From:	Orfano, Joseph E. - Treasurer <orfaje@jea.com>
Sent:	Friday, November 22, 2019 3:35 PM
To:	Zahn, Aaron F. - Managing Director/CEO; Dykes, Melissa H. - President/COO; Wannemacher, Ryan F. - Chief Financial Officer
Subject:	FW: Confidential: Notification of Fitch Rating Decision
Attachments:	2019_11_22_JEA_Final Published RAC.pdf

Attached is the Fitch rating report on the Electric System. S&P will release its report later this afternoon and I will forward as soon as received.

Enjoy the weekend!
Joe

-----Original Message-----
From: DeStefano, Andrew (Analytical) <andrew.destefano@fitchratings.com>
Sent: Friday, November 22, 2019 3:29 PM
To: Orfano, Joseph E. - Treasurer <orfaje@jea.com>
Subject: RE: Confidential: Notification of Fitch Rating Decision

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

Joe - attached is the f inal published version.

Best,

Andrew

-----Original Message-----
From: Orfano, Joseph E. - Treasurer [mailto:orfaje@jea.com]
Sent: Friday, November 22, 2019 2:52 PM
To: DeStefano, Andrew (Analytical) <andrew.destefano@fitchratings.com>
Subject: RE: Confidential: Notification of Fitch Rating Decision

Terrific - appreciate the quick feedback, Andrew!

Enjoy the weekend,
Joe

-----Original Message-----
From: DeStefano, Andrew (Analytical) <andrew.destefano@fitchratings.com>
Sent: Friday, November 22, 2019 2:10 PM
To: Orfano, Joseph E. - Treasurer <orfaje@jea.com>; Wannemacher, Ryan F. - Chief Financial Officer <wannrf@jea.com>
Cc: Masterson, Kathryn (Analytical) <kathryn.masterson@fitchratings.com>; Laskey, Amy (Analytical) <amy.laskey@fitchratings.com>
Subject: RE: Confidential: Notification of Fitch Rating Decision

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

Thank you, Joe.

The edits you provided were all self-explanatory and we are able to incorporate them into the final version.

I will begin the internal editorial process shortly. Once the press release is published onto our website I'll send a copy right over to you. Figure by 5pm eastern. Let me know if you have any questions or additional comments.

Otherwise, thanks again and have a nice Thanksgiving.

Andrew

-----Original Message-----
From: Orfano, Joseph E. - Treasurer [mailto:orfaje@jea.com]
Sent: Friday, November 22, 2019 1:23 PM
To: DeStefano, Andrew (Analytical) <andrew.destefano@fitchratings.com>; Wannemacher, Ryan F. - Chief Financial Officer <wannrf@jea.com>
Cc: Masterson, Kathryn (Analytical) <kathryn.masterson@fitchratings.com>; Laskey, Amy (Analytical) <amy.laskey@fitchratings.com>
Subject: RE: Confidential: Notification of Fitch Rating Decision

Andrew:

Attached are our comments. Happy to discuss upon your review.

Regards,

Joe Orfano
Treasurer
Direct: (904) 665-4541
Mobile: (904) 677-1873
Fax: (904) 665-8334

-----Original Message-----
From: andrew.destefano@fitchratings.com <andrew.destefano@fitchratings.com>
Sent: Thursday, November 21, 2019 5:24 PM
To: Orfano, Joseph E. - Treasurer <orfaje@jea.com>; Wannemacher, Ryan F. - Chief Financial Officer <wannrf@jea.com>
Cc: andrew.destefano@fitchratings.com; kathryn.masterson@fitchratings.com; amy.laskey@fitchratings.com
Subject: Confidential: Notification of Fitch Rating Decision

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

Dear Joe and Ryan,

Fitch has completed its annual due diligence review of JEA related to the senior, subordinate, SJRPP and Bulk Power bonds outstanding and has affirmed the 'AA' rating on all of the bonds. In addition, Fitch has assigned a 'AA' Issuer Default Rating to JEA. All of the bonds carry a Stable Outlook.

Attached is a draft of our commentary announcing our rating action(s) and accompanying rationale. Kindly review it for factual errors and the presence of confidential information and please respond within 24 hours of the opening of your business day tomorrow. So, please respond by 9 am Monday morning, or sooner if you prefer. If we do not receive feedback within this timeframe, we will assume that there are no factual errors or confidential information included in the text and the commentary will be released.

Please be aware that all information contained in the attached draft rating action commentary ("Draft") is confidential and may constitute inside information under applicable law and securities regulations until published by Fitch. It is your responsibility to ensure that the Draft is neither used by, nor disclosed to any person in contravention of applicable laws and securities regulations.

Thanks again and please give me a call if you'd like to discuss.

Regards,

Andrew DeStefano

Director

+1 212 908 0284

andrew.destefano@fitchratings.com

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Florida has a very broad Public Records Law. Virtually all written communications to or from State and Local Officials and employees are public records available to the public and media upon request. Any email sent to or from JEA's system may be considered a public record and subject to disclosure under Florida's Public Records Laws. Any information deemed confidential and exempt from Florida's Public Records Laws should be clearly marked. Under Florida law, e-mail addresses are public records. If you do not want your e-mail address released in response to a public-records request, do not send electronic mail to this entity. Instead, contact JEA by phone or in writing.

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FITCH AFFIRMS JEA, FL'S ELECTRIC SYSTEM REV BONDS AT 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-22 November 2019: Fitch Ratings affirmed the 'AA' rating to the following JEA, Florida revenue bonds:

--Approximately $1,018 billion electric system revenue bonds;
--Approximately $806 million electric system subordinated revenue bonds;
--Approximately $95 million bulk power supply system revenue bonds;
--Approximately $279 million St. Johns River Power Park revenue bonds.

In addition, Fitch has assigned a 'AA' Issuer Default Rating (IDR) to JEA.

The Rating Outlook is Stable.

ANALYTICAL CONCLUSION

The 'AA' rating on JEA's outstanding bonds and IDR reflect the authority's consistent financial performance and steadily declining leverage profile. Total debt outstanding has been on the decline for many years as the authority has worked strategically to lower fixed costs to enable it to absorb the higher-cost power it will receive from the eventual completion of the two new nuclear units at Plant Vogtle. Manageable life-cycle investment needs are expected to be funded entirely from internal sources, allowing JEA's leverage profile to continue to remain low.

In addition, Fitch considers JEA's monopolistic revenue source characteristics, growing service territory, and independent rate setting to be important rating considerations. Fitch expects JEA's diverse and low cost resource base and low leverage profile to remain fully supportive of the 'AA' rating even through Fitch's stress scenario.

Lastly, Fitch currently views two ongoing events -- the litigation with MEAG over the validity of JEA's purchase power agreement (PPA) for Plant Vogtle energy and the potential sale of the system to a third party buyer -- to be neutral to the current rating. JEA has made, and expects to continue to make, all payments due under the PPA during the dispute, and in the event of a sale, Fitch expects all outstanding bonds to be repaid.

Although a default on JEA's subordinate obligations would not result in a payment default on its senior obligations, Fitch makes no distinction between the ratings given the balanced amount of debt outstanding under each lien level outstanding and vulnerability to default.

CREDIT PROFILE

JEA is among the largest municipally owned electric utilities in the nation with a total revenue budget of over $1.4 billion and over 476,000 direct retail customers. The service area for the electric system includes the entire city of Jacksonville, FL, and a small number of customers in neighboring St. Johns, Nassau and Clay Counties. As an independent agency of the city of Jacksonville, JEA maintains its own board of directors, consisting of seven members appointed by the mayor with city council approval.

KEY RATING DRIVERS

Revenue Defensibility: 'aa'; Large, Vertically Integrated System, Favorable Service Area

Provision of a monopolistic service coupled with favorable demographics and the independent ability to adjust rates underpin JEA's very strong revenue defensibility assessment. Solid customer growth and declining fuel prices have allowed the average retail rate to remain steady (and affordable) for many years. Rates are not subject to outside regulatory approval; only JEA board approval is required to raise rates.

Operating Risk: 'aa'; Diverse, Low-Cost Resource Base

JEA's strong operating risk profile reflects a low operating cost burden supported by a diverse mix of low-cost generating assets and firm purchases and manageable life cycle investment needs.

Financial Profile: 'aa'; Leverage Expected to Remain Low

JEA's financial profile is very strong. A sustained overall improvement in operating margins has allowed JEA to cash fund its capital program and embark on a program of retiring outstanding debt (including early redemptions), which has led to a systematic decline in debt and leverage over time.

Unrestricted cash and investments on hand were a robust 246 days in fiscal 2018. A decline in cash is expected in fiscal 2019 in support of JEA's program to delever the system with an additional $100 million in early debt retirement. Nevertheless, cash is expected to remain above JEA's minimum policy target of 150 days of liquidity on hand.

Asymmetric Additional Risk Considerations

There are no additional asymmetric risk considerations affecting this rating.

RATING SENSITIVITIES

Financial Performance and Leverage: The ratings on JEA's bonds are tied to its sound financial performance and recent deleveraging trends, which position it well to meet the expected rise in costs related to Plant Vogtle. While Fitch believes JEA's most recent financial forecast includes reasonable assumptions for sustained financial performance over the next five years, we cannot predict whether the new Vogtle units will be completed on time and/or on current budget. Significant completion cost increases that impact JEA's costs for this power will cause Fitch to reevaluate the reasonableness of the forward look. If costs increase significantly from current expectations, negative rating action could be warranted. Given the circumstances surrounding the Vogtle project and JEA's involvement, an upgrade in the rating is unlikely at this time.

SECURITY

The electric system revenue bonds are secured by a first lien on net revenues of the electric system. Subordinate electric system revenue bonds are secured by a second lien on net revenues of the electric system, after the first lien bonds have been paid. A default of the subordinate revenue bonds does not trigger a payment default of the senior revenue bonds.

Outstanding St. John's River Power Park (SJRPP) bonds and bulk power supply system bonds are contract debts of JEA, payable as operations and maintenance expenses of the electric system on a take-or-pay basis.

Revenue Defensibility
As a large vertically integrated retail service provider, JEA derives all of its revenues from the monopolistic electric utility business line within its defined service territory resulting in very

strong revenue source characteristics. In 2018, residential users accounted for roughly 49% and 44% of system revenues and sales, respectively. The authority exhibits no meaningful customer concentration as the 10 largest end-users, led by the U.S. Navy, represent a stable cross-section of employers that consistently comprise about 14% of total sales.

Growing Service Area, Solid Economic Underpinnings

The very strong service area characteristics assessment reflects JEA's growing and diverse customer base underpinned by a sound economic base led by healthcare, government (including a large federal military presence) and financial services/banking; growing household income levels; and low unemployment. Jacksonville is the most populous city in the state and the anchor of the northeast Florida economy. Demographic trends have been favorable with median household income (MHI) levels for the city of Jacksonville on the rise over the past several years (reaching $50,500 in 2017) and strong customer growth trends. Retail customer growth totaled a very solid 1.8% CAGR over the past five years and the city's unemployment rate has trended downward to just 3.6% in 2018.

Independent Rate-Setting

Rate flexibility is assessed to be very strong reflecting JEA's independent ability to adjust rates, which consist of a base rate, fuel and purchased power rate and an environmental rider. The fuel and purchased power rate is adjusted annually based on purchased power costs, although the rate can be modified as needed with board approval if costs vary by more than 10% from JEA's adopted budget.

Rates are competitive and affordable, providing management with some flexibility to adjust rates in the future, if necessary. Retail electric rates in 2018 of just over 10 cents/kWh compare favorably to the state's retail average (97%) and the average residential bill is an affordable 2.9% of MHI. Annual base rates were increased by a total of 39% between fiscal 2008 and 2012, but have only been adjusted higher once since then, although the increase was offset by a reduction in the fuel and purchased power rate. Manageable future base rate increases in JEA's financial forecast are partially offset by an expected fuel rate decrease in 2021. Overall, JEA's rates are expected to remain competitive and affordable.

Operating Risk
JEA has a very low operating cost burden with a Fitch-calculated cost of power of 8.8 cents/kWh including a sizable annual transfer to the city's general fund. The transfer is subordinate to the payment of system operating expenses and debt service obligations. While higher in 2017 and 2018, operating costs are at similar levels to fiscal 2014 and are expected to rise only marginally over the next few years leading up to the expected completion of the two new nuclear units at Plant Vogtle in 2022 and 2023.

Based on the current timeline and budget, energy from the new Vogtle units is expected to increase JEA's purchased power expense by nearly 60% from 2019 levels to $256 million by 2024, the first full year the new units will be fully operational. While the increase in purchased power expense is notable, energy from Vogtle will comprise only about 13% of JEA's total requirements, and the impact on JEA's $1.4 billion electric and bulk power system budget is expected to be modest.

Additionally, the decision to retire SJRPP in 2018 is expected to result in significant cost savings beginning in 2020 of about $50 million annually. Fitch will continue to monitor Vogtle's construction progress and costs. Any significant changes to the expected overall costs of power from the new Vogtle units, or cost increases for any other reason that lead to an eventual cost burden that rises above the 10 cent/kWH level could lead to a lower cost burden assessment.

JEA makes annual transfer payments to the city's general fund which includes a 1% annual escalator pursuant to a five-year interlocal agreement with the city that extends through 2023.

Diverse Power Supply

Operating cost flexibility is neutral. JEA's power supply is diverse, both in terms of the number of generating resources and fuel mix. After the de-commissioning of the jointly-owned SJRPP in 2018, total capacity declined by roughly 400 MW (net) to approximately 3,300 MW. However, the closure of SJRPP benefits JEA in several ways including significant projected annual costs savings (both operating and capital expenses) while lowering CO2 emissions and better aligning long-term resources to projected demand.

The majority of JEA's generating fleet consists of nearly 2,000 MW of natural gas and waste heat facilities and about 800 MW of solid fuels (coal and pet-coke), including JEA's ownership in coal-fired Scherer Unit 4. The remainder is made up of firm purchases and a peaking facility powered by diesel fuel. Following the closing of SJRPP, JEA's aggregate resource capacity totals more than 3,000 MW's and remains in excess if anticipated peak load and a 15% reserve margin. Additional short-term firm purchases are expected to bridge JEA until the Vogtle units are completed.

Environmental Considerations

While there are no renewable portfolio standards in Florida, following the closure of SJRPP, JEA's fuel mix shifted with a significant decline in energy from coal-fired assets. Approximately 50% of energy was derived from natural gas-fired resources, followed by coal at 29% and firm purchases (18%). The fuel mix just a year prior was dominated by coal at 43%, followed closely by natural gas (45%). Along with the shift to natural gas and a small amount of solar recently installed, JEA anticipates adding up to 250 MW in additional solar generation over the next few years. An additional roughly 200 MW's of carbon free energy will come from Vogtle.

Capital Planning and Management

Fitch assesses capital planning and management as strong given JEA's elevated life-cycle investment needs and somewhat low historical annual capital investment trends relative to depreciation. In 2018, the average age of plant was just 15 years, although this ratio has been increasing since 2014. Capital needs through fiscal 2024 total approximately $900 million, which is similar in size to previous capital improvement plans but still falls short of expected annual depreciation.

The bulk of the capital improvement plan (CIP) will be for routine maintenance and rehabilitation projects with a portion expected to pay for land to build solar projects. JEA expects 100% CIP funding from internal sources with no additional debt currently contemplated.

Additional Considerations - Plant Vogtle Update

JEA is participating in the development of the 2,204 MW Vogtle expansion project via a 20-year PPA signed for 206 MW's (9.35%) in 2008 with the Municipal Electric Authority of Georgia (MEAG; power revenue bonds rated BBB/Rating Watch Negative). JEA's obligations under the PPA are unconditional and constitute contract debt, payable as an operating expense under JEA's bond resolution.

The 20-year PPA requires JEA to begin paying MEAG for the capacity and energy at the full cost of production, including debt service related to Project J. Under the original Project J bonds, the annual debt service, which was just $40 million in 2019, is payable whether or not either Vogtle Unit is completed or is operating or operable. The annual Project J debt service obligations rise to approximately $117 million by 2021 and remain close to this level before stepping down in 2036. The increase in annual Project J debt service reflects the winding down of a fairly sizable amount of capitalized interest over the next several years.

Extensive delays and cost overruns have been a concern for Fitch. Originally expected to be completed in April 2016 and April 2017, completion for Units No. 3 and No. 4 were delayed after the original construction contractor filed for bankruptcy protection in 2017. After a new construction firm was hired, completion dates were revised to late 2021 and 2022 with further revisions to the construction budget to complete the units. Given MEAG's ownership share in the new units and JEA's participation as an off-taker, only a portion of the revised cost increases are attributable to JEA through its PPA with MEAG. Fitch believes JEA's Vogtle-related obligations as currently known are manageable given the authority's strong annual cash flows amortizing debt obligations, and rate flexibility. Risks related to completion of the project have been considered, but do not currently constrain the JEA ratings.

Financial Profile
Following several years of improved financial metrics, JEA's margins were slightly lower in fiscal 2018 due to a slight decline in total revenues from closure of SJRPP and a decline in off-system sales, among other factors, and a slight increase in overall expenses. Fitch-calculated DSC declined to a still strong 1.95x in 2018, and coverage of full obligations, which includes sizeable transfers made annually to the city's general fund and incorporates a portion of purchased power obligations, remained supportive of the rating at 1.5x. Audited fiscal year Sept. 30, 2019 results are not expected to be available, but are anticipated to be sound once again.

Cash, including available reserves in the system's renewal and replacement fund, remained sizeable at 246 days cash on hand at the close of fiscal 2018. JEA's liquidity position includes a fuel supply reserve targeted to equal 15% of budgeted fuel expenses. Cash is expected to decline for 2019 but remain above policy targets (150 days) as JEA cash-funded its capital spending and redeemed about $100 million of debt during the year. The authority recently increased and extended a $500 million revolving credit agreement with JPMorgan Chase Bank (AA-/Stable) that expires in 2021. The revolving credit approximately doubles JEA's total available liquidity.

Leverage ratios have shown considerable improvement over the past seven years as a result of JEA's strategy of cash funding the entirety of its capital needs and accelerating the early pay down of outstanding direct debt. The ratio of net adjusted debt to adjusted FADS totaled 5x at the end of fiscal 2018 versus almost 8x in fiscal 2010.

Fitch Analytical Stress Test (FAST) Base and Rating Case Analysis

Fitch's base case is based on JEA's financial pro forma for fiscal years 2019 - 2023, which conservatively incorporates a decline in energy followed by no growth through the forecast, slight improvement in revenues from manageable rate increases partially offset by a fuel rate decline, expected annual spending for capital improvements with no additional debt, and almost $600 million of debt retired (consisting of scheduled maturities and optional early retirements/ redemptions). The Fitch base case aligns with JEA's forecasted margins and indicates a decline in leverage in year one (2019) followed by a modest increase in the leverage ratio through the remainder of the forward look. However, leverage remains at or below the 5x level recorded in 2018.

For the rating case, the FAST incorporates a modest stress in sales in the first two years aggregating to just 6.1% before a return to sales growth in years three through five. The previously mentioned base case assumptions are also applied. The result of the stress is a slight increase in the leverage ratio to 5.1x by year two before an expected return of sales growth and JEA rate increase that would allow the utility to meet minimum cash targets in subsequent years. JEA's financial margins are expected to tighten somewhat as operating expenses rise in the out-years of the forecast. However, Fitch expects liquidity will remain sound and both COFO and the leverage ratio will be maintained at levels that would be fully supportive of the rating.

Debt Profile

JEA's debt profile is neutral to the rating. Total debt as of fiscal-end 2019 consisted of roughly $1.8 billion of senior and subordinate lien electric system revenue bonds, approximately $95 million of bulk power supply bonds and $279 million of SJRPP obligations.

Of the roughly $2.2 billion of total debt currently outstanding, approximately $600 million is variable-rate, equal to a manageable 27% of total debt outstanding (including 8% unhedged). Most of the variable debt is hedged with floating-to-fixed rate swaps from various counterparties. In addition, variable-rate bonds are backed by liquidity facilities provided by a diverse pool of providers with solid credit ratings. The mark-to-market value of the swaps at the close of fiscal 2019 was negative $118 million. The ability of the counterparties to terminate is limited to the authority's credit ratings falling to or below 'BBB'.

Pending Litigation with MEAG

JEA filed a legal claim on Sept. 11, 2018 in circuit court in Duval County, FL asserting the PPA governing Vogtle project-related payments between JEA and MEAG Power is invalid. In related litigation filed in the U.S. District Court of Georgia earlier the same day, MEAG asked for declaratory judgement affirming JEA's obligations under the PPA. MEAG's claim was found to be without standing, given the filing of the claim prior to JEA's legal claim. MEAG has appealed this decision. JEA's request to remand the case to Florida state court has been denied. It appears that JEA's claim will proceed in the U.S. District court in Georgia.

While the timing and outcome of the court proceedings cannot be known, JEA has made, and expects to continue to make, all payments due under the PPA. Fitch expects JEA will continue to pay all obligations owed throughout the legal process.

Potential Sale of the System

In July 2019, the JEA board unanimously approved a resolution authorizing it to evaluate potential opportunities to privatize the system. JEA subsequently requested proposals from market participants for the purchase of the system and has received multiple bids from various public and private entities, including at least one non-utility. Fitch cannot predict whether JEA will ultimately sell the utility in whole or in part, and has not opined on whether a potential sale would be in the long-term best interests of the relevant parties, including JEA's ratepayers and/or bondholders.

However, should JEA and the city decide they have received an acceptable proposal and pursue a sale of the system, approvals will be necessary from both the Jacksonville City Council as well as voters of the city through a ballot initiative. Fitch believes the city would utilize the proceeds of any sale to repay all of JEA's outstanding bonds. As a result, the potential sale of the utility does not result in an asymmetric risk affecting the rating at this time.

Contact:

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Sources of Information
In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

ESG Considerations
Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Public Sector, Revenue-Supported Entities Rating Criteria (pub. 07 Nov 2019)
https://www.fitchratings.com/site/re/10099396
U.S. Public Power Rating Criteria (pub. 03 Apr 2019)
https://www.fitchratings.com/site/re/10066654