S&P Global
Ratings

RatingsDirect®

JEA, Florida; Liquidity Facility; Retail Electric

Primary Credit Analyst:
Jeffrey M Panger, New York (1) 212-438-2076; jeff.panger@spglobal.com

Secondary Contact:
David N Bodek, New York (1) 212-438-7969; david.bodek@spglobal.com

Table Of Contents

Rationale

Outlook

Utility Description

Enterprise Risk

Financial Risk

JEA, Florida; Liquidity Facility; Retail Electric

Credit Profile		
JEA (St Johns River Pwr Pk)		
Long Term Rating	A+/Negative	Affirmed

Rationale

S&P Global Ratings has affirmed its ratings, with negative outlooks, on the debt obligations of JEA, Fla., as follows:

- Senior-lien, fixed-rate electric system, bulk power supply system, and St. John's River Power Park debt (paid as an operating expense), rated 'A+';
- Subordinate-lien, fixed-rate electric system debt, rated 'A';
- The long-term ratings on several series of senior- and subordinate-lien variable-rate demand bonds, reflecting their respective liens, rated 'A+' and 'A'; and
- The rating on JEA's variable-rate bonds in the commercial paper mode, rated 'A-1'.

The outlook on all ratings, where applicable, is negative.

The ratings reflect our opinion of a very strong enterprise risk profile and a very strong financial risk profile.

The enterprise risk profile reflects our view of JEA's:

- Strong operational and management assessment. We view favorably the utility's operational assets, environmental compliance, and its rate-setting practices. However, this opinion is offset by our view of management as just adequate, given the attempts of JEA's board to exit the Vogtle Nuclear Plant Units 3 and 4 power purchase agreement (PPA) by means of litigation and abrogate its responsibility under what it has previously represented as a valid contract.
- Extremely strong service area economic fundamentals, reflecting a deep and diverse service area.
- Adequate market position, with average revenue per kilowatt-hour (kWh) slightly above the state average and a record of rate adjustments that supports robust financial metrics.
- Extremely strong industry risk relative to other industries and sectors.

The financial risk profile reflects our view of the utility's:

- Extremely strong coverage metrics, as evidenced by fixed-cost coverage levels that have averaged 1.9x over the past three years, coupled with projections that robust coverage will be maintained despite the known increase in costs associated with the Vogtle units;
- Very strong liquidity and reserves, reflecting available reserves measuring 307 days' operating expenses in 2017, although about half of this is in the form of a line of credit; and
- Strong debt and liabilities profile, suggested by manageable on-balance-sheet debt to capitalization, but substantial

off-balance-sheet obligations associated with the Vogtle project.

The ratings also reflect the cumulative impact of repeated construction delays and cost overruns on the Vogtle Units 3 and 4 project, as well as related litigation between JEA and the Municipal Electric Authority of Georgia (MEAG). JEA is obligated to pay debt service and operating costs for a period of 20 years under the terms of its PPA with MEAG (see "The Vogtle project," below). Reflecting this, we have applied a one-notch negative adjustment from the initial indicative rating to arrive at the final rating.

JEA's strategic planning process has prompted it to seek proposals to privatize, and the utility received 16 bids, the details of which are currently confidential. The request for proposals contained certain minimum requirements sought from potential bidders (see "Privatization," below). We understand that JEA has narrowed the list of bidders down to nine for further negotiation, but has not definitively decided to pursue privatization.

S&P Global Ratings takes no position regarding the merits of remaining a publicly owned utility, versus private ownership. However, the strategic plan scenarios incorporated in the strategic planning assessment paint a direr picture of the financial challenges JEA faces than does its financial forecast. It is our opinion that JEA's financial forecast (which incorporates certain actions, such as manageable base rate increases over fiscal years 2022-2024, and the use of stabilization reserves), presents a more accurate picture of the utility's financial health, and it shapes our forward-looking view of JEA's credit quality and our rating.

We do not expect JEA will decide whether to seek approvals to privatize until mid-2020. As a result, our rating does not reflect the potential privatization. However, based on covenants in bond documents, as well as JEA's minimum requirements for potential bidders, we believe that privatization would likely entail defeasance of JEA's debt outstanding and assumption of its obligation under the PPA with MEAG.

Outlook

The negative outlook reflects our view that there is financial, operational, legal, and political uncertainty surrounding Vogtle Units 3 and 4. The negative outlook also reflects JEA's litigation, and what, in our opinion, it means regarding the utility's willingness to meet its contractual obligations.

Although project construction continues, we believe that further delays and overruns could erode credit quality, threaten project completion, or both, resulting in a debt-laden stranded asset.

Upside scenario

We do not expect to revise the outlook to stable until there is greater clarity regarding the status of JEA's litigation claims and Vogtle's project costs and timeline.

Downside scenario

We could lower the rating if there are additional material construction delays or cost overruns, or if, in our view, JEA abrogates its contractual responsibility. In these events, we would likely take a multi-notch action on the rating.

Utility Description

JEA is a publicly owned, vertically integrated, electric utility owning generation, transmission, and distribution assets. The utility reports about $1.9 billion of senior and subordinate-lien debt. It serves about 476,000 customers and derives about half of its revenues from residential service.

The Vogtle project

The Vogtle project is a two-unit (1,100-megawatt [MW] each) nuclear plant under construction in Georgia. The Vogtle project is co-owned by Georgia Power Co. (GPC; 45.7% share), Oglethorpe Power Corp. (30.0%), MEAG (22.7%), and the municipal utility serving the City of Dalton, Ga. (1.6%). MEAG entered into a PPA with JEA (dubbed "Project J") whereby JEA will receive 41.175% of the energy and capacity (206 MW) associated with MEAG's 22.7% share of the Vogtle project. In return, JEA has agreed to pay the first 20 years' debt service on debt issued for the Project J portion of the Vogtle project. MEAG has issued $2.58 billion of capital market, U.S. Department of Energy, and privately placed debt on behalf of Project J. Debt service on JEA's obligation amounted to $14 million in 2019, but will ramp up significantly, reaching a projected $151 million by 2024.

The Vogtle project has been plagued by numerous construction delays and cost overruns, spawning litigation between MEAG and JEA. In 2008, the overnight cost of the project, not including financing, was projected to be $10.4 billion, but the most recent estimate suggests that the overnight cost is now about $18 billion, which we estimate to be $27 billion-$28 billion when including financing costs. The two units were originally expected to be placed in service over 2016-2017, but are now expected for 2021-2022.

We previously lowered our ratings and assigned negative outlooks to reflect the cumulative effect of numerous delays and cost overruns, as well as the potential for additional delays, overruns, and stranded assets should the project not be completed. In our view, the delays and budget adjustments raise questions about project stewardship, while their magnitude leaves us with diminished confidence in the co-owners' ability to accurately estimate completion costs and in-service dates.

The outlook also reflects the JEA-MEAG litigation, in which JEA argues that its board members acted without authority when they approved the PPA in 2008 and an amendment in 2014, because the board failed each time to secure city council approval. The litigation also asserts that the utility's Vogtle-related financial obligations became uncapped, in violation of Florida law, after the plants' construction contractor, Westinghouse Electric Co. LLC, rejected the fixed-price construction contract it had with MEAG and the other Vogtle co-owners during its spring 2017 bankruptcy proceedings. JEA cites the owners' cost-plus construction contract with Bechtel Corp. to support this argument. The utility further argues that it did not authorize the Bechtel contract, is not a party to that contract, and is barred under Florida law from "becoming financially entangled with private enterprise" where it lacks joint ownership of the construction project.

In a separate legal action, MEAG is asking a federal court in Georgia to direct JEA to perform the obligations the PPA contract sets out.

In our view, JEA's assertions that its board acted beyond the scope of its authority raises questions about the quality of

its internal controls. Moreover, we question why JEA is now asserting a lack of an ownership interest in the Vogtle plants. In our opinion, the utility's legal claims, seeking to repudiate the board's actions after a decade, call into question the utility's willingness to meet its contractual financial obligations. Of importance, at this time, JEA continues to make regularly scheduled payments as billed by MEAG. We would view a failure by JEA to honor these obligations as an abrogation of its contractual responsibility, and we would likely take significant further action on our ratings on JEA.

Privatization

On Oct. 7, 2019, JEA announced the receipt of 16 bids to purchase the municipally owned utility. Details of the bids have yet to be disclosed, and we understand that JEA has done a preliminary evaluation, selecting nine bids for further negotiation as the utility moves forward in consideration of its privatization options. No decision has yet been reached as to whether JEA will, in fact, proceed with privatization.

S&P Global Ratings believes that, should JEA proceed with privatization, it would necessitate the defeasance of about $1.9 billion of debt outstanding and the buyer's assumption of substantial power purchase obligations associated with the Project J portion of the Vogtle project.

In soliciting the bids, JEA set forth certain minimum requirements, including:

- More than $3 billion of value to the city of Jacksonville (representing the present value of 20 years of JEA contributions to the city's general fund);
- More than $400 million in payments to customers ($350 per account) and the guarantee of base rate stability for at least three years;
- Provision of 100% renewable energy to the city of Jacksonville and Duval County Public Schools by 2030;
- Protection of employee retirement benefits, the guarantee of employee compensation and benefits for three years, and a retention payment for all full-time employees at 100% of current base compensation; and
- Commitment to proceed with a new headquarters in downtown Jacksonville.

JEA's solicitation of bids followed a study by McKinsey and Co., projecting a significant decline in energy sales, with energy efficiency and distributed generation penetration more than offsetting organic customer growth. As part of its strategic plan, management put forth two scenarios: one where these challenges were met solely through a sizable 52% rate increase, and the other calling for a smaller (but still large) rate increase, coupled with other actions, including significant staff reductions and other expense cuts.

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. They also deviate substantially from JEA's own financial forecast, which we believe is based on a reasonably conservative assumption of flat sales, manageable rate increases, and robust financial metrics. Therefore, our analysis and rating incorporate our

view of JEA's financial forecast.

We understand that JEA is evaluating the privatization proposals, and will enter into negotiations with one or more of the nine qualified bidders, thereafter deciding on whether to proceed with privatization. Should JEA proceed, the utility would need to gain board approval (which could be as soon as first-quarter 2020), followed by city council approval, and finally, voter approval, either as early as during the August 2020 primary or November 2020 general elections.

Enterprise Risk

Operational management assessment: Strong

We view management, policies, and planning as having a mixed impact on credit, and this highly influences our view of JEA's operational management. We view the board's attempt to exit the Vogtle PPA by means of litigation as an attempt to abrogate its responsibility under what it has previously represented as a valid contract, and view this as a major negative in our assessment of management. The impact of the lawsuit is not considered here, nor is the potential outcome. Rather, in this assessment, we only consider how this affects our view of JEA's management when balanced against the other positive aspects.

These other positive aspects include annually updated, multi-year financial forecasts and capital plans--general practices that we view as credit-supportive. JEA has developed a number of credit-supportive policies and operates a robust enterprise risk management program, while adopting many of the organizational training models employed by leading private-sector companies, as well as internal polices and targets for debt service coverage. Furthermore, in recent years, JEA's board has demonstrated independence in its negotiations with the city over the level of transfers.

JEA has a diverse power supply and fuel mix, as well as good shaft diversity, allowing it to produce competitively priced power. Assets are generally young and have good remaining useful life. JEA has more than 3,000 MW of capacity, including two wholly owned units (Northside and Brandy Branch) and Scherer Unit 4. Although 29% of its energy needs come from coal-fired generation, raising questions regarding the utility's carbon footprint, this number has fallen in favor of natural gas, which represented 50% of the fuel mix in 2018.

We expect that coal-fired generation will continue to decline, as a result of:

- The closure of coal-fired St. John's River Power Park; and
- A PPA with Southern Power for 200 MW of unit-specific, gas-fired generation as a bridge to nuclear energy via its 20-year PPA with MEAG to take 206 MW of capacity and energy from MEAG's Vogtle Units 3 and 4 nuclear project, which is currently under construction, but faces uncertain completion prospects.

JEA's positioning regarding environmental regulations and compliance is favorable. The utility is in substantial compliance with environmental regulations, with modest additional environmental expenditures expected. We also expect that with its declining carbon footprint, the utility's credit quality will not be unduly exposed to future regulatory measures.

Finally, we view rate-setting practices as credit-supportive. We believe management has demonstrated a willingness to adopt base rate increases necessary to maintain robust coverage metrics, and we note that JEA raised its base rates in

2017, several years ahead of schedule, to accelerate debt repayment. The utility has a power cost adjustment mechanism that we view as less than robust; it is adjusted annually and at management's discretion, although historically it has been exercised, as evidenced by robust financial metrics, suggesting that fuel and power cost increases are passed through to ratepayers when needed.

Economic fundamentals: Extremely strong

We view JEA's service area as resilient. The Jacksonville metropolitan area is deep and diverse, and customer demand has proven to be stable. Residential customers account for a sizable 49% of revenues, lending stability to demand. There is no customer concentration, with less than 11% of revenues coming from the top 10 customers. Demand growth has been generally flat, a function of limited customer growth, offset by conservation and efficiency. Economic indicators are on the weaker side, with median household effective buying income at 91% of the national average, and unemployment just slightly below the national rate.

Market position: Adequate

JEA's average revenue per kWh is about on par with the state average in 2018, the most recent year of available comparative information. It has a demonstrated record of adopting rate increases to support robust financial metrics, and increased base rates in 2017, several years ahead of schedule, to accelerate debt repayment. The utility has a power cost adjustment mechanism that is adjusted annually, at management's discretion. While we do not view this as a particularly strong mechanism, we do acknowledge JEA has historically exercised it, as needed, to maintain robust financial metrics.

Industry risk: Extremely strong

Consistent with "Methodology: Industry Risk," published Nov. 19, 2013, we consider industry risk for municipal retail electric and gas utilities covered under these criteria to be very low, and therefore extremely strong as compared with other industries and sectors.

Financial Risk

Coverage metrics: Extremely strong

JEA has a record of solid historical financial metrics. In the past three years, its fixed-cost coverage has averaged an extremely strong 1.9x. The utility's financial projection, based on a reasonably conservative assumption for flat growth, suggests it should meet the additional carrying costs associated with the Vogtle project with no near-term base-rate increases, and that only manageable base rate increases will be necessary post-commercial operation of the nuclear units. Inclusive of the most recently disclosed cost overruns, JEA projects fixed-cost coverage that we would consider extremely strong, post-commercial operation, while still maintaining very strong liquidity and further reducing on-balance-sheet debt.

However, significant construction and project completion risks remain, specifically through the possibility of additional cost overruns and delays. Moreover, we note the legal, regulatory, and political fallout that has accompanied the cancellation of a similar nuclear project in South Carolina.

Over the past three years, JEA has used rather liberal draws (a cumulative $127 million) on its previously accumulated

rate-stabilization and fuel reserve funds (unrestricted cash), largely to accelerate debt retirement and to fund capital needs from internally generated funds. We understand that the utility expects to do so again in 2020 ($19 million) and 2021 ($31 million). However, we do not view this as a credit risk, given the utility's strong liquidity, which includes a recently upsized line of credit (see below), and the expectation that it will begin to replenish these reserves at about $10 million per year over fiscal years 2022-2024. Moreover, we believe the use of cash reserves was prudent, insofar as it enables JEA to avoid increasing rates and reduce on-balance-sheet debt.

Liquidity and reserves: Very strong

JEA's liquidity is robust, both from the perspective of days' equivalent of operating expenses and from the amount of available reserves.

As noted above, JEA has been, over the past several years, drawing on unrestricted cash to fund accelerated debt retirement and reduction, fund capital needs, and mitigate the need for rate increases. At fiscal year-end 2019, JEA had $281 million in unrestricted cash (unaudited), which represents 126 days' operating expenses. This was down from $539 million (268 days' operating expenses) in 2016.

However, in 2018, JEA increased its line of credit to $500 million from $300 million, offsetting the recent draws on unrestricted cash as a matter of preserving liquidity. Inclusive of the line of credit, total liquidity measured $776 million in 2019 (unaudited), a very healthy 347 days' operating expenses, which we consider to be extremely strong.

However, in consideration of the reliance on the line of credit, our criteria stipulates that "we are unlikely to assign a liquidity and reserve assessment of 'extremely strong' unless available reserves supported such assessment, excluding such lines of credit." In JEA's case, days' liquidity would be only be considered strong absent the lines of credit. Accordingly, our assessment is that JEA's liquidity and reserves are very strong.

We also note that projections suggest cash and investments and total liquidity will increase over the next five years, but only to levels that support the current assessment.

Debt and liabilities: Strong

JEA has reduced on-balance-sheet electric enterprise debt by $2.41 billion since 2009, to $2.2 billion in 2019 from $4.3 billion in 2009. Debt measures 62% of total capitalization. We expect this ratio to improve over the next several years as debt amortizes, and given that management expects to finance its $887 million five-year capital plan with internally generated funds. As a result, our forward-looking view is that on-balance-sheet debt-to-capitalization will improve to under 60% in the next couple of years.

Although the on-balance-sheet debt burden has improved markedly, JEA is responsible for servicing a considerable amount of off-balance-sheet debt associated with its Vogtle PPA. JEA is responsible for servicing the obligation for a 20-year period (MEAG is responsible for servicing the remaining unamortized debt over the ensuing 20 years). To date, MEAG has issued $2.58 billion of Project J debt. Attributing half of this to JEA (a reflection of JEA's obligation to service debt for 20 years of a 40-year amortization schedule), we calculate that on- and off-balance-sheet debt would produce debt to capitalization of 71% in 2020, and 69% in 2021, which we view as strong.

Ratings Detail (As Of November 22, 2019)

Ratings Detail (As Of November 22, 2019) (cont.)		
JEA elec sys rev bnds		
Long Term Rating	A+/Negative	Affirmed
JEA elec sys sr lien rev bnds		
Long Term Rating	A+/Negative	Affirmed
JEA elec sys subord (AGM)		
Unenhanced Rating	A(SPUR)/Negative	Affirmed
JEA elec sys VRDB sub ser 2000F		
Short Term Rating	A-1	Affirmed
JEA JACKSONVILLE ELEC AUTH (ST JOHNS RIVER PWR PK SYS) SPL OBLIG 4TH CROSSOVER SER		
Long Term Rating	A+/Negative	Affirmed
JEA JACKSONVILLE ELEC AUTH (ST JOHNS RVR PWR PK SYS) SPL OBLIG 1ST CROSSOVER SER		
Long Term Rating	A+/Negative	Affirmed
JEA elec sys sr lien rev bnds		
Long Term Rating	A+/Negative	Affirmed
JEA elec sys sr lien rev bnds		
Long Term Rating	A+/Negative	Affirmed
JEA elec sys sr lien rev bnds		
Long Term Rating	A+/Negative	Affirmed
JEA LQDTYFAC		
Long Term Rating	NR/NR	Affirmed
JEA LQDTYFAC		
Short Term Rating	A-1	Affirmed
JEA RETELEC		
Short Term Rating	A-1	Affirmed
JEA (St Johns River Pwr Pk)		
Long Term Rating	A+/Negative	Affirmed
JEA (St Johns River Pwr Pk)		
Long Term Rating	A+/Negative	Affirmed
JEA retail elec		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
JEA retail elec sr lien		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Long Term Rating	A+/Negative	Affirmed
JEA retail elec sr lien ser III ser 2008B-1		
Unenhanced Rating	NR(SPUR)	
JEA retail elec subord		
Unenhanced Rating	A(SPUR)/Negative	Affirmed
JEA retail elec subord lien 2009 ser C		

Ratings Detail (As Of November 22, 2019) (cont.)		
Unenhanced Rating	A(SPUR)/Negative	Affirmed
JEA retail elec sys VRDB ser 2008B-2		
Long Term Rating	A+/A-1/Negative	Affirmed
JEA retail elec sys VRDB ser 2008B-3		
Long Term Rating	A+/A-1/Negative	Affirmed
JEA retail elec VRDB sr lien ser III 2008A		
Long Term Rating	A+/A-1/Negative	Affirmed
JEA retail elec VRDB sr lien ser III 2008C-1		
Long Term Rating	A+/A-1/Negative	Affirmed
JEA retail elec VRDB sr lien ser III 2008C-2		
Long Term Rating	A+/A-1/Negative	Affirmed
JEA retail elec VRDB sr lien (group 4) ser 3 2008 D-1		
Long Term Rating	A+/Negative	Affirmed
JEA retail elec VRDB subord lien ser 2008D		
Long Term Rating	A/A-1/Negative	Affirmed

Many issues are enhanced by bond insurance.

Copyright © 2020 by Standard & Poor’s Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor’s Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P’s opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR’S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor’s Financial Services LLC.