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**From:** Jones, Madricka L. - Executive Staff Assistant <joneml@jea.com>  
**Sent:** Tuesday, November 19, 2019 12:54 PM  
**To:** Bartley, La'Trece M. - Mgr Executive Administration  
**Subject:** Letter from Aaron  
**Attachments:** Investor-owned utilities could equip JEA for future - CapIQ.pdf

Good afternoon Board Members,

Please see attached article from Aaron.

Regards,

**Madricka Jones**

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## Investor-owned utilities could equip JEA for future

From: S&P Global Market Intelligence  
Nov-19-2019 9:10 AM

By Ellen Meyers, Ashleigh Cotting, Ciaralou Palicpic

The three investor-owned utilities eyeing JEA could provide the Jacksonville, Fla. municipal utility the resources and expertise it needs to tap into the sector's major growth areas, such as renewables.

Duke Energy Corp., Emera Inc. and NextEra Energy Inc. have submitted individual responses to JEA's solicitation for strategic alternatives, as the utility faces financial pressure and fears it lacks the ability to adapt to the industry's technological trends as a government-affiliated entity. JEA's management team has been seeking a wide range of proposals for new ownership structures and other business strategies, like a cooperative model, an initial public offering or privatization.

While neither JEA nor the respondents can disclose proposal details – and JEA reserves the right to not pursue any third party's plans – the investor-owned utilities' public information and recent comments by management and industry observers provide some perspective on how integrating JEA might benefit all parties.

All three utilities provide electric sales to Floridians: Duke Energy has its own utility Duke Energy Florida LLC, Emera operates Tampa Electric Co. and NextEra owns Florida Power & Light Co. and Gulf Power Co. If one of the utilities ends up turning JEA into a subsidiary, the municipality's northwest Florida service territory would complement their portfolios.

"We expect that the pace of M&A activity may increase as companies search for growth," S&P Global Ratings analyst Gabe Grosberg wrote in the ratings agency's 2020 outlook for the North American utility sector. "Furthermore, an increasing number of states passing Fair Market Value legislation may increase the acquisition of water municipalities."

According to JEA's solicitation document, the municipal utility wants potential bidders to propose initiatives that would "future-proof" the business, like investing in distributed generation and renewables and adding new services. JEA's minimum requirements for bids include keeping the utility's value to at least \$3 billion, distributing at least \$400 million to customers and protecting certain employee retirement benefits.

Duke Chairman, President and CEO Lynn Good has stated that while her company has interest in JEA and Santee Cooper, another government-owned utility exploring a sale, its primary strategy is "a very robust organic growth plan" with regulated investments and \$37 billion dedicated toward growth capital.

"We know both of those assets well and we would evaluate those on whether or not it makes sense to be a part of that process going forward and whether we believe we can deliver value to shareholders," Good said during the company's Nov. 8 earnings call.

Emera has two applications for JEA's request for proposals; in addition to its own response, the Canadian utility submitted a separate bid with Bernhard Capital Partners Management LP and French water and wastewater operator Suez SA. Emera President, Director and CEO Scott Balfour said any acquisition has to fit both strategically and financially, given the tough environment for utility deal activity.

"In this market, it's hard to make the math work," Balfour said in an interview. "That's why getting something that makes sense financially, with valuations where they are, is challenging. But we keep looking, and if something fits into the box that meets the strategic and financial metric test for us, then we'll look at it."

During the company's Nov. 8 earnings call, Balfour said Emera will devote more than 70% of its C\$6.9 billion capital investment plan to Florida. Some C\$2.3 billion will go toward "renewable and cleaner generation, in infrastructure modernization and in customer-focused technologies."

"We believe Florida is a very attractive jurisdiction with one of the largest and fastest-growing economies in North America," Balfour said. "We believe the system has the capacity to handle solar generation beyond the 600 MW we have [proposed] so far. The team in Tampa is working on a multiyear generation plan to determine the time and magnitude of future solar investments."

At the end of 2018, NextEra closed its acquisition of Gulf Power and natural gas distribution utility Florida City Gas, as well as two gas plants, from Southern Co. for about \$6.48 billion, including the assumption of about \$1.4 billion in debt. NextEra executives have been considering whether to combine Gulf Power and its flagship utility FPL, which could allow NextEra to better utilize its solar assets with the regulated subsidiaries' timezone difference and streamline other corporate and regulatory obligations.

"We're certainly interested in doing more regulated M&A," NextEra Executive Vice President and CFO Rebecca Kujawa said during the company's Oct. 22 earnings call, as the company explores options for both JEA and Santee Cooper.