
From: Anton Derkach <anton_derkach@mckinsey.com>
Sent: Monday, December 17, 2018 4:11 PM
To: Dykes, Melissa H. - President/COO; Zahn, Aaron F. - Interim Managing Director/CEO; Wannemacher, Ryan F. - Chief Financial Officer
Cc: Scott Perl; Aaron Bielenberg; Anjan Asthana
Subject: Strategic planning - draft of the workplan

[External Email - Exercise caution. DO NOT open attachments or click links from unknown senders or unexpected email.]

Dear Aaron, Melissa, and Ryan,

We would like to follow up on our conversation and share with you a draft of a more detailed workplan combining all Phases of the strategic planning effort (including organizational culture baselining).

Please let us know your thoughts and feedback. In the meantime, we will continue to push on the activities of the pre-work Phase and get ready to launch organizational culture baselining effort.

Thank you very much,
Best regards
Anton

Anton Derkach | Senior Partner
McKinsey & Company, Inc. | 609 Main street Suite 2300 Houston TX 77002
Direct +713 751-4158 | Mobile +713 504-2359
anton_derkach@mckinsey.com

+=====+
This email is confidential and may be privileged. If you have received it
in error, please notify us immediately and then delete it. Please do not
copy it, disclose its contents or use it for any purpose.
+=====+

Building a strategic framework for JEA: Workplan

DISCUSSION DOCUMENT

December 17 2018



Building Community

Contents

- **Workplan**

- McKinsey team and JEA resourcing required

In our last meeting we developed a path to an executable strategic plan

Phase 0 (~2 weeks)

Base case and business as usual projections
(financial, operational, cultural)

Scenario Development

Existing strategic framework
Sets guiding principles

Internal stakeholder alignment (Board, SLT, appointed employees, Union)

Phase 1 (~4 weeks)

Ambition + Aspiration
quantified with Metrics and targets

Phase 2 (~3-4 months)

Strategic portfolio of Initiatives to meet targets
for performance and health

Phase 3 (~1-2 months)

Executable plan *with no regrets near-term actions and options for long-term path*

Launch no-regrets strategic initiatives

External stakeholder consultation and feedback (e.g. City of Jacksonville)

Key activities and stakeholder engagement

Description

Deliverables

0.1 Align on base case financial forecast

- Hold working sessions to provide input into forecast assumptions based on internal projections
- Pressure test and validate JEA forecast with internal model (powerIQ + TETRIS)

- **Fully vetted financial forecasts** for base case / business as usual and extreme but plausible alternative scenarios

0.2 Develop alternative scenarios

- Draw from of-the-shelf scenario modeling and strategy development work completed to co-develop scenarios of how technology penetration, regulatory outcomes, and customer behavior will impact JEA over 2030 timeframe

- **Three primary 2030 industry vision scenarios** based on customer, technology and regulatory trends that have been co-developed with JEA planning team, run through JEA financial model to determine revenue and rate implications

0.3 Finalize workplan for strategic planning process

- Fully develop workplan to deliver full strategic plan in October
- *Stakeholder engagement:* present to Board in Jan 21 meeting

- **Alignment on full strategic planning roadmap** with JEA leadership and Board

0.4 Prepare for organizational health diagnostic (baseline)

- Customize Organizational Health Index survey for JEA
- *Stakeholder engagement:* communicate effort to employees / union

Overview of phase 1: set ambition and aspiration

Key activities and stakeholder engagement

Description

Deliverables

- | | |
|--|---|
| 1.1 Develop metrics to measure progress against strategic goals | <ul style="list-style-type: none"> Use strategy planning experience and Utility of the Future thought leadership to propose metrics aligned to JEA's strategic framework <i>Stakeholder engagement:</i> refine during strategy workshop with SLT |
| 1.2 Test JEA future performance | <ul style="list-style-type: none"> Refine modeling of base case and alternative scenarios using JEA and internal modeling tools to include future performance against metrics <i>Stakeholder engagement:</i> refine during strategy workshop with SLT |
| 1.3 Align on targets for JEA performance | <ul style="list-style-type: none"> Use input from modeling and benchmarks where needed to set ambitious but achievable targets for JEA on major dimensions of performance |
| 1.4 Align on targets for JEA health | <ul style="list-style-type: none"> Analyze and deliver results of OHI survey <i>Stakeholder engagement:</i> Set health aspirations and actions during SLT health planning workshop |

- Specific, measurable, achievable targets for JEA performance and health** aligned against JEA's existing strategic framework to guide development of full strategic plan
- Understanding of gap from current state to targets under range of scenarios** for both financial and non-financial metrics to set marker for what strategic plan will achieve



Building Community

1.1

Metrics that support strategic goals and corporate measures – *EXAMPLES FOR DISCUSSION and TO BE REFINED*

Strategic Goal: Drive an increase in the value of JEA now and in the future

Corporate measures and metrics

Value to our customer	Financial value	Community impact value	Environmental Value
<ul style="list-style-type: none"> ▪ Average share of wallet for electric and water customers in top quartile of affordability compared with US utilities ▪ Top quartile customer satisfaction (CSAT) scores when compared with US utilities; above median CSAT score when compared with US companies ▪ X% of customers enrolled in customer choice programs (e.g. distributed generation, on-site wastewater treatment) 	<ul style="list-style-type: none"> ▪ Reduction in debt : capitalization ratios to below 50% for electric, below 31% for water ▪ Top-quartile efficiencies in operations and maintenance achieved when compared with similar-sized US utilities ▪ Innovation hub established with X innovation-centered initiatives in pilot mode 	<ul style="list-style-type: none"> ▪ Economic development initiatives in partnership with city of Jacksonville to bring \$X GDP to metro area and XMWh additional load ▪ Transit electrification initiatives (e.g. EVs, electric buses) to improve Jacksonville mobility score by X% and exceed forecasts for increased load due to Evs ▪ Storm protection program investment increased targeting 0 critical services without power for more than X hours and less than X outage days per customer 	<ul style="list-style-type: none"> ▪ Carbon intensity of electric power supplied by JEA (tons CO₂e / MWh) equal to utilities with top renewables generation programs (e.g. Xcel Energy) ▪ Emissions target set in partnership with city of Jacksonville (e.g. Washington DC targets 50% GHG emissions reduction by 2032) ▪ X% conversion of septic system customers to central wastewater ▪ X% reduction in sewer outflows following major storm events ▪ X% reduction in water loss and X% improvement in water re-use
Organizational culture and employee engagement			
X% improvement in OHI scores from current state; specific improvements around change management and culture			

Overview of phase 2: develop strategic portfolio of initiatives

Key activities and stakeholder engagement

Description

Deliverables

- | | | |
|-----|--|---|
| 2.1 | Establish teams against priority topics | <ul style="list-style-type: none"> Develop workstreams to meet performance and health targets using JEA strategic framework combined with Utility of the Future key themes for utilities to improve performance (e.g. revenue growth, customer satisfaction) |
| 2.2 | Conduct idea generation sessions | <ul style="list-style-type: none"> <i>Stakeholder engagement:</i> Use workshops with SLT, management, and frontline to socialize performance and health targets and generate ideas to fill pipeline of initiatives |
| 2.3 | Size and prioritize emerging initiatives | <ul style="list-style-type: none"> Use benchmarks, field visits, expert interviews, and operational data to develop initial financial and non-financial impact of initiatives Prioritize high-value, achievable initiatives to close gap to targets |
| 2.4 | Refine with initial input from external stakeholders | <ul style="list-style-type: none"> <i>Stakeholder engagement:</i> Syndicate emerging view on strategic targets and major initiatives with priority external stakeholders (e.g. municipal, regulatory) to refine |
| 2.5 | Finalize no-regrets initiatives for launch | <ul style="list-style-type: none"> Confirm initiatives for near-term roll-out, e.g. around performance, affordability, culture, health |

- Pipeline of initiatives** with initial estimate of value that exceeds strategic targets
- Initial roadmap of initiative prioritization and sequencing** to guide development of executable plan
- List of “quick win” initiatives** with short implementation timelines to motivate organization and show early success at executing strategic plan

Library of strategic initiatives employed by other utilities



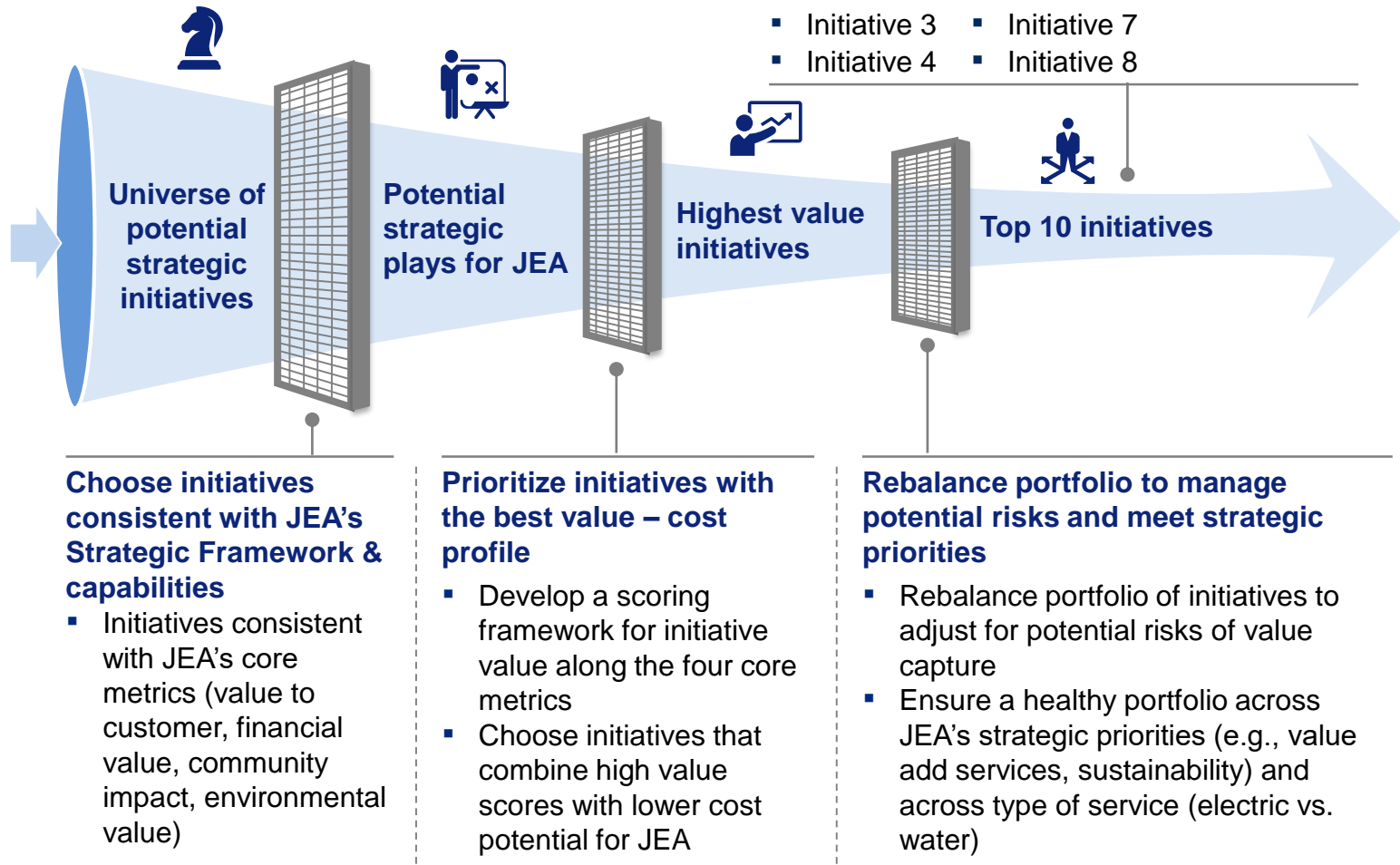
Electric

- Overhead to underground conversion
- Behind the meter services
- Renewable energy
- Smart city
- Microgrids
-

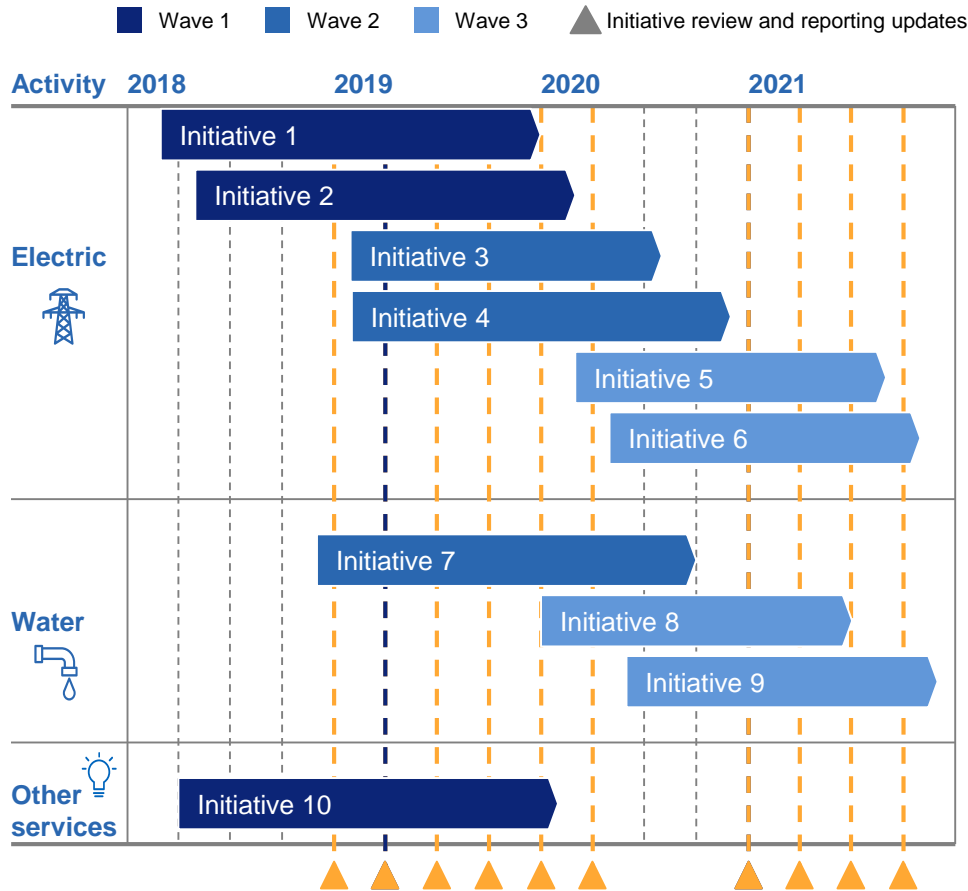


Water

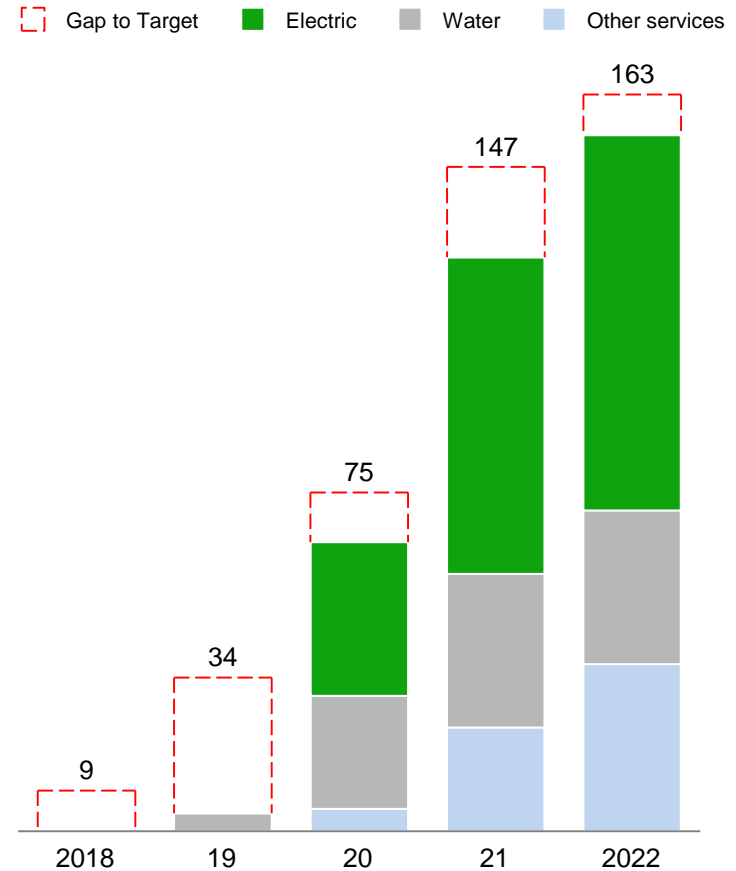
- Septic tank phase out
- Water quality improvements
- Behind the meter services
- Water re-use
- Water infrastructure predictive maintenance



Initiative timelines



Initiative target by segment, \$ US Million



This timeline will incorporate and consider JEA's existing strategic initiatives, such as infrastructure hardening, coal retirements, solar procurements, Future Smart asset optimization and water resiliency

Key activities and stakeholder engagement

Description

Deliverables

3.1 Map potential constraints to execution	<ul style="list-style-type: none"> Develop view of internal constraints (e.g. talent, capacity, available capital) and external (e.g. regulatory challenge) through assessment of other utility transformations and understanding of JEA external context 	<ul style="list-style-type: none"> Executable strategic plan for JEA
3.2 Refine portfolio of initiatives	<ul style="list-style-type: none"> Test each initiative against constraints through internal and external stakeholder engagement Modify initiative timelines and costs and re-prioritize where needed 	
3.3 Develop detailed initiative-level implementation plans	<ul style="list-style-type: none"> <i>Stakeholder engagement:</i> align on initiative owners and initiative portfolio champions within organization Validate financial impact, develop milestones to achievement, KPIs, and timeline to realize impact 	
3.4 Finalize strategic plan	<ul style="list-style-type: none"> Roll up initiatives and targets into executable strategic plan <i>Stakeholder engagement:</i> refine with input from all key internal and external stakeholders through ~1-month syndication process 	

Initiative example: Overhead to underground conversion

ILLUSTRATIVE EXAMPLE

Costs², \$MM

Capital

Recurring

Cost drivers

- 1500 3-phase jobs, 1/3 mile job per circuit mile, \$2/ft per circuit mile

Capability assessment

Low Medium High

Current capabilities

Ease of implementation

Existing plans

Benefit and cost analysis

Annual initiative value, \$MM/year

Cost savings for JEA

Additional revenue opportunities for JEA

Reliability and performance benefits

Additional cost¹

Customer satisfaction value

Community engagement

Environmental impact

Total value

- Each strategic initiative will be tied to a detailed capital and operating cost plan
- Detailed business cases will be developed, incorporating all aspects of JEA's guiding principles (e.g., customer benefits, financial benefits, community engagement)



Building Community

Contents

- Workplan
- **McKinsey team and JEA resourcing required**

The McKinsey leadership team is ready to start with JEA ASAP

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)



Anjan
Asthana



Anton
Derkach



Scott Perl



Aaron
Bielenberg



Sarah
Brody

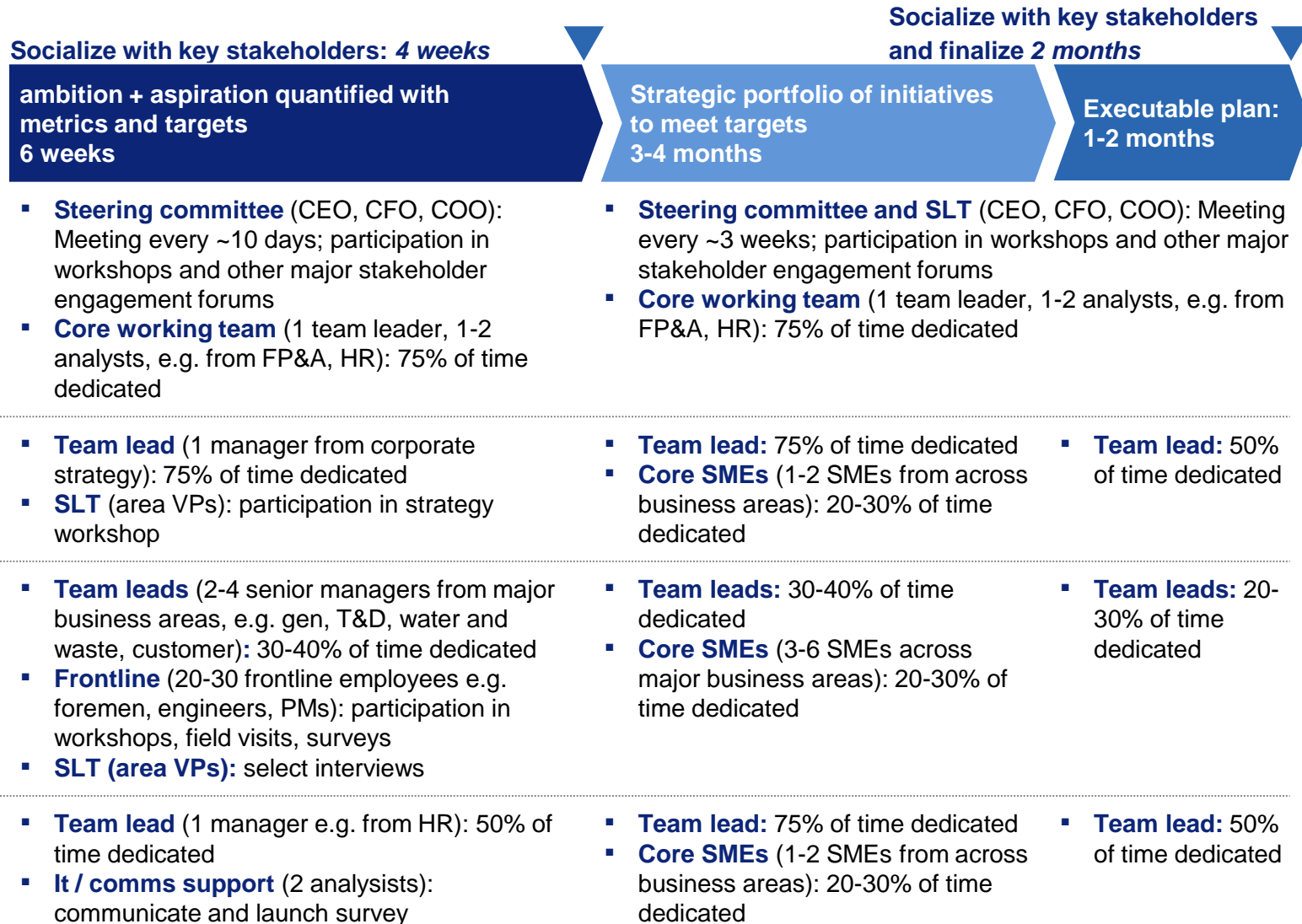
Role of the lead consultant

- 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



Building Community

JEA resources needed will change over time





Building Community

Our approach to working with client teams is based on 4 fundamental elements

A

Establish sound project governance with clear roles and responsibilities and a meeting cadence to ensure accountability

B

Staff the team with high-performers; “change agent” team members are future leaders of the organizations

C

Define a program management office tasked with tracking impact and capturing savings in budgets

D

Track impact rigorously

