JACKSONVILLE CITY COUNCIL

SPECIAL INVESTIGATORY COMMITTEE ON JEA MATTER

TELEPHONIC INTERVIEW OF

PAUL MCELROY

DATE TAKEN: Thursday, March 26, 2020

TIME: 2:13 p.m. to 3:55 p.m.

Examination of the witness taken before:

Terrie L. Cook, RPR, CRR, FPR, and a Notary Public

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I N D E X

E X A M I N A T I O N

E X H I B I T S

S T I P U L A T I O N

It was stipulated and agreed by and between counsel for the respective parties, and the witness, that the reading and signing of the deposition by the witness was not waived.

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MR. RUSSELL: This is Lanny Russell. I am special counsel to the investigative committee appointed by the City Council concerning the potential JEA sale.

And I believe -- if the other persons would make their appearances, please.

MR. POWELL: This is Steve Powell. I'm with the Office of General Counsel and I'm here on behalf of JEA.

MR. ABEL: This is Michael Abel, A-b-e-l, from Abel Bean Law. And I'm counsel to Paul McElroy.

THE WITNESS: This is --

MR. RUSSELL: Go ahead, Mr. McElroy.

THE WITNESS: Yes. I'm sorry. I'm Paul McElroy, M-c-E-l-r-o-y, and retired CEO for JEA.

MR. RUSSELL: Thank you, Mr. McElroy. We appreciate you voluntarily participating in today's proceedings. A transcript of the interview is being made and you will be provided that transcript with an opportunity to make such corrections as you believe are errors in the transcript or corrections to what you have said, if you believe that's appropriate.

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PAUL MCELROY,

having been produced, testified upon as follows:

DIRECT EXAMINATION

BY MR. RUSSELL:

Q My understanding, Mr. McElroy, is that you became the chief executive officer and managing director of JEA in September of 2012; is that correct?

A Yes, that's correct.

Q Okay. Could you briefly explain to us --

MR. RUSSELL: Who just joined, please?

MR. POWELL: I'm sorry. I accidentally hung up. I just dropped -- I dropped back in.

MR. RUSSELL: No problem.

BY MR. RUSSELL:

Q Mr. McElroy, could you briefly explain to us the financial condition of JEA at the time you became the chief executive officer and managing director in September of 2012?

A At that time, JEA had a -- a significant amount of debt on its balance sheet and was finishing up a series of -- of right and/or price increases that we had approved and -- and put through in the prior four to five years.

So -- so revenue was -- was brought up to -- at that time to -- to match out their expenses and to match essentially the large debt load the utility was carrying. That debt load was the result of putting on approximately $2 billion in debt over the prior seven or eight years on the electric system and a billion dollars in debt on the water/sewer system.

So, in essence, the operating cash flows were sufficient to cover operating expenses and -- and provide a large improvement for the bondholders, but we really needed to work to move our debt down and get that under control and move those metrics in terms of debt to equity back in line, essentially, with industry standards, you know what I'm saying, and our -- and our credit ratings.

Q Thank you.

And I understand, Mr. McElroy, that you resigned as CEO and managing director of JEA in April of 2018?

A That -- that is correct.

Q As -- as of that date, April of 2018, had the financial condition at JEA changed from that which you described in answer to my prior question?

A Yes, it had. It had improved -- improved significantly. During that period of time and -- and a couple years -- probably the 2010 time frame was the beginning of the -- the pay-the-debt strategy. But at the time I left, JEA was making the largest contribution to the City in its history, an all-time high, customer bills were -- were lower than when I first started. The debt was down by $2 billion and the credit ratings were -- were up, were better than they were when -- when I first took over.

In addition to that, customer satisfaction was up significantly on the residential side. And these measurements are -- are from J.D. Power & Associates. They're independent of -- of JEA's involvement. They produce these ratings and surveys whether -- whether we participate with them as a partner or not.

So residential customer satisfaction was up 74 percentage points, business customer satisfaction was up dramatically. And, in fact, the utility placed number one in the nation out of 98 other electric utilities in the country in 2016.

We were able to continue to work on our plan to reduce CO2 emissions and put other strategies in place that are locked in place to occur over the next couple of years, bringing CO_2 emissions for the utility down by 45 percent from its peak in 2014.

During the time, I would also say the environment, our -- our river was healthier and there were plans in place to -- to make it even -- even healthier.

An assessment of all of the systems, they were more reliable, including JEA.com and mobile applications. And the team, during that two years, proved its -- how successful it was in terms of it covering two major hurricanes back to back.

So I think all in all, the financial strikes that the utility was under, allowing it to accomplish all those business goals and objectives was -- was stronger at the end of -- when I retired than, you know, when I first started out.

Q And prior to becoming, in September of 2012, the CEO and managing director, you had been the chief financial officer of JEA?

A And that -- that is correct.

Q And you put -- what year did you become chief financial officer?

A The -- the title chief financial officer was supplied, I believe, in 2006.

Q In -- let me just back up because that's a different period of time.

During the period 2006 to 2012, when you became CEO and managing director, did JEA also face challenges in connection with its operations that you recall?

A In 2006, there were certainly financial challenges in that at that time the -- the debt I mentioned in my previous answer had really accumulated to its -- to its -- not the highest level, but almost to its highest level in the period from '98 to 2006.

On the elec- -- on the water/sewer system, it went from 244 million to -- to $1.7 billion. And -- and rates were still the same. Prices were still the same.

So we were -- we were stressed out in terms of our -- our financial performance and measurements at that time because of the very heavy debt load added on without any -- any income or revenue or really any significant underlying growth to pay for that debt.

It was a mirror image in the -- in the electric system when debt in 1999 was approximately 400 million. And in 2008, it had reached 2.6 billion in that period of time. Again, without any -- any price or rate adjustment to cover the -- the repayment of that debt.

So we had -- we had a challenging time in the first four years of -- of my role as CFO. And -- and we worked with the community, certainly worked with the board and -- and moved significant price adjustments forward, based upon the need to recover the cost of the major investments made in the system in the -- in the years, really, 2002 to 2008 or '9.

From a systems perspective, there were a lot of improvements made during those years or investments made during those years, an expansion of generation capability. So the system was -- was improved and then really in the -- in the period of '08 through '12, operational excellence became a -- became a theme within the utility and I believe we funded a lot of plans at that point in time through -- through the pricing adjustments to be able to move our operating metrics up to top decile performance.

Q Thank you.

I'd like to ask you some questions about the 2017 annual report. I had sent you a few pages of that report, excerpt from that report.

A Okay.

(Exhibit 1 was marked for identification.)

Q Do you have that before you, Mr. McElroy?

A I'm going to pull that up right now. I have another one. Annual report. Yes, I have it up now.

Q Thank you.

This is a 2017 annual report for JEA, is that

correct, or excerpts from that report?
A That is -- that is correct.
Q And I believe the period of time covered by this report would be the year that ended September 30th, 2007 [sic], because the fiscal year at JEA is September to September?
A That's correct. Its 12 months ended September 30th, 2017.
Q Okay. And this was the last annual report that would have been prepared during your tenure as CEO and managing director of JEA?
A That is correct. And it is physically posited --
Q And -- go ahead.
A But -- and so just not prepared, but fully posited by E&Y. So I think that's an important distinction.
Q I understand.
Did you personally assist in the preparation of portions of this report?
A And as -- as CEO, it -- it would not be in my responsibility -- responsibility to -- to assist in the preparation.
Q I have a better question.
A Yeah.

Q Yeah.

And as CEO and managing director of JEA, did you approve this report before its release?

A Yes.

Q Okay. And what I wanted to ask you about was actually on the cover page. It was the -- under the title of the document, the JEA 2017 Annual Report, in bold, is the word Resiliency. Can you tell me why that word was used on the cover of this report?

A It -- it related directly to the resiliency of the entire JEA. Its -- its terrific, fantastic world class work force, its operating systems, it -- meaning its -- its hard assets, its plants, being electric, water and sewer, its distribution systems, whether water or electric, its collections systems, wastewater, all of those performed, admirably, certainly at -- at that class level during the hurricanes that -- that just hit us in the -- in the prior 12 months.

So it was a -- it was a testament for the fortitude of the human element, which is the distinguishing element of JEA, its people and how they were able to -- to employ the outstanding infrastructure that we had and to repair and maintain it during -- during horrendous conditions, two back-to-back hurricanes.

And so that was the strong people, being that we thought important to -- to signal that we were resilient through the enormous challenges that Mother Nature had directed at us and came out both better for it.

Q Okay. And on the second page, the actual first page of the document, not the cover page, there's the statement on the margin, second sentence, and the statement in the annual report is, We assumed no new debt and set in place a five-year plan that will reduce current debt by nearly $1 billion.

What does that tell us about the financial condition of JEA, given that plan?

A Well, it was a strong signal to the marketplace and to the community, the owners of JEA that we had strong operating cash flow, sufficient enough that we were going to be reducing debt further by another billion dollars over the next five years. And that would be on top of the $2 billion that we had reduced in the previous.

But we were really addressing the need to get our balance sheet in a minimal and hatch-out place to deal with the future challenges that would be coming our way, whatever they might be for the future.

And that the -- you know, when you look at the statements, when you look at the -- the next revenues, that's revenues whether it's on the schedule that's service coverage or you look at net revenues on a cash flow state, that the utility had an extraordinary strong operating net cash flow.

Q In the report, you also described the -- JEA described the decommissioning of the St. Johns River Power Park, what -- did that provide benefit to JEA?

A Yes, it did. It provides -- it provides and it will continue to provide benefits to JEA and -- and ultimately JEA's customers. I would like to think that -- that any benefit that we had really approved to our customers, not to -- not to run JEA or the employees of JEA, but to our customers.

So the decommissioning was a -- was a difficult decision, but an important one, for the utility. SJRPP, or St. Johns River Power Park, was a -- a jointly-owned project, coal plant on the north side of Jacksonville that operated very effectively during its life span.

The operating agreement was scheduled to -- to end and I believe it's April 2021. I might be off a year, it might be 2022. But if we can just pick a date, 2021. And FPL had signaled to us that -- that they wanted out at that point in time. Contractually, they could essentially walk away, give us the key to the --

the other half of the key and walk away. And we would have this enormous plant and all of the obligations that go with it at that point in time, to which would approve to the -- to really the detriments of JEA, the Jacksonville community and our customers.

So we started a conversation about what do we want -- what can we do with that? And, clearly, they wanted a complete exit strategy. We -- we talked about taking those units and converting them to natural gas. And we went through a series of studies on that and found that it was reasonably feasible, but would -- would require significant amount of capital. And we would only have -- have -- you know, we'd only need half of a plant, we wouldn't need the other half they were giving up.

So they came forward with an offer to exit early and put a considerable amount of money on the table and stayed in the -- in the partnership through decommissioning in order to return the land back to its original -- original condition and they would bear half of the cost, as the -- as the agreement stated.

And so the long and short of it were we looked at the -- the financial side and these numbers were tested by an outside source and -- and independently validated them to be a ten-year return of about $450 million of -- of savings if we were to decommission the plant. And that was a combination of funds and money paid to us by FPL and -- for the early decommissioning and the savings that would accrue from -- from running the plant or having to do it on our own.

I think a final point on this, which -- which it really helped finalize the decision, is that -- is that coal -- electricity produced by coal is -- is not economic in the market. It cost more to produce -- or the giving of electricity being coal today than it does to be a natural gas builder and other technology. So it wasn't being used as much as it once was.

So it was a confluence of -- of issues that led up to that decision. In that decision, we worked very hard with the affected employees. A number of them were able to retire in place, a number of them joined JEA. I believe anyone that wanted a job, we work would with the State, in Tallahassee, anyone who wanted a job, we were able to find them equivalent work before the transition was over.

Q Further down in your report, your statement made, The disclosure proves JEA's ability to adapt to changing market condition.

Can you explain what were the changing market conditions that existed in 2017 that JEA would need to adapt to?

A '17 was --

Q Actually, up until the point in time you left JEA, take it up to there.

A Yes, yes. So -- so the transition was occurring and -- and there were a couple things going on. Clearly, the industry was transitioning away from coal as a fuel source to generate electricity.

Number one, the commodity was -- was more expensive. Number two, the environmental impact and its CO2 emission. And number three, it is manpowered intensive compared to other technology. So just the total cost of energy calculated and the environmental footprint on coal, the industry was transitioning away.

Now, a lot of that was transitioned to natural gas, which JEA successfully done in the early -- in the early changes of this -- of this century now, in terms of bringing on natural gas generation. But we also put in place in '17 that -- a very big expansion of solar, '17 and '18, the contracts were executed shortly after I left, but the negotiation, the planning, the acquisition of the land, et cetera, was -- was put in place before -- before I left.

And expanding the solar capability or capacity for -- for JEA from -- really you had 10 megawatts out at the Brandy Branch Station to be adding anywhere from 250 to 300 megawatts of solar generating capacity over five or six sites that we had accumulated throughout the county. It would have put Jacksonville and -- and JEA in the -- in the top ten, at least, utilities in the country in terms of having solar generating capability within its boarders.

So, clearly, the -- the transition away from coal, to move to natural gas, on our way to large scale utility solar was a transition that was sort of '16, '17 and -- and '18. And JEA was well positioned to do that. I think the -- the interesting aspect of the -- the solar expansion was that it did not require significant capital and that they -- they were -- those projects were done on -- on contract. And it was energy that would be paid for as it was delivered, so constructive and owned by others, they would produce the power and a set price. And that price would be paid if delivered on a go-forward basis.

So I -- that -- that was -- those were the two -- two or three big moving parts in the, sort of, transition; the environmental, both CO2 regulations, the reduction in coal, the expansion of gas and the immergence, certainly in our area, of solar, and to a very limited extent some -- some lean technology was actually being brought into Florida and the panhandle from the -- from the upper midwest.

Q In 2018 when you resigned your position at JEA, did you at that time believe that for the foreseeable future JEA could continue to operate as a viable public-owned utility?

A It -- yes, absolutely.

Q And could you tell us why?

A Well, I -- in -- in my 15 years with JEA, and then I think being astute with JEA and sort of looking back at the -- at the history over time, simply back to the -- back to the '60s, and included in that history lesson were some -- some great one-on-one conversations with -- with Mayor Jake Godbold as well.

So we studied that and I -- I saw the challenges in the interview mirror that JEA not only faced, which some at the time might have been viewed as exponential. They were 100 percent reliance on Royce in the '70s, but JEA and the community banned together and developed a coal plant and switched to natural gas and built out of that and expanded the system, et cetera.

And so when we came through, certainly on the water/sewer side, the inheritance of the system from the City in '98, there were consent decrees and the condition -- the system was -- was not very good and I think that's probably being kind. The enormous amount of energy and capital and work done to bring that system up to -- above federal standards and operating exceptionally.

The new one didn't appear to be any challenge on the horizon that -- that part two couldn't meet. And I think one of the exciting things for us during coolant was that it appeared that the industry was going to be less capital intensive as well.

So at one time, the enormous capital was a requirement. It appears going forward in terms of expansion of solar and other technologies that because of the deals being offered and the structure of the industry, the amount of capital it's attracting in unique ways would not cost the JEA as much as it had in the past.

So I -- I think they were very, very well positioned. We had enormous capability in terms of intellectual capability on the team. We had outstanding operating performance. We had a plan that was emerging at the time called Future Smart. We had employees to work -- to look at our cost structure and we thought by being smart and by making some investments in IT and systems, we could gradually work out 30 or $40 million out of our cost system.

We saw there were opportunities to maybe expand some services. We had failed in the past to do that, to get approval, but we thought that we might be successful in the future.

And so we felt pretty good about increasing productivity while continuing to improve our service and expand our service to our customers. We felt that our cost structure, really our balance sheet, was much more agile and able to be -- meet the challenges and demands of the future. We've already proven that our operational performance was exceptional. We were launching an enterprise access management program, which was really at the forefront of the industry in understanding managing assets more effectively and efficiently and applying technology to them to drive costs down.

And our customer satisfaction was being driven by lowering our cost, keeping our pricing in line and -- and delivering what our customers expected.

So I didn't see any challenges in the future. I saw, quite frankly, a good number of opportunities, such as climate change. When you look at the flip side of climate change, it is going to be a challenge, but owning and controlling your local utility and working with them offers an opportunity to address the negative side of climate change, but it also, the positive side in terms of increasing electric demands for cooling.

Transportation was another great opportunity for us and the electrification of that. Its time clearly has not come. But it's -- I believe it's going to be there if, in fact, we're serious about CO2 and climate change in our region and nationally.

Natural gas prices are at an almost all-time low. It's amazing to me at this point in time that natural gas is below $2 and -- and the opportunity that that presents for cost savings initially in locking in forward pricing.

The opportunity to bond from and refund -- refund what funds are available in today's credit market is just astounding in terms of how much money could be saved if we were to really dig into the market now and restructure some of our debt.

I think that when we look at local control, any type of negative or challenge on the future, having the local control to expand our water/sewer system, to own our environmental footprint to ensure we're resilient not only from hurricanes, but from climate change and sea level rise, as well as, and very importantly, energy efficiency. The rest of the State of Florida doesn't think that's important. As a local community, we can help those who need it most with energy efficiency and -- and that's only done through a local.

Now, the flip side of that in terms of rooftop solar, I -- I think that some customers will continue to have rooftop solar. The challenge there isn't so much to be afraid of rooftop solar, but it's to ensure that your rate structure is adapted to what other parts of the country have adopted, rate C coupling. And -- and that fixes that issue or the current demand pricing products that's being tested was developed while I was there and is still in test mode, that helps tremendously offset the revenue loss and -- and really the increased cost of rooftop solar.

I think rooftop solar has a long way to go, especially now that the utilities are scaling up in terms of utility scale solar. We can bring -- certainly we and other utilities can bring solar to the consumer at a lower cost if we develop a 75 megawatt solar farm all in one location versus individual locations of one-tenth of one megawatt on roofs in Florida, where we get 40 to 50 inches of rain a year.

So I -- I just -- I get excited about JEA. The flexibility of looking what we have in the balance sheet, I'm excited quite frankly about -- about global. Global is going to be far more expensive than we planned, but it is 200 megawatts -- and I hear from APPA that they're thinking and planning right now of loading some nuclear fuel later this year. And -- and that would be 200 megawatts of CO_2 free electric generation that we can import from Georgia.

Overall history is important. Millions and millions and millions of megawatt houses from Georgia. In fact, if you go over 30 years, 22 percent of our powers come from Georgia.

Early in the '80s, 60 percent of our power came from Georgia. It's not new. The global -- the transaction has -- has problems and challenges, but the -- the fact that we will have base load of almost 13 percent of our power, zero CO_2, maybe not right now, but in several years when we do get legislation and -- and we are restricted in terms of our CO_2 emissions, I think it'll pay dividends in the future.

So I'm -- I'm -- so I rambled on a little bit there, but I'm -- I'm pretty excited about the opportunities for JEA in the future.

Q I sense that.

You used the term, Mr. McElroy, rate C coupling, could you explain what that is, please?

A Yeah. Simply -- simply stated today, in Florida, the general way to price for electricity is to have a small customer charge that's sort of an administrative, I think with JEA it's $5, and then charge an amount for fuel, based upon how much energy you used in a given month and you get a charge for the fixed cost, that's the plant and the distribution cables, et cetera, that brings the power to your house and that's based upon how much energy or electricity you use. That's the same structure you have in Florida. You -- you pay for not only the -- the water, but you pay for the plant and the pipes based upon consumption, how much you use.

So that's the way it is today. Many parts of the country have gone to B coupling that have said, you know, going forward, it cost X dollars to bring essentially a line or a pipe to your facility and we need to recover that charge to bring that pipe or line to your house because if customer A uses it 10 percent of the time and customer B uses it 50 percent of the time, it still cost the utility the same amount of money to bring those lines and pipes to the -- to the residence.

And so B coupling is putting a charge in place to cover fixed costs and then a charge that really is based upon consumption. It's based upon throughput through your water system or for fuel in terms of how much energy you use. It's common practice in -- in many states at this point in time that have wrestled with these same problems -- or problems, challenges to -- to move forward. It offers the customer an opportunity to -- to save as well.

Q Okay. Just to be sure I understand, in terms of rate B coupling, is that admissible now for JEA or would that require some sort of legislative or charter change?

A I -- I believe -- the coupling we hadn't -- we had not approached the board with. We were watching that closely, but certainly that would be a -- a future opportunity. I believe that the -- that -- well, I know that the board of JEA has rate setting authority for -- for JEA. The -- the public service commission has the authority to ensure that we're recovering costs adequately. So you've got to get your structure approved by them.

I'm not sure where the State is with respect to B coupling at this point in time in terms of its approval process, but the board would have the -- the authority to -- to approve it, we'd have to get a secondary with the State. They have always been receptive to -- to at least testing as well, so I think we could probably move -- move forward with that.

Q Good.

And the chart that I had attached to this excerpt from the annual report, that chart, particularly the financial highlight for the years 2017, 2016 and change, that demonstrates the financial occurrences that JEA had in that year that you had described just previously?

A Yes, it does. It covers -- there's 2013 through 2017.

Q Good.

In turning back one page, just in conclusion of the report, it's the last phrase in the report, right above your signature, report says, As we know all too well, our lives wouldn't be the same without the world class electric water and sewer service our customers have come to expect from us.

Do you believe that statement was true in September of 2008 -- 2017 when that was stated, Mr. McElroy?

A Yes, I do.

Q And do you believe that statement is true today?

A Yes. Yes, I do. Yes.

Q Okay. In connection with your -- how many years was it? Let me back up.

The CFO and CEO of JEA from -- what years, 2006 through 2018, 12 years, were you familiar -- did you become familiar with compensation plans that were used at other public utilities throughout the United States on the face of the employees of the utilities?

A Yes, I did. Yes, I -- I did become familiar with compensation plans across the municipal sector, the investor, that's the public stock traded utilities, as well as some regional companies with the similar size of revenue employees.

Q Okay. Are you aware, Mr. McElroy, of any public utility that has ever had a compensation plan that paid the participant employees based upon the increase in value of that public utility?

A No, I am not aware of it. I was -- I was shocked, disappointed and disgusted at reading about that issue in -- in the -- in the local media.

Q And why did you have those feelings, if you could explain them to us, please, Mr. McElroy, about that plan?

A I felt the time that I worked at -- at JEA, I -- I was there in -- in part because of the -- because of the work, but in part because of the public service and serving our community. I understood that we worked in the public arena. I worked with Craig Peoples and their mission was public service. And the thought that -- that a -- a structure would be put in place to exploit and take advantage and enrich anyone from the -- from the finances of -- for JEA under any consis- -- condition and under any structure, given the fact that we've got 50,000 people in this community that live at and below poverty that have as much, if not more, need and right to those funds than anyone else just -- just disgusted me.

So it's more of a personal answer, but I -- I worked in the private sector. I worked in financial services in the private sector. I understand the mentality in the private sector. And if you want to work in this private sector, then -- then one should go seek employment in the private sector.

Q Thank you. And changing subjects just a bit.

Are there particular advantages to being a public utility as there would be in a private investor owned utility?

A Absolutely, yes.

Q Can you give me the material ones, please?

A Well, I think the largest one is -- I mean, there are sort of two in my mind. One is local control. And -- and that is that the local community owns and -- and drives policy and -- and controls its destiny with respect to life-sustaining economically critical, environmentally purposeful services to their community.

And so JEA's fortunate enough to be essentially in a sweet spot in terms of its ability to scale up and do all of those things economically. So you could control your destiny and -- and you can -- and you can do it in an economical way.

I -- I think the -- the other critical point here is -- and -- and this may get back to my previous point of disgust in terms of, you know, that incentive plan, is that the business -- municipal businesses are not for profit.

Now, it's easy to say that a public company that is share-holder driven is for profit and a utility municipal or state-owned utility is a nonprofit and it -- it gives the impression that that's just an account.

And I can tell you from having lived through it, on both sides, in -- in financial services, aggressive, cut-throat, for profit and then the reality of public service and good and nonprofit and, quite frankly, within the municipal group, it was sort of a -- it was sort of viewed as the dark side and the light side. Admissions -- public college admissions and passing grades are a couple of examples that they do work very, very well.

And this is in no way disparaging towards our great partners, FPL and Power Park, but a lot of conversations were held during the operating committee when that plant was running. And -- and I think we demonstrated this point.

JEA would see the need to -- to make an investment to improve the process to lower our overall cost for our customers. And FPL would look at that and say, no, that's operating expense, it's not a capital expense and my shareholder has to pay for that and we can't do that. And so -- because it affects profit. If it's capital, they can put in the capital pool, get approval and then make a profit.

And you don't have those arguments in terms of -- and certainly during my tenure you didn't have those arguments because our focus was it didn't matter about rates, it didn't matter about money, it matters what ended up on the customer's bill, that was the important thing. That's what we all worked for during our daily activities.

And so providing that service and making sure we had the sensitivity and efficacy in the way we addressed, again, the 50,000 customers that live in poverty within our community, that the tens of thousands of others that are income challenged and without wealth, they're paycheck to paycheck, certainly in these times, I mean, it's absolutely critical, but on a day-to-day basis it's critical, too, and you have the flexibility to work through that and be part of the community.

Economic development, we're here to be part of community and to assure that the community grows. You know, I can say that on the other side, we've got to serve the profit holder in order to get the gravy in terms of that.

So I'm just saying it really is two different -- very different economic and financial structures, but it is very, very different from a cultural standpoint in how you approach the business, how you invest in the business and -- and how you support your customers. And I -- I happen to be a little partial to the -- to the public power.

Q Okay. Prior to -- I hadn't asked this earlier, but prior to coming to JEA, I believe you had two significant long-term jobs, what were they, Mr. McElroy, in the private sector?

A I was a -- a vice president and general manager for several divisions of -- North American divisions for Bombardier Capital. Bombardier is the french name of the firm. And I had a variety of management positions.

My last position was vice president, internal manager of the internal -- actually vice president and -- and had the function of general manager of the internal finance division for Pitney Bowes Credit Corporation, again, a North American corporation.

And I -- I would also say, too, I mean, in terms of working and growing those business on an ongoing basis, we had terrific success, and that's not really the topic today.

But more the topic today in terms of industry experience, during my time at -- at JEA, I -- I sat on the board of directors of the Florida Reliability Coordinating Council. I also sat on the board and shared for a brief time the Florida Coordinating Group.

The Reliability Coordinating Council, it appeared, was a regulatory and compliance organization chartered by FERC and NERC federal to ensure liability in -- in the state of Florida.

I was a member of the Associated Edison Illuminating Companies on its board of directors and that -- those are investor-owned companies. I was one of two municipal board members on -- on that board.

I was a long-term member of the American Public Power Association and I know the committee had the opportunity or one of the committees had the opportunity to have a presentation from Sue Kelly, who's past president of APPA. I was on the board of directors, executive committee and treasurer.

I sat on a large public powered council, that is the Council of CEOs of the 25 largest municipal utilities -- municipal and state-owned utilities in the country. I was CEO responsible for the -- for the tax and finance group.

I made numerous visits to The Hill. I testified before Congress on -- on their behalf and our industry's behalf.

I was on the board of directors of the Energy Authority, which is a -- a marketing and risk management, energy marketing and advanced marketing mismanagement company partially owned by JEA and other municipals.

I was on the Chamber of Commerce, board of directors in Florida, Northeast Florida Safety Council, Pacific Council and also on the -- on the board of trustees at the University of North Florida.

So I -- I have extensive background and -- and understanding of what was going on in not only the municipal space, but the electric industry space nationwide, as well as within our region and our state.

Q Good. Thank you.

The next question I had was actually in what is Number 2 in the exhibits. It was just a news article. I want to make sure I had a quote from you, Mr. McElroy. In the news article the following quote is attributed to you. And the date of the news article was April 6th, 2018, which was just at the time of your resignation.

And the quote is, I believe the path forward for JEA, at least for the next period of time, calls for a different set of leadership skills, not better or worse, just different. And attribute that to you.

The difference of the skills you're talking about, Mr. McElroy, is that a different set of skills than those that you possess?

A Yes.

(Exhibit 2 was marked for identification.)

Q Again, what would you describe as your set of leadership skills?

A I believe my strongest skill was -- was strategic planning, market assessment and the -- the building of -- and the building, developing and leading of world class management teams and -- and generally in a -- in a -- my history, anyway, in somewhat of a turnaround structure.

And -- and so when I first came on, it was -- you know, the thought was and I'm going through the process, five to six to seven years, while executive CEO and it was approximately that time.

Q And the different new set of skills that you thought was necessary for JEA, what did you believe those skills would be?

A You know, I -- I felt they would be far more political. And that -- that the past and the -- the -- the level of discourse on the privatization and non-privatization was -- was something that was not my -- you know, high on my list of -- of things to be involved in, you know, running an operation and working with people and delivering outstanding service was -- and leading and developing a strategic plan was something that had been very successful and had accomplished. It appears that there was somewhat of a change and -- and time to, you know, give the reigns to somebody else.

Q Okay. The next two documents were two Moody's Investors Service documents relating to bonds. And having listened to your testimony already, Mr. McElroy, I think you've answered all my questions about the bond rating document.

I do want to go --

A If I -- if I -- if I may.

Q Go ahead, please. Yeah.

A Just because -- because you provided those documents, I think a couple -- just a couple of points on there that I think it's instructive to look at the chart of side-by-side ratings, if you will, from the Moody's and S&P and Fitch and -- and sort of put the -- the JEA ratings of its AA and Aa2 in context.

JEA has extraordinary ratings. And, in fact, if you look, most of the ratings are above or better than AA minus, AA minus and above and Aa3 and above, that -- that is high grades.

So their -- they group their ratings, prime ratings AAA, high grade, upper, mid grade and there's one that's just below that, right on that bubble and then a bunch of grades below that. So JEA in itself is -- is extraordinarily highly rated from the rating agencies.

I think in addition to that, a -- a -- two things, you know, a good -- again, contextually, that the electric system ratings increased in '07, in '12 and in '13. And the water and sewer system ratings increased in '12, '13 and '16.

So at times, you know, there's concern in terms of a -- a one rating down, but it -- it's sort of common to move then, you know. We have come off sort of a decade of -- of three clicks up in both systems and --

and the rating agencies themselves have gone through an assessment of how they evaluate and their algorithms, et cetera.

So I -- I'm certainly not concerned by the -- by the one that indicated that there was a -- there was a downgrade, given -- putting it all in context.

Q All right. Okay. Let's go ahead and mark these two Moody's Investors Service documents and we'll attach them as exhibits. The first one will be Number 3 and that was for the JEA's Florida Water and Sewer Enterprise Bond Issues.

And as you pointed out, Mr. McElroy, the JEA electric and water and sewers have separate bonds?

A Say that one more time, Mr. Russell.

(Exhibit 3 was marked for identification.)

Q The first -- the documents that I have applies, if I'm understanding it correctly, to water and sewer enterprise of JEA?

A That -- that is -- that is correct. I just want to make sure I was clear there, that the -- that the water/sewer enterprise has its own debt and its own --

Q Right.

A -- bond resolutions.

Q Right.

A And the electric system has a separate issuance of debt and bond resolutions, correct.
Q Okay. And -- and in this December 8, 2017, document, Moody's assigned an A -- Aa2 to JEA's bond and I believe you said that was a very high grade rating?
A Yes.
Q And it makes the observation, Moody's, then attributes part of that high rating in the body of the document, middle paragraph, to good financial operations.
You believe that Moody's Investors was right about that assessment of the water and sewer enterprise in JEA, that it had good financial operations?
A Yes, I absolutely was.
Q And --
A And support of --
Q Go ahead.
A And supported further by -- by S&P that, of course, providing this same system, the water/sewer enterprise system, a AAA rating.
So, yes, the rating agencies have extremely high confidence and financial strength in the water/sewer business.
Q Okay. And the other comment in the water and sewer document was they looked at and gave this water

and sewer enterprise credit for having long-term planning being a key to the aspect of a system and you believe that's also accurate?

A   I'm just looking at the -- at the date, that was extremely accurate.

Q   Okay. Thank you. And then both of these are as of the date of the documents.

And the document, which will be Number 4, is the Moody's Investor Service I put in the package relating to actually this -- the JEA bond for the electric system. And those bonds are rated A -- Aa2 and Aa3.

And, again, those would be high ratings for utility bonds, Mr. McElroy?

A   Yes. Those would be high grade, be -- be high grade.

(Exhibit 4 was marked for identification.)

Q   Okay. The -- the Moody's Investor Service that we were just talking about, 4, includes the comments that it revises the outlook to negative and then it seems to focus on the global plan as the reason for that revision to negative.

What thoughts do you have about that, Mr. McElroy, the revision to negative and what does it mean?

A Of the -- of the three agencies, Moody's appeared to be the one agency that was the most concerned about global and not only JEA global, but global on their -- their rating of the southern company and other participants in the -- in the project.

In that time, 2017, was a -- was a critical time for the project to -- to get approval. Some of the companies were seeking approval from their public service commission to be approved and -- and there was an enormous amount of discussion in the prior 24 months with respect to the financial condition of the contractors, Westinghouse and Chicago Bridge & Iron at the time, as well as Toshiba Corp, the parent company of Westinghouse, and it being on the verge of bankruptcy and just concerned with the project. So I think that the -- you know, it was -- it was, from their perspective, a concern that they had at that point in time.

I think as -- the rating agencies would be deeper concerned during the construction of any big project, I think some of that would be mitigated once -- once commercial operation begins first of next year and -- and, you know, perhaps JEA being in a position to -- to remove that negative mark.

Q And I don't have a document about this, but

I've heard in the news and seen in the news recently that there's been a downgrading in the rating of JEA bonds.

Are you aware of that, Mr. McElroy, the last 90 days?

A I would have to say I recall something, but I -- I -- I can't be specific. I just vaguely remember hearing something.

Q Okay. Let me double-check. The question, I guess, was consistent with something I heard earlier, Mr. McElroy, is your resignation from JEA, as the CEO and managing director, has something to do with this potential privatization or sale of JEA to an investor-owned utility?

A It was -- it was in the middle of the -- the City Council's investigation -- not investigation, but workshops on the future JEA. And it was a -- certainly not a very productive time. And it was centered around a lot of discussions in terms of privatization or not. So I -- you know, it was at a time when the City Council was continuing to review and request documents relative to the issue of privatization. It's -- it's central to the time that I resigned.

Q Thank you.

And the last document that I had marked as 5 was materials -- the title of the document is Materials to assist the City Council Special Committee on the potential sale of JEA, that has the date of March 15th, 2018.

And I believe what this document is is a series, Mr. McElroy, of Power Points, slides that you've used in that presentation to the City Council Special Committee on the potential sale of JEA.

A Yes. That is correct.

(Exhibit 5 was marked for identification.)

Q Okay. And what I wanted to do was just ask you to briefly explain to us, please, what it was that was shown by these slides. And the first slide is actually on page 16 of the entire group of slides, it's entitled, JEA Electrical Sales and Projections. If you would, please, just explain to us what this slide demonstrates.

A This -- this slide shows 1979 through 2017 actual and then some projections or extensions, if you will, lying out to 2023 for megawatt hour sales for electrical mega -- megawatt hour sales. And the bars in the individual years show how much electricity, as measured by thousands of megawatt hours of sales occurred in a given fiscal year.

What -- what it shows is that in -- in 2006, was -- was a -- the highest sales period on this chart and then subsequent years, we see a climb in a -- in decline of the sales in the future. Some of that certainly related to the financial crisis in 2008, '9 and '10 and then some of it contributed to the demand of customers thereafter.

What is -- with the couple of lines there that show higher levels of -- I think it's the -- the color copy, the top line that continues, my copy is black and then covered by a blue.

Q Right.

A Those -- those are projections based upon a historical view. So the -- the black line is just a continuing out the same projected 3 percent -- roughly 3 percent annual compound growth rate for the prior 20 -- 20, 30 years.

And then '16 was what was projected in the IRP, integrated resource plan, which is an electric system document to project future demand used by the utility and the public service commission where sales would be given -- given a history.

And then it was updated for 2017 in -- in the red line and the projection based upon the annual growth based upon the 10-year period 2006 through 2017.

Q Okay. What in the --

A But it shows -- basically, it shows a decline in sales.

Q Yes. If the -- if I'm understanding this right, the TSP-based sales projection, which was done as of 2017, actually starts to show -- although it's still a flattening, it does dem- -- it does project, if you will, a growth in sales until 2023, which is as far as it goes out?

A That is correct. That is correct. What -- and I think if you -- I think if you press down, I think it might be a half a percent sales or something like that, maybe roughly for a half cent, .75 percent sales, but that is -- that is accurate. The red line representing the 2017 sales goes from the ten-year cycle.

Q Then turning to Page 17, which is a similar chart, which relates to water and sales projectioning -- projections, you see these? We have a red line, which is a flattening of the projection based on the annual growth rate, but nonetheless, the red line, which you said is the accurate line, that also shows some increase?

A Yes, that's a slight increase as well.

Q Okay. And on -- go ahead.

A If I -- if I -- you know, a couple points on these two slides that -- again, if I may, for context.

And certainly on the water slide, to the extent that our customers are more than satisfied, delighted at using these levels of -- of water and electricity and that we can meet our obligation with the City for the contribution, that ought to be celebrated.

Number one, in the electric system -- or in the water system, we are preserving the aquifer at these levels. I mean, if we were to -- if we were and had known that that annual growing rate, the black line at the top, water would be a lot more expensive because we would not be relying exclusively on the aquifer, we would be forced into alternative water sources, which are multiple times more expensive to process and deliver, four to ten times more expensive to process and deliver.

And -- and then -- so to the extent that that line stays flat and through conservation and through better irrigation and using our water allocation smartly, we're better off as a community.

Now, that's that municipal mindset. That's not an investor one or somebody that's trying to play out some type of incentive compensation plan. So I'm not so sure -- you know, in the terms of the flat is good for the community. It keeps money in their pockets. It preserves their resource for generations to come.

It's -- it's an -- in my mind, a really good thing. You know, you've got to be really smart about your cost and -- and manage those very effectively.

I'd say the same thing on the electric side. You know, there's been some public discourse that the drop-off here from -- from the previous forecast, et cetera, is a bad thing. Well, it's -- it's -- it's only a bad thing when you look at sort of the inside -- it's not a bad thing. It's a challenging opportunity inside the four worlds of JEA.

It's a good thing for the community because our environmental footprint is smaller. It's a good thing for the community because it leaves more disposal income for our customers to spend on other things and consumers are being more efficient.

So I -- again, I'm pretty optimistic about the utility. And I've heard some pretty negative things in the -- in the public domain and I just think that that's important context for those two charts because they've been used and misused time and time and time again, so.

Q And I hope I'm not going to misuse them. With what you've just said about these charts, if I fully understand, skipping the next page, which is 20, the next several slides, 21 through 26, they relate to customer satisfaction. And this customer satisfaction shown in these charts are related to what you just described in terms of what makes the customer satisfied, that is, a raise and what's been done for its community with JEA.

In that context, could your explain, and do all the pages at once, the connection between this customer satisfaction and the operational charts, which we just talked about?

A Yes. I -- the one element of customer satisfaction for utility services is -- is pricing. And it's interesting because the public discourse and -- and what has been spoken quite a bit about over the last couple years in the media, the reporting out what others are talking about is this concept of rate, rate, rate, rate. I mean, it has -- at the end of the day, the consumers, the customer service studies indicate, it's -- it's the amount of the bill, it's what they pay for the services they get.

And so providing customers, which we did over the period that I was there, there was a lot of rate adjustments between fuel and base, but have actually decreased in the electric systems during the five or six years, rates were held stable. So they had no pipe or rate increase or monthly bill increase that was associated to an action taken on behalf of the utilities at the rate of price because of cost increase.

The way we did that was we held cost down. We reduced cost and tied our cost to the megawatt hours produced. And so my charge to the -- to the organization from the people that reported to me, to the people that worked in the plants, the people who worked on the line, it's everyone's job to keep the customer's bill at or down. And -- and so that's one component.

Being easy to do business with is another. Being a -- a -- a component, a part of the community to volunteer actions.

Social consciousness is another part that helps our customer satisfaction and the relationship with our customers. And -- and there are a few others.

So it's a -- it's a well-rounded mix in terms of the -- of the overage. It's not just a -- I mean, it's sort of a misnomer in terms of price. When you look at some of the charts of who steps back, you will see that, you know, there are customers in the bottom quartile, they're priced less than us, but they don't respect their customers.

And so I -- I think overall that customer satisfaction is driven by the -- the four or five attributes that were surveyed, that's with billing and billing options, the call center, being able to communicate, et cetera, as well as overall price and delivery and optional -- optional services is part of the customer satisfaction.

And what was done here by focusing on that and focusing very differently than what has transpired or did transpire and -- and what has transpired prior to my -- my time the last time there, five and a half years, we -- we engaged everybody.

While our strategic plan was developed by the scenic commissioning and the board, we had six public workshops with them, we exercised it throughout the entire JEA community, we had input from everyone. We met on a quarterly basis with everyone in the utility to go over how we were doing against goals. We asked for personal commitment to achieve these goals. And we were able to move the customer satisfaction up at a faster rate than J. D. Powers had ever seen done in its 15 years of running the surveys for the electrical industry.

Q Thank you.

Let's, if we could, just back up to chart 20, on page 20, the CEO update, five-year journey. I have a few questions to ask about that, if I might.

A Sure.

Q These 2013 goals, is that something that JEA does -- JEA, as a group, does annually or every five years in terms of setting goals and then going back and looking at whether the goals were accomplished?

A There are broad goals -- so I hate to be a little long.

Q You can probably answer the question I'm trying to understand, why in 2018 we're looking at 2013 goals. Were 2013 goals set for a five-year time frame or was that just what was established for 2013?

A That was established for 2013 as we launched the strategic plan. And the strategic plan, you know, roughly had a three- to five-year time frame. There were no firm designated project end dates, but we had come to the time where we had achieved sort of the unachievable when we laid these things out in '13.

So in '18, we were sort of turning the corner, then we were going to move forward with some more stretch goals and objectives and actually that's the last few pages of this document.

So what -- what this was given -- you know, some of this -- when it was presented to the -- to the City Council, some of this was used in our quarterly and annual updates of the strategic planning process to the -- to the employees and to the -- both the senior leadership team and the trending leadership team at -- at the annual and quarterly meetings.

Q Okay. Today, is there another -- as 2013 is gone and been met, is there a new group of, say, for example, 2017 goals that have been set at JEA when you were there?

A I believe when you look -- yes, when you look at what we were emerging at the time, so it's a little rough, I think it's page 36, so 30 -- page 37, it's 2018 CTAs and Initiatives would have been launched in the -- in the last calendar quarter of 2017 while I was there.

And so we were moving towards what we had coined a Future Smart. You know, Future Smart was really going to -- to tend to continue along, you know, all the strategic focus areas and create everything we could do to earn customer loyalty, to deliver business excellence and create and develop the un- -- unbeatable team.

And so these were the areas we were going to focus. Clearly, itself that working with Deloitte and extensively in terms of the work that they did with data architecture and digitizing a lot of the information flows that we had, we could increase productivity and -- and make some strategic improvements and gain -- gain approximately $40 million a year.

And that was a -- that was a goal that was laid out. So it would be on the 2013 goal. It would be on 2018. We'd come back and visit that in 2022, which is that last slide in 38, you know. Our vision was to have increased productivity, while continuing to improve service.

We'd be far more agile than a balance sheet and responsive, improve operation performance and asset management with a well-defined theme and -- and project within the -- within the utility so people knew what that meant and by continuing to sustain the customer satisfaction.

Q What was the change --

A Yeah.

Q -- that you mentioned that I haven't included, Mr. McElroy?

A I would refer to pages -- I -- I have them in this copy of mine, 36, 7 and 8. 36, 37, 38.

Q 37 and 38.

MR. RUSSELL: I'm going to go ahead and --

MR. POWELL: Yeah, Lanny, I don't have those.

MR. RUSSELL: I don't either. What I'm going to do is go ahead and get those and let's circulate them to the group. And since the witness has described them, I'm going to attach them as Exhibit 6, if that's agreeable.

(Exhibit 6 was marked for identification.)

MR. POWELL: Yeah. Do you have the complete document?

MR. RUSSELL: I do, but it's very lengthy. I can send you the whole document, if you'd like, but since I wasn't going to talk about the document, I only included the portions I was going to use.

MR. POWELL: All right. I'm sorry to interrupt. Yeah, when you can, if you could. Thanks.

MR. RUSSELL: That's fine. Thank you.

BY MR. RUSSELL:

Q And now, Mr. McElroy, I do have a very few questions left about the last few slides. And, yeah. The Review of the 2017 Year-End Metrics.

And the first one of those I included as page 26. And, basically, my question, can you just explain to us, please, Mr. McElroy, what this slide is demonstrating?

A Yes. And so with this example -- and there are a couple of other slides here that might be formatted the same way. I think there are. And so on a quarterly basis, no less than three times a year, we would start with -- with my theme and then would -- would only bring their direct reports in and we would have a -- sort of a six-hour review session on how we were doing against our strategic plan, goals and objectives.

And so you'll see that the -- in terms of the -- there were three primary strategic focus areas, common goals and objectives. I said it earlier, earn customer loyalty, deliver business excellence and development of the unbeatable team.

Under deliver business excellence, we had -- in each area, had two senior executives that were in charge of monitoring activities to achieve that goal. And there are three sub goals there. One was to grow net revenues, the other was to improve cost efficiency and the -- the other was to improve operational performance. And -- and, ultimately, we were very key not to -- there's no -- no rate increases, we'd be cost effective and efficient.

So what this is is Ms. Dykes, Mr. Hobson and Mr. Cosgrave were co-champions for the deliver business excellence. They were giving an update to the broader group on the gross revenues task force that was working to identify and evaluate and analyze and potentially implement ways to grow revenues or revenue opportunities for JEA. And this -- this chart is a readout from their presentation during that meeting.

We had set a goal in 2017 of achieving 11.9 million and -- or, actually, the -- we set a goal of 12 million and I think it looks like we fell 100,000 short. And --

Q In the --

A -- the revenues --

Q -- revenues -- just so I understand, the revenues you're talking about and focused on growing here are the non-core revenues generated in connection with JEA's business?

A That is -- that is absolutely correct. That is -- that would be evaluating fiber, natural gas sales, joint dispatch, speed up the pole attachments, tree farming. Oh, my goodness, there's a -- there's a whole laundry list of occupations available there. There is a physical security services, there's certainly maintenance, physical compliance, transmission, distribution services, distributed generation and various prospects and ideas team to keep us informed on that.

And we looked at, prior to that, a number of natural gas opportunities. And then at different levels, whether that was the LDC, local distribution company, planning in the -- participating in the natural gas arena. And we did have an opportunity potentially for a liquified natural gas facility on our Talleyrand location in -- in Jacksonville.

So we were actually working to identify a number of opportunities that -- like you said, non-core JEA activities, but -- but somehow related.

I would say that I had the goal of -- of if we could generate enough revenue out of these activities to at least offset the price increases that we would have to -- to vendors increasing their prices, inflation, cost of living adjustments for our employees, we would be in -- we would be in great shape.

So we went -- we went out looking for a -- we went out looking for another billion dollar electric system with this analysis. We were looking for complementary services or complementary businesses that could align with some of our core capabilities.

Q Okay. And the next slide, I've got to tell you, frankly, I don't understand this one and I'm just going to have to ask you to explain what the slide concerning Leverage EAM Principles reflects.

A EAM is the initialization for Enterprise Asset Management, Enterprise Asset Management.

Q Okay.

A And in certain industries individual assets are managed very effectively with the application of technology. And so I -- I think at the -- at the far end of the spectrum, in terms of enterprise asset management, people talk about the -- a digital twin.

So, for example, if we have a large pump, you know, that pumps hundreds of thousands of gallons, a big, big pump, you could have, on your system, a digital twin that would operate the same way digitally as the -- the -- the physical one was supposed to operate, this is triple.

And so by doing that, it would -- it would -- through essentially artificially intelligence, it would give you the signals to do preventative maintenance in advance. It would show you where inefficiencies were occurring and you could address those in realtime or backtime so as not to disrupt the operation. That's sort of an example.

You might look at -- you might look at pipe. I mean, we buy pipe each and every year and multiple times a year so then we have different manufacturers, different vendors. So knowing exactly who manufactured what pipe, where it is and what its specific age is, et cetera, all in the database, to be able to manage the replacement program, to manage the capital program would be a way that would save enormous costs. So essentially -- and people look at me funny on this one, but in a decade you'll understand it, it's digitizing everything and putting it all on the system.

So this -- this leveraging the principles of -- of enterprise asset management would be to reduce the cost in nonfuel -- nonfuel electric expenses, in the water, in -- in wastewater to deep levels.

And so what we would do, we'd charge our customer in terms of the -- the current goal would be $53.94. And the bill on the electric would be to have it less than that, the goal was 52.50, you'll buy the technology and approach it to our underlying profit.

And -- and, you know, that would be one in isolation where you would see a cost and offsetting price increase, but we may have a -- a cost increase in another area that we would have to allocate those funds to.

So I just -- it's a better way to -- to manage your assets by using technology and using the -- what is commonly referred to as our artificial intelligence.

Is that helpful?

Q Yeah. But let me understand, the fiscal year '17, 2017 goal was $10 million. Does this chart show that you actually achieved $10 million in savings from applying EAM principles in fiscal 2017?

A In -- in this chart, if you see the word identified, so it was -- it was identified --
Q Okay.
A -- and to be tracked -- and then the plan there would need be to tracked to implementation over the next period of time.
Q I understand.
And that's just out of order, but it probably was a good place to end. I believe this was page 1 from your Power Point presentation. I thought it was important and I put it at the end for that reason. Key Financial Metrics is the title of it.
And I'll let you do it, Mr. McElroy, can you tell us what this chart tells us about the financial health of JEA at the end of fiscal year 2017?
A Mr. Russell, I'm not -- I'm just kind of finding -- you said it was at the beginning?
Q If you go to the -- actually, for some reason I -- this intends -- if I understand why it might work, it's in my group of documents I sent you, the last page of the materials to assist the City Council Committee on the potential sale of JEA.
A I -- Key Financial Metrics?
Q Yes, sir. Page 1.
A Yeah, I got it. Four bar charts and a panel.

Q Yeah, four bar charts.
A Yes, yes, yes. And what you --
Q And I believe my question is: Tell me what --
A -- you have --
Q -- this shows us about the financial health of JEA in 2017.
A These are key indices that are used to support certainly the credit rating, which by -- it states here is a valuation of the financial health of any enterprise they're rating. And so this is clearly full of metrics that show the improving, not only the -- the group financial health, but the improving financial health of -- of JEA.
And -- and so you -- you look at the debt to asset ratio, the chart that is on the top left, it -- it is declining down to just a little above 60 percent for electric. Lower is better. It is applying to 60 percent -- actually 50 percent of water/sewer lower is better. And -- and both are getting within the range of industry norms.
I would say at the point the electric system on this one, at its peak, was 91 percent back in 2008. The peak of the debt asset and the electric was 66 percent so it certainly shows an improving balance sheet.
The debt service coverage is how much free cash

flow is -- is left to pay your debt service, principal and interest. And here we can see under consistent or improving, 2017 had a unique year in terms of some debt maturities.

When I looked at one of the slides that you -- you sent in the annual report or pack of the annual report, it appears that the -- the net revenue was up, but the -- the maturities paid in that year were -- were up equally so that pushed that one back a little bit, but still, overall, an upward trend and a trend that is above expectation.

You see -- you see in the little footnote here, long-term targets per the JEA pricing policy. So when we put these targets in place, that's where we had hoped to be. Policy lines and exceeding -- exceeding all of those.

The same with liquidity. Liquidity is a group that's enormous. It really is a measurement of the rating agencies that touch on this and so clearly improving and sufficient cash on hand to -- to meet any issue of catastrophic event is what their concern is or market disruption, is cash flow on hand to cover expenses for an extended period of time. They use cash.

And so liquidity -- the difference between liquidity and base cash is generally an open line of credit. And it's less expensive for customers to pay a few bases points to have an open line of credit with a very large global financial institution and use that as liquidity support as opposed to collect additional cash from our customers. And so all of them show -- all of them show a healthy -- healthy indication.

The one we're missing here, unfortunately we normally show is -- normally those are here, the City contribution. And that, too, is very healthy and -- and years about double -- double the industry standard and -- and really is at the high end of the range of what municipal utilities, the 2000 municipal utilities in the -- in the country pay their host city or town.

Q And numerically, do you recall, Mr. McElroy, what that City contribution was in your last year as CEO and managing director?

A The -- the dollar amount was roughly up $115 million. And that is up substantial from -- from 2008. There was an adjustment in 2008 and then a renegotiation in '15, but it's up and I -- I don't have that chart, but I -- I -- it's -- it's substantially higher.

And in addition to that, the -- the -- the City of Jacksonville is unique in that there is a franchise fee assessed to the utility -- utility services. And -- and, to our knowledge, no one else in the state of Florida has that.

Now, that's assessed ultimately to our customers, but it is part of the bill as well that goes to the City.

Q And do you recall what the amount of that franchise fee is that goes to the City or went to the City in 2017?

A I -- I would -- and I am going to, from the best of my memory recalling, and provide an estimate of 37.5 billion plus or minus 3 or 4 million.

Q Thank you.

A The City collects the -- and all util- -- I think all utilities do collect the public service tax as well on top of the utility services. And that is charged -- it's not charged on most of the fuel, but pretty much the -- but the rest -- but the rest of the electric bill, as well as -- oh, golly, it's charged against either water or service or sewer, not both. And that amount -- and that amount collected annually is about $80 million a year.

Now, most -- most utility home services -- home towns provide for that provision and do charge that, not the state of Florida. There's a few exceptions there.

Q Thank you.

MR. RUSSELL: That's all I have.

What I intend to do is -- Mr. McElroy, I'm sorry, I didn't attach all the ones you would might need, I picked the ones I thought -- what I needed, we'll attach the pages you referred to to the materials to assist the City Council Special Committee, which were 36, 37 and 38.

And, Steve, I think it was you who wanted -- wants the entire copy of what has been marked as partial Exhibit 5.

MR. POWELL: Yeah, if you don't mind. No rush.

MR. RUSSELL: No, I -- I'll get it to you. It's not hard.

And then I'll send the Exhibit 6 to the court reporter, to you, Terrie. And all the exhibits, I will mark them by the numbers I've given you today. I would like you to go ahead and transcribe this on a non-expedited basis.

And if you would, Mike, do you want it to come to you and you can provide it to Paul for reviewing and filling out an Errata Sheet?

MR. ABEL: Yes, that would be great, Lanny. Thank you so much.

MR. RUSSELL: And, Terrie, Mike Abel is Mr. McElroy's counsel and once we get the transcript done and I've given you all the exhibits, if you would send it to Paul -- send it to Mike Abel, he'll provide it to Mr. McElroy and the Errata Sheet will be filled out.

THE REPORTER: Okay.

MR. RUSSELL: Thank you and thank you all for your participation.

THE WITNESS: Mr. Russell -- Mr. Russell --

MR. RUSSELL: Yes, sir.

THE WITNESS: Mr. Russell, before we hang up, hopefully Terrie's there.

THE REPORTER: I'm here.

THE WITNESS: Yeah. I would like to -- I would like to be on record thanking you, Mr. Russell, for the opportunity, you and the committee and certainly the committee, the work they're doing, the Chair Diamond and the other members, I support certainly their effort in investigating and -- and trying to have a better future for our community and I stand by certainly to -- to help and be constructive in any way I possibly can. And I thank them for their public service.

MR. RUSSELL: Mr. McElroy, we appreciate that.

And, hopefully, we won't have to impose much more fur- -- much further.

We'll get those items done and thank you-all again.

THE WITNESS: Thank you.

MR. POWELL: Thanks.

(Witness excused.)

(The interview was concluded at 3:55 p.m.)

REPORTER'S CERTIFICATE

STATE OF FLORIDA
COUNTY OF DUVAL

I, Terrie L. Cook, RPR, CRR, FPR, certify that I was authorized to and did stenographically report the interview of PAUL MCELROY; that a review of the transcript was requested; and that the foregoing transcript, pages 1 through 67 is a true record of my stenographic notes.

I further certify that I am not a relative, employee, attorney, or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED on April 3, 2020.

Terrie L Cook

Terrie L. Cook, RPR, CRR, FPR

April 3, 2020

PAUL MCELROY
c/o Michael Abel, Esquire
Abel Bean Law
50 North Laura Street
Jacksonville, Florida 32202

In Re: March 26, 2020, Interview of Paul McElroy

Dear Sir:

This letter is to advise that the transcript for the above-referenced deposition has been completed and is available for review. Please make arrangements for read and sign or sign below to waive review of this transcript.

It is suggested that the review of this transcript be completed within 30 days of your receipt of this letter, as considered reasonable under Federal Rules*, however, there is no Florida Statute to this regard.

The original of this transcript has been forwarded to the ordering parties and your errata, once received, will be forwarded to all ordering parties for inclusion in the transcript.

Sincerely,

Terrie L. Cook, RPR, CRR, FPR
Hedquist & Associates, Inc.

cc: Michael Abel, Esquire
Stephen J. Powell, Esquire
E. Lanny Russell, Esquire

Waiver:

I, ________________, hereby waive the reading & signing of my deposition transcript.

____
Deponent Signature Date

ERRATA SHEET

DO NOT WRITE ON TRANSCRIPT - ENTER CHANGES

In Re: Interview of Paul McElroy

DEPOSITION OF PAUL MCELROY

TAKEN - March 26, 2020

PAGE NUMBER LINE NUMBER CHANGE/REASON

see attached Errata Sheet

under penalties of perjury, I declare that I have read the foregoing document and that the facts stated in it are true.

4/6/20
Date

Paul E. McElroy
PAUL MCELROY

Date

Notary Public
Commission expires:

cc: Terrie L. Cook, RPR, CRR, FPR
Michael Abel, Esquire
Stephen J. Powell, Esquire
E. Lanny Russell, Esquire

E R R A T A S H E E T — Page 1 of 2

DO NOT WRITE ON TRANSCRIPT - ENTER CHANGES In Re: Interview of Paul McElroy

DEPOSITION OF PAUL MCELROY

TAKEN - March 26, 2020

PAGE NUMBER	LINE NUMBER	CHANGE/REASON Delete	Replace with
6	1	right	rate
6	5	out	our
8	12	strikes	structure
11	13	posited	audited
16	16	posited	audited
13	22	hatch-out	agile
14	1	next	net
14	12	approved	accrued
15	3	approved	accrued
16	10	giving —> builder	generate electricity from coal today than it does from natural gas
18	16	constructive	constructed
18	25	lean	wind
19	9	15	16
19	16	interview	rearview
19	18	exponential	existential
19	18	reliance on Royce	reliant on oil
20	7	coolant	current
21	12	access	asset
22	13	from	fund
23	8	C	de
23	24	global	Vogtle
23	24	Global	Vogtle
24	7	houses	hours
24	9	powers	power
24	11	global	Vogtle
24	22	C	De
25	14	B	De
25	22	B	De
26	10	-	Add: De
26	20	B	De

E R R A T A S H E E T - Page 2 of 2

DO NOT WRITE ON TRANSCRIPT - ENTER CHANGES In Re: Interview of Paul McElroy

DEPOSITION OF PAUL MCELROY

TAKEN - March 26, 2020

PAGE NUMBER	LINE NUMBER	CHANGE/REASON Delete	Replace with
28	10	-	Add: and
28	25	Craig Peoples	great people
30/31	24-1	Admissions -> well.	-
32	24	the -> the	is a French Canadian
32	25	And	At Pitney Bowes Credit Corp
33	14	shared	chaired
33	15-16	it -> a	is the
33	17	liability	reliability
34	14	advanced	natural gas
34	14	mismanagement	risk management
34	19	Pacific	Civic
40	21	global plan	Vogtle plant
41	3/4	global (three times)	Vogtle (three times)
47	10	worlds	walls
48	24	pipe	price
50	11	sonic commissioning	senior leadership team
52	2	trending	extended
52	22	extensively	Extensible
55	1	theme	team
56	16	occupations	opportunities
57	13-14	we went (three times)	we're not (three times)
58	9-10	this is triple	-
58	12	artificially	artificial
59	12	approach	apply
59	12	profit	project
64	19	water or service	water service
64	24	, not	in