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Sent: Wednesday, July 17, 2019 10:58 PM
To: Stewart, Kerri - VP & Chief Customer Officer
Cc: Maddie Milne
Subject: Kerri: Tough Q&A + messages

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Kerri –

Per our meeting today, see attached updated Board and SLT July board meeting messages. It's a lot. I have highlighted in yellow throughout questions and need for more information.

- I referred to the scenarios as 3a (non-traditional utility response) and 3b (unconstrained, non-traditional utility response) – I can of course change.
- Our tone and tense are as if the non-constrained, non-traditional utility response is successfully voted through by the board on July 23. Is this appropriate, or should we update?

Of note: As we agreed, at the end of the document, I also added the employee FAQs that I didn't use within the board and SLT messages.

- I realize that detailed salary and pension messages to employees will be slightly different than our higher-level board and SLT messages, however we might need to make sure that everything is clear and consistent between the two.
- Additionally, the tone and tense of the employee FAQ is different (using more "potential", "if" and "should" language) than that of our DRAFT board and SLT messages. Is this appropriate, or should we update?

Let us know if you'd rather talk through – here for whatever you need. We'll also send April's two draft scripts (scenario 2 or scenario 3) tomorrow.

Thanks!
Banks

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DRAFT: July 17, 2019
July 23, 2019 board meeting messages
JEA board of directors and senior leadership team

Summary

For the past several months, JEA has been undergoing a scenario-based strategic planning process to determine how the 125-year old utility can continue to meet the demands of and stay relevant to its customers despite declining revenues, increased operating costs, new disruptive technologies and competitors. JEA's senior leadership has methodically presented three scenarios (status quo – May board meeting; traditional utility response – June board meeting; non-traditional utility response and unconstrainted, non-traditional utility response – July board meeting) for the board of directors to consider as a path forward. At the July 23 board meeting, after an in-depth legal analysis of why the original non-traditional utility response (now scenario 3a) is in fact not possible, the board voted to pursue the newly introduced scenario 3b – referred to now as the *unconstrained*, non-traditional utility response. Ultimately, JEA's scenario-based strategic planning process accomplished what it was supposed to accomplish by uncovering the only way that JEA can compete and grow – eliminate existing government-affiliated barriers and transition into a non-governmental entity (a potential recapitalization event). There are dozens of ways to accomplish this transition, each one unique and designed to meet the exact needs of JEA's community.

Tough Q&A | key messages

Q. Why is JEA's future as it stands so bleak?

A. JEA's role as primary deliverer of electricity in Northeast Florida is being challenged.

- Customers are increasing, but revenues are decreasing due to energy efficiency and technology innovation.
    - 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 the 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 w/battery back-up will be cheaper than JEA's rates.
    - Technology innovation is lowering competitive barriers to entry (e.g. Nest, Google, Amazon), while also giving customers more choice outside of JEA.
- In June 2019, Sue Kelly, the CEO of the American Public Power Association said, "If public power utilities do not face these challenges head on, 'we could lose our customers' business and risk being disrupted – indeed, we could be left behind."
- JEA, as a municipally-owned (i.e. government affiliated) utility, is governed by regulations (listed below) that limit its ability to compete and grow in today's dynamic market-place.
- While these industry and market challenges became apparent over a decade ago, well before our current senior leadership team's tenure, the discussion is new for JEA and its stakeholders.

Q. Can you summarize JEA's strategic planning process in one paragraph?
A. At its core, our scenario-based strategic planning process, and supporting key stakeholder outreach, is introducing a critical community conversation that's needed to happen for years – does JEA want to eventually become irrelevant to our customers (shrink), or stay relevant (and even innovative) now and into the future (grow)?

Q. What is scenario-based strategic planning?
A. At a high-level, scenario-based strategic planning is a disciplined approach to planning in times of uncertainty and involves making assumptions on what the future is going to be (identifying a specific set of "uncertainties") and how our business environment will change overtime in light of that future. For example, farmers use scenarios to predict whether the harvest will be good or bad, depending on the weather. It helps them forecast their sales but also their future investments. Building this set of assumptions is the best way to help guide JEA in the short and long term and is what has brought us to today.

Q. What exactly happened at the July 23 board meeting? What was the outcome?
A. As a municipally owned (i.e. government affiliated) utility in Florida, JEA is governed by laws, regulations and public policies including:

- Constitution of the State of Florida
- Florida Public Service Commission
- City of Jacksonville Charter
    - Business Structure as defined by Charter
- Florida Statutes
- Bond Resolutions
- Policy considerations

Collectively, these policies serve as barriers to JEA's ability to compete and grow in today's dynamic marketplace. Unfortunately, after in-depth legal analysis, we've concluded that it will be impossible for JEA to change, and therefore overcome, the government affiliated constraints that govern our utility. While the traditional utility response, as outlined by Melissa Dykes in more detail at the meeting, is an option, it's a dead-end option with no upside to JEA's employees, the community, it's financial health or the environment. Ultimately, JEA's strategic scenario planning process has uncovered that the only way to compete and grow is to transition from a government-affiliated to a non-government affiliated entity – which is defined as a recapitalization event – and will require an ITN.

Q. What is recapitalization? Aren't you just going to privatize (sell) JEA?
A. To continue to use the term 'privatization' in the negative context oversimplifies a complex business challenge, ignores to the hard work that was done as part of JEA's scenario-based strategic planning process, does a disservice to employees, the community and most importantly – it's false.

The concept of recapitalization (or privatization or becoming a non-government affiliated entity), doesn't always mean simply selling entire assets to an investor-owned utility. Non-government affiliated entities can be sole proprietorships, partnerships, limited liability corporations, non-profits, or any other organized group that is not government-affiliated. Government affiliated (municipally-owned) utilities can partner with an investor-owned technology company like Google or Amazon. There are dozens of ways to evolve JEA from a strictly municipally-owned, government affiliated utility, each one is unique and can be designed to meet the exact needs of JEA's community, and each would be classified as a recapitalization event. The key phrase is - not government affiliated.

Q. What are the benefits of recapitalization, and the ITN process, for customers, employees, the community?
A. First, let's be clear that JEA will never be more valuable than it is today, and its value will only diminish if we continue to look to the status quo and traditional utility response for answers. As the data clearly shows, neither of these scenarios are serving, or have served, JEA for the past decade. By advancing an ITN process now while JEA is at its maximum value, we can not only start to begin the process of breaking free from our current government affiliated constraints by exploring alternative, non-governmental options, but also ensure JEA's employees, the community, it's financial health and the environment are taken care of in the best possible way.

But JEA isn't only leaning on the benefits of good timing and solid planning, using JEA's corporate measures of value (employees, community, financial and environmental) as a guide, we also created an approved list of 'minimum guarantees' that any outside entity responding to JEA's ITN would have to meet in order to even be considered as an option by the board:

- Financial value to the City of Jacksonville: $3,000,000,000
- Customer value: rebate at $250 per meter
- Employee value ['Employee Protection and Retention Program']:
  - Pension: accelerated
  - Guaranteed employment: 2 years [confirm "employment", in addition to "retention benefits"]
  - Retention: 100% base salary + 1/3 retention bonus for 3 years [confirm]
- Environmental value:
  - 100% renewable energy for service territory by 2030
  - 40 million gallons of water per day for service territory by 2035

Q. Why sell for a one-time windfall, what about the future?
A. Our data shows the trajectory for JEA, its value will only continue to go down – if it's not now, it will be later. JEA's value will never be as high, now is the best time.

Q. Why has JEA and the Jacksonville media been touting 'charter change' – and "scenario 3" – as the answer to JEA's woes?
A. 'Charter change' has been discussed as one potential solution, not the solution, to JEA's challenges. *See "what happened on July 23" question for more information.

Q. What is the PUP?
A. A longer-term pay-for-performance plan [need more information].

Q. Did you know the whole time that 'charter change' wouldn't be possible? Why did you lie, was it just a ploy for privatization?
A. The tough part about scenario-based strategic planning in times of uncertainty is you don't know what you don't know. We thought that 'charter change' could be an answer to JEA's most significant challenges, however, true to its mission, our scenario planning uncovered that we'll need to look at alternatives.

Q. What are next steps and the timeline for implementing the unconstrained, non-traditional utility response as approved by JEA's board of directors on July 23?
A.
[add more information]

- ITN drops
- pension legislation
- responses to ITN due
- ranking process for ITN responses
- short listing / selection / board approval of selection
- City Council approval of selection
- referendum (?)

Q. How will JEA operate day to day, and serve its customers, while hanging in the balance between being a government-affiliated and non-government affiliated entity?
A. XXX

Q. Why does JEA's senior leadership team make so much money?
A. This team represents varying skill sets, backgrounds and knowledge bases for a reason: as we embarked on our scenario-based strategic planning process, it's been important that each person bring their own unique experiences to the table. The future success of JEA is dependent on having the right people in place for the job – from the individuals maintaining our power lines to the individuals on our senior leadership team.

Q. Doing the math, when taking into account the "minimum guarantees for the transaction to occur" and Aaron's current salary, it looks like he could walk away from this privatization deal with around $1.6M. This has to be the reason he's pushing a non-governmental entity.
A. XXX

Additional DRAFT Q&A from Employee FAQ document
[final to be distributed on July 23 via email in partnership with generic introduction email, retention agreement] – Kerri: some of these questions may need to be updated based on more recent conversations.

Q. Will there be reductions in the workforce and, if so, will a severance plan be offered?
A. At this time, there are no plans for workforce reductions related to the unconstrained, non-traditional utility response (scenario 3b). The board has given clear direction that no alternative will be considered if it does not include employee and customer protections. Examples of employee protections are discussed in further detail in following questions and answers.

Q. Will JEA offer an incentive for employees to remain employed with JEA if a recapitalization event occurs?
A. Yes. If a recapitalization event is a viable option, full-time employees actively employed with JEA as of July 23, 2019 will be provided with an Employee Protection and Retention agreement. Employees will be eligible for the Employee Protection and Retention program subject to collective bargaining where required. – update this language to reflect key messages above, or vice versa?

Q. What is the Employee Protection and Retention program?
A. In an effort to maintain operations and retain critical talent through a recapitalization event, the Employee Protection and Retention program is cash payment (in three installments) provided to full-time employees actively employed with JEA on July 23, 2019. The Employee Protection and Retention payment will consist of 100% of your annualized base salary payable in three equal installments: the closing date of the recapitalization event; the one-year anniversary of the closing date of the recapitalization event; and the two-year anniversary of the closing date of the recapitalization event.

Q. Will anything change with our benefits in the event of a recapitalization event?
A. Between now and the day a recapitalization event closes, we expect that your compensation and benefits will remain unchanged. Once a recapitalization event is announced, there is a transition period. During the transition period, we expect that all health, welfare and retirement benefits will continue per the JEA pay plans and collective bargaining agreements through the date of the recapitalization event. At a recapitalization event, compensation and benefits will be dependent upon the newly capitalized organization's arrangements, but the board specified minimum requirement is that employees receive substantially comparable compensation and benefits for at least three years. -– edit this language for clarity?

Q. What will happen to my contributions to the General Employee Pension Plan (GEPP) or General Employee Defined Contribution Plan (GEDC) prior to a recapitalization event?
A. For so long as you remain employed by JEA, your benefit will continue to accrue in accordance with the terms of the applicable plan document. If you terminate employment with JEA or a recapitalization event occurs, your benefit will be determined in accordance with the terms of the applicable plan document. – edit this language for clarity?

Q. How will a recapitalization event impact my pension benefit if I participate in the GEPP?
A. Benefit contributions and credited service continues to accrue until the date of the recapitalization event. JEA's board proposed legislation to amend Section 120 of the Ordinance to include language to protect pension benefits if a recapitalization event occurs. Where required, JEA will engage in collective bargaining. At a recapitalization event, benefits are frozen and no additional service credits will be accrued. – edit this language for clarity?

Q. Will the criteria for normal retirement be changed for the GEPP?
A. No. Credited years of service and age requirements as detailed in Ordinance, Section 120.206 will still be applicable as follows:

- 30 years of credited service and any age
- 20 years of credited service and age 55
- 5 years of credited service and age 65

For more information concerning benefits you may be entitled to under the GEPP or GEDC, please refer to Chapter 120 - GENERAL EMPLOYEES AND CORRECTIONS OFFICER PENSION PLANS AND ALL EMPLOYEES DEFINED CONTRIBUTION RETIREMENT PLANS.

Q. If I am eligible to retire under the terms of the GEPP, may I elect to retire without forfeiting my retention/protection payment?
A. If you are eligible for a retirement benefit under the GEPP, you must remain employed by JEA until the recapitalization event and each subsequent payment date in order to be eligible for the protection/retention payment. If you voluntarily resign or retire before the recapitalization event, you will forfeit your retention/protection payment. If you experience involuntary termination (without cause or due to death or disability), you will receive full benefit.

Q. What if I am NOT eligible to retire under the terms of the GEPP at the Recapitalization Event?
A. JEA's board proposed legislation to amend Section 120 of the Ordinance to include provisions to address a recapitalization event (subject to collective bargaining). JEA would seek to provide employees who remain employed through the recapitalization event a buy-up provision whereby JEA will purchase service credits. In other words, JEA will buy years of service credits as follows:

- At least 5 years of service: creditable service years will be advanced to the next chronological retirement eligibility date and employee can begin receiving pension income on that retirement eligibility date.
- Fewer than 5 years of service:
  - If hired after 10/1/17, all employer DC contributions are vested.
  - If hired before 10/1/17:
    - DC plan participants can either remain in the DC and be 100% vested in the employer contribution or switch to the DB.
    - DB plan participants can be advanced to 5 years of creditable service and begin receiving pension income at age 65 OR receive a refund of all employee contributions plus an employer match of employee contributions.

Example 1
If an employee is age 55 and has 15 years of service with JEA at a Recapitalization Event, JEA will buy/purchase 5 years of creditable service, to achieve 20 years of service at Recapitalization Event. In this scenario, the employee would be eligible to retire because they have achieved the age AND credited service requirements for normal retirement as defined by the plan.

Example 2
If an employee is age 65 and has 3 years of creditable service, JEA will purchase 2 years of service to achieve age 65 and 5 years of creditable service. This scenario, the employee would be eligible to retire as well because they have achieved the age and creditable service requirements for normal retirement as defined by the plan.

Example 3
If an employee is age 48 with 15 years of creditable service, JEA will purchase 7 years of creditable service to achieve the employee's next chronological retirement eligibility milestone. In this scenario, the employee's normal age of retirement is 55, e.g., employee must reach age 55 to commence normal retirement and will have 22 years of creditable service.

Example 4
If an employee is age 25 with 4 years of creditable service in the Defined Benefit plan, the employee has two choices:

- JEA will purchase 1 year of creditable service and may draw retirement benefits at age 65; or
- Contributions made by the employee will be matched by the employer and either paid directly to the employee or rolled into a tax deferred vehicle.

Q. How will a recapitalization event impact employees in the General Employee Defined Contribution (GEDC) plan?
A. Benefit contributions will continue to be made and accrue until the date of the Recapitalization Event. JEA board proposed legislation to amend Section 120 of the Ordinance to include language and treatment of benefits to address a recapitalization event. Where required, JEA will engage in collective bargaining. At a recapitalization event, benefits are frozen and no additional service credits may be accrued. See paragraph 12.

Please note: The information in this Q&A document is a summary, and every attempt has been made to ensure its accuracy. However, the legal rules for benefits are complex. The actual provisions of plans for each benefit will govern if there is any inconsistency between the summary information in this Q&A document and the formal plans, programs, policies, or contracts.