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IN RE: AARON ZAHN-TERMINATION OF EMPLOYMENT
AGREEMENT WITH JEA

SWORN STATEMENT
OF
STEVEN MCINALL

DATE TAKEN: Thursday, January 2, 2019
 TIME: 1:33 p.m. - 3:15 p.m.
 PLACE: Office of General Counsel
 117 West Duval Street,
 Suite 480
 Jacksonville, Florida

REPORTED BY: Heather M. Thomas,
 Court Reporter

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3 WITNESS: STEVEN MCINALL
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1 MR. LINSNER: This recorded interview is being
 2 conducted at the Office of General Counsel,
 3 City of Jacksonville. Today's January 2nd, 2020,
 4 and the time now is 1:33 p.m.
 5 I'm Investigator Robert Linsner. I'm employed
 6 by the Office of Inspector General, City of
 7 Jacksonville. The Office of Inspector General is
 8 assisting the Office of General Counsel with this
 9 investigation regarding Aaron Zahn, former CEO of
 10 JEA.
 11 Is it pronounced in Mr. McInall?
 12 THE WITNESS: McInall, yeah.
 13 MR. LINSNER: McInall.
 14 You're being interviewed as a witness in this
 15 investigation. If at any time your status as a
 16 witness changes, you will be notified.
 17 The attorneys who will be interviewing you are
 18 Stephen Powell. As a commissioned Notary Public in
 19 the State of Florida, I'm authorized to administer
 20 oaths. Please be advised that any false statements
 21 made during your interview or attempts to obstruct
 22 the Office of Inspector General's investigation may
 23 be used in a subsequent prosecution against you.
 24 Will you please raise your right hand?
 25 Do you, Steve McInall, swear to tell the

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1 truth, the whole truth and nothing but the truth?
 2 THE WITNESS: Yes, I do.
 3 MR. LINSNER: Okay. Have any promises,
 4 threats, or inducements of any nature whatsoever
 5 been made by me in order to obtain your consent to
 6 this statement?
 7 THE WITNESS: No, they have not.
 8 MR. LINSNER: And do you understand that this
 9 recorded interview will be subject to public
 10 disclosure pursuant to the Public Records Law and
 11 other laws of the State of Florida?
 12 THE WITNESS: Yes.
 13 MR. LINSNER: Okay.
 14 STEVEN MCINALL,
 15 having been produced and first duly sworn as a witness,
 16 testified as follows:
 17 EXAMINATION
 18 BY MR. POWELL:
 19 Q Good afternoon, Mr. McInall. I'm
 20 Steve Powell. I'm with the Office of General Counsel.
 21 I appreciate you coming in --
 22 A No worries.
 23 Q -- for a little Q and A here. You brought
 24 with you the Garrity warning form and we've signed it,
 25 and you're aware of the rights that support you; right?

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1 A Correct.
 2 Q Okay. Just so we can have a little background
 3 before we begin, we've asked you here today to answer
 4 some questions in connection with our -- this office's
 5 assignment from the JEA board of directors to
 6 investigate, inquire into the tenure of Mr. Zahn as CEO
 7 of JEA to determine whether there are any grounds or
 8 whether grounds exist to terminate his employment
 9 contract for cause.
 10 A Okay.
 11 Q And that really is the focus. I will not try
 12 to get too far afield. Obviously, I need a little
 13 background and some orientation on you and your work at
 14 JEA, but that's our focus. And I would only ask that
 15 you answer as completely as you can with information
 16 that you -- is known to you either through observation
 17 or direct action.
 18 If you have any questions as we move through
 19 it, please speak up, and certainly if a question is
 20 unclear, tell me to fix it and I'll do so, so we can
 21 have a clear record.
 22 A Okay.
 23 Q Because we have a court reporter here taking
 24 down everything, we do need to be careful to not speak
 25 on top of one another. I'll do my best to give you a

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1 chance to answer everything before asking another one,
 2 and if you would try to let me get sometimes my long and
 3 disjointed questions out before answering, that will
 4 help us out. Okay?
 5 A Sounds good.
 6 Q All right. Do you have any questions before
 7 we get started?
 8 A No, I think I'm ready.
 9 Q Okay. Over the course of our work, we've
 10 identified a number of areas of interest and that's
 11 where I'm going to be, you know, trying to cover them.
 12 I think that because I have -- you're not
 13 the -- you're not the first one that we've spoken to, I
 14 can hopefully be a little more efficient than I have in
 15 perhaps some other ones. And I'm going to use
 16 information without attributing it to anybody that I
 17 understand about the structure and the processes over
 18 there so that should expedite it. And if I get anything
 19 wrong along those lines, I'd appreciate you
 20 straightening it out.
 21 As well, since this is an undertaking by our
 22 office to identify information that exists that would
 23 support the termination of Mr. Zahn for cause, I'd
 24 appreciate your keeping that in mind as we go through
 25 it, and if I don't inquire about -- ask about something

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1 that you think we should be aware of or take a look into
 2 it, I'd appreciate you sharing it with me. Because
 3 ultimately this is, for want of -- I mean, there's one
 4 way to look at this. This is your statement to the
 5 board.
 6 At the end I'll ask if you have any
 7 information you want to share with the board of
 8 directors of JEA beyond what we've talked about and that
 9 will conclude things for us.
 10 So I have a little cheat sheet of players in
 11 the senior leadership team. And my understanding is
 12 that you're vice president of energy and water planning?
 13 A Correct.
 14 Q How long have you been in that spot?
 15 A Since mid-January of last year, so a little
 16 less than a year.
 17 Q And the information I have indicates that
 18 before that, you were the director of the electric
 19 production resource planning department at JEA?
 20 A Correct. Yes.
 21 Q How long were you in that position?
 22 A About five years.
 23 Q And does that take us back to the beginning of
 24 your time --
 25 A No. I started --

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1 Q -- with JEA?
2 A Yeah. I started as the nuclear commercial
3 business manager, and that would have been in
4 April of 2011.
5 Q That's not on my cheat sheet.
6 A I'm sorry.
7 Q Okay. But what it does say is that you're
8 currently responsible for long-term planning for JEA's
9 energy and water sectors, overseeing the development of
10 more than a billion dollar capital program?
11 A Correct.
12 Q That sounds like a pretty robust portfolio to
13 me.
14 A We've got a lot of plans and a lot of things
15 cost a lot of money; power plants, water plants.
16 Q Okay. If you could just sum it up, what does
17 all that mean? What is it that you do?
18 A So I look at the energy VP and the water VP as
19 being basically my clients. So they -- my group
20 identifies future needs, and we do a lot of the
21 forecasting work with developers on the water side to
22 identify new areas of growth and what's going to be
23 needed there.
24 Then work with the operations people, which
25 would be Deryle and Caren -- I think you've spoken with

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1 them already -- and identify the need for new plants,
2 develop the preliminary budgeting for that design, and
3 then turn it over to a project implementation group in
4 the operations sectors.
5 So -- and then similarly on the electric side
6 as far as substations, new power plants, one of the big
7 things we did recently was the -- the Brandy Branch
8 upgrade was done last year. We had done an
9 evaluation -- and that was part of my electric
10 production resource planning role, but I own that group
11 now. So it's in the same planning sphere -- evaluated
12 different options and identified that -- basically
13 revamping the entire plant out of Brandy Branch -- it's
14 our big combined cycle -- what's the most cost-effective
15 way to get additional generation and to make the
16 generation that we had there more cost efficient. So
17 that was about a \$95 million project all in.
18 We're looking at a new combined cycle at
19 Greenland that's like \$530 million by the time you
20 put -- do all the requirement infrastructure work, get
21 the plan. A lot of the water plants, you know, the
22 total price tag is pretty substantial. So, you know --
23 Q Thank you. When I -- when I was looking at
24 your description here and after having talked to
25 Ms. Anders and Mr. Calhoun, I did wonder if that is

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1 the -- if you played the role that you have described --
2 A Yeah.
3 Q -- as -- as it relates to Ms. Anders who's the
4 vice president and general manager of energy and
5 Mr. Calhoun who's the VP and general manager on the
6 water side.
7 A Right.
8 Q And in my mind, and as I think I covered with
9 them, those are the two -- would you consider those to
10 be the two principal lines of business for JEA?
11 A Yes. Yes. Those are really the
12 revenue-producing lines of business. I think the other
13 really core business is Kerri Stewart's customer
14 operations where she has the call takers, the meter
15 readers and installers.
16 So she's kind of like me in that her group
17 serves both of those -- both of those groups, so -- but
18 it's an integral piece of the overall puzzle as well.
19 I should add too, I know one other part of the
20 business that I have now is the real estate operations.
21 So it's separate from -- separate but integral to the
22 other two sectors where pretty much anything that -- new
23 that we're doing requires real estate.
24 And so all the -- but new real estate that
25 we're acquiring or old real estate that is determined

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1 surplus to needs that we're selling, that's part of my
2 purview as well.
3 Q I think the best way for me to do this is, I'm
4 just going to go do this in a chronological order with
5 you.
6 A Okay.
7 Q And so I'll probably bounce from topic to
8 topic, but I think that might most be efficient -- given
9 everything else I've heard up to this point.
10 So if we roll back to January of 2019, you
11 come into this new -- into the job you're in now.
12 A And it was a new position at that point.
13 Q I didn't know that.
14 Did you have any hand in creating the
15 position?
16 A No. It was a surprise to me.
17 Q Okay. You can elaborate on that, if you
18 would.
19 A So previously the water planning rested with
20 Deryle, electric planning rested with Caren, you know.
21 And then what I believe it was, my previous boss, Mike
22 Brost, had retired in, I think, basically beginning of
23 January 2019. There were three finalists to replace
24 him; Julio Aguero -- Julio Romero Aguero, Caren Anders,
25 and myself.

1 Caren got the job as the VP general manager
 2 for the energy system. Julio was brought on as the
 3 chief innovation officer or something, I believe, at the
 4 time. And then, you know, we never discussed it but I
 5 believe that Melissa Dykes was the chief operating
 6 officer.
 7 And my boss created a new position, you know,
 8 perhaps to kind of help support Caren and -- you know,
 9 because she was less from the generation side and more
 10 from the transmission side, but also probably to not
 11 lose me, I think, you know, since I was a tad
 12 disappointed about not getting Caren's job.
 13 Q And she came in from Duke Energy?
 14 A Yes, she came in from Duke. Very qualified
 15 now that I've, you know --
 16 Q Private sector?
 17 A Yeah.
 18 Q So was this -- was the idea and the outline of
 19 the position presented to you by Ms. Dykes?
 20 A Yes. Yes. And it really kind of goes back to
 21 almost when I started, there was a corporate planning
 22 section which reported to finance and that had water
 23 planning and electric planning. Didn't have real
 24 estate, but it was -- it reported up to the CFO at that
 25 time. The CFO was Paul McElroy back then.

1 When Paul moved up to CEO, he reorganized
 2 things, and the corporate planning went -- at that point
 3 went to the two VPs, the water and the electric VPs.
 4 So this is really kind of a return back to the
 5 way it used to be with a separate planning function.
 6 And part of the rationale there is to have somebody
 7 focused on the longer term while the operations people
 8 are focused on the shorter term, on keeping the system
 9 operating.
 10 So it's -- they're not incompatible, but
 11 sometimes there's -- if the same person's responsible
 12 for both functions, they may sacrifice a long-term view
 13 for short term just because something -- if something's
 14 broken, it has to be worked on right then whereas in a
 15 planning role, I don't have near-term issues that come
 16 up.
 17 I always -- I tell people, there's no such
 18 thing as a planning emergency, and if there is, it
 19 happened ten years ago.
 20 Q That's a good one. I'm going to remember that
 21 one.
 22 A Good. I've got a couple of those. I'll try
 23 to use them sparingly.
 24 Q Slip them in as we go through here.
 25 All right. So this is lining up for me, and I

1 think I get it.
 2 So you come in in January of '19, and your --
 3 you've got a big -- a big picture view long --
 4 A Right.
 5 Q -- down the road view of things?
 6 A Right.
 7 Q When you came into the position, did you have
 8 a sitdown with Mr. Zahn to talk about what you would be
 9 doing and what his expectations were for you?
 10 A No, not really. The McKinsey work was already
 11 under way. So there was a general understanding that
 12 McKinsey was working on this overall strategic plan for
 13 JEA that -- you know, there would be findings from that.
 14 And, you know, I don't think we were kind of getting
 15 results from that yet at that time. We were still
 16 providing input to McKinsey.
 17 The first -- the first half of the McKinsey
 18 contract was just us feeding them information and data,
 19 and they came back with more data requests and we just
 20 kept kind of educating them about the system and what we
 21 did.
 22 Q Had you been involved in feeding McKinsey
 23 before you came into the job?
 24 A Yes.
 25 Q When did your work start with McKinsey?

1 A I'm not sure exactly. I think late in '18,
 2 maybe mid '18.
 3 Q All right. So you come into the job.
 4 Everybody's still feeding McKinsey.
 5 Whatever your interactions were with Mr. Zahn
 6 in the first few months of 2019, can you share them with
 7 me, whatever comes to mind?
 8 A Sure. So, you know -- and probably the most
 9 significant interactions I had were even just before --
 10 before becoming VP, and that was trying to finalize the
 11 contracts with EDF for -- for the five 50-megawatt solar
 12 farms. That was a purchased power agreement contract
 13 that we'd gone through a lengthy procurement process on,
 14 and we had negotiated the contracts.
 15 And then Mr. Zahn had -- he had a thing about
 16 wanting to read contracts before he signed them, you
 17 know. So we'd negotiated everything back and forth with
 18 EDF, and he wanted to make some changes and I was
 19 pushing back on those to a degree, up to a point, and
 20 then incorporating what I could as far as -- you know,
 21 as far as the changes.
 22 And they were generally, fairly benign, some
 23 buyout options, so giving us the option to, you know,
 24 basically terminate the PPA and -- the power purchase
 25 agreement, and then, you know, own the facility, and we

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1 had those baked in at, I think, 10, 20, and 25 years.
2 It's a 25-year contract.
3 And that was, I think, in December of 2018 and
4 then early January '19 is when we got those signed.
5 Q All right. So my information is that Mr. Zahn
6 became the interim managing director in April of '18,
7 then became the permanent managing director in
8 November of '18.
9 Had he been involved in the EDF contract --
10 how far back had he been involved in the contract?
11 A He was -- he was aware of them when he came
12 in. We had started that before.
13 Q So you didn't get them ready for signature
14 until after he became the permanent managing director?
15 A Correct.
16 Q Is that about right?
17 A Yeah.
18 The negotiations had taken quite a while and
19 as far -- a lot of -- a lot of exhibits on the back end.
20 You know, each contract is probably \$50 million nominal
21 value. So that was a \$250 million value contract for
22 EDF.
23 On our side the way the purchase power
24 agreements work is we only pay for energy delivered, so,
25 you know, it's a -- it's very friendly from a capital

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1 use point of view, because the only capital we spend is
2 whatever it takes to hook the -- hook the farms up. And
3 we also had spent some money the prior year purchasing
4 land for them so we had --
5 Q What sort of -- what kinds of things in these
6 contracts did Mr. Zahn, as you said, push back on with
7 you?
8 A We originally didn't have a -- didn't have the
9 buyback options in there, so he wanted those in. We got
10 those in.
11 He asked if we could have EDF establish an
12 office here. I said we can try. You know, that's hard
13 to write into a contract. I think we just kind of got
14 their commitment during construction they would open up,
15 you know, an office. I think we -- I'd probably have to
16 go back and look at the contracts.
17 But Julie Davis in OGC's office helped us with
18 those, and she probably has all the -- all the redlines
19 and might be familiar with what those final changes
20 were.
21 Q Did Mr. Zahn explain to you why he wanted the
22 buyback provisions?
23 A No. Just, you know, one of the things that he
24 was looking for.
25 Q Do you remember anything else that he was

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1 pushing back on?
2 A Not off the top of my head. It's -- you know,
3 it's been a lot going on since then, and it's -- yeah,
4 they were, you know, what I thought in a pretty -- you
5 know, nothing really significant, you know, that
6 really -- that I thought deserved holding up the
7 contracts for, but, you know, he wanted the changes.
8 Q Well, you mentioned there were some things
9 that you, I guess, returned the push on, that you --
10 that you challenged him on. What sorts of things were
11 they?
12 A I think it was the -- oh, that's what it was.
13 It was liquidated damages too. So he was looking for
14 liquidated damages if EDF failed to complete the
15 contract.
16 So the difficulty there is liquidated damages
17 are usually payable if you're paying somebody cash up
18 front for something, and then they would owe you the
19 money to complete the contract. So the middle ground I
20 found there was the -- if EDF didn't finish on time and
21 we had lost the ability to get this tax credit -- one of
22 the -- so I'll try not to talk in circles.
23 But one of the reasons we do power purchase
24 agreements instead of building it ourselves is the
25 federal government gives a 30 percent tax credit on the

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1 construction. So that's a pretty big piece. If it's a
2 \$50 million plant, that's, you know, \$15 million right
3 off the top that is cheap -- so it's \$15 million cheaper
4 for EDF to build it than it would be for us.
5 And that savings gets passed into the per
6 megawatt-hour price. So it ends up being advantageous
7 for us as well to hire a third party to do that.
8 So he was looking for liquidated damages, and
9 the middle ground we finally negotiated was basically
10 reflecting that not that -- the 30 percent that the --
11 like, at 20 percent because even if we had to hire
12 somebody else, they would have still qualified for a
13 10 percent tax credit. So we figured what was really at
14 risk was 20 percent of the cost, which was -- so, you
15 know, \$10 million.
16 And then we had that broken up. So there was
17 like, I think, maybe \$5 million they would actually pay
18 us, but then they would also pay us the cost of the
19 interconnection for each one, which is about 3 to \$5
20 million. So that changed, and it added up to about the
21 \$10 million that would be -- reflect the 20 percent.
22 So, you know, it sounds complicated here and
23 it was really complicated trying to negotiate it and get
24 those terms. And -- and it was made more so just
25 because we were trying to work in elements like that

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1 that really have a potential cost to the developer
2 without impacting the price that we had already
3 negotiated, and we got that. The price didn't change.
4 Q I get why it would be hard to go back into a
5 deal which was essentially done and make these sorts of
6 substantive changes; right?
7 A Yeah. Yeah.
8 Q Is there anything else that Mr. Zahn pushed on
9 or you pushed back on with respect to this contract?
10 A I think that was pretty much -- was pretty
11 much -- those are the two big things. I don't think --
12 I remember there being five elements, so then that's
13 three of them. The LDs, the buyback options, the -- you
14 know, the headquarters -- or the office space. And then
15 there were two other smaller ones which were kind of
16 easily accommodated.
17 Q And did you deal directly with Mr. Zahn on
18 this, or did he have somebody else as an intermediary in
19 his group?
20 A No. I think this is kind of in the time where
21 Mike Brost was -- my previous boss, was wrapping things
22 up. So I was -- I was the one standing outside his
23 office looking for the signatures.
24 Q You mentioned the McKinsey work. So as you
25 move into your position, McKinsey is still getting data.

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1 Do you remember when you first saw anything
2 out of McKinsey?
3 A So they had some really small meetings with
4 like the subject matter expert groups to sort of
5 fine-tune what they were finding. So they would come in
6 and show a small group of us -- it would be like me and
7 my directors or maybe Caren and I and some of her
8 directors or the same thing on the water side -- and
9 they would show us, here's what we're seeing, what do
10 you think.
11 And we'd look at it and sometimes we'd be
12 like, well, that doesn't work, this -- you know, that
13 looks okay. And that was -- that must have been maybe
14 in the springtime, late spring. You know, I'd have to
15 look at my calendar or emails to kind of see, you know,
16 what the timing looked like.
17 Q And I'm not trying to trip you up here.
18 A Yes.
19 Q But I do have some dates. So let me try to
20 offer -- do you recall a -- by the way, in your position
21 you are a member of the senior leadership team; correct?
22 A Correct.
23 Q But I've learned that there is a -- the large
24 senior leadership team and then there's the upper
25 echelon senior leadership team; correct?

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1 A I'm the lower echelon.
2 Q All right. Well, I don't mean to put it that
3 way, but nonetheless, there's the big group of 13 or 14,
4 however many it is, and then there's the group of
5 Mr. Zahn, Mr. Wannemacher, Mr. Vinyard, and Ms. Dykes?
6 A Correct.
7 Q Okay. Do you recall an off-site meeting of
8 the team in early April at Ponte Vedra?
9 A Yeah. We had a few meetings out in
10 Ponte Vedra, yeah.
11 Q Does that April 2019 date ring --
12 A Yeah.
13 Q -- with you for any reason?
14 A April 2019? That was probably the first one,
15 yeah. They all kind of blur together. And the first
16 ones, I think, were mostly about the overall strategy
17 with McKinsey and trying to get alignment with people.
18 Q What did you consider -- or what did you
19 understand to be the overall strategy with McKinsey?
20 A Just that they were -- they were kind of
21 taking a fresh look at the utility industry and, you
22 know, kind of not going into the same preconceptions
23 that maybe -- you know, that we do. I think there's a
24 tendency in utilities to do what worked, you know, well.
25 So this worked, therefore we'll do it again.

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1 There are changes coming in the utility
2 industry; solar, rooftop solar, you know, even utility
3 scale solar.
4 You know, we've seen a dramatic decrease in
5 pricing from our first solar farm out on the Westside to
6 the second round that we just completed.
7 Q And what do you mean by a dramatic decrease in
8 pricing?
9 A Like about a factor of 3 from -- from Jax
10 Solar which is our -- the first 12-megawatt farm to the
11 38 megawatts that we just completed -- or I guess 26
12 megawatts that we just completed. Because 38 includes
13 the 12. And then -- but another factor of 3 for the --
14 for the EDF contracts.
15 Q So by that, do you mean that the charge to the
16 customer is decreasing per kilowatt hour or --
17 A Yeah. I wouldn't say the charge to the
18 customer as much as the charge to -- the cost of the
19 power to the utility which then gets blended with every
20 other generation source to develop what the charge to
21 the customer is.
22 So there's not an immediate impact on customer
23 bills, but it does let us increase the amount of solar
24 we have because whereas before it was at quite a
25 premium, now it's on par with traditional generation.

1 Q Okay. So I think I understand you to be
 2 saying that it wasn't costing JEA as much to acquire --
 3 A Right.
 4 Q -- this energy?
 5 A Right.
 6 Q Is that a bad thing?
 7 A No. That's a good thing, but, you know, on
 8 the residential side, the same thing is happening where
 9 the cost for customers to put in their own solar and now
 10 even batteries, you know, kept going down to the point
 11 that more and more customers could, you know, either
 12 purchase less from us or potentially even detach from
 13 the grid.
 14 So it's -- you know, we can kind of look at
 15 other places that are further ahead as far as that kind
 16 of impact, a lot of the California utilities, Hawaii,
 17 just places that have got higher levels of customer
 18 solar adoption. And it is very disruptive to the
 19 utility.
 20 And the McKinsey effort was to try to account
 21 for these things, I think, more carefully and, you know,
 22 from a higher level and develop a plan for addressing
 23 those things.
 24 You know, a lot of times it was, you know,
 25 just -- well, when their products came out, they did

1 call for higher levels of solar, of -- you know, much
 2 more renewables in the portfolio.
 3 Q When what came out?
 4 A When the McKinsey results finally came out,
 5 they were looking at much higher levels of solar than we
 6 have right now.
 7 Q And is that the report that came out this past
 8 month?
 9 A Yes. Yes.
 10 Q I have a big, thick McKinsey document. It
 11 says Management Presentation. Is that it?
 12 A Could be.
 13 Q I'll go grab it on a break.
 14 A Because there's a management presentation that
 15 was part of the -- part of what we were presenting to
 16 the respondents, you know.
 17 Q In the ITN?
 18 A In the ITN process. And that was called
 19 Management Presentation.
 20 Q Are you referring to another end product?
 21 A No. That wasn't a McKinsey -- it included a
 22 lot of the things from McKinsey, all the -- and if you
 23 look at both of those, you'll see a lot of duplication,
 24 you know, oh, this clearly just came from this McKinsey
 25 slide over here. It's -- but it wasn't a McKinsey

1 product. That was internal.
 2 Q What is your assessment of the McKinsey
 3 product?
 4 A So I think it's -- it's aggressive. As far as
 5 the recommendations, as far as the levels of solar
 6 adoption, you know, I -- I thought they were -- we would
 7 be hard-pressed to meet those. They're doable, just --
 8 you know, it would just take a concerted effort.
 9 Q Would JEA be hard-pressed to meet those goals
 10 because it's a public entity, or is there some other
 11 reason it would be hard-pressed to meet the goals?
 12 A More from a -- more from a system balance.
 13 The -- you know, more to the issues with -- with solar
 14 power, it's only there when the sun's out and the sun
 15 pops in and out rather randomly based on how cloudy the
 16 day is.
 17 So we don't even actually count solar as what
 18 we call capacity. There's kind of two -- two concepts
 19 as far as the energy side. We've got capacity, which is
 20 the most power we could reliably produce, you know, when
 21 we need it on a given day. And then energy is just how
 22 much power we actually produce.
 23 So when you bring in solar and you can't rely
 24 on it, it doesn't really reduce your capacity needs.
 25 Battery storage does, but then that pushes your price

1 back up.
 2 So when McKinsey first came in, they just had
 3 these huge amounts of solar, and, you know, based on
 4 input from the energy team, they added in a commensurate
 5 amount of storage so that, you know -- so that it could
 6 count as capacity. But that just means it's more
 7 expensive and probably pushes it out further in time
 8 on -- you know, on when it's going to be cost-effective.
 9 Q I'm sure this is going to sound like a very
 10 simplistic question, but the McKinsey process was a long
 11 one?
 12 A Yes.
 13 Q It involved a lot of money?
 14 A I don't even know how much.
 15 Q All right. Certainly you know that it
 16 involved a lot of time on the part of you and others --
 17 A Yep.
 18 Q -- at all levels; right?
 19 A Right.
 20 Q When all was said and done, what was obtained?
 21 What was obtained by JEA from this process?
 22 A Besides that thick report? There's -- I'm
 23 probably going to have to let the dust settle a little
 24 bit to see what's gleanable from the McKinsey efforts.
 25 There's good information there.

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1 They had access to market analysis and market
 2 studies that we don't, and that's where they came up
 3 with their time to grid parity. You've probably seen
 4 that concept in there which is when in the future the
 5 solar plus battery at the customer level is equal to or
 6 less than the cost to obtain power from the utility,
 7 and, you know, that's what kind of drove their
 8 projections versus what we already had.

9 So, you know, I do think they identified some
 10 good projects and some, you know -- and things that we
 11 can do in the future. Whether or not those things are
 12 doable as a municipal utility, I don't know. Like I
 13 said, I'd really have to go through the report in more
 14 detail than I've had the opportunity to and see, you
 15 know, what in here is still usable.

16 Q At the end of the day, did the McKinsey report
 17 support the proposition that JEA needed to make radical
 18 structural changes in order to survive into the, you
 19 know, 30 years down the road?

20 A I believe it did, yes.

21 Q Did you agree with those outcomes?

22 A I think -- where I got to on that was I felt
 23 that the -- their timing I thought was -- I'll use the
 24 word aggressive again. I thought it was earlier than
 25 what it may actually be.

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1 So they were calling for grid parity in
 2 2027ish. You know, anything I've read maybe looks at it
 3 maybe being early to mid 30s. But from my point of
 4 view, it's looking at long-term planning that still --
 5 you know, it's within the same kind of planning realm.

6 You know, if I'm trying to decide is the
 7 business model going to turn upside down in 2027 or
 8 2032 -- it's like a five-year period -- it doesn't make
 9 a difference. You know, I still need to plan for
 10 something to change.

11 Q All right. Let's put the McKinsey issue off
 12 to the side.

13 A Okay.

14 Q Your job is to plan --

15 A Yeah.

16 Q -- to look down the road. And at the end of
 17 the day, the goal is to make sure that everybody that's
 18 in your customer base has the energy they want --

19 A And the water they need.

20 Q -- flip the switch, the light comes on; turn
 21 the faucet, get the water; flush the toilet, all things
 22 taken care of; right?

23 A Right.

24 Q It's my understanding that there are a number
 25 of forecast documents that are generated during the

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1 year. Certainly at least one at the ten-year site plan;
 2 right?

3 A Right.

4 Q And that goes off to the State; right?

5 A Right, Public Service Commission.

6 Q And there's another document called the IRP?

7 A Uh-huh.

8 Q The integrated resource plan?

9 A Plan, yeah.

10 Q How do they -- how do they -- help me
 11 understand the two and how they work together.

12 A Okay. So the ten-year site plan is produced
 13 annually and goes to the Public Service Commission. So
 14 in that we do a ten-year look back and a ten-year look
 15 forward, and the purpose of that is to demonstrate to
 16 the PSC that we have adequate generation to serve the
 17 needs of our customers.

18 So, you know, we will tend to make
 19 assumptions, and, you know, projections are all based on
 20 assumptions. We look at kind of the rate that the
 21 system has grown or declined. Over the past ten years,
 22 we look at the -- what are the projections going forward
 23 for economy, housing starts. We pull in data from a
 24 bunch of different places. Moody's Analytics is one of
 25 the main sources.

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1 And then based on that, we'll make a
 2 projection like, okay, we're going to assume a growth
 3 rate of X percent per year over the next ten-year
 4 period, and then that determines how much generation we
 5 need. Then we compare and here's how much generation we
 6 have, and if the generation we have drops below how much
 7 we need, we have to figure out, all right, how are we
 8 going to address that gap. So that's the purpose of the
 9 ten-year site plan.

10 Q And it's my understanding it's filed with the
 11 PSC in March; right?

12 A Right. It's due April 1st.

13 Q All right. Every year?

14 A Every year.

15 Q And when you filed it this year or last year
 16 for '19, how did you feel about that plan?

17 A Same as every year; pretty good.

18 Q What does that mean to feel pretty good about
 19 the ten-year site plan?

20 A We had a -- we had just completed our Brandy
 21 Branch upgrade that I mentioned. So that accounted for,
 22 I think, 95 megawatts of new generation on the system.
 23 So we had a very small gap that we could fill in with
 24 just market purchases.

25 If you've got like a gap of, say,

1 100-megawatts or less, you can just say we'll take care
 2 of that on the marketplace. We -- you know, to back up
 3 a little bit.
 4 So if you go back ten years ago, we were
 5 growing at 3 percent per year. So the planners back
 6 then, you know, looked at how much generation there was
 7 and built in -- built in more so that we would have
 8 enough -- we would have enough to supply really
 9 30 percent more than we actually ended up with. Because
 10 of the recession, energy efficiency, the per capita
 11 consumption has dropped drastically.
 12 So that's what allowed us to close power
 13 park -- St. Johns River Power Park. We had 640
 14 megawatts of coal power from SJRPP. In 2019, this past
 15 year, the agreement we have with FPL would have -- so we
 16 owned 80, they owned 20 percent, and then we sold
 17 30 percent to them, making it effectively 50/50.
 18 That 30 percent we sold to them was going to
 19 come back to us in 2019 which would have given us more
 20 or less 1,000 megawatts of power from power park and all
 21 we needed was 200. So my catch phrase then was 1,000
 22 megawatts of coal is not the answer to a 200-megawatt
 23 need.
 24 So as a result we made the decision to close
 25 power park, and we bought 200 megawatts on the market

1 for the past two years. Then we did the Brandy Branch
 2 upgrades, worth about 100 megawatts and leaving us about
 3 100 megawatts short that we can just fill in on the
 4 market.
 5 Q So in other words -- I think I hear what
 6 you're saying, is that in 2009, the projection for 2019
 7 ended up being overstated?
 8 A Yes.
 9 Q And you did these things to adjust for that
 10 excess?
 11 A Right.
 12 Q So what does that do to your forward look to
 13 2029?
 14 A So right now the system's pretty much, you
 15 know, exactly right sized. And our growth rate now is
 16 more like a half a percent per year compared to that
 17 3 percent per year. So it's barely above flat.
 18 Now, you know, that -- that change -- the fact
 19 that our projections were that far off, you know, from
 20 '09 are always kind of in the back of your head. You
 21 want to be -- my goal's always to have the most flexible
 22 resistant plan so that -- you know, it may not be the
 23 optimal plan for what actually happens, but it will be
 24 the plan that has the best chance to be a good plan over
 25 the widest range of what actually happens.

1 Because the one thing we can't tell is what's
 2 going to happen.
 3 Q So on the capacity side, would you agree with
 4 me that there is no storm cloud on the JEA horizon out
 5 to 2029?
 6 A Not quite. So the -- what we have on the
 7 capacity side is, part of that capacity is made up with
 8 Northside 3. It's a 1977 oil and natural gas unit.
 9 It's got to retire someday, you know, so that's what's
 10 driving a new combined cycle.
 11 Northside 1 and 2 are coal petcoke plants.
 12 Very -- you know, very -- you know, not well -- well,
 13 not very flexible because coal plants, you can start
 14 them up that fast. You've got to -- and they don't
 15 operate over a really wide range. It's part of the
 16 issues. And they take a lot of manpower.
 17 So at some point -- as well as there's a lot
 18 of environmental pressures, carbon especially. So there
 19 are -- there are pressures on the existing units that we
 20 have that kind of indicate they'll need to be replaced,
 21 you know, probably before 2029.
 22 Q But didn't you shed capacity?
 23 A With power park.
 24 Q With power park?
 25 A Yes.

1 Q And if you need to replace that Northside
 2 capacity -- why did you do that?
 3 A So power park was a 1980s unit. The -- again,
 4 a coal unit, not very flexible. You know, there's -- it
 5 starts up, and, you know, it kind of has to stay in a
 6 pretty narrow range.
 7 And FPL had made a pretty attractive offer to
 8 buy out their portion early. They were pretty
 9 interested in dropping their portion of it. So we
 10 actually got paid a pretty good amount from them on
 11 the -- as part of the -- as part of the whole
 12 transaction around the retirement.
 13 Q Okay. So you made a good deal on that and --
 14 A Right.
 15 Q -- now you have the ability to address
 16 capacity down the road?
 17 A Right.
 18 Q All right. Is there anything in this capacity
 19 challenge -- which it's always a challenge, right --
 20 A Oh, yeah. Yeah.
 21 Q -- that from where you sit, JEA is
 22 ill-equipped to handle because it's a public utility?
 23 A No.
 24 Q Can you fit the IRP into this discussion for
 25 me?

1 A Sure, sure. So the IRP, integrated resource
2 plan, there's no requirement to do those on a regular
3 basis. So we typically do an IRP when there's a big
4 decision to be made. In this case that was looking at
5 the Northside 3 retirement and a new unit at -- a new
6 combined cycle unit.

7 So theoretically the IRP would be produced.
8 It would identify a need that could be most effectively
9 filled by new combined cycle generation. That then
10 would be the basis for a need for power application to
11 the Public Service Commission, which would be the way
12 that the plan gets permitted.

13 So really the IRP is almost less of a planning
14 document and more the first step of the permitting
15 process and the licensing process, because that's the
16 vehicle by which you demonstrate that this is the best
17 solution for the need, that there is a need, and that
18 it's really the -- you know, it's the optimal solution.

19 And you could -- so it's a lot more intensive
20 than a ten-year site plan. We do ten-year site plans
21 in-house. We typically subcontract integrated resource
22 plans to a big engineering firm and that's really
23 what -- you know, the main difference.

24 They draw on a lot of the same information, so
25 as far as the -- you know, forecast is a good -- so the

1 still here, so --

2 Q Back in '18?

3 A Back in '18.

4 Q And where does it stand today?

5 A I tapped the brakes on it because I wanted
6 to -- well, for one -- a couple of reasons.

7 There was a lot of public statements by Aaron
8 about maybe not needing a combined cycle, maybe having
9 batteries and solar instead. Part of that licensing
10 process is public statement -- sworn testimony that this
11 is what we need.

12 So I mentioned to Melissa that that's going to
13 be really hard to say with our CEO making statements
14 essentially to the contrary.

15 Q And did you think there was support for his
16 statements to the contrary?

17 A There were --

18 Q Did he have data and studies to support these
19 statements that ran counter to the IRP?

20 A Well, the IRP wasn't --

21 Q I'm sorry.

22 A -- wasn't out yet.

23 Q Counter to these issues?

24 A No. I think he had more macro trends and
25 information from other places where solar and battery

1 ten-year site plan has a forecast. The integrated
2 resource plan -- going back to my earlier point -- will
3 have a base forecast, different forecast based on good
4 economy, poor economy, high natural gas prices, low
5 natural gas prices. Because, you know, what the other
6 fuel prices are make a difference in what you select.
7 If the natural gas prices are high, you're not going to
8 put in a new natural gas generation. You'll look for
9 something else. If they're low, then you'll put it in,
10 you know, preferentially.

11 But, you know, looking at a range of
12 parameters to kind of come up with, again what's the
13 most resilient solution for whatever's needed is where
14 the IRP comes in.

15 Q And are you the one that's responsible for the
16 IRP?

17 A Yes.

18 Q When did work on the IRP begin?

19 And is it a 30-year document or a 40-year
20 document?

21 A It's 30 years --

22 Q Okay.

23 A -- it looks for.

24 Q When did the work start on it?

25 A I'd have to look, but it started when Mike was

1 were approaching parity. And I think the concern was,
2 you know, he didn't, and I don't think anybody does,
3 want to be the person -- the last person to put in a
4 combined cycle gas plant right before solar and
5 batteries become, you know, cheaper than that option.
6 Then you end up with a stranded asset, with something
7 expensive that you've built and don't operate, because
8 there's a cheaper option.

9 You know, that's always the -- always sort of
10 the fear in planning is to do something that then turns
11 out not to last long enough to get full payback from.
12 That's always -- that's why we're looking for the most
13 resilient robust solution so that we're not -- so we
14 don't end up regretting a decision we made because now
15 it becomes obsolete prematurely.

16 So I think he may have been a little ahead of
17 the curve on when that was going to be. But, you know,
18 there's -- there's -- there's stories out there and I
19 think reports that indicate that's coming, but they're
20 not ones that, you know, we generated or that, you know,
21 our traditional consultants generated. I think that is
22 supported, you know, by the McKinsey work. It's kind of
23 the same thing they're showing.

24 So I don't know if he was getting advance
25 indications of what McKinsey was seeing back then or

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1 not.

2 Q Well, that's what apparently the McKinsey

3 report may say.

4 A Yeah.

5 Q But are you of the opinion as to whether what

6 McKinsey report says is supported -- is supportable by

7 the data and studies?

8 A You know, I've seen -- I've seen the same, you

9 know, industry presentations and stories and articles,

10 and, you know, if you look at those places ahead of us,

11 you know, the California, the Hawaii, there's -- more of

12 California because Hawaii's special -- there's some

13 support to it.

14 I don't think -- you know, I think I said

15 before that I thought the timing was aggressive, and I

16 think that's the main -- you know, my main thing was

17 that I think everything they say could possibly happen.

18 I just don't think it's going to happen in the same time

19 frame that they said. I think we maybe got five, six,

20 eight years more than what they said.

21 From a long-term planning point of view,

22 that's not -- it's significant, but it's not -- it's

23 not -- you know, it's not like critical. It's not like,

24 oh, you know, you're wrong because this is not going to

25 happen until later. It's more like, you know, we got

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1 more time than indicated by that.

2 Q Are you of the opinion today that public

3 utilities like JEA as we know them are doomed?

4 A I mean, over what time frame? Over the next

5 30 years, over the next 10 years?

6 Q I guess either one.

7 A I think over the next probably 10, 20 years,

8 no. I think, you know, there are -- there are ways to

9 be creative. There's -- you know, there's always, you

10 know, rates that can be triggered and ways to just be

11 smaller.

12 I think -- I think part of it might be, you

13 know, driving consumption down in a way so that -- so

14 we're not selling as much but we're also not producing

15 as much and therefore can use fewer plants.

16 Q Okay. But if the 30-year outlook is not so

17 good -- sounds like you're saying that -- for public

18 utilities -- why is that versus private utilities?

19 A Well, I mean, the -- if you even look at

20 private utilities, there's a lot fewer of them now than

21 there were ten years ago, even five years ago.

22 Q And these are -- these are -- I've heard these

23 referred as IOPs, investor-owned --

24 A Investor-owned utilities, IOUs.

25 There's been a lot of consolidation in the

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1 utility industry in general. I think like in almost any

2 industry, size matters. The larger utilities are able

3 to diversify and bring in revenues from other sources.

4 NextEra, they've -- they're the largest renewable energy

5 producer -- or developer in the country.

6 Q I don't think she got that. What was that,

7 Next ...

8 A NextEra.

9 Q NextEra?

10 A Yes. It's the parent company for FPL.

11 Q Okay.

12 A So from a corporate point of view, their --

13 their utility operations there are less important so

14 they're probably not asking for as much revenue from

15 that because they're getting all this other revenue from

16 their renewable portfolio or, you know, development

17 activities.

18 You know, Duke has acquired -- they've

19 acquired seven or eight utilities, you know, through

20 acquisitions, and so now they're -- have most of the

21 Carolinas and, you know, down here in Florida, parts of

22 Ohio and Indiana, so -- and, you know, of course

23 Southern Company is Georgia Power, Alabama Power,

24 Mississippi Power, just sold to Gulf Power to FPL -- or

25 to NextEra.

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1 So even in the IOU world you see the smaller

2 companies get bought up and taken over by large ones,

3 and you get -- the economy gets scaled. You get the --

4 there's just things that they can do because of how

5 large they are that I don't think any muni is going to

6 be able to really approach.

7 Because, you know -- you know, one of the

8 things a government-owned entity can't do is expand that

9 drastically, especially in a regulated space. So I

10 think that's why they have a different set of issues.

11 Now, there are some advantages for a municipal utility.

12 The ability of the board to set rates as opposed to

13 having to go to the Public Service Commission is big.

14 We can -- we can respond much more quickly

15 to -- you know, to rate pressures that way. If there's

16 a need for an emergency rate hearing, we can have it in

17 48 hours and make modifications. You know, FEMA

18 reimbursement is an advantage that we get that IOUs

19 don't.

20 So, you know, there are advantages to both.

21 You know, I do think there -- there are challenges that

22 are uniquely municipal, though, and I think that's part

23 of what was trying to be -- trying to be addressed.

24 Q I'm just making a note of something to come

25 back to.

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1 All right. Well, since you put the -- as you
 2 say, tapped the brakes on the IRP, did that then -- did
 3 that effort sort of step aside, then, for the McKinsey
 4 report?
 5 A For now. Well -- and the reason there is
 6 because there wasn't the same pressure to get the next
 7 combined cycle licensed, and really the only reason for
 8 the IRP is to support the need for power application for
 9 the new combined cycle.
 10 So if that pushes out a couple years, which,
 11 you know, we made that adjustment in our budgets, now I
 12 don't -- you know, I don't need -- I don't need the IRP
 13 right away. I can hold off on it.
 14 Q So the only planning document that JEA would
 15 now produce going forward is the ten-year site plan?
 16 A Right, until -- until we -- and we are going
 17 to wrap up the IRP and bring it out, but we may have to
 18 refresh it if we -- you know, it can't sit around
 19 forever, you know --
 20 Q Was there any discussion of slowing down the
 21 IRP in order to bring it into line with the McKinsey
 22 report?
 23 A I was going to want to take a look at that and
 24 not necessarily make any changes to it, but just make
 25 sure that we could address why things were different.

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1 Because, you know, I'd already spent a fair amount of
 2 time explaining to people why the ten-year site plan and
 3 the McKinsey report were different. And then the IRP
 4 was going to be a completely different animal. Like I
 5 said, it's got multiple scenarios as far as both demand
 6 projections and, you know, gas price -- fuel prices, all
 7 kinds of things. So it's -- it wasn't going to match --
 8 Q Was it your call to slow down the IRP?
 9 A Yeah, it was.
 10 Q Driven by the -- what you were seeing as no
 11 longer a need to purchase the combined cycle?
 12 A Right. The timing of the combined cycle was
 13 pushed out so we didn't need the IRP.
 14 Q And why was the timing of the combined cycle
 15 pushed out?
 16 A Just -- really just from a -- you know, from a
 17 need point of view, the -- what was driving the need was
 18 the retirement of Northside 3, which -- and that -- we
 19 anticipated that happening because of a new regulation,
 20 316(b), which is the cooling water intake rule.
 21 So basically Northside 1, 2, and 3 all use the
 22 same cooling water intake. Northside 1 and 2 is about
 23 half. Northside 3 is about half. And there's studies
 24 underway, but one of the potential outcomes is they may
 25 have to add a cooling -- you know, the worst case from

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1 our point of view would be that they would have to add a
 2 cooling tower to accommodate the -- you know, to reject
 3 the heat, so the cooling water went back out into the
 4 river at a lower temperature.
 5 So the other option would be to shut down
 6 either 1 and 2 or 3 so then half the flow, you know,
 7 half the heat load, we're good. So that was kind of up
 8 in the air, and the decision -- we felt the decision on
 9 that, or the actual closure, would be in the '25 to '27
 10 time frame.
 11 Q Closure of Northside 3?
 12 A Right.
 13 Q Or 1 and 2?
 14 A Right.
 15 Q Right.
 16 A And I've got about a four-year construction
 17 period before -- construction and permitting period --
 18 before -- before that. So I go from '27 back -- I'm at
 19 '23. Even if I give myself an extra year, I'm at '22.
 20 So I don't need the IRP just yet. I'm, you
 21 know, close, but, you know -- and certainly given the
 22 discussions around the sale of -- the potential sale of
 23 JEA, the recapitalization, it was, you know -- and this
 24 is my call as well. You know, I did not think it was --
 25 and I haven't spoken to anybody who didn't agree with

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1 me -- not a great time to be walking in to the PSC
 2 saying we need to build a new power plant.
 3 Because the first thing they are going to say
 4 is, well, you know, what about your -- what about all
 5 this other stuff going on as far as a potential sale,
 6 you know, isn't your -- can't you supply the power from
 7 whoever your new, you know, corporation is?
 8 You know, "I don't know" wasn't going to be a
 9 good answer at that point, so --
 10 Q I hear that. All right.
 11 A -- yeah.
 12 Q Excellent segue here.
 13 So when do you first remember talk around the
 14 16th floor, so to speak, of the sale or privatization or
 15 recapitalization of JEA?
 16 A Pretty sure it was back in the summertime just
 17 this past year. Of course, you know, there's been talk.
 18 Q I'm sorry. Post -- I realize we're taking
 19 this big history look --
 20 A Yeah.
 21 Q -- if we go back to the McElroy days perhaps.
 22 A Right.
 23 Q But we're beyond that now, we're in the
 24 Zahn --
 25 A The Zahn era.

1 Q -- tenure which I say starts in April of '18
 2 when he's interim through to this last month.
 3 So during that 18, 19 months, when did the
 4 issue first surface, as far as you recall?
 5 A So the -- I think it --
 6 Q I think you answered it.
 7 A Yeah.
 8 Q It was in the --
 9 A June, July time frame.
 10 Q Okay. What about the discussion of a
 11 long-term incentive plan?
 12 A That was sprung on us at one of the off-sites
 13 at Ponte Vedra, I believe maybe the one in July.
 14 Q Okay. Just a little vague on what is
 15 happening at the different Ponte Vedra meetings?
 16 A Yeah. I mean, they all kind of blend together
 17 as far as which one was when. But the -- that was
 18 definitely, you know -- and even then the discussion was
 19 pretty vague.
 20 Aaron indicated that there was -- that he
 21 would be meeting with everybody individually to kind of
 22 go over details and that meeting never happened.
 23 Q At a later date -- assuming I'm able to
 24 assemble the documents that are associated with each of
 25 those Ponte Vedra meetings, would a look at the

1 documents help you remember perhaps what was discussed
 2 surrounding them?
 3 A Probably, yeah.
 4 Q All right. So this one-on-one discussion with
 5 Mr. Zahn that you just referred to, is that -- did you
 6 understand that those discussions would be about the
 7 long-term incentive plan, or at that point were they --
 8 were you going to be informed as to what the PUP plan
 9 was?
 10 A Yeah, I thought those were interchangeable.
 11 Q At what point did you first hear about
 12 performance units?
 13 A That would have been -- that's what I was
 14 referring to at one of the Ponte Vedra meetings.
 15 Q Do you remember discussion about a long-term
 16 plan before you heard about performance units, or do
 17 you -- or is it all one and the same as far as you can
 18 recall?
 19 A Yeah, I think -- I think the board had --
 20 there was a -- there was a charge that went out to
 21 investigate long-term incentive plans, and my
 22 understanding was, you know, the PUP plan is what came
 23 back from that.
 24 I don't know of any other long-term incentive
 25 plans that -- that -- you know, that we heard about or

1 that I heard about.
 2 Q You said that the meeting with Mr. Zahn to
 3 explain the PUP never happened?
 4 A Right.
 5 Q Prior to that, had you ever had a sitdown with
 6 Mr. Zahn to talk about long-term incentive plans?
 7 A No.
 8 Q Were you ever provided any information by
 9 Mr. Zahn or Mr. Vinyard or Mr. Wannemacher or Ms. Dykes,
 10 for that matter, regarding the details of either this
 11 long-term incentive plan that was in discussion or the
 12 PUP?
 13 A Not individually. You know, like I said, we
 14 got some vague information at one of the Ponte Vedra
 15 meetings.
 16 Q And just so that our record is clear, and so
 17 that we're not talking too much in code, performance
 18 unit plan is the PUP; correct?
 19 A Correct. Right.
 20 Q Were you ever informed how many -- well, did
 21 you -- did you understand at some point in the
 22 discussion that these performance units were not going
 23 to simply be bestowed on employees, that they would have
 24 to be purchased?
 25 A Right.

1 Q When did you --
 2 A I think that was part of --
 3 Q -- learn that?
 4 A That was part of the pitch, so to speak, at
 5 the -- at the Ponte Vedra meeting. The, you know -- and
 6 from what I recall, I think, you know, talking with
 7 other people, our -- you know, our take was how many
 8 would we have to buy to look like a team player.
 9 Q I actually have heard that expressed before.
 10 Why would it matter that you be a team player
 11 when it comes to purchasing PUPs?
 12 A Just from the point of view of, you know, I
 13 think they were being regarded as -- all right, well, so
 14 we're senior leadership and this is supposed to be your
 15 level of confidence that the business was going to get
 16 better over the next three years or however long the
 17 period was supposed to be.
 18 So if you, as a senior leadership, say, I have
 19 no confidence in that, I'm not going to buy any, that
 20 doesn't look good.
 21 It would be like working for a private utility
 22 and not taking any of the employee stock ownership plan
 23 because you thought they were going to be worthless;
 24 well, then, why are you working here?
 25 Q Did you ever have a discussion with Mr. Zahn

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1 or Mr. Vinyard or Mr. Wannemacher about the interplay
 2 between the PUP and either the sale or the privatization
 3 or the recapitalization event?
 4 A No, no.
 5 Q When the -- whenever it was at Ponte Vedra,
 6 and I know that there were a number of meetings at Ponte
 7 Vedra, but you're having a hard time distinguishing
 8 between May -- or April, June, even August.
 9 Do you remember Ponte Vedra meetings being in
 10 those time slots?
 11 A I just know they were always about when I had
 12 something else -- something else on my calendar and they
 13 just popped up.
 14 Q Do you remember anybody raising their hand and
 15 saying, you know, I'm not just sure how this fits in
 16 with a municipally owned utility?
 17 A So I know -- I know Ted Hobson expressed some
 18 concerns and -- and then, you know, just like this --
 19 you know, it seems odd.
 20 Q In a group setting?
 21 A In a group setting.
 22 Q Was Mr. Zahn present?
 23 A It's hard to keep track, because he -- he
 24 always popped in and out of -- you know, it didn't
 25 matter if it was his meeting or not. He would pop in

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1 and out, you know, randomly, whether for phone calls or
 2 whatever. So he was there that day. Whether he was
 3 there at that precise moment, I couldn't say.
 4 Q Okay. I have gotten the impression that
 5 Mr. Zahn's -- virtually his sole focus during his tenure
 6 as CEO was on strategic planning. Would you agree with
 7 that?
 8 A Yeah. Yeah, I would say that.
 9 Q In other words, very little attention to the
 10 day-to-day business of JEA?
 11 A No, it was pretty clear that was -- that was
 12 Melissa's purview.
 13 Q That being so, it would seem to me that you
 14 might, as the --
 15 A Planner.
 16 Q -- top planner of energy and water might be
 17 brought into his close sphere. Was that -- but that
 18 doesn't sound like that was the case?
 19 A No. You know, it would have made sense, you
 20 would have thought, but no. Outside of -- outside of
 21 the large group meetings, I couldn't have had more than
 22 a half a dozen even just interactions, one-on-one, with
 23 Aaron, and mostly in the -- in the realm of, you know,
 24 hallway drive-bys, you know, hey, I thought of this, you
 25 know, can you guys -- can you look at that. If he

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1 wanted to do a -- find a way for us to do a subscription
 2 model like Netflix, you know, so that we would -- people
 3 would sign up and we would provide a service and they'd
 4 pay every month regardless of consumption.
 5 That was -- and I had my guys look at some
 6 options and nothing -- you know, nothing penciled out
 7 from a -- from an economics point of view. It just
 8 didn't make sense, you know. You know, that wasn't the
 9 answer he wanted, so he kept trying to tweak it, but you
 10 know, I never did come up with a viable model for it. I
 11 stopped working on it.
 12 Q You stopped working on it, okay, since it
 13 wasn't working.
 14 It sounds to me like instead of working
 15 closely with you on planning that Mr. Zahn and his super
 16 senior team decided to rely on McKinsey?
 17 A I would, you know --
 18 Q Is that a fair statement? I'm sorry. Is that
 19 a fair conclusion that I'm drawing?
 20 A I think that's a fair conclusion. That was my
 21 perception.
 22 Q Do you recall at any of these off-site
 23 meetings -- by the way, were there off-site meetings
 24 other than at Ponte Vedra?
 25 A We had -- there was an off-site for down

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1 through directors and maybe managers at UNF. That
 2 was --
 3 Q I apologize. There was a big going-on today
 4 and sometimes my assistant checks in with me. So I was
 5 just checking to see if that was her. And so I kind of
 6 lost that answer.
 7 If you wouldn't mind, starting --
 8 A No problem.
 9 There was an off-site that included SLT
 10 directors and maybe managers, maybe not managers. I
 11 can't -- I can't recall if they were there -- at the
 12 University of North Florida at the -- their conference
 13 center out there.
 14 We had -- we used to have meetings out there
 15 fairly often when it involved a larger group, and that
 16 was specifically McKinsey, like, here are some results
 17 and -- or not results, but more like, here are different
 18 scenarios and tableaus they put up and people worked
 19 on -- at tables and then went around and the McKinsey
 20 "experts" -- experts -- let the record reflect I used
 21 finger quotes.
 22 Q Air quotes around experts, okay. Dually
 23 noted. I was going to say something if you didn't.
 24 A Okay. And talked about each of the sectors or
 25 whatever they were talking about, like one on carbon,

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1 one on renewables, one on alternative water. You know,
2 so just a wide range, maybe eight or ten tableaux.
3 And then there was discussion at the tables
4 and people kind of voted on what they thought we should
5 pursue.
6 Q Okay. How about at any of these off-site
7 meetings, do you remember Mr. Zahn talking about a
8 recapitalization event or a change of control of the
9 company and that in that event obviously there would be
10 a lot of capital moving around and some of that capital
11 could be available to pay out to employees in the
12 form -- to fund an incentive plan?
13 A No.
14 Q No recollection of an exchange like that?
15 A No.
16 Q Which is to say that -- you're not saying that
17 didn't happen; you just weren't there if it -- if and --
18 A Right. Right.
19 Q -- when it was stated? All right.
20 A Now, there was the -- as far as the retention
21 agreements, you know, that was part of the so-called
22 table stakes as far as the three years of -- you know,
23 three years of pay and the -- or three years of, you
24 know, retained employment or payout, and the one-year
25 salary bonus payable in like a third at closing, a

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1 third, a third. And that was in -- you know, everybody
2 in the company got one of those and that was listed as
3 one of the minimum requirements to the respondents so --
4 Q Everybody in the company or --
5 A Everybody in the company. That was -- and
6 that was hundreds of millions of dollars as far as the
7 cost of that. But that's the, you know, that's laid out
8 there in the -- you know, in what went out to the -- you
9 know, in the ITN.
10 Q Right.
11 A You know, it's one of the minimum requirements
12 of that employee retention program.
13 Q And pretty much what you've described found
14 its way into the package of documents that comprised
15 your new employment agreement that was approved by the
16 board in July; correct?
17 A Correct.
18 Q Had that been discussed with you before it
19 happened?
20 A No. Those were developed -- you know, I don't
21 know when or where, but pretty much as soon as the board
22 voted to approve that, all these agreements appeared,
23 you know, to go forward with investigating
24 recapitalization. I think that afternoon or the next
25 day there were, you know, draft agreements. I think we

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1 had like a week or so to get them signed and back. And
2 they changed a couple of times. They made a couple of
3 tweaks to them.
4 Q And who reviewed them with you, or did you ask
5 anybody to explain any of it, if at all, to you when you
6 were looking at it?
7 A No. Nobody really went through them. You
8 know, we -- that was the -- you know, we were free to
9 have anybody we wanted to -- if we needed a lawyer to
10 look at them or whatever, we were free to go do that.
11 But that -- you know, I don't think -- I don't
12 recall anybody sitting down and going through each of
13 the elements with us. More just, here, you have until
14 whatever date to sign this.
15 Q Did you have a performance review at the end
16 of the fiscal year with Mr. Vinyard?
17 A I don't report to --
18 Q I'm sorry.
19 A -- Herschel. I report to Melissa.
20 Q Did you have one with Melissa at the end of
21 the fiscal year?
22 A Briefly. I think we all got "meets". They
23 kind of short-circuited. So there wasn't a lot of -- a
24 lot of, you know, give and take on the -- on the
25 ratings.

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1 Q Did she --
2 A She said I was doing a good job, though.
3 Q That doesn't surprise me at all based upon
4 this conversation.
5 Do you remember her talking or having -- or
6 I'm sorry.
7 Do you remember any part of your review
8 including a discussion in which she shared any
9 information about the performance incentive plan as it
10 related to your review?
11 A I think there was a part where everybody got a
12 "meets" because part -- the level of participation and
13 the performance incentive plan or the -- I guess the
14 PUPs was going to be -- your rating was going to be a
15 factor in that.
16 Q A factor in how many performance units you
17 would be able to purchase?
18 A Right.
19 Q Did anybody ever -- when I say "ever", after
20 July 23 --
21 A Okay.
22 Q -- the board meeting in July.
23 Did there come a time when anybody updated you
24 on the -- on the status or progress toward implementing
25 the PUP --

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1 A No.
2 Q -- putting it into action, so to speak?
3 A Right. No. From my understanding, originally
4 they were supposed to have it rolled out around --
5 whenever benefits open up. Like it was going to be part
6 of the benefits re-opening and --
7 Q At the end of -- toward the end of 2019?
8 A Towards the end of 2019. And -- you know, but
9 there was no update about it except that, oh, it's not
10 happening yet.
11 So I don't think it ever got -- it ever got to
12 the point of where it was final final, but I didn't get
13 any updates on it.
14 Q I'm going to show you a document dated -- it's
15 a draft dated September 10 of '19. It's marked
16 Confidential. We've attached this before, so we'll just
17 attach this again here.
18 And the title of it is Invitation to
19 Participate in the JEA Long-Term Performance Unit Plan.
20 Just ask if by any chance it ever found its way to you,
21 ever?
22 A First time I've seen it.
23 (Exhibit Number 1 was marked for
24 identification.)
25

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1 BY MR. POWELL:
2 Q September 10th of '19, you see there?
3 A Yeah, I see that.
4 Q Would you have suspected that at least the
5 members of the senior leadership team would be kept
6 abreast of progress in bringing this PUP forward into
7 reality?
8 A I would have thought so, but I'm kind of glad
9 they didn't.
10 Q So the PUP is authorized by the board on
11 July 23. You were supposed to then be getting a
12 one-on-one with Mr. Zahn about it. That never happened.
13 A Right.
14 Q The weeks rocked along. You had no
15 information. No word on what was going on with the PUP,
16 and the next thing you learn is that it's been canceled.
17 A Uh-huh.
18 Q Does that sum it up?
19 A Yep.
20 Q I did save one question I was going to ask
21 you.
22 And I know this is a really general question,
23 but you've provided a lot of foundation for -- at least
24 in my -- from where I sit. You've talked about, you
25 know, the differences between private utilities and

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1 public to a certain extent. You mentioned the benefits
2 of size versus some other benefits to a public,
3 flexibility and being somewhat nimble.
4 A Uh-huh.
5 Q So with everything you've shared, and
6 obviously you bring a massive perspective to this
7 question, but from where you sit, with what you do, the
8 forecast that you prepare and are aware of, is it just a
9 matter of time before JEA needs to be sold in order to
10 maximize its value to the owners who are the folks
11 that -- here in the City? Is it just a matter of time?
12 A It could be.
13 Q Is it necessarily just a matter of time?
14 A You know, that's a great question, and I think
15 it's kind of fundamental to the whole discussion, and,
16 you know, I think -- I think JEA's in a -- well, a
17 couple of things.
18 So most of the discussion that I've had about
19 privatization has been on the electric side. Certainly
20 the main IOUs are electric. You know, we've got the
21 opposite on the water side. We're the scale. You know,
22 we're much larger than most other water systems.
23 So really when you talk about the pressures
24 and things, it is really just on the electric side. And
25 certainly the water side doesn't have the same ability

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1 for people to go off grid. You know, certainly people
2 can put in wells or something, but there's limits on
3 that. There's zoning, there's DOH rules, HOAs have
4 restrictions on people putting wells in.
5 Q Then there's that whole wastewater thing.
6 A Then there's the whole wastewater thing. And
7 we're in the middle of trying to get rid of septic
8 tanks. So putting in more just to get off the sewer
9 meter seems kind of counterproductive.
10 So the water side is very healthy and I
11 project it to stay that way on into the future.
12 Electric side, I think JEA's sort of in a
13 funny middle spot, because we're large compared to other
14 municipal utilities, but we're small compared to the
15 IOUs. So I think to survive we can go either direction,
16 either become much -- you know, much larger which would
17 require probably being acquired, or be smaller, and that
18 could be accomplished by divesting generation over time
19 and being -- you know, just purchasing power from other
20 people and really -- and not being our own balancing
21 area, but being part of a larger balancing area.
22 So there's a way to stay a municipal utility
23 without necessarily being acquired. Now, whether or not
24 it produces the same amount of revenue to the City on an
25 annual basis, you know, that's part of what the -- I

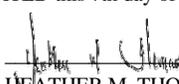
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1 think the ITN -- or the comparison process between all
 2 the different scenarios, you know, would have or may
 3 still answer.
 4 Q A complicated calculus at least.
 5 A Yes, to say the least.
 6 Q Well, I appreciate your breaking that down for
 7 me as between the water and the energy side because I
 8 think that it's necessary in order to understand the
 9 question on the table and the answer that's coming out;
 10 right?
 11 A Right, right.
 12 Q Okay. Mr. McNall, I really appreciate your
 13 time. It's been very informative and helpful.
 14 I do have kind of a catch-all question because
 15 the purpose of this discussion really is to determine --
 16 you know, for us to try to understand the last 18 months
 17 or so in items of whether Mr. Zahn's performance merits
 18 termination for cause.
 19 A Sure.
 20 Q So this is the kind of the point where I would
 21 ask you, from you where you sat, what you did, what you
 22 have experienced, is there anything you would like to
 23 share with the board of directors as to any other --
 24 apart from our discussion or expand on anything we've
 25 talked about -- grounds that you're aware of that would

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1 support the termination of Mr. Zahn's contract for
 2 cause?
 3 A No, not that I'm aware of. You know, as I
 4 indicated, the -- our personal interactions were fairly
 5 limited. You know, I do think a lot of times his lack
 6 of experience showed, but the board of directors was
 7 certainly aware of that when they hired him.
 8 MR. POWELL: I appreciate that. And we have a
 9 wrap-up here, so that --
 10 THE WITNESS: Great.
 11 MR. POWELL: -- will close us out.
 12 MR. LINSNER: All right. Do you have anything
 13 additional to offer or add?
 14 THE WITNESS: No, sir. Thanks.
 15 MR. LINSNER: Okay. As this is an ongoing OIG
 16 investigation and General Counsel investigation,
 17 you're being advised not to discuss the case with
 18 others. And the interview has now concluded, and
 19 the time now is 3:15 p.m.
 20 (Sworn statement concluded at 3:15 p.m.)
 21
 22
 23
 24
 25

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1 CERTIFICATE OF REPORTER
 2
 3
 4 STATE OF FLORIDA
 5 COUNTY OF DUVAL
 6
 7
 8 I, HEATHER M. THOMAS, Court Reporter and
 9 Notary Public, State of Florida, was authorized to
 10 and did stenographically report the foregoing
 11 proceedings; and that the transcript, pages 4
 12 through 67, is a true and accurate record of my
 13 stenographic notes.
 14 I further certify that I am not a
 15 relative, or employee, or attorney, or counsel of
 16 any of the parties' attorney or counsel connected
 17 with the action, nor am I financially interested in
 18 this action.
 19
 20 DATED this 7th day of January, 2020.
 21
 22 
 23 HEATHER M. THOMAS
 24 COURT REPORTER
 25 

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