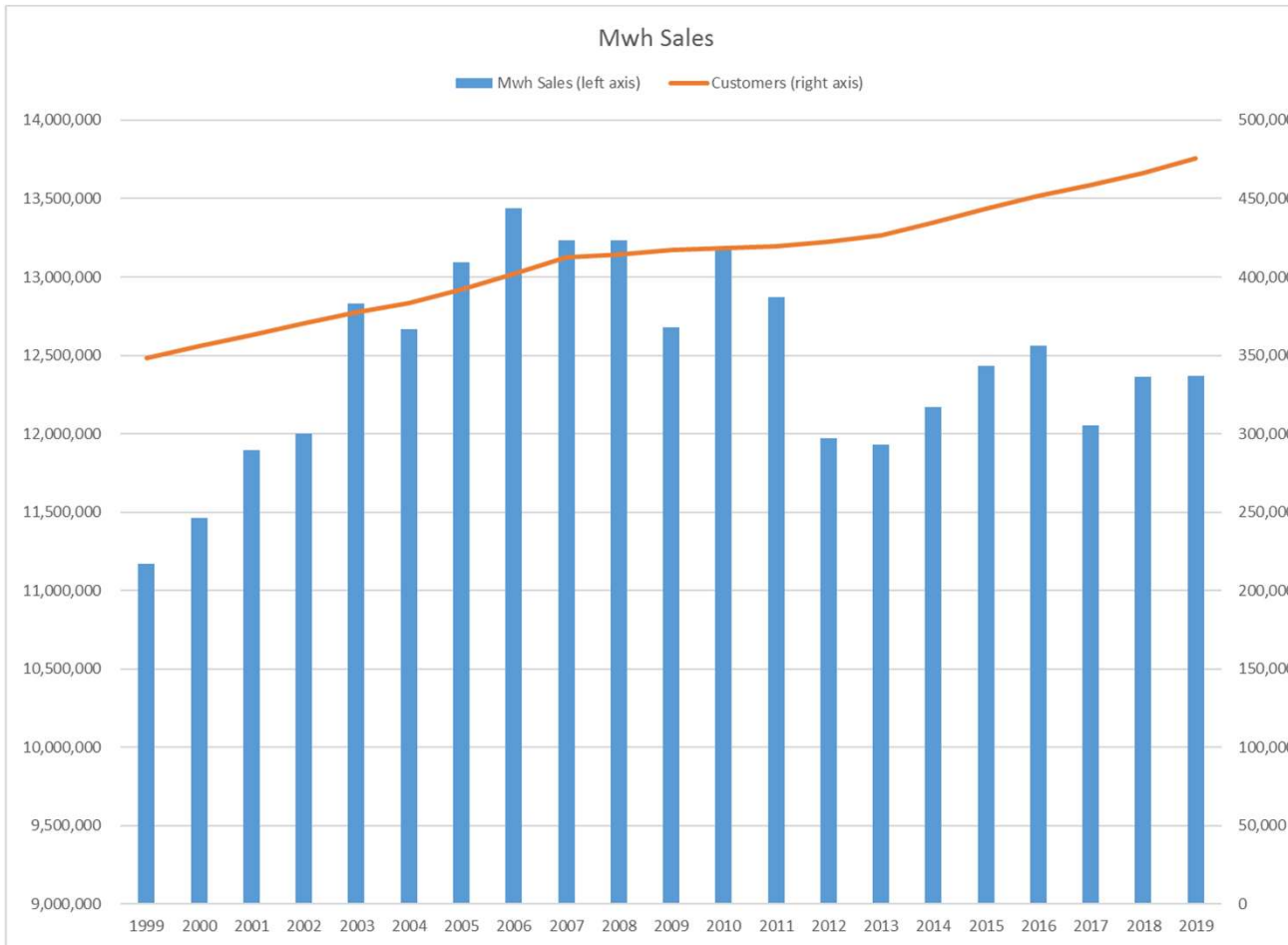
Energy Efficiency 2000's Technology Trend



ENERGY POLICY ACT OF 2005

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JEA's customer growth was unable to overcome lower sales per customer

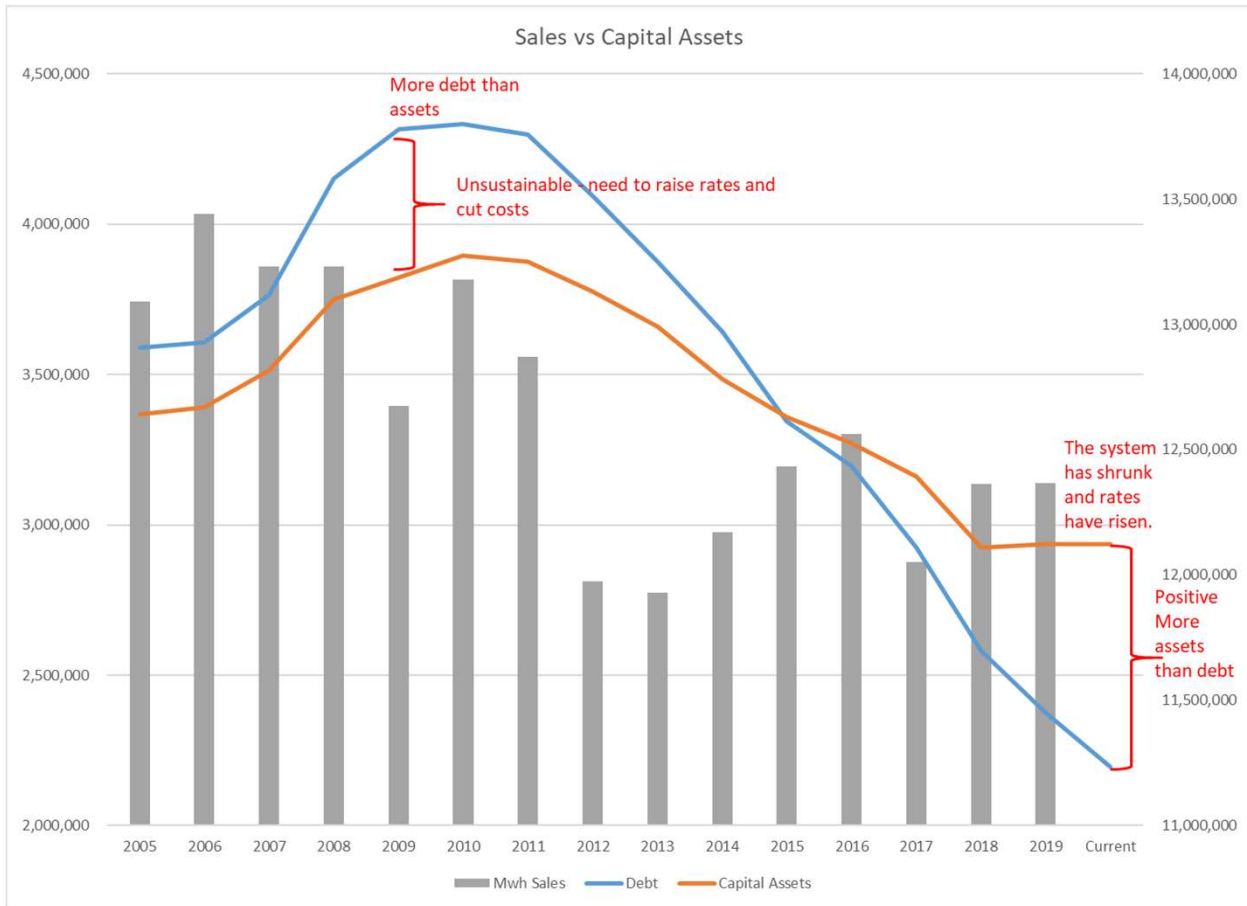


2006 to 2019 Sales were 8.7% higher in 2006 vs 2019 despite strong customer growth

- **2006 – 13,440,900 Mwh**
- **2019 – 12,366,395 Mwh**

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JEA's debt peaked at the same time sales growth stopped

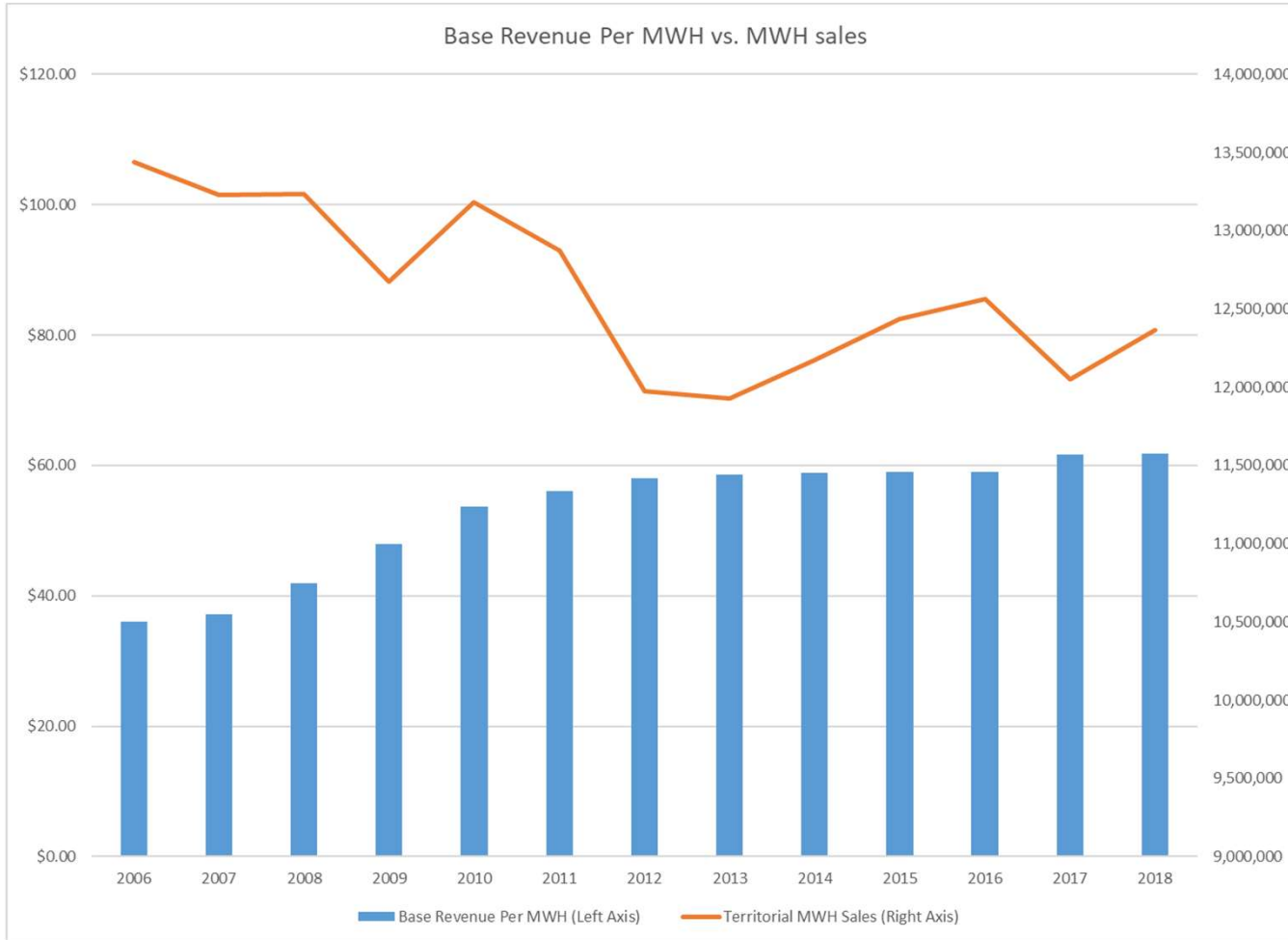


2010 Electric debt peaked at \$4.3 billion

- **2009** – JEA's electric enterprise had \$492 million more debt than capital investments in the system

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JEA raised base rates 71% since 2006

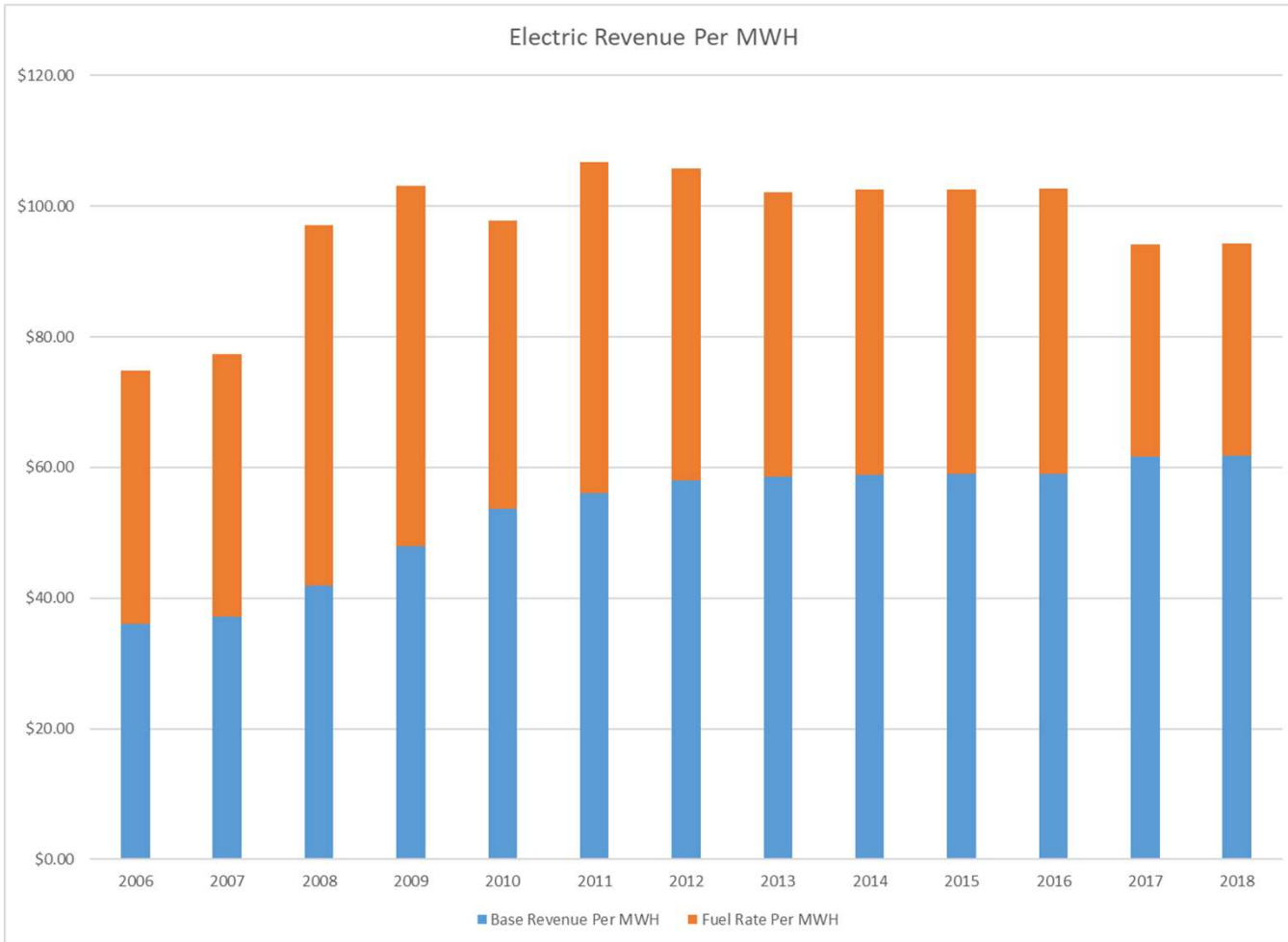


2006 to 2018 JEA lost over 1 million MWH in sales and charged an extra \$279 million per year

- **2006 – \$485 million**
- **2018 – \$764 million**

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But falling fuel costs have mitigated bill pressure since 2009

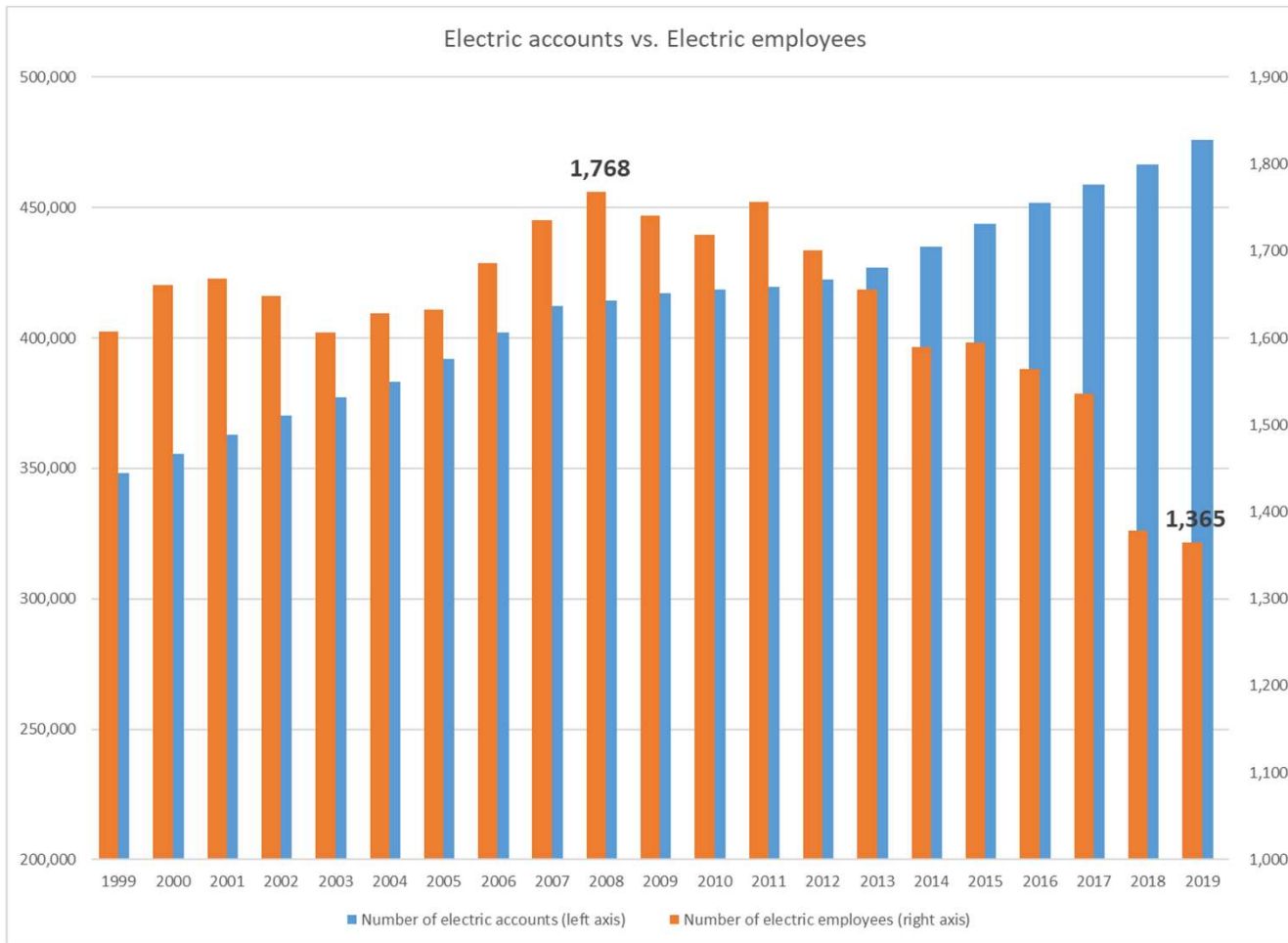


2008 to 2018 Fuel charges peaked in 2008 and 2009. Fuel costs have fallen over \$300 million per year since 2008.

- **2008 – \$55.14 per MWH**
- **2018 – \$32.50 per MWH**

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JEA reduced electric employee count 23% as electric customers grew 15%

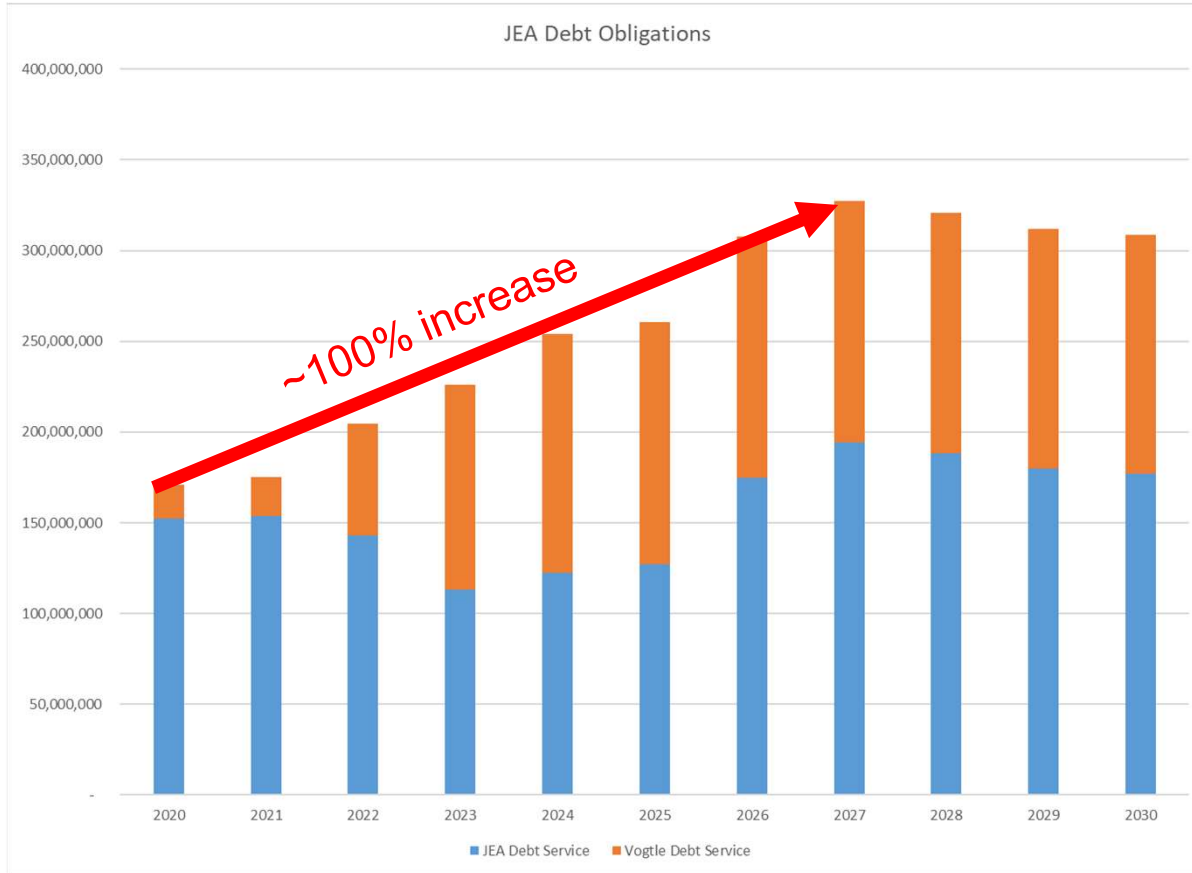


2008 to 2019 JEA added over 61,000 electric accounts and reduced electric employees by 23%

- **2008 – 1,768 Electric employees**
- **2019 – 1,365 Electric employees**

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JEA's electric debt service obligations are still increasing over the next 10 years



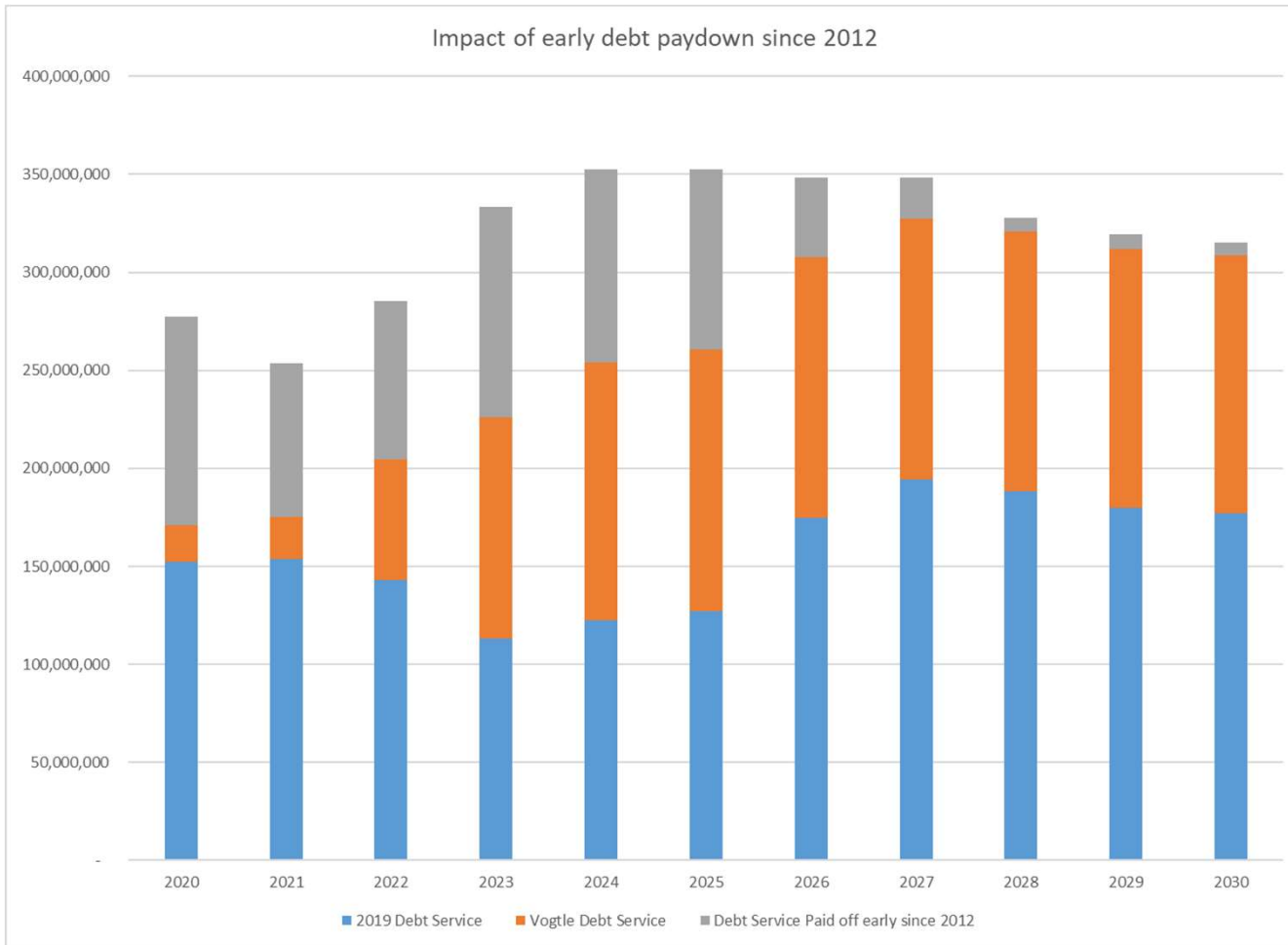
2020 to 2027 Combined electric and Vogtle debt service obligations will increase by almost \$160 million

- **2020 – \$170,998,692**
- **2027 – \$327,308,381**

Note: Vogtle debt service reflects current borrowings only
MEAG has disclosed an expected additional funding need of approximately \$120 million which would add approximately \$7 to 8 million per year to our obligations under the PPA

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JEA has prevented additional rate increases through aggressive paydown of debt

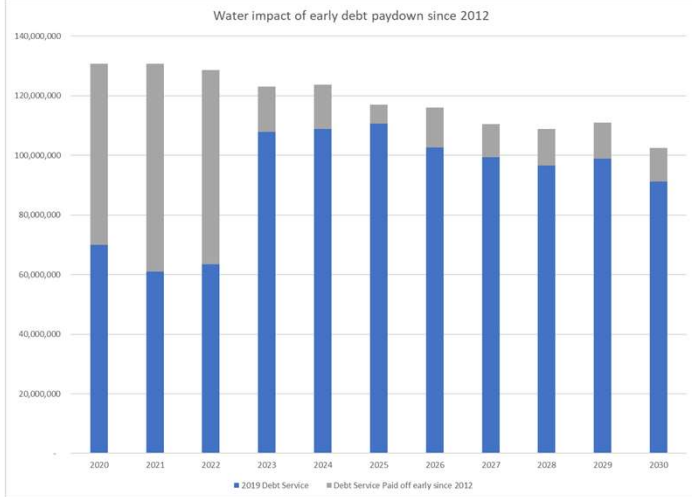
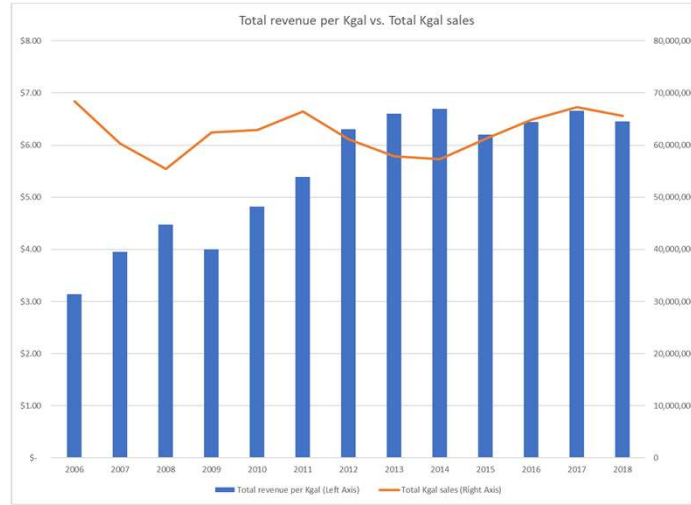
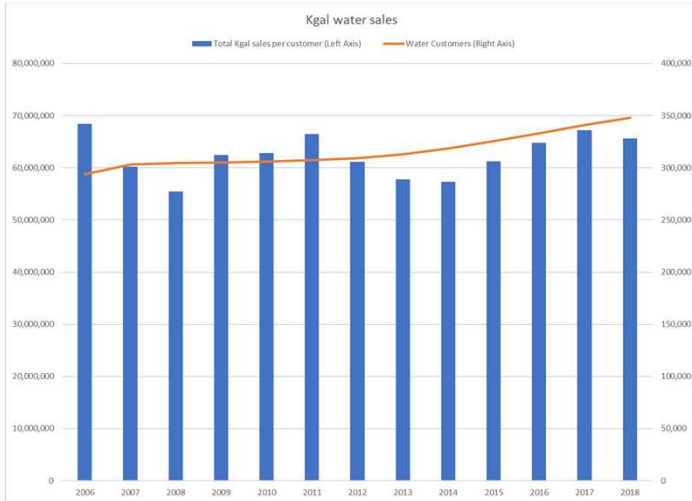


2012 to 2019 Debt reduction efforts have targeted years as Vogtle comes online

- **Reduced debt service by over \$600 million between 2020 and 2026**
- **2020 would have required an additional \$106 million annual base rate increase to pay for debt service**

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Water faced similar challenges over the past decade and must address future water supply



Significant capex needs will be a challenge and require planning today

- Alternative water supplies will cost ~\$1 billion and will be required by the 2030s
- Septic tank phase out is a multi billion dollar unfunded problem that has been around since consolidation

Key question for the 10 year strategic plan is will the money come from growth or rates?

JEA's base electric revenue is around \$800 million. The additional debt burden alone, with no growth from sales, is a 20% increase in our base rates. In order to deal with environmental and resiliency issues of water system JEA needs access to \$2+ billion of additional capital.

Continued debt paydown We have been able to delay additional rate increases to date due to this effort. The more we pay off now, the less we need to increase rates in the future.

Other operating costs are also increasing These numbers don't account for increasing operating expenses due to inflation, the cost of operating Vogtle (which we are responsible for but is unknown at this time), the City Contribution and capex needs.

Review of BOD Studies April 2018 – Jan 2019



August of 2018, JEA's Board in collaboration with COJ City Council adopted four measures of JEA value

We are continuing to focus on maximizing each of our corporate measures of value both now & in the future

- ▶ **1 Customer Value**
What a customer expects to get in exchange for the price they pay
- ▶ **2 Financial Value**
The monetary value and risk profile, both today and tomorrow, of JEA as it relates to the city
- ▶ **3 Environmental Value**
Ensuring a sustainable environment for future generations
- ▶ **4 Community Impact Value**
Improving the quality of life through innovative and cost-effective service offerings, employee volunteerism and ambassadorship, relevant and timely communications, and support of economic development and job growth throughout JEA's service territory; foster a collaborative and respectful corporate culture that provides exceptional employee value to equip the JEA team to deliver outstanding service and value to its community

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JEA's Board and Management have engaged all community stakeholders

Key engagement statistics

City Council

- 2 City Council as a whole presentations on strategic planning
- 100+ City Council 1:1 meetings

Customers

- 12+ executive meetings with key accounts
- JEA.com updates
- Direct communications

Civic Council

- 6+ Civic council presentations

Chamber

- 4+ Chamber presentations

Rotaries

- 10+ rotary presentations

Employees

- 100+ employee listening tour meetings

Unions

- 12+ union leadership meetings

Media

- Editorial meetings
- Executive interviews for print and television

Phase 1: Transition April – Nov. (2018)

- Launched strategy development process, developed guiding principles



- Aligned with SLT on initiatives to include in Management Case, based on customer value, earnings growth, and execution capabilities
- Assigned initiative owners in preparation for implementation planning

Phase 3: Unconstrained strategy development August – October (2019)

Phase 2: Status Quo and organizational health November – March (2019)

- Developed baselines of organizational health and performance, and presented to Board
- Conducted working sessions with Energy and Water Planning, Finance to develop a baseline business performance forecast ("Status Quo")
- Deployed Organizational Health Index ("OHI") survey to assess health; 89% of organization completed the survey



- Conducted detailed screen of potential growth initiatives, leveraging industry comparables and internal ideation
- Pressure-tested initiatives through SLT working sessions and filtered into preliminary list

- Conducted series of working sessions with respective SLT members and their directors to refine operational and strategic capital initiatives in:
 - Generation
 - T&D
 - Water/Wastewater
 - Customer
 - G&A



- Reviewed preliminary aspirations and initiatives at SLT offsite

Phase 2: Traditional Response April – June (2019)

- Developed "Traditional Response" to the Status Quo baseline and presented to Board
- Engaged SLT to identify potential value-creating initiatives under the existing charter
- Worked with Finance and SLT to evaluate impacts on Measures of Value



- Held the Utility of the Future workshop with 70+ directors from JEA to jumpstart strategy development in an unconstrained scenario
- Solicited input on 10-year aspirations for each Measure of Value
- Brainstormed initial ideas and initiatives to achieve the aspirations

Phase 3: UNF workshop July (2019)

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Five options will be presented for debate and discussion as the potential path forward for JEA

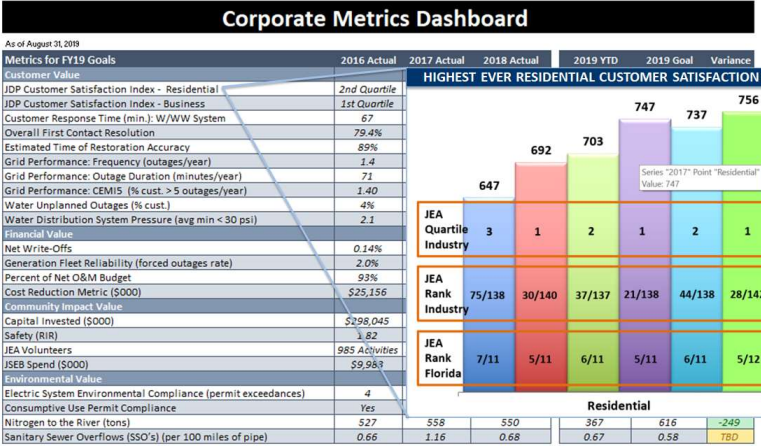


If the JEA Board chooses option 3, 4 or 5, City Council will have the opportunity to decide whether to send the proposal to Duval County voters to decide the path forward for JEA

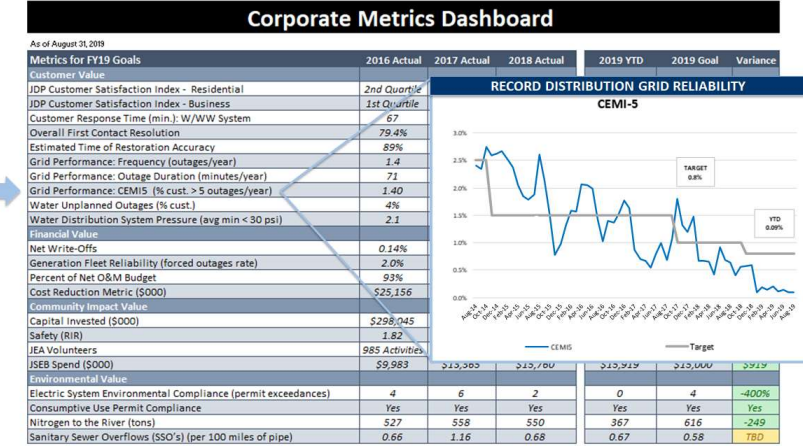
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Management focused on delivering results

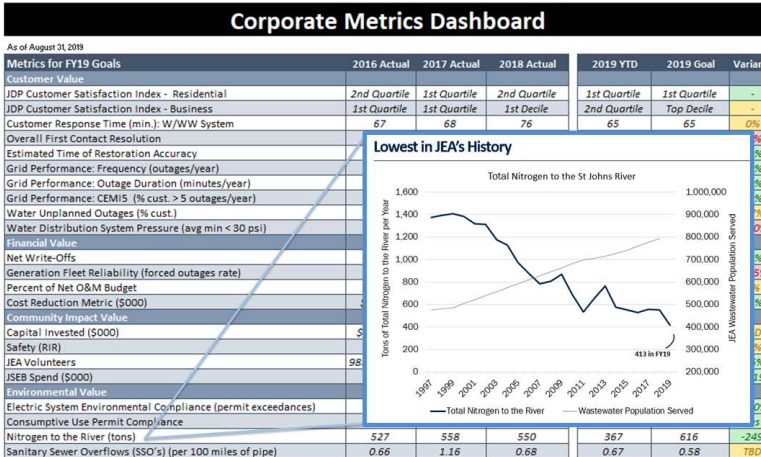
Highest customer satisfaction ever



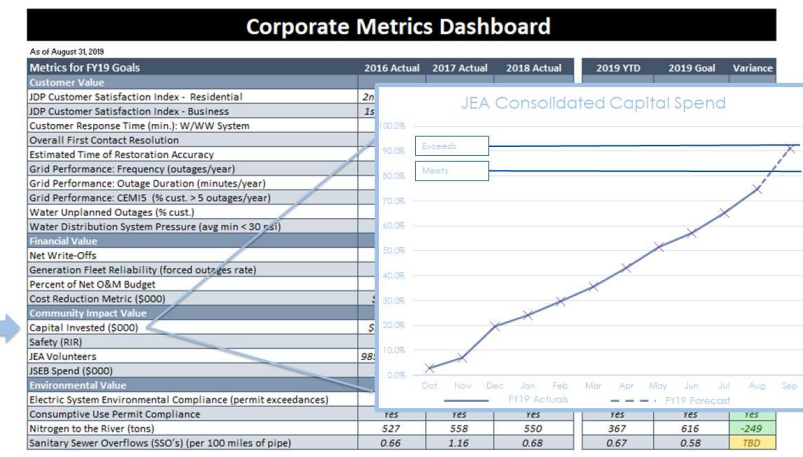
Best reliability ever



Lowest discharge to St Johns river ever



Capital delivery program enhanced



Conclusion

- JEA's management is planning for the future while maintaining focus on delivering current results
- JEA is in the midst of unprecedented challenges associated with:
 - high debt
 - declining sales and
 - an expensive uncapped nuclear contract
- JEA's strategic planning process is critical for long-term growth of all four of JEA's four corporate measures of value (Customer, Community, Environmental and Financial)