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**From:** Sine, Isaac <isaac.sine@jpmorgan.com>  
**Sent:** Saturday, October 12, 2019 9:57 AM  
**To:** Wannemacher, Ryan F. - Chief Financial Officer  
**Subject:** RE: Fwd: JEA Privatization

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Let me know when you have some time.

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**From:** Wannemacher, Ryan F. - Chief Financial Officer <[wannrf@jea.com](mailto:wannrf@jea.com)>  
**Date:** Saturday, Oct 12, 2019, 7:24 AM  
**To:** Sine, Isaac (CIB, USA) <[isaac.sine@jpmorgan.com](mailto:isaac.sine@jpmorgan.com)>  
**Subject:** Fwd: JEA Privatization

FYI...

See below. Lets chat when you get a chance.

Thanks

Ryan

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**From:** Panger, Jeffrey <[jeff.panger@spglobal.com](mailto:jeff.panger@spglobal.com)>  
**Sent:** Friday, October 11, 2019 11:22 AM



To: Wannemacher, Ryan F. - Chief Financial Officer; Orfano, Joseph E. - Treasurer

Cc: Bodek, David

Subject: JEA Privatization

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Gentlemen,

I have some follow-up questions regarding the information you provided at our August 21<sup>st</sup> meeting, and I'm hoping that you can provide some clarification, as well as provide you the opportunity to respond to some of our emerging views.

- 1) The McKinsey study suggests a 35% decline in sales related to energy efficiency and an 8% decline related to distributed generation by 2030, more than offsetting customer growth and leading to an 8% overall decline in energy sales (SLIDE 42). It's our understanding that the McKinsey study was the impetus for conducting the "Baseline- scenario 1" and "traditional-scenario 2" response, and that the results prompted the decision to explore a "non-traditional- scenario 3" responses. Insofar as I can find no other utility suggesting this level of decline in sales related to energy efficiency, and no other utility (except perhaps outside of the southwest, and certainly not in Florida) with this level of DG penetration, this seems extraordinarily high. What is the basis for the McKinsey estimates, and why is this more acceptable than what the rest of the utility industry is viewing.
- 2) The title of Slide 42 says "... May Likely Increase.... May Likely Fall". The combination of those words is confusing... What does "May Likely" mean?
- 3) If this is indeed JEA's view, why is this not reflected in JEA's forecast, which suggests flat sales, manageable rate increases, and robust financial metrics?
- 4) If JEA is expecting an 8% decline in sales, why would you need to convert the Greenland units from simple cycle to combined cycle? And why is the conversion not in JEA's current forecast, but in the baseline, and then not in the "traditional response" (replaced with power purchases). It seems that this is only serving to inflate the cash gaps (and hence the rate increases/cutbacks required under each scenario).

- 5) Slide 57 – Why would O&M increase 3% in the current forecast, but 4% in the baseline and 2% in the traditional response?
- 6) Slide 57 -- Why is debt acceleration being addressed in scenario 2, (but not in the baseline or the current forecast). Again, it is our understanding that these scenarios are intended to address a projected decline in sales, but by including debt acceleration, it creates an apples to oranges comparative. The inclusion of debt acceleration in scenario 2 (while perhaps laudable) inflates the cash gap and suggests that higher than necessary rate increases are needed -- which ultimately is laying the basis for your exploring scenario 3.
- 7) Slide 57 cites substantial “other revenue opportunities” in scenario 2 – I was under the impression that part of the reasoning for scenario 3 was because JEA doesn’t have the ability to seek “other revenue opportunities. What are these “other revenue opportunities” in scenario 2?
- 8) Slide 79 : JEA had \$5.1 b of LTD and PPA debt in 2018, Scenario 1 shows \$4.8b in 2030, and scenario 2 shows \$3.5 b (all PPA debt) by 2030. Is the \$3.5 b in scenario 2 the total amount of Project J debt, or does it represent JEA pro rata share?
- 9) It seems that the McKinsey study, and scenarios 1&2, are being held up as the motivation for pursuing scenario 3 -- privatization. But as the above questions suggest, we are unclear whether they form a sound basis. Please help us understand your thinking on this, and whether, as possibly suggested by slide 86, the privatization discussion is being driven by a desire to use proceeds to retire city debt (in addition to JEA debt).

I look forward to your response.

**Jeffrey Panger**

Director

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