

Bulletin:

JEA, FL Ratings Unaffected By Utility's Announcement It Will Study Divestiture Or Restructuring

August 23, 2019

NEW YORK (S&P Global Ratings) Aug. 23, 2019--S&P Global Ratings today said its ratings on JEA, Fla.'s electric, and water and sewer utilities are unaffected by the decision of management and the board to solicit proposals for the sale or restructuring of the utilities. JEA finances the electric system separately from its water and sewer utilities. We base our conclusion on the two utility systems' robust financial metrics, ability to finance the next five years' capital needs without additional debt or rate increases, and a plan to reduce debt balances.

At JEA's May 2019 board meeting, management laid out a scenario of long-term exposures that could place significant upward pressure on retail rates and possibly erode financial margins. Management attributes these exposures to declining electricity and water consumption due to customers' efficiency measures. In addition, management cites the specter of distributed generation technologies as a threat to electric energy sales. Management believes that declining commodity sales will allocate fixed costs over fewer units and will likely spur sharp increases in retail prices. Management further cites state and local legal constraints as limiting JEA's ability to diversify its revenue stream to counter declining electricity and water commodity sales.

In its May board presentation, management said that perpetuating the utilities in their current form could "cripple JEA's ability to evolve and remain relevant," and that business-as-usual "traditional responses" will lead to "organized decline." We consider this assessment to be a departure from the two utility systems' historical and projected financial profiles, and other public power and water and sewer utilities' responses to similar challenges. However, we do not see this assessment as presenting an imminent challenge to our ratings. Management reports a commitment to its five-year financial forecast showing capacity to meaningfully reduce leverage, produce debt service coverage consistent with the ratings, and maintain retail rates at current levels. We also believe management has considerable lead time to develop alternative strategies for the utilities if its "invitation to negotiate" does not produce viable options.

We view the "invitation to negotiate" as a preliminary step in a potentially multiyear process to position the utilities for the future. Any proposals that come out of the process are subject to approval by the utility's board, the city council, and the electorate. S&P Global Ratings will monitor the process to identify credit exposures, if any.

The negative outlook we assigned to the electric utility's 'A+' rating continues to reflect its exposure to the cost overruns and delays relating to the Vogtle nuclear construction project, as

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well as the utility's multifaceted litigation claims that seek to abrogate its power purchase agreement with the Municipal Electric Authority of Georgia. The electric system continues to meet its obligations under that contract. We assigned a stable outlook to JEA's 'AAA' rated water and sewer system bonds based on our conclusion there is limited risk of contagion of the electric system's Vogtle-related disputes for the water and sewer utilities.

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