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Subject: September 18, 2018 JEA Board Meeting - Supplemental Information
Attachments: III. C. 4. McKinsey Presentation.pdf; III. B. 1. JEA Corporate Metrics Dashboard - September 18 BOD.pdf

JEA ITN 124-18: STRATEGIC PLANING AND IMPLEMENTATION CONSULTING SERVICES – PRESENTATION AND INTERVIEW

September 11, 2018

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Building Community

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Introductions and overview

Answers to your questions



Introductions and overview of the McKinsey team



Why we believe McKinsey is well positioned to partner with JEA on this effort



Detailed responses to your questions (as well as any other outstanding questions)



Building Community

Who's here

Partner

He is a leader in McKinsey's utility practice on the East Coast. Over the past five years, he has served a variety of utilities to define new strategies focused on technology and customer evolution.

Senior Partner

He leads our work with public and customer-owned utilities and has extensive experience in serving utilities on performance transformations across operational (e.g., frontline ops, purchasing, capital) and strategic (growth, portfolio) topics.

Senior partner

He leads our North American Electric Power and Natural Gas practice. Extensive experience in serving senior leadership teams and utility Boards on performance transformations, growth strategies and M&A.

Associate Partner

He leads our work on investment in the power and infrastructure sectors working with utilities, governments and investors across generation, transmission and distribution and corporate finance. He is the firm expert on public private partnerships and privatizations.



Building Community

McKinsey will provide unparalleled strategic expertise to enable JEA's Board and top management to rapidly chart JEA's future

Experienced strategic guide

- We are the **leading global strategy firm** guiding corporate boards and managers
- We are the **top global advisor to utilities (electric, water, gas)** navigating trends and threats
- We support **management through critical strategic transformations and transactions**
- **Dedicated A-team that has “been there/done that”** in both electric and water operations

Bringing Independent and objective mindset to workshops

- **Challenging conventional wisdom and orthodoxies at JEA**, we will bring new perspectives on and a strategic view of the industry shaped by dozens of strategy studies for North American utilities
- **Raising JEA leadership aspirations** by leveraging quality peer network among publicly / customer-owned utilities and IOUs
- **Experience in running impactful Board level and executive level workshops and stakeholder sessions** that enable real engagement and actionable strategies

Delivering the firm's full expertise

- **Our Senior Partners who lead the McKinsey Electric Power practice will be working with your Board and Executive team**
- **Cross-cutting expertise**, our team includes the firm's experts on the full range of key topics relevant to JEA



Building Community

Changes over the next 10 years will reshape the utility sector for the long-term



1 Technology

Emerging energy economics of the supply stack shifting (e.g. utility scale renewables, flattening supply curve for natural gas)

Emerging operational technologies laying the foundation for digital transformation



2 Policy

Push for decarbonization gaining momentum

More comprehensive policies (e.g. net metering, Energy Efficiency)



3 Customer

Rising bar on customer experience driven by non-utility players (e.g. Amazon)

Competition for mind share and wallet heating up

Customer awareness of emerging technologies rising



4 Capital

Entry of players with competitive capital has potential to change returns and competitive play profile (e.g. Canadian and European investors, activists)

Utilities will increasingly find it critical to “lead from the front” and answer strategic questions:

- When does **affordability become an issue** and what is the **structural response of JEA**?
- How will JEA drive **customer transformation** (innovation, new product and services)?
- How should JEA **shape the regulatory agenda** ?
- What are the opportunities for JEA to drive **growth in its core business**?
- How will JEA drive **digital and technology** across current operations, future growth, customer innovation?
- How should JEA proactively shape **talent and culture** to meet changing skillset needs?



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We have tailored our approach to reflect JEA's existing progress and latest feedback



Our perspective on the progress so far

JEA has developed a **framework to assess strategic initiatives** across customer benefits, financial value, community engagement and environmental benefits

The pillars of JEA's framework are consistent with the evolution of the utility industry and will now need to be supported by concrete metrics, targets and benchmarks to guide implementation








Strategy development should also be **supported by organizational alignment, change management and consistent feedback and iteration cycles** to ensure buy-in and ownership



How we have tailored our approach

- **Focus on defining corporate metrics:** define early the concrete “corporate metrics” based on benchmarks and the JEA context to be socialized in the Phase 1 workshops on strategy and to guide the Phase 2 work on initiative development
- **Develop concrete initiatives:** launch a parallel strategic initiative assessment and prioritization workstream to define the key strategic initiatives critical to implementing the strategy starting with those shared with stakeholders already
- **Build on stakeholder engagement:** Build on the JEA stakeholder engagement plan already initiated to achieve alignment on guiding principles, strategic framework and metrics across the Board, JEA Management and public stakeholders in the October timeframe

An effective strategy requires:

-  A strategic plan responsive to trends
-  A clearly articulated vision for the future
-  Defined goals and metrics for success
-  An aligned organization
-  Discrete initiatives, clearly prioritized
-  Owners accountable for driving each initiative
-  A clear process to track and measure progress

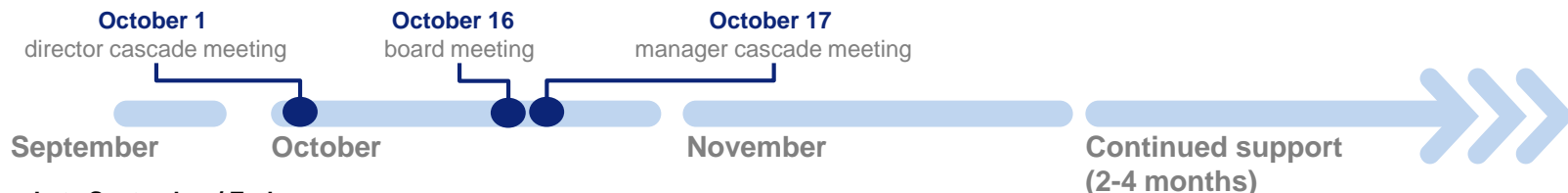
Phase 1 priorities

- JEA has articulated an understanding of trends and defined a Framework supported by Corporate Metrics
- The goal of phase 1 is to supplement view of trends, drive organizational alignment and establish a rigorous framework of metrics and benchmarks

Phase 2 priorities

- Phase 2 will aim to identify, prioritize and drive progress towards strategic initiatives that will achieve JEA's corporate metrics
- It will also create a clear tracking structure, supported by continuous change management and capability building

Approach and workplan: we expect to jointly refine and tailor this working with JEA leadership



Late September / Early October

- Assess JEA's guiding principles and strategic framework based on key trends affecting utilities
- Develop metrics and benchmarks to support JEA's guiding principles and Corporate Measures
- Collect feedback from stakeholders and incorporate into JEA's framework

October

- Facilitate cascade meetings to build alignment across the org.
- Finalize a metrics-based framework to track progress on corporate measures and set specific strategic goals
- Finalize strategic and operational goals to meet 3 and 10 year visions

November onwards

- Support the continued refinement of JEA's guiding principles and strategic framework to facilitate communications with stakeholders and the board
- Facilitate quarterly review and board meetings in a 4-6 month horizon

Key deliverables

- McKinsey's perspective on key industry trends and implications for JEA
- Internal and external stakeholder interview materials / summaries
- Material and facilitation for cascade and board meetings
- Detailed metrics and benchmarks to support Strategic Goals and Corporate Measures
- Analysis of JEA's performance against benchmarks

Phase 1. Refinement and alignment on JEA's framework and principles



Phase 2. Comprehensive strategic planning



Initiate Phase 2 mid-October after defining key metrics, assessing trends and gaining initial stakeholder buy-in (Phase 1)

- Create initial list of key initiatives¹
- Finalize initiative prioritization
- Create overview implementation plan; including prioritization, metrics, communication and change mgmt. plans
- Perform organizational health assessment (OHI)
- Develop tactical action plan and business / capital plans for key initiatives
- Develop tracking system to assess initiative performance

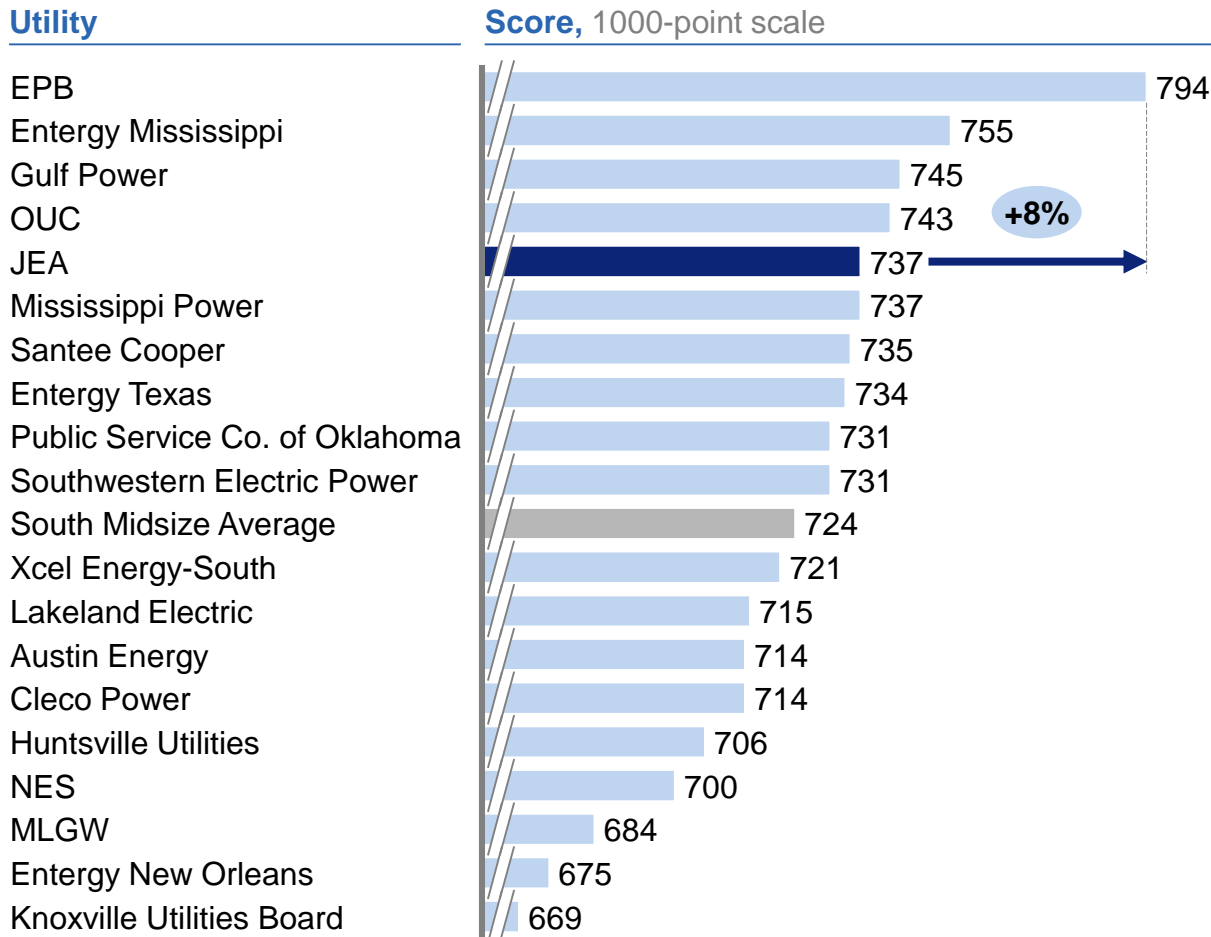
- Develop teams for top-5 initiatives and establish a continuous performance tracking and reporting system and culture
- Deploy change management workshops and tools to coach the leadership team and build capabilities, based on the outputs of the organizational health assessment

- Facilitate, provide materials to support and draft key takeaways for meetings/workshops with Board and management team
- A list of top initiatives supported by a repeatable prioritization approach
- Action and business plans for top initiatives and setup of JEA teams to execute against them
- A system for tracking framework / initiatives and facilitation of first initiative team meetings
- Organizational Health diagnostic

¹ Based on workshops and ideation session from across the organization as well as McKinsey's experience from similar strategic efforts in peer utilities

Example analysis: Initial benchmarking suggests that JEA has potential for maintaining customer satisfaction performance

JD Power – 2018 Residential Electric Customer Satisfaction Index Ranking, South Region: Midsize Utility Segment



Key takeaways

- JEA has above average performance on customer satisfaction
- Customer satisfaction standards are rising, with peers continuously improving performance and increasing customer expectations for new offerings, journeys and engagement channels

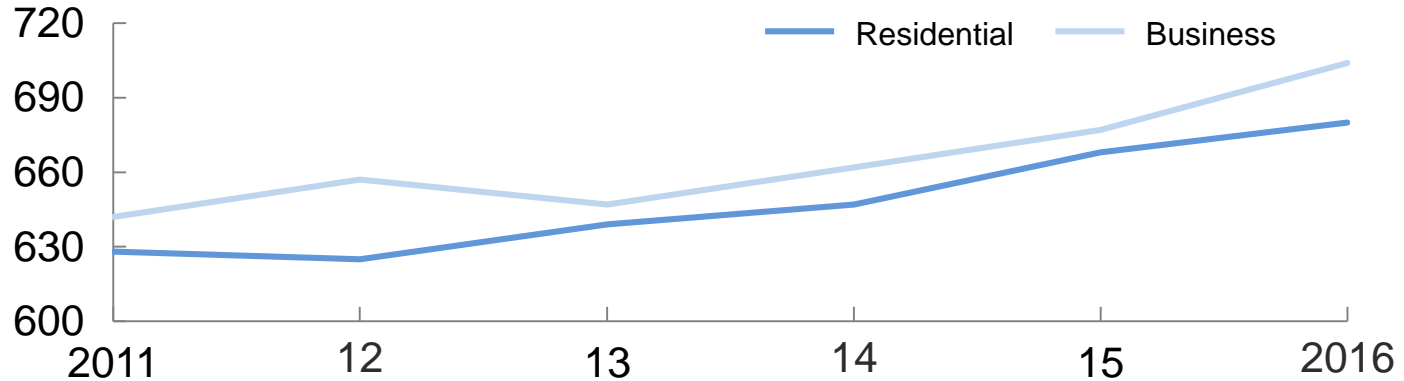
... But there is tremendous pressure for utilities to raise the bar on customer experience

Bar will keep rising: Increasing J.D. Power score

Customer expectations are being shaped by others

New entrants are interacting with customers

Future customer needs will be different



SUNPOWER®



- Customers may become “prosumers” – what does that experience look like?
- Customers may need more advice with more choices – how do we build that into our experience?
- Customer may want new services – how should we think about delivering?



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2

JEA has established a strategic framework focusing on four Corporate Measures and has already started taken actions to address the relevant trends and priorities

JEA Guiding Principles/Strategic Framework

The Basic Goal is to maximize each value both now and in the future:

- 1) Value to our customer
- 2) Financial value
- 3) Community impact value
- 4) Environmental value

Strategic themes

Key JEA Actions

Resiliency / Hardening

- \$100m invested in electric system hardening in the past 5 years (e.g. undergrounding of lines, reclosers)
- Over \$180m in capex invested in water system resiliency in 2017
- Proven improvements in resiliency and customer reliability demonstrated in recent Maria / Irma storm cycle (90% of customers had power back in 48 hours, the rest in 5 days)

New generation technologies

- Retirement of St. Johns River Power Park coal fired facility
- Plans to procure 250MW of solar in the next five years and enter into a long term PPA for nuclear power

Customer-centric utility

- Future Smart program launched focused on asset optimization, data availability and cost reduction, addressing affordability
- Launched JEA Solar Smart to expand customer choice options



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We have developed a staged “portfolio” approach to initiative prioritization



Our perspective

Unconstrained ideation: Disruptive forces facing the utility industry mean that the initial long list of initiatives should include ambitious and far-reaching ideas outside of the status quo and involve feedback from across the organization

Consistent metrics: Strategy is effective when specific targets, metrics and reporting structures are set, implying that initiatives should be evaluated using a rigorous set of performance metrics

Portfolio approach: Resources should be allocated flexibly to various initiatives, focusing on no regrets moves, but still maintaining a portfolio of seeding options to manage risk and maintain balance across functional areas



How we have tailored our approach

Our approach will enable rapid prioritization of initiatives using a consistent framework:

- **Baseline analytics and trends:** initiatives must be grounded in a strong understanding of current state
- **Rapid iteration using a staged approach:** We will maintain a funnel of initiatives, with all ideas flowing through and more high value initiatives progressing faster towards the end
- **Consistent, “apples to apples” metrics:** We will develop metrics that will allow tradeoffs to be made across initiatives types and enable reporting
- **Scenario-based approach:** Our analysis will include a consideration of risks and uncertainties in a rapidly evolving space, using McKinsey’s proprietary tools



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We will use our proven business plan templates to define initiatives and embed their development and implementation in a change management program



Our perspective

Prior strategy planning efforts have been successful when:

- Initiative teams were well resourced but nimble, with **accountable leaders supported by a tangible workplan**
- There was clear, top-down leadership direction coupled with **clearly articulated goals and metrics**
- The company was aligned around new initiatives with the help of a **sustained culture and change management program** that spreads across the senior leadership team, initiative leaders and the broader organization



How we have tailored our approach

Phase two should focus on:

- **Developing end-to-end business plans** supported by actionable workplans, key milestones, targets for JEA's corporate metrics
- **Setting up initiative teams** with clear, accountable owners and a self-sustainable initiative tracking and reporting structure
- **Driving change management** efforts to coach the leadership team and build on JEA's core competencies: unparalleled customer experience, developing and retaining great talent, and innovating to meet customer needs

A complete initiative business plan will include six key elements



Complete assessment of customer demand, evolution of costs and benefits, major market trends and potential competitors



Assessment of investment needs and position within JEA's capital planning



Evaluation of initiative team resources needed, including time commitment and capabilities
Initial scoping of potential initiative team staffing



Assessment of potential value at stake, including option value, and articulation of potential downside risks



Determination of fit with JEA's core competencies and capability building required



Synthesis of value proposition in accordance with JEA's corporate metrics (financial, environmental, customer and community value)



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We would use our proven processes and templates to efficiently develop plans that are consistently defined, directly map to goals and are fully owned by JEA teams



Our perspective

- **Co-development is key:** Developing detailed plans in coordination with JEA initiative owners will enable capability building and generate organizational buy-in
- **Clear, quantitative metrics and goals:** Initiative impact should be measurable and should adhere to clear targets, monitored regularly so that strategy can be adjusted as needed
- **Detailed action and resource plans:** clear workplans with key milestones are needed, coupled with resource requirements in terms of people, investments and leadership bandwidth



How we have tailored our approach

- **Work with JEA project team** to develop detailed plans and refine business plan of top initiatives
- **Rapid iteration using a staged approach:** We will maintain a funnel of initiatives, with all ideas flowing through and more high value initiatives progressing faster towards the end
- **Consistent, “apples to apples” metrics:** We will develop metrics that will allow tradeoffs to be made across initiatives types and enable reporting
- **Build capabilities:** We will consistently build capabilities so the organization can tackle strategic planning as strategic planning is a continuous process



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The Lead Consultant is your primary contact, central integration point for McKinsey expertise and the lead facilitator of workshops and stakeholder sessions

Participate in workshops, provide overall guidance, and test and challenge team findings

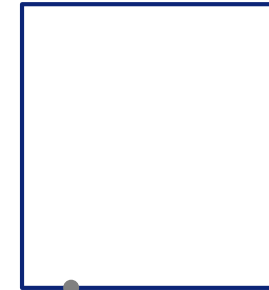
Lead leadership and stakeholder engagement; develop benchmarks, gap assessment, vision and strategy; plan and facilitate workshops with expert input

Steering Committee

- JEA leadership team

Project leadership team

- JEA project leader
- JEA core team
- McK core leadership and team (project manager and 1 consultant)



Role of the lead consultant

- Leads all aspects of engagement and all interactions between McKinsey team and JEA leadership
- Facilitates workshops with JEA leadership to facilitate continuous refinement of strategy planning and drive organizational alignment
- Coordinates workstream experts to align their contributions with project deliverables and maximize their inputs to JEA's strategy planning efforts



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Our perspective

Disruptive forces abound: Rapid changes are expected in technology (e.g., cost declines of renewables and storage), regulation (incentives and targets for sustainable initiatives) and customer preferences (e.g., demand for high end customer experience and affordable rates)

Change comes with opportunities: Utilities have opportunities to create value in the face of change by driving additional revenue through value-add services and by embracing new technologies to reduce service costs and improve customer experience

Uncertainty should not be an impediment to action: Utilities successfully navigating uncertainty have been able to



How we have tailored our approach

Our approach has been customized to address disruption in the space:

- Our forecasting and planning will be **updated to integrate trends**, notably penetration and costs of new technologies such as renewables, storage and EVs (e.g. lower demand)
- Initiatives will be evaluate considering **evolving customer preferences** (e.g. choice, expectation of full reliability) who will more meaningfully engage with new technologies and be offered a landscape of new product and service offerings
- Strategy must **integrate affordability implications** as alternatives to utility service, such as distributed generation, will apply pressure to the utility business model
- Our **implementation approach will be staged**, allowing high potential initiatives to be prioritized for execution while still maintaining a portfolio of “seeding options”



Corporate Metrics Dashboard

As of August 31, 2018

Metrics We Watch	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual
Financial Value						
Change in Net Position (\$000)	\$182,642	\$79,975	\$156,269	\$323,008	\$210,016	\$254,620
Debt to Capitalization	75%	73%	70%	69%	66%	63%
City Contribution (\$000)	\$104,188	\$106,687	\$109,188	\$111,688	\$129,187	\$115,823
Electric sales (000's MWh)	13,855	11,930	12,172	12,434	12,561	12,050
Water Sales (000's kgal)	35,345	33,088	32,468	34,558	36,358	37,245
Sewer Sales (000's kgal)	24,490	23,624	23,527	24,922	25,818	26,713
Reclaim Sales (000's kgal)	1,330	1,110	1,301	1,784	2,644	3,290
Community Impact Value						
Utility Scale Solar Energy (GWh)	21	21	20	21	21	26
Economic Development Program Participants	N/A	0	0	1	0	0
Environmental Value						
Consumptive Use Permit Compliance (MGD)	104	100	103	107	112	114
Reclaimed Water Customer Growth	35%	40%	43%	31%	27%	25%

Critical Operation Metrics - Short Term Influence	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual
Customer Value						
JDP Customer Satisfaction Index - Residential	4th Quartile	3rd Quartile	3rd Quartile	1st Quartile	2nd Quartile	1st Quartile
JDP Customer Satisfaction Index - Business	4th Quartile	4th Quartile	1st Quartile	1st Quartile	1st Quartile	1st Quartile
Customer Response Time (min.): W/WW System	70	69	67	69	67	68
Overall First Contact Resolution Index	N/A	N/A	0.79	0.81	0.79	0.79
ETR Accuracy	-	-	88%	85%	89%	82%
Grid Performance: Frequency (outages/year)	2.4	1.7	1.7	1.7	1.4	1.6
Grid Performance: Outage Duration (minutes/year)	84	68	71	99	71	99.5
Grid Performance: CEMIS (% cust. > 5 outages/year)	n/a	n/a	2.34	2.10	1.40	1.07
Water Unplanned Outages (# cust.)	5,545	3,671	4,645	5,659	12,735	4,893
Water Distribution System Pressure (avg min < 30 psi)	34.9	20	2.1	2.8	2.1	3.7
Financial Value						
Net Write-Offs	0.19%	0.15%	0.15%	0.16%	0.14%	0.14%
Generation Fleet Reliability (forced outages rate)	0.7%	1.6%	3.0%	1.8%	2.0%	2.2%
Community Impact Value						
Capital Invested (\$000)	\$235,378	\$226,907	\$155,602	\$223,719	\$299,838	\$324,671
Safety (RIR)	1.48	1.84	2.38	1.65	1.82	2.10
JEA Volunteers	237	465	670	753	985	913
JSEB Spend Percentages	23%	23%	23%	25%	22%	25%
Environmental Value						
Electric System Environmental Compliance (permit exceedances)	5	4	3	2	4	6
Consumptive Use Permit Compliance	Yes	Yes	Yes	Yes	Yes	Yes
Nitrogen to the River (tons)	650	767	579	556	524	556
Sanitary Sewer Overflows (SSO's)	29	28	35	23	32	57

Strategic Metrics - Long Term Influence	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual
Customer Value						
Residential Electric Bill in FL (% of State Median)	101%	101%	99%	99.5%	101%	100%
Residential Water/Sewer Bill in FL (% of State Median)	110%	104%	102%	100%	96%	94%
Financial Value						
Consolidated Return on Equity	13%	8%	10%	12%	13%	13%
Return on Net Assets	3%	1%	2%	5%	3%	4%
Unlevered Free Cash Flow: EBITDA less CAPEX (\$000)	\$606,131	\$532,872	\$632,212	\$591,925	\$547,897	\$573,259
Net Position (Book Value of Equity) (\$000)	\$1,991,311	\$2,071,286	\$2,196,006	\$2,166,909	\$2,376,928	\$2,631,545
City Contribution NPV	-	-	-	-	-	-
Electric Credit Ratings	Aa2/AA-/AA-	Aa2/AA-/AA	Aa2/AA-/AA	Aa2/AA-/AA	Aa2/AA-/AA	Aa2/AA-/AA
W/WW Credit Ratings	Aa2/AA/AA	Aa2/AA/AA	Aa2/AA/AA	Aa2/AA/AA	Aa2/AAA/AA	Aa2/AAA/AA
Community Impact Value						
Employee engagement (survey)	-	71%	-	74%	72%	79%
Environmental Value						
Emissions (CO ₂ /MWh)	1,381	1,498	1,642	1,475	1,558	1,358

2018 Forecast	JEA 2018 Goal	Variance
\$173,616	N/A	N/A
59%	N/A	N/A
\$116,620	N/A	N/A
12,272	12,400	-1.0%
35,902	37,615	-4.6%
26,372	26,980	-2.3%
3,009	3,323	-9.4%
56	N/A	N/A
4	N/A	N/A
112	135	-17%
22%	N/A	N/A

2018 Forecast	JEA 2018 Goal	Variance
2nd Quartile	1st Quartile	-
1st Decile	1st Decile	-
76	67	13%
0.79	0.80	-1.5%
77%	N/A	N/A
1.6	1.8	-11%
80	80	0%
0.63	1	-37%
16,663	9,000	85%
1.8	2.5	-28%
0.13%	0.20%	-35%
2.3%	2.3%	0%
\$380,300	N/A	N/A
1.52	1.40	9%
760	N/A	N/A
20%	N/A	N/A
2	5	-60%
Yes	Yes	Yes
517	550	-6%
33	30	10%

MANAGEMENT DISCUSSION

Financial

Electric Enterprise:

- Sales are up 1.6% compared to August FY17 YTD
- Sales per customer are down 0.05% compared to FY17
- Degree days are up 12.5% compared to FY17 due to a colder winter
- Total customers are up 1.6% compared to FY17
- Revenues decreased \$100m vs. FY17YTD with SJRPP and stabilization decreases partially offset by higher sales.
- Expenses increased \$6m vs. FY17YTD with Scherer outage, maintenance, and stabilization increases being mostly offset by the decreases related to the SJRPP shutdown.
- Fuel and purchased power down \$20m due to lower costs, partially offset by higher net volume.

Water and Sewer:

- Water sales are down 3.6% YTD compared to FY17
- Sewer sales are down 1.3% YTD compared to FY17
- Reclaimed sales are down 8.5% YTD compared to FY17
- Sales per customer are down 5.4%
- Rain days are up 15.2% compared to FY17, irrigation for FY18 down 17.8% versus FY17
- Total customers are up 2.6% compared to FY17
- Revenues decreased by \$9m vs. FY17YTD due to stabilization decreases. Increases related to rate/mix were offset by lower sales overall.
- Expenses increased \$5m vs. YTD FY17 with increases in maintenance, overhead, and depreciation being partially offset by regulatory.

DES

- Stable, minimal change from FY17YTD

FEMA reimbursement: \$2.2m of \$11m received

Operations

Three (3) OSHA recordable safety incidents for JEA in the month of August

Electric:

- Outage duration running high due to storms. JEA launched a new program this year aimed at reducing outage duration.
- The JEA fleet Forced Outage Rate has been running in line with prior 6-year performance and currently running slightly better than the FY2018 target.
- Started FY18 with a set of unit issues in October. Fleet performance during the subsequent months has been much better.
- High unit reliability contributes to lower fuel and non-fuel expenses.

Water/Sewer:

- Unplanned Water Main Outages: 1,594 customers experienced an outage in the month of August of which 1,465 were due to 12" water main broken by a third party contractor
- Cold weather in January increased service calls quantities and repairs.
- CUP: Average daily flow of 112 MGD was 18% below CY limit of 135 MGD; reclaimed usage at 16 MGD
- Nitrogen to River: 517 tons due to high flows in October, repairs at Buckman post-hurricane, and construction at Arlington East for a clarifier addition; JEA has a limit of 683 tons per year and provides the COJ with 37 tons
- SSO's Impacting Waters of the US: 33 YTD, root cause analysis is performed on each SSO

Electric cost target: \$56.88/MWh

Water cost target: \$4.40/kgal

Sewer cost target: \$9.85/kgal

Safety/RIR target: 1.40

JDP-RES target: 1st Quartile

JDP-COM target: 1st Decile

