
From: Stewart, Kerri - VP & Chief Customer Officer <stewk@jea.com>
Sent: Friday, June 14, 2019 2:16 PM
To: Eads, Shawn W. - VP & Chief Information Officer
Subject: FW: Updated key messages and tough Q&A

Shawn,

Please see the document I passed out to the SLT this morning. Let me know if you have any questions/concerns. k

Kerri Stewart

Vice President/Chief Customer Officer

Direct: (904) 665-4283

Mobile: (904) 962-9425

Fax: (904) 665-4238



From: Stewart, Kerri - VP & Chief Customer Officer
Sent: Friday, June 14, 2019 7:00 AM
To: Perez, Melissa I - Executive Assistant <peremi@jea.com>
Subject: Updated key messages and tough Q&A

Melissa,

Will you please make 12 copies of this document for me to take to the EPD wrap-up meeting today? Melissa D is going to ask SLT to stay back a few minutes after the meeting to discuss this document.

Thank you! k

DRAFT: June 6, 2019

JEA in transition: Status Quo and beyond (evergreen)

Electric and water utilities industry

Landscape

- Historically = sleepy, driven by two values: reliability and affordability.
 - Highly regulated = strives for lowest risk possible.
 - Utility + customer = a meter location and a bill payer.
 - Success = lights and water kept on without breaking bank.
- Today and future = uncertain, disruption-led environment.
 - Utility table stakes = reliability and affordability.
 - New forces disrupting and reshaping sector = engaged homeowners and businesses, digital disruption (connected “smart” technologies), data analytics, distributed energy resources (e.g. solar, battery storage and electric vehicles).
 - Customer at center enabled by technology = more focus on service and satisfaction.
- Challenges
 - Public policies = neither encourage innovation, nor incentivize infrastructure or business models needed to capture long-term value in the current disruption-led environment.
 - Organizational culture’s narrow approach to innovation = must overcome “this is how it’s always been done” mentality.
 - Leadership = new, change-management mindset.

JEA

- Basics = Tenth largest municipally-owned electric utility and one of the largest water and wastewater utilities in the country, with an almost 900-mile service territory.
 - 125+ years old.
 - Corporate measures of value: customer, community, financial, environment.
- Last decade = change, digital disruption happened around, to and in many cases without direct input from JEA.
- Digital (technology) disruption requires reframing challenge from **technological to business model**.
 - Business model challenge harder = business models hardwired into organizational ‘status quo’ (rules, norms, culture) = shifts more difficult to execute.
- JEA employees and community stakeholders = suffer from ‘status quo bias’, emotional preference for current state of affairs.
 - Digital (technology) disruption and ‘status quo bias’ industry warnings = Kodak, Blockbuster, newspaper industry (more information below).
- Remain relevant = capitalize on industry forces rather than remain a bystander.
- Aaron’s industry outsider, business perspective is exactly what JEA needs today.
- New senior leadership team = another critical component to JEA’s future success.
 - Ability to be innovative, take risks and drive transformation both within JEA, and with customers and policy makers.

Q&A | key messages

Q. The May 28 board meeting presentation painted a bleak picture, how much longer can JEA operate business as usual before it goes into an official death spiral?

A. Part of JEA's overall strategic planning process includes first painting an honest picture of our current business.

- Customers are increasing but revenues are decreasing due to energy efficiency.
 - Increased electric customer base by 112,000 since 2000 – equivalent to the city of Tallahassee.
 - Each new customer adds ~\$2,500 in energy capital costs and \$100-200 / year in ongoing operating costs.
 - By 2030 there will be 16 percent more electric customers.
 - Catalyzed by Energy Policy Act of 2005, 10 percent decline in revenue since 2007 – and still declining.
- Within about 7 years, alternative forms of energy like solar with battery backup will be cheaper than JEA's rates.
- JEA's role as primary deliverer of electricity in Jacksonville is being challenged. Technology innovation is upending business as usual by lowering competitive barriers to entry (e.g. Nest, Google, Amazon).

Our current strategic planning process takes into account these challenges and will include options for next steps based on two scenarios:

- **Irrelevance:** Resist change, stick with 'status quo' business model, continue to leverage traditional rate and cost levers that, to date, haven't been sufficient to address ongoing revenue loss and impact of a utility industry that has fundamentally changed.
- **Relevance:** Embrace change, move into alternative business models (not possible under today's charter) to compensate for revenue loss.

Q. Is this just a ploy to push privatization? Will JEA eventually privatize? Are you, Aaron Zahn, open to privatization?

A. If what you're saying is, I'm going to put a 'for sale' sign in front of JEA tomorrow – the answer is no. To continue to ask about privatization, as if it's an easy "solution" to JEA's challenges, oversimplifies a complex business challenge and does a disservice to our community. We are thinking beyond the easy way out, beyond the 'status quo, and strategically planning for JEA to remain relevant to our community today, tomorrow and in the future – ultimately realizing our mission to become the center of our customers' energy and water experience.

Food for thought (not meant to be a key message): It's important to keep in mind that the concept of privatization doesn't always mean selling entire assets to an investor-owned entity. Private entities can be sole proprietorships, partnerships, limited liability corporations, non-profits, or any other organized group that is not government-affiliated. For instance, the Clay County Utility Authority, in the community adjacent to ours, is a utility co-op – a private, non-profit business owned and governed by the consumers it serves. In other circumstances, municipally-owned utilities may partner with an investor-owned technology company like Google or Amazon to create a type of public-private partnership. There are actually dozens of ways of forming a public-private partnership, each one is unique and can be designed to meet the exact needs of the local community. So, while I will not advocate for the type of privatization that's been singularly discussed over the past year, we must remain open to strategies that provide.

Q. Don't you think raising rates will happen regardless?

A. While raising rates is an option, in the near term, JEA is not planning to raise rates. But as we develop our strategic plan to remain relevant to our customers, all options must remain on the table, options based on two scenarios:

- **Irrelevance:** Resist change, stick with 'status quo' business model, continue to leverage traditional rate and cost levers that, to date, haven't been sufficient to address ongoing revenue loss and impact of a utility industry that has fundamentally changed.
- **Relevance:** Embrace change, move into alternative business models (not possible under today's charter) to compensate for revenue loss.

Q. Why are you having these conversations now?

A. While this discussion is new for Jacksonville, utility death spirals have been discussed in the industry for years. A 2018 Black & Veatch survey of utility industry leaders reported that 71 percent see the death spiral as a real outcome if utilities don't use alternative solutions. I'm more committed than ever to transparent, collaborative conversations with all of our stakeholders. Maintaining cooperation and continuity will be key to JEA's next 125-years.

Q. What will be required to change how JEA operates today?

A. If JEA is to embrace change, a charter adjustment will most likely be necessary. This will be part of the 'embrace change' scenario we're looking at as part of our strategic planning process.

Q. Is it true that JEA plans to spin off its electric business within five years?

A. I can't speculate on the future, but what I can say is that JEA is a better and more powerful utility because of our combined electric and water utility offering. We're able to leverage platforms and learnings between the two utilities to improve our overall service offering.

Q. We've heard a lot about the bad, what about the good? How is JEA continuing to serve its customers and community even during this disruptive time?

A. Innovation Summit 2018
[Quarterly JAXUSA Partnership Luncheon](#), July 30
Demand Rate Study
Customer Home Energy Management Tool pilot (Innovation Hub)
Electrification
Integrated Water Resource plan and water purification
Public Private Partnership for Organic Recycling
Biogas Credit Feasibility study
STAR Plan – additional billion in debt by 2023
Solar – 2018 250 megawatts
St. John's River, lowest nitrogen, highest reliability ever

Q. Why isn't JEA simply diversifying into new, renewable business lines?

A. While JEA has moved into solar with 250 megawatts in 2018, we are limited to the 'status quo' by our current charter. A proposed mix of distributed energy resources (e.g. solar, battery storage and electric vehicles) will be part of the 'embrace change' scenario we're looking at as part of our strategic planning process.

Q. What specific charter changes do you think will need to happen to make JEA competitive?

A. XXX