JEA Strategic Planning Scenario #3

Community Ownership Alternative | December 2019

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Community Ownership Alternative Process Objectives and Approach

- As part of the broader review of potential strategic alternatives that would secure the future of JEA and optimize the utility's value for the City of Jacksonville and its citizens, JEA worked with its advisors to investigate the benefits and challenges of transferring ownership of JEA to its customers by reorganizing as a utility cooperative
- Following the formal launch of the ITN process, a separate work stream was established to analyze the cooperative alternative
  - Members of the broader advisory deal team were selected to investigate the prospects of JEA being recapitalized as a utility cooperative
- Potential paths considered
  - Established cooperative would participate in the formal ITN process
  - In the absence of a cooperative participating in the ITN process, pursue the standalone recapitalization of JEA as a utility cooperative

Project key topics / objectives

- Cooperative business model fundamentals
- Cooperative strategic path
- Framework for addressing JEA's challenges
- Cooperative formation
- Federal and state statutes
- Tax status, election, and annual thresholds for maintenance of status
- Potential issues and approach to mitigating
- Recapitalization
- Feasibility
- Comparison to other potential strategic alternatives

Project work streams / key dates

- Weekly progress updates (*August – present*)
- Review and analysis of key formation topics (*August – October*)
- No established cooperatives responded to the ITN (*October 7*)
- Continued review and refinement of key formation topics and analysis of standalone cooperative recapitalization (*October – present*)
- Review of preliminary findings with management (*November 21*)
- Refinement of cooperative alternative analysis (*ongoing*)
- Review of cooperative alternative with Board (*December 17*)
- Refinement of cooperative alternative analysis based on Board review and feedback (*December – January*)
- Board selects one of five potential scenarios including Scenario #3: Community Ownership Plan as path forward for JEA (*TBD*)

Agenda

Florida Utility Business Model Comparison

	JEA	Electric Cooperatives	Investor Owned Utilities
Business model	Not for profit, community owned by City of Jacksonville	Not for profit, member owned for member benefit	For profit, shareholder controlled
Governance	JEA Board, City Council	Member-elected boards	Private board
Rate Setting Mechanism	JEA Board, limited PSC oversight in Florida	Board, limited PSC oversight in Florida	Florida Public Service Commission
FERC Jurisdiction	Only for interstate transmission	Only for interstate transmission	For wholesale rates
Funding Source (excl rates)	Tax-exempt debt	RUS (USDA), CFC, taxable debt	Taxable debt, preferred equity, equity
Federal Renewable Energy Incentives	None presently	None presently	ITC/PTC or MACRS Depreciation
FEMA Eligible	Yes, with coinsurance	Yes, with coinsurance	No, covered by insurance

Composition of US Electric Utility Providers

Electric Cooperatives

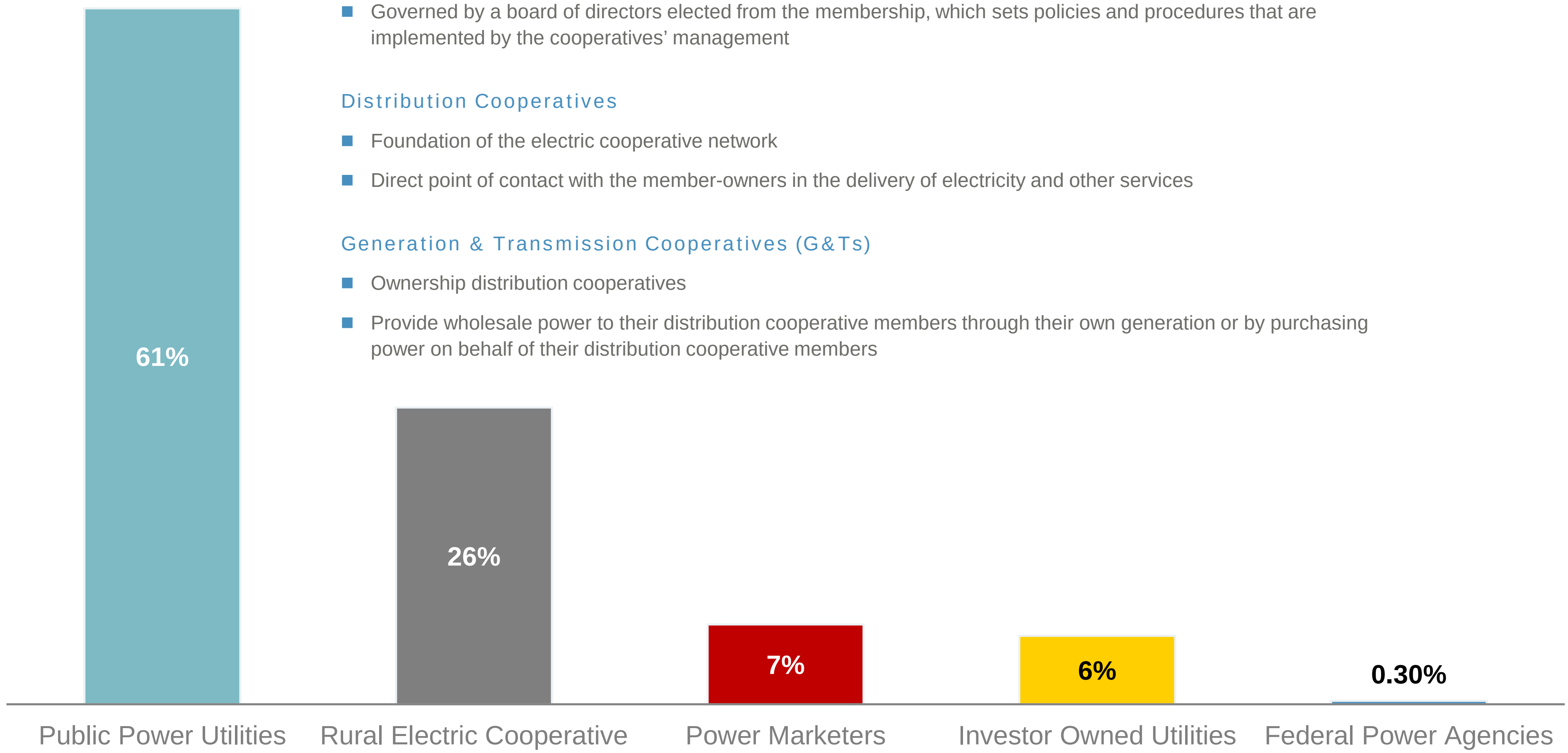
- Private, independent, not-for-profit electric utility businesses
- Owned by the customers they serve
- Incorporated under the laws of the states in which they operate
- Established to provide at-cost electric service
- Governed by a board of directors elected from the membership, which sets policies and procedures that are implemented by the cooperatives' management

Distribution Cooperatives

- Foundation of the electric cooperative network
- Direct point of contact with the member-owners in the delivery of electricity and other services

Generation & Transmission Cooperatives (G&Ts)

- Ownership distribution cooperatives
- Provide wholesale power to their distribution cooperative members through their own generation or by purchasing power on behalf of their distribution cooperative members



% of U.S. customers	**11%**	**14%**	**5%**	**64%**	**< 1%**

Source: EIA

Cooperatives Overview

Voluntary and Open Membership	■ Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination
Democratic Member Control	■ Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions ■ Elected representatives are accountable to the membership. Cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner
Members' Economic Participation	■ Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative ■ Members usually receive limited compensation, if any, on capital subscribed as a condition of membership ■ Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership
Autonomy and Independence	■ Cooperatives are autonomous, self-help organizations controlled by their members ■ If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy
Education, Training, and Information	■ Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives ■ They inform the general public—particularly young people and opinion leaders—about the nature and benefits of cooperation
Cooperation Among Cooperatives	■ Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures
Concern for Community	■ While focusing on member needs, cooperatives work for the sustainable development of their communities through policies approved by their members

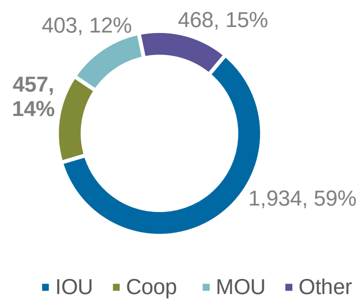
Cooperative Market Summary

Overview

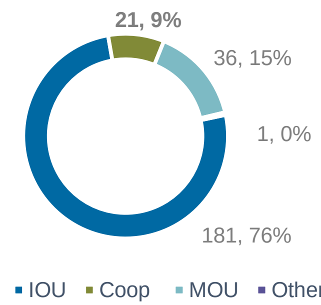
- U.S. electric utility co-op market
  - 831 distribution and 62 G&T cooperatives, a total of 893 NRECA co-op members
  - Serve an estimated 42 million people in 47 states
  - Over 20 million businesses, homes, schools, churches, farms, irrigation systems, and other establishments in 2,500 of 3,141 counties in the U.S.
  - 14% of the nation's electric customers are served by electric co-ops
- Florida's Electric Cooperatives
  - 17 electric co-ops that are members of the Florida Electric Cooperatives Association (FECA)
  - 15 distribution electric cooperatives
  - 2 generation & transmission electric cooperatives
- Collectively, electric co-op in Florida serve over 1 million meters, which is approximately 11% of Florida's population, and span over 60% of Florida's land mass

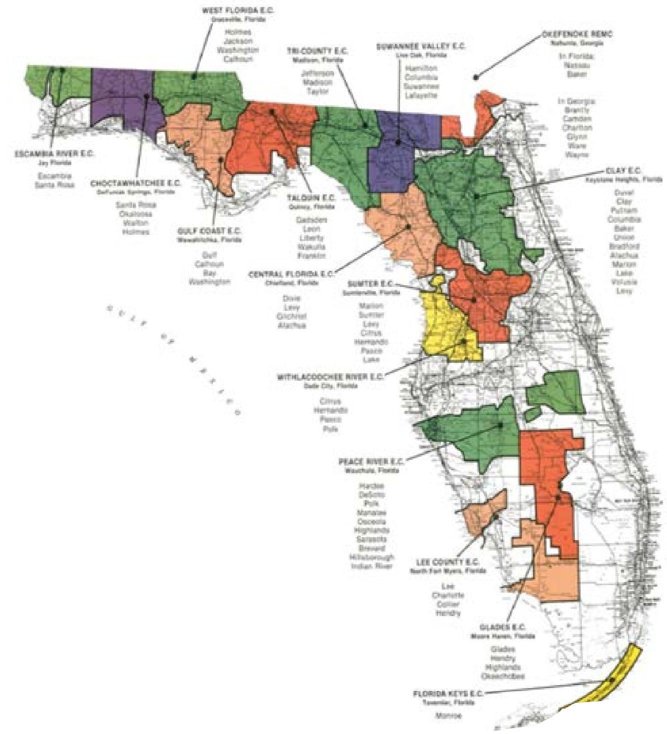
Sales (Megawatt hours in millions)

U.S., Total: 3,262



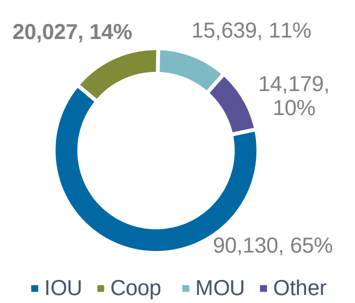
FL, Total: 239



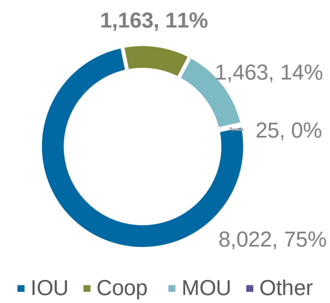


Customers (Count in 000's)

U.S., Total: 139,976

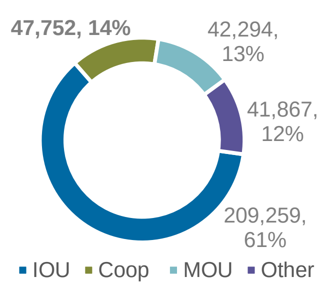


FL, Total: 10,674

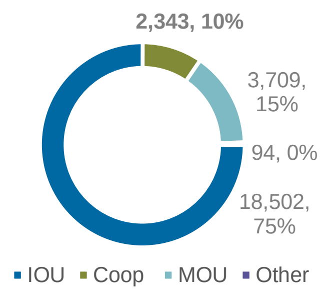


Revenues ($ millions)

U.S., Total: 341,172

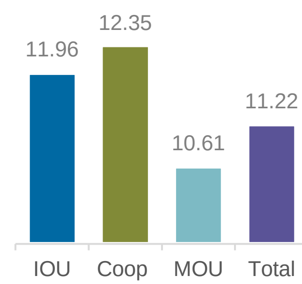


FL, Total: 24,648

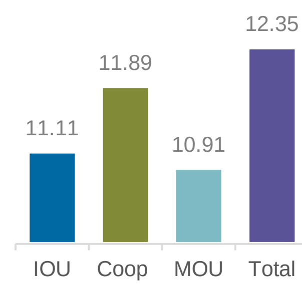


Average Price (cents/kWh)

U.S



FL



Source: 2018 EIA Utility Bundled Retail Sales Report

Cooperative Rate Design and Capitalization Comparison

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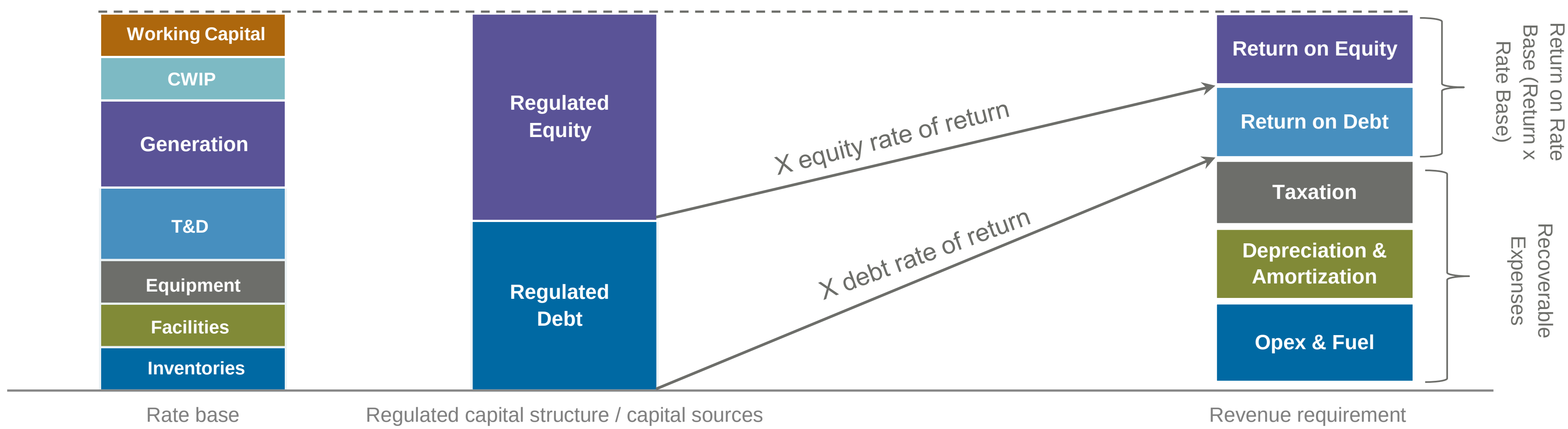
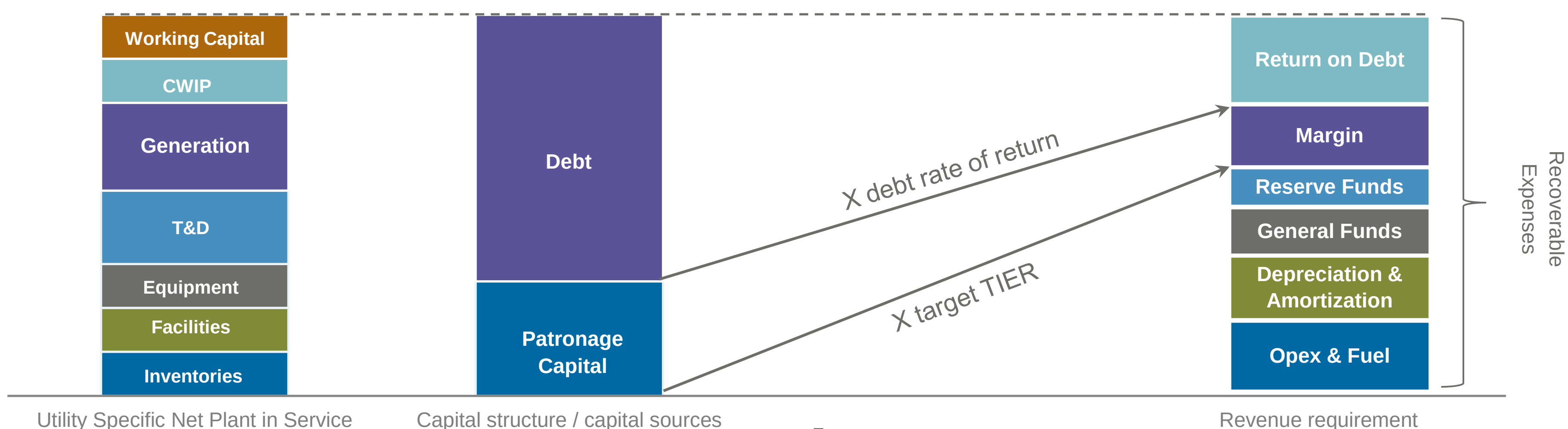


Co-op Model



Utility Co-op Key Concepts and Fundamentals

Statements of Revenue and Expenses	202X
Operating revenues:	
Sales to Members	$ 1,500,000
Sales to non-Members	500
Total operating revenues	$ 1,500,500
Operating expenses:	
Fuel	$ 500,000
Production	400,000
Depreciation and amortization	200,000
Purchased power	100,000
Accretion	40,000
Total operating expenses	$ 1,240,000
Operating margin	300,000
Other income, net	70,000
Net interest charges	(240,000)
Net margin	$ 130,000
Balance Sheet Data	
Electric plant, net:	
In service	$ 4,700,000
Fuel, at amortized cost	400,000
Constuction work in progress	3,900,000
Total electric plant	$ 9,000,000
Total assets	$ 12,000,000
Capitalization:	
Long-term debt	$ 9,300,000
Obligations under capital leases	100,000
Other obligations	20,000
Patronage capital and membership fees	1,000,000
Accumulated other comprehensive (gain) loss	-
Subtotal	$ 10,420,000
Less: long-term debt and capital leases due within one year	(500,000)
Less: unamortized debt issuance costs	(100,000)
Less: unamortized bond discounts on long-term debt	(10,000)
Total capitalization	$ 9,810,000
Cash paid for property additions	$ 1,000,000

Revenue

- A cooperative exempt under I.R.C. 501(c)(12) must receive 85 percent or more of its income from members
- Member income is member-sourced and derived from I.R.C. 501(c)(12) activities conducted according to cooperative principles

Financial metrics

- Revenues in excess of current period costs in any year are designated as net margin in statements of revenues
- Excess expenses generate a positive net margin
- Indentures require that the cooperative establish and collect rates that are reasonably expected, together with other revenues, to yield a margins for interest ratio for each fiscal year equal to specified covenant levels
- Allowed to deduct patronage dividends which offset any income taxes
- Allocate income and deductions between patronage and non-patronage activities resulting in no current period income tax expense or current income tax liability

Debt capitalization

- Funded through RUS, CFC / CoBank loans and guarantees and traditional capital IG debt capital markets
  - Secured debt is secured by first mortgage on all assets
- Mortgages have standard maintenance covenants based on TIER or DSC, and equity capitalization

Patronage capital

- Subordination of Capital
- Accumulated margins derived after payment of operating expenses and provision for depreciation constitute patronage capital of the consumers of our members
- The organization must distribute any savings to members in proportion to the amount of business done with them (based on the operation at cost principle)
- The cooperative's articles of incorporation, bylaws, or written policies specifically detail the composition of all allocation units and how savings or losses are to be allocated in each unit
- Refunds of accumulated patronage capital to the individual consumers may be made from time to time subject to limitations contained in mortgages between the members and the RUS or loan documents with other lenders
- Secured mortgages generally prohibit distributions unless (i) after any of these distributions, the member's total equity will equal at least 30% of its total assets or (ii) distributions do not exceed 25% of the margins and patronage capital received by the member in the preceding year and equity is at least 20% of total assets

Summary of Co-op Funding Alternatives

Rural Utility Service	■ Department of Agriculture's Rural Utilities Service (RUS) is a credit agency that assists rural electric and telecommunications utilities in obtaining financing and administers a nationwide water and waste loan and grant program
National Rural Utilities Cooperative Finance Corporation (CFC)	■ Headquartered in Dulles, Virginia, CFC is a member-owned cooperative association, non-bank financial institution exclusively serving rural electric and telecommunication utilities ■ CFC was organized in April 1969 by RECs to provide an economical alternative to federally subsidized funds from the Rural Utilities Service (RUS) of the U.S. Department of Agriculture ■ Loans to telecommunication members are made through Rural Telephone Finance Cooperative (RTFC), a private cooperative
CoBank	■ CoBank is a national cooperative bank serving vital industries across rural America ■ The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states
IG Capital Markets	■ Beyond the traditional financing alternatives, co-ops often access the taxable investment grade capital markets ■ Bond offerings can be first mortgage structures secured by the assets of the utility or pari with the coop's existing RUS / CFC debt or senior notes that are subordinate to other outstanding debt obligations
Patronage Capital / Equity	■ Co-ops accumulate operating income margin much like retained earnings ■ The accumulated margin is allocated to patronage capital or member equity ■ Rates for service are set to cover all costs plus a specified "margin" ■ This margin is used an additional source of financing for coops

Rural Utilities Service Overview

RUS program summary

- 890 rural electric and 800 rural telecommunications utilities in 47 States, Puerto Rico, the Virgin Islands, Guam, the Republic of the Marshall Islands, the Northern Mariana Islands, and the Federated States of Micronesia have received financial assistance
- Approximately 7,200 rural communities are currently served through financial assistance received from water and waste loans and grants
- $46 billion loan portfolio
  - Almost 700 current borrowers
  - $125 billion total investment since inception of program
  - 0.04% delinquency rate
- Loans for generation, transmission, distribution, energy efficiency, conservation, smart grid & smart home purposes
- Policy, planning and finance components
- Staff provides expertise in generation, transmission & distribution
- Rural Utilities Service (RUS) is an incentive lender, not a lender of last resort (A 1.5% interest rate differential over a 30 year loan saves co-ops nearly $1,000,000 for every $4,000,000 borrowed)

FY 2018 Overview ($ in Billions)

	Count	Value
FY 2018 loans (FFB)	**114**	**$3.0**
Distribution loans	99	$2.2
G&T loans	15	$0.8
Note Guarantees (313A):		**$0.75B**
FY 2018 loan purposes:		
Distribution		$2.0
Transmission		$0.4
Generating plant improvements		$0.2
Renewable generation facilities		$0.08
Headquarters facilities		$0.06
Acquisitions		$0.07
Other		$0.04

Cooperative Finance Corporation (CFC)

CFC Members

Electric distribution cooperative secured mortgage notes

Lien on all utility assets, a pledge of revenue and after acquired property.

Collateral

Eligible Mortgage Notes

Criteria*:

--The borrower must be performing and in good standing with CFC

--Notes of distribution members where 50% or more of the operating revenues are derived from direct sales of electricity

--Distribution members having equity ratios of at least 20% and average debt service coverage ratios of at least 1.35x

--All eligible mortgage notes of any one member cannot exceed 10% of the aggregate amount of all eligible collateral

Trustee

Investors (CTB Buyers)

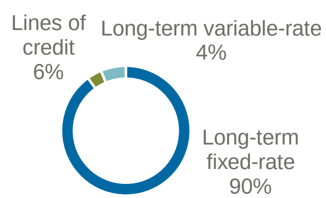
2019 List of Assets ($ thousands)

Assets:	**Average Balance**	**Interest Income / Expense**	**Average Yield / Cost**
Long-term fixed-rate loans	$ 23,358,728	$ 258,478	4.40%
Long-term variable-rate loans	993,105	9,756	3.91%
Line of credit loans	1,712,082	16,033	3.73%
TDR loans	11,786	206	6.95%
Other income, net	-	(284)	0.00%
Total loans	26,075,701	284,189	4.34%
Cash, time deposits and investment securitie	768,763	5,826	3.01%
Total interest-earning assets	$ 26,844,464	$ 290,015	4.30%
Other assets, less allowance for loan losses	605,697		
Total assets	**$ 27,450,161**		

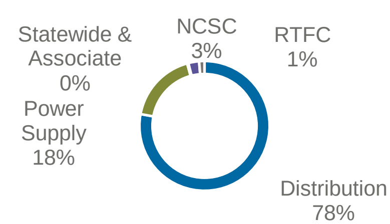
Debt Outstanding ($ thousands)

	2018		**2017**	
	Debt Outstanding	**% of Total**	**Debt Outstanding**	**% of Total**
Total long-term debt reported by members				
Distribution	$ 49,464,999		$ 48,147,703	
Power supply	44,876,633		47,862,984	
Less: Long-term debt funded by RUS	(40,039,961)		(39,180,420)	
Members non-RUS long-term debt	$ 54,301,671		$ 56,830,267	
Funding source of members' long-term debt				
Long-term debt funded by CFC	22,897,749	42%	22,671,264	40%
Long-term debt funded by other lenders	31,403,922	58%	34,159,003	60%
Members' non-RUS long-term debt	$ 54,301,671	100%	$ 56,830,267	100%

Loans by Type



Loans by Member Class



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U.S. G&T Cooperative Rating Methodology

Rating Factors	Rating Factor Weighting	Rating Sub-Factor	Sub-Factor Weighting
Wholesale Power Contracts and Regulatory Status	20%	% Member Load Served and Regulatory Status	20%
Rate Flexibility	20%	Board Involvement / Rate Adjustment Mechanism	5%
		Purchased Power / Sales (%)	5%
		New Build Capex (% of Net PP&E)	5%
		Rate Shock Exposure	5%
Member / Owner Profile	10%	Residential Sales / Total Sales	5%
		Members' Consolidated Equity / Capitalization	5%
3-Year Average G&T Financial Metrics	40%	TIER	5%
		DSC	5%
		FFO / Debt	10%
		FFO / Interest	10%
		Equity / Capitalization	10%
G&T Size	10%	MWh Sales	5%
		Net PP&E	5%
Total	**100%**		**100%**

Comparable Cooperative Ratings Analysis (Moody's)

Established Co-op 1

	Current FY 12/31/2018	
Factor 1: Wholesale Power Contracts and Regulatory Status (20%)	**Measure**	**Score**
a) % Member Load Served and Regulatory Status	Baa	Baa
Factor 2: Rate Flexibility (20%)		
a) Board Involvement / Rate Adjustment Mechanism	Baa	Baa
b) Purchased Power / Sales (%)	0.6%	Aaa
c) New Build Capex (% of Net PP&E)	Ba	Ba
d) Rate Shock Exposure	Ba	Ba
Factor 3: Member / Owner Profile (10%)		
a) Residential Sales / Total Sales	66.8%	A
b) Members' Consolidated Equity / Capitalization	52.2%	A
Factor 4: 3-Year Average G&T Financial Metrics (40%)		
a) Times Interest Earned Ratio (TIER)	0.8x	B
b) Debt Service Coverage Ratio (DSC)	1.1x	Baa
c) FFO / Debt	2.9%	Ba
d) Funds from Operations Coverage of Interest (FFO / Interest)	1.7x	Baa
e) Equity / Total Adjusted Capitalization	7.5%	Baa
Factor 5: G&T Size (10%)		
a) MWh Sales	23.0	Aa
b) Net PP&E	$8.8	Aaa
Rating:		
Scorecard-Indicated Outcome		Baa2
Actual Rating Assigned (Senior Secured)		Baa1

Established Co-op 2

	Current FY 12/31/2018	
Factor 1: Wholesale Power Contracts and Regulatory Status (20%)	**Measure**	**Score**
a) % Member Load Served and Regulatory Status	A	A
Factor 2: Rate Flexibility (20%)		
a) Board Involvement / Rate Adjustment Mechanism	Aa	Aa
b) Purchased Power / Sales (%)	25.1%	A
c) New Build Capex (% of Net PP&E)	Baa	Baa
d) Rate Shock Exposure	Ba	Ba
Factor 3: Member / Owner Profile (10%)		
a) Residential Sales / Total Sales	67.8%	A
b) Members' Consolidated Equity / Capitalization	47.2%	Baa
Factor 4: 3-Year Average G&T Financial Metrics (40%)		
a) Times Interest Earned Ratio (TIER)	1.4x	A
b) Debt Service Coverage Ratio (DSC)	1.2x	Baa
c) FFO / Debt	6.4%	A
d) Funds from Operations Coverage of Interest (FFO / Interest)	2.6x	Aa
e) Equity / Total Adjusted Capitalization	20.0%	Baa
Factor 5: G&T Size (10%)		
a) MWh Sales	14.8	A
b) Net PP&E	$1.4	A
Rating:		
Scorecard-Indicated Outcome		A3
Actual Rating Assigned (Senior Secured)		A3

Chugach Electric Association / Municipal Light & Power

Transaction Overview

Timeline

- The Anchorage Economic Development Corporation, an energy working group assisting the Mayor of Anchorage proposed the idea of potentially merging Municipal Light & Power ("ML&P"), a municipally owned utility serving Anchorage, Alaska with Chugach Electric Association ("CEA"), a co-op whose service territory is adjacent to ML&P
- The transaction was subsequently approved by Anchorage voters in April 2018
- The transaction was announced in December 2018 but has undergone a protracted negotiation with intervenors over the terms of transaction since then
  - I.e., a settlement was reached with the intervening parties in October 2019
- The transaction is expected to close in February 2020 subject to final approvals from the Regulatory Commission of Alaska ("RCA")

Motivation

- CEA lost most of its retail load from contract expirations back in 2013 and 2015; ML&P's customers can help diversify its mix of customers and reduce concentration risk
- CEA and ML&P's service territories are adjacent to one another; CEA is confident such proximity allows for cost synergies and optimizations
- Transaction is projected to have savings greater than the typical 8% - 12%[1] observed in average utilities mergers since CEA and ML&P are similar in size

Rating Agency Feedback

Moody's

- "While completion of the transaction would likely help address some of Chugach's recent loss of wholesale load and could offer cost efficiencies and customer rate and economies of scale benefits, there would also be sizable incremental debt financing needs which would add credit challenges and pressure metrics"[2]

ML&P Overview (FY2017)

Revenue 2017A ($mm)	$189.3
EBITDA 2017A ($mm)	$79.4
Rate Base ($mm)	$694.0
Average Number of Customers	31,068
TV / 2017A EBITDA	9.66x
TV / 2017A RAB	1.11x

Key Deal Terms

Purchase Price ($mm)	
Defeasance of Outstanding ML&P Debt	$511.1
Transaction Costs	3.5
Payment of Termination Fees to PERS	37.2
Payoff of SAP Associated Debt for ML&P	8.0
Total Operating Expenses	**$559.8**
Net Cash Proceeds	208.0
Total Purchase Price	**$767.8**

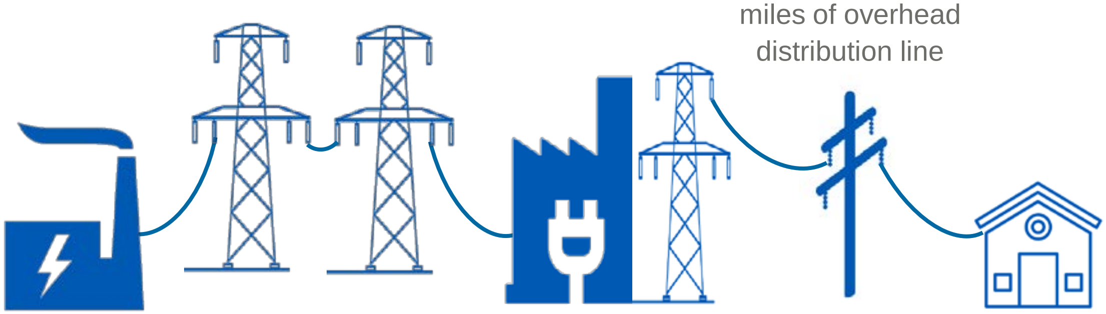
Contingent Considerations ($mm)	
Payment in Lieu of Taxes (PILT) Payments (PV@5%)	$166.8
Companion Power Purchase Agreement (PV@5%)	75.0
Total Contingent Considerations	**$241.8**

- **No Rate Increase**
  - CEA agreed not to impose any increases to base (non-COPA) rates on ratepayers as a result of this transaction
- **Full Recovery**
  - CEA seeks full recovery of its purchase price from the RCA, including any acquisition premiums
- **Retention of employees**
  - No layoffs of ML&P or CEA employees as a result of the transaction
- **PILT Payments**
  - CEA agrees to pay the City of Anchorage PILT payments for 50 years for the portion of its asset base that resides in ML&P's current footprint to compensate for the lost of ML&P's existing utility service assessments post transaction
- **Companion PPA**
  - ML&P's ownership interest in the Eklutna Hydropower Plant is explicitly carved out of the assets sold and CEA agrees to enter into a PPA to purchase power and capacity from the plant
  - The exact amount owed to the City post close will depend on the portion of the PPA MEA (another Alaska electric coop) decides to take (it has the option to purchase an additional 19.04% of the facility from ML&P that will add to its 16.67% interest)

Source: Company filings, CEA Chamber of Commerce presentations
[1]NERA Economic Consulting, January 2018 [2]Moody's, December 2017 Credit Opinion; assumes a TIER requirement of 1.35x, Chugach Report to Anchorage Chamber of Commerce, February 2018

Chugach Electric Association / Municipal Light & Power (Cont.)

Chugach



896
miles of overhead distribution line

531.2
Megawatts of installed generation

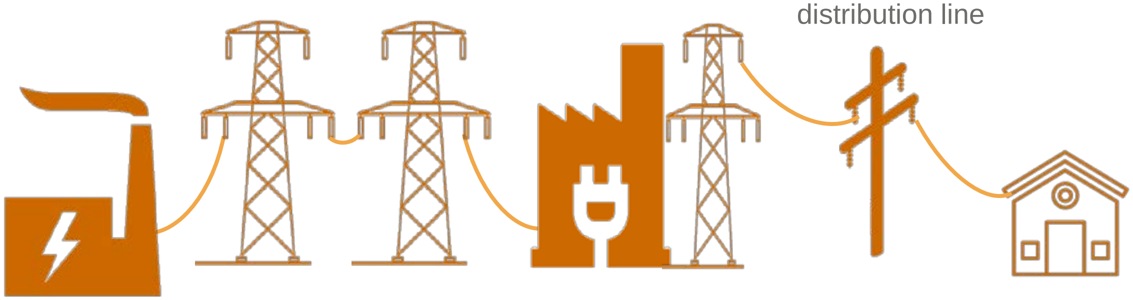
434
miles of transmission line

42
substations

823
miles of underground distribution line

83,855
service locations

ML&P



118
miles of overhead distribution line

444.3
Megawatts of installed generation

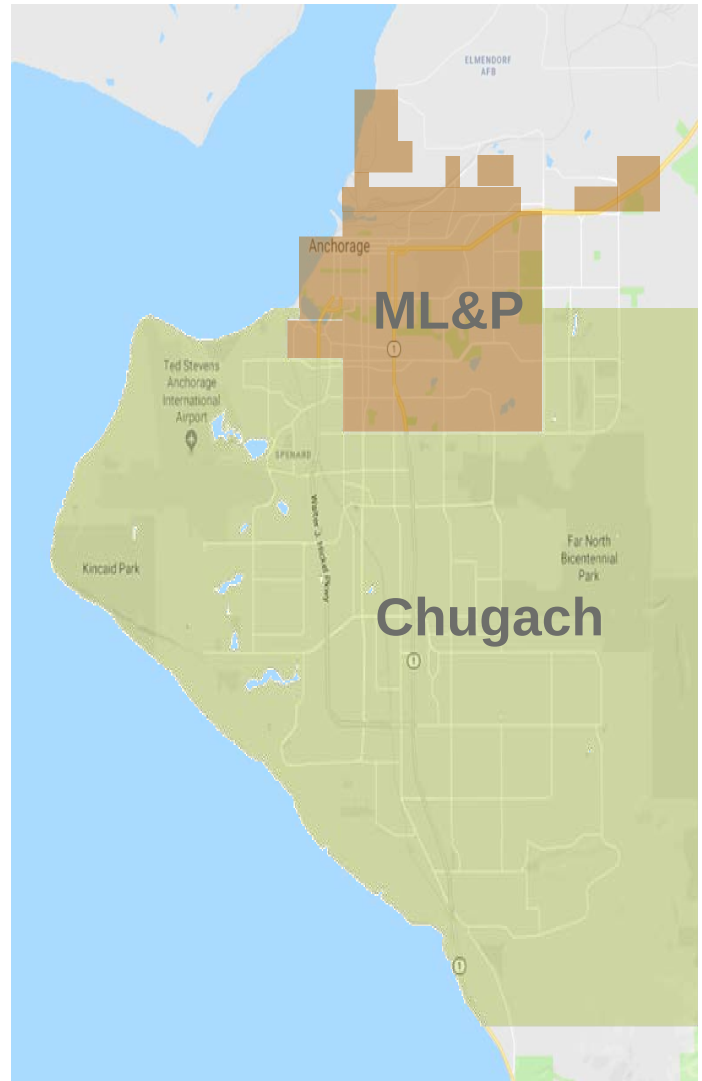
50
miles of transmission line

23
substations

253
miles of underground distribution line

31,081
service locations

Anchorage Service Map



Agenda

Requirements for Exemption under I.R.C. 501(c)(12)

	Details

Cooperative Organizational and Operational Test	■ "Cooperative" is not defined in I.R.C. 501(c)(12), I.R.C. 521, Subchapter T, or the regulations
	■ Definition comes from the common law
	■ Three basic principles or requirements
	■ Democratic control by the members
	  ■ Satisfied by periodically holding democratically conducted meetings, with members, each with one vote, electing officers to operate the organization.
	■ Vesting in and allocating among the members all excess operating revenues over the expenses incurred to generate the revenues (i.e., operating at cost)
	  ■ Cooperative must return the excess of net operating revenues over its cost of operations to the member-patrons
	  ■ Cooperative must not operate either for profit or below cost
	■ Subordination of capital
	  ■ Requires that contributors of capital to the cooperative, in their status as equity owners, neither control the operations nor receive most of the pecuniary benefits of the cooperative's operations
	  ■ Members of a cooperative band together to share interest, risk, and burden to obtain services or benefits, whether water, telephone, electricity, etc., rather than simply invest as equity owners

Activities Test	■ I.R.C. 501(c)(12) describes four specific categories of organizations that can qualify for exemption
	  ■ 501(c)(12)(C) provides for the exemption of cooperatives that provide electricity to members
	  ■ I.R.C. 501(c)(12) also provides for a fifth category, "like organizations"
	  ■ Includes public-utility type of service or business customarily conducted by the specified organizations in the statute

Requirements for Exemption under I.R.C. 501(c)(12) (cont'd)

	Details
Income Source Test	■ 85 percent Member Income Test ■ Cooperative exempt under I.R.C. 501(c)(12) must receive 85 percent or more of its income from members ■ Computed annually ■ Member Income and Nonmember Income ■ Member income must be collected from the cooperative's members ■ Must be paid for services described in I.R.C. 501(c)(12) ■ Unrelated business activities ("UBIT") and the activities test ■ Cooperative must conduct activities described in I.R.C. 501(c)(12) to qualify for and maintain exemption ■ I.R.C. 501(c)(12) organization can conduct some unrelated activities, but may jeopardize its exempt status by conducting more than an insubstantial amount of unrelated (or non-I.R.C. 501(c)(12)) activities ■ Cooperative must receive 85 percent of or more of its income from members ■ Each item of income, whether from an I.R.C. 501(c)(12) activity or an unrelated activity, must be included in computing the 85 percent member income test

Florida Co-op Regulation

	Details
Florida Utility Regulation	■ As to a "rural electric cooperative" or municipal electric utility, the PSC's jurisdictional authority is limited to specific areas, including that the PSC can: ■ Prescribe uniform systems of accounts and classifications of accounts; ■ Prescribe a rate structure; ■ Require electric power conservation and reliability within a coordinated grid for operational as well as emergency purposes; ■ Approve territorial agreements and settle territorial disputes; ■ Prescribe reporting and data requirements; and ■ Prescribe safety regulations for transmission and distribution facilities pursuant to the National Electric Safety Code ■ The PSC also has broad "jurisdiction over the planning, development, and maintenance of a coordinated electric power grid throughout Florida to assure an adequate and reliable source of energy for operational and emergency purposes in Florida and the avoidance of further uneconomic duplication of generation, transmission, and distribution facilities"
Florida's Rural Electric Cooperative Law (Chapter 425)	■ Background ■ Adopted in 1939 with the stated purpose of allowing cooperatives to be "organized under this chapter for the purpose of supplying electric energy and promoting and extending the use thereof in rural areas." Fla. Stat. § 425.02 ■ "Rural area" is defined as an area "not included within the boundaries of any incorporated or unincorporated city, town, village, or borough having a population in excess of 2,500 persons." Fla. Stat. § 425.03(1) ■ Although none of the specific provisions in FRECL provide a clear and obvious path by which a municipal utility like JEA could become a rural electric cooperative, FRECL does include a number of provisions of interest ■ Potential Avenues for Compliance ■ Conversion: involves a conversion of the municipal entity into a corporation and then (presumably instantaneously) following the process required to be "converted into a cooperative and become subject to this chapter" ■ Acquisition by an Existing Cooperative: involves inviting an existing rural electric cooperative to acquire JEA's assets, service territory, and customers ■ Amending the Statute: seek a legislative amendment to FRECL which would be framed to allow JEA to convert into an electric cooperative

Source: Foley's memo on JEA's cooperative strategic options

Additional Co-op Formation Considerations

	Details
RUS Borrowings	■ While electric cooperatives often take advantage of federal loans offered under the Rural Electrification Act of 1936 (the "RE Act") (7 U.S.C. 901 et seq.) through the RUS, it is likely that a new cooperative in Jacksonville would not be eligible for RUS lending/credit support ■ As background, the RE Act authorizes the United States Secretary of Agriculture acting through the Administrator of the RUS, a Rural Development agency of the U.S. Department of Agriculture, to guarantee and make loans to persons, corporations, States, territories, municipalities, and cooperative, non-profit, or limited-dividend associations for the purpose of furnishing or improving electric and telephone service in rural areas ■ The urban nature of JEA's customer base is an impediment and, unless JEA was itself an RUS borrower, JEA would not benefit from the grandfathering provision in RUS rules available to borrowers with loans which predated June 2008 ■ However, if a transaction was structured such that JEA and its assets were acquired by one or more existing RUS borrowers, it may be possible to obtain some element of RUS financing to support that transaction ■ As a practical matter, a loan for the ITN minimum value would account for 21% of the total RUS loan portfolio

FRECL Requirements as to Cooperative Structure	■ FRECL includes a number of basic requirements for a rural electric cooperative. For example, these include:
	  ■ Recordkeeping and trustee meeting requirements
	  ■ The cooperative name "shall include the words 'electric' and 'cooperative' and the abbreviation 'inc.'
	  ■ Five or more natural persons may organize a cooperative
	  ■ Basic minimum requirements for the articles of incorporation
	  ■ Bylaws setting forth the rights and duties of members and trustees and provisions for the regulation and management of the affairs of the cooperative
	  ■ Membership rights and requirements for meetings of members
	  ■ Requirements for a board of trustees of at least five members and requirements as to their election
	  ■ The bylaws may provide for territorial voting districts for elections
	  ■ Cooperative officers "consist of a president, vice president, secretary and treasurer, who shall be elected annually by and from the board of trustees. No person shall continue to hold any of the above offices after ceasing to be a trustee. The offices of secretary and of treasurer may be held by the same person. The board of trustees may also elect or appoint such other officers, agents, or employees as it shall deem necessary or advisable and shall prescribe the powers and duties thereto"
	  ■ Provisions for amendment of articles of incorporation

Source: Foley's memo on JEA's cooperative strategic options

Additional Co-op Formation Considerations (cont'd)

	Considerations
JEA and Member Tax Implications	■ For most federal income tax purposes a cooperative is treated as a C corporation ■ Accordingly, upon the formation of a cooperative, if the members contributing capital control 80 percent the cooperative immediately after its organization, the transfer of assets for capital is generally tax-deferred ■ The members take a carried over basis in their interests in the coop, and the co-op similarly receives a carried over basis in the contributed assets ■ Accordingly, this should not be a taxable event for Jacksonville (which will become a customer member by continuing to take electric service) or other customer/members ■ Patronage dividends ■ 501(c)(12) requirements

Framework for Comparing Community Ownership Scenario

Summary

- Analysis provides various co-op recapitalization scenarios leveraging the ITN minimum requirements criteria
- Scenario A
  - Determines the potential proceeds to the City assuming a TIER of 1.5x and projected JEA rates are unchanged; implied total firm value of $5,269 million
- Scenario B
  - Determines the firm value that would be required to meet the ITN minimum requirements including $3,000 million proceeds to the City
  - Assumes a total firm value of $7,646 million
- Scenario C
  - Assumes a total firm value of $10,500 million based on an assumed FV/RAB multiple of 1.80x

Co-op Scenarios

	A	B	C
Proceeds to the City	624	3,000	5,854
Customer Rebate	400	400	400
Defeasance	3,716	3,716	3,716
Swap Unwind Costs	133	133	133
EE retention	165	165	165
Pension protection	132	132	132
Transaction Costs	100	100	100
Imputed firm value	$ 5,269	$ 7,646	$ 10,500

Breakdown of Scenarios

Scenario A

Sources		Uses	
New debt to defease current bonds	3,449	Proceeds to the City	624
New debt to fund distributions	1,421	Customer rebate	400
Cash	400	Defeasance	3,716
		Swap unwind costs	133
		EE retention	165
		Pension protection	132
		Transaction costs	100
Total Sources	$ 5,269	Total Sources	$5,269

Scenario B

Sources		Uses	
New debt to defease current bonds	3,449	Proceeds to the City	3,000
New debt to fund distributions	3,797	Customer rebate	400
Cash	400	Defeasance	3,716
		Swap unwind costs	133
		EE retention	165
		Pension protection	132
		Transaction costs	100
Total Sources	$ 7,646	Total Sources	$ 7,646

Scenario C

Sources		Uses	
New debt to defease current bonds	3,449	Proceeds to the City	5,854
New debt to fund distributions	6,651	Customer rebate	400
Cash	400	Defeasance	3,716
		Swap unwind costs	133
		EE retention	165
		Pension protection	132
		Transaction costs	100
Total Sources	$ 10,500	Total Sources	$ 10,500

JEA Cooperative Feasibility Analysis

- JEA finances the co-op recapitalization with 100% new debt
  - Interest rate of 4.00% p.a. under scenario A and 5.00% under scenarios B & C
- JEA adopts Times Interest Earned Ratio ratemaking methodology in assessing pro forma business
  - An authorized TIER of 1.50x is used to analyze the pro forma impact to rates under scenarios outlined below
- JEA 2020E are used as a proxy for pro forma costs. Preliminary analysis assumes there are no changes to JEA fixed and variable O&M cost structure

	A Current JEA Rates	B ITN Minimum	C Equivalent Market Value
Consolidated sales revenue	**1,743**	**1,994**	**2,208**
% Increase from current rates	0.0%	14.4%	26.7%
(-) Fuel oil	(291)	(291)	(291)
(-) Purchased power	(96)	(96)	(96)
(-) Other O&M	(478)	(478)	(478)
(-) Depreciation & Amortization	(419)	(419)	(419)
(-) Taxes other than income tax	(167)	(167)	(167)
EBIT	**292**	**543**	**758**
(-) Interest Expense	(195)	(362)	(505)
Net Interest Margin	**97**	**181**	**253**
TIER (EBIT / Interest expense)	**1.50x**	**1.50x**	**1.50x**
Proceeds to COJ	$624	$3,000	$5,854
Imputed FV/RAB '20E	0.91x	1.32x	1.81x

Significant rate increases required to satisfy TIER ratio both ITN minimum and market-based valuation scenarios

Acquisition EV sized for 1.50x TIER under JEA current rates results in significant reduction in proceeds to COJ

Note: Analysis excludes the impact of step-up tax basis for depreciation purposes.

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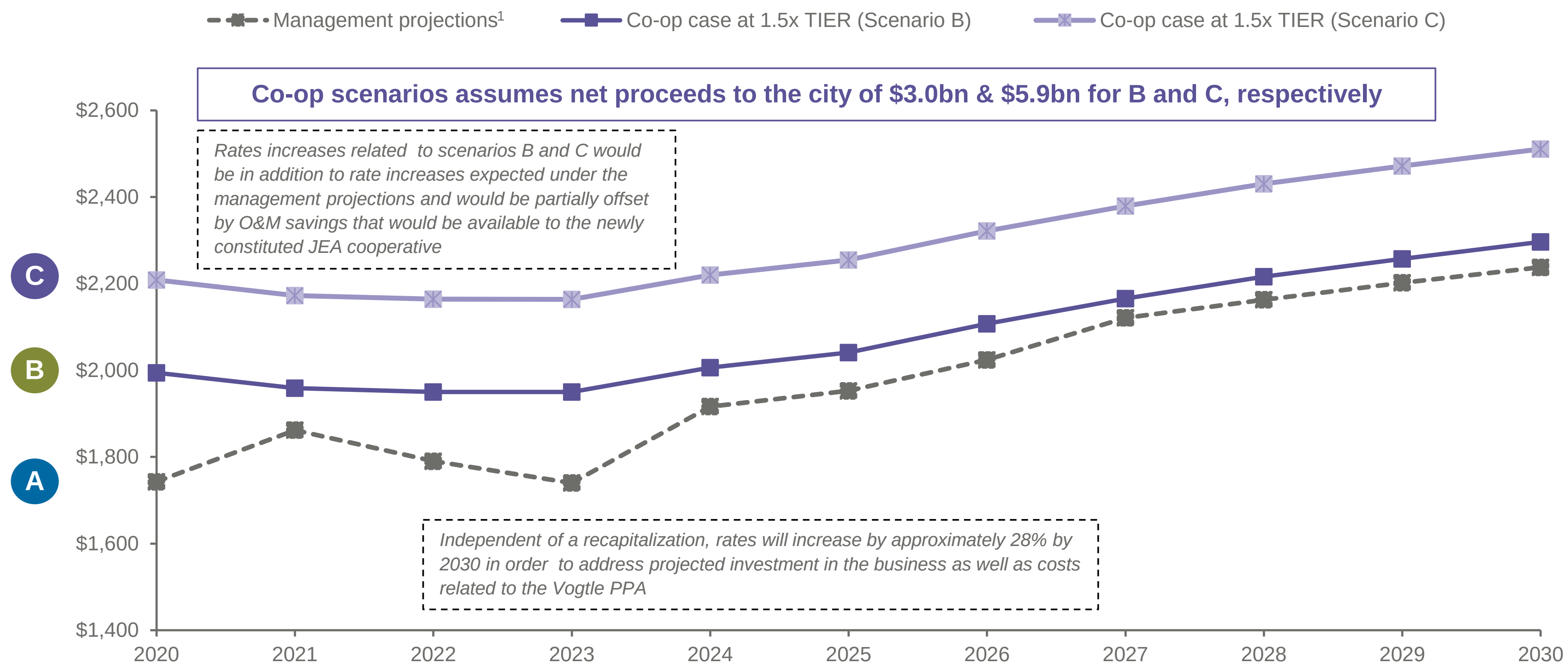
JEA Cooperative Rates Analysis

All-in revenue requirement ($mm)



Annual increase / (decrease) versus management projections

Scenario B	14%	5%	9%	12%	5%	5%	4%	2%	2%	3%	3%
Scenario C	27%	17%	21%	24%	16%	15%	15%	12%	12%	12%	12%

Note: Analysis assumes JEA finances the recap with 100% new debt at a 5.0% interest rate; 1.5x TIER ratio in every year and no changes to JEA fixed and variable O&M costs
[1] Management projections reflect the 'Management case under scenario A' as presented in the Respondent Financial Model.

JEA Cooperative Ratings Analysis

	A Current JEA Rates		B ITN minimum		C Equivalent Market Value	
	FY 12/31/2020		FY 12/31/2020		FY 12/31/2020	
Factor 1: Wholesale Power Contracts and Regulatory Status (20%)	**Measure**	**Score**	**Measure**	**Score**	**Measure**	**Score**
a) % Member Load Served and Regulatory Status	> 80%	A	> 80%	A	> 80%	A
Factor 2: Rate Flexibility (20%)						
a) Board Involvement / Rate Adjustment Mechanism	N/A	Aa	N/A	Aa	N/A	Aa
b) Purchased Power / Sales (%)	< 5%	Aaa	< 5%	Aaa	< 5%	Aaa
c) New Build Capex (% of Net PP&E)	< 5%	Aaa	< 5%	Aaa	< 5%	Aaa
d) Rate Shock Exposure	N/A	Aaa	N/A	Aaa	N/A	Aaa
Factor 3: Member / Owner Profile (10%)						
a) Residential Sales / Total Sales	45%	Baa	45%	Baa	45%	Baa
Factor 4: G&T Financial Metrics (40%)						
a) Times Interest Earned Ratio (TIER)	1.5x	Aa	1.5x	Aa	1.5x	Aa
b) Debt Service Coverage Ratio (DSC)	1.0x	Aa	1.2x	Aa	1.2x	Aa
c) FFO / Debt	9.8%	Aa	7.8%	A	6.4%	A
d) Funds from Operations Coverage of Interest (FFO / Interest)	2.7x	Aa	1.7x	Baa	1.3x	Ba
e) Equity / Total Adjusted Capitalization	5% - 19%	Baa	5% - 19%	Baa	5% - 19%	Baa
Factor 5: G&T Size (10%)						
a) MWh Sales	11 - 20	A	11 - 20	A	11 - 20	A
b) Net PP&E	> $5 billion	Aaa	> $5 billion	Aaa	> $5 billion	Aaa
Rating:						
Scorecard-Indicated Outcome		[A1]		[A2]		[A2]

Addressing ITN Minimum Requirements Under Cooperative Strategic Alternative

Minimum Requirements		Requirement Addressed
Financial	■ >$3 billion of value to the City of Jacksonville	✓
Customers (a)	■ >$400 million of value distributed to customers ($350+ paid to each JEA account; $1,400+ for customers with electric, water, sewer and irrigation accounts)	✓
Customers (b)	■ At least 3 years of contractually guaranteed base rate stability for customers	✗
Environmental	■ Commitment to develop and provide the City of Jacksonville and the Duval County Public Schools system with 100% renewable electricity by the year 2030 ■ Commitment to develop and provide 40 million gallons per day (“MGD”) of alternative water capacity for Northeast Florida by the year 2035	?
Community Impact	■ Protection of certain employee retirement benefits ■ Maintenance of substantially comparable employee compensation and benefits three years ■ Retention payments to all full-time employees of 100% current base compensation ■ Commitment to new headquarters and employees in downtown Jacksonville contributing to the economic development of the community	✓

Recapping JEA's Current Business Challenges:
Will a Cooperative structure address these issues?

Current business challenges	*Cooperative structure to address issue?*
1 *Acquire new businesses & customers*	✓
2 *Florida statutes*	–
3 *Ownership / sources of third party capital*	–
4 *Sell alternative new product lines or offerings*	–
5 *Reduce dividend / City contribution*	✓
6 *Investment in R&D and IP for an ROI*	✗

Potential Cooperative Recapitalization Considerations

	Considerations
Ownership	✓ Under the co-op model, customers would become owners of JEA ✓ Ability to influence the long-term direction of the business × New ownership does not change the challenges in the sector × Retirement of capital is subject to debt covenants and is at the discretion of the Board
Rates	✓ Rates remain under the control of the Board and subject to “rate covenants” consistent with JEA’s existing indentures × Under scenarios that attempt to address the minimum ITN requirements, there would be a significant increase in rates to the new members or considerable drop in the credit quality of the new entity × Absent an attempt to reproduce the ITN requirements, rates will increase in the near-term to address Vogtle becoming operational

Formation and Operation	✓ Co-op would provide similar benefits to its customers and the community that exist today
	✓ Large, developed support network nationally and locally that support co-op issues
	✓ Limited changes to JEA’s existing business model
	✓ Elimination of COJ payment
	✓ Increased ability to develop broadband assets (tempered by income test and new tax regulations related to the characterization of grants)
	× Current FL statutes are not supportive of the formation of a co-op in Jacksonville
	× Requires a change of law, multi-step process whereby JEA is converted to a corporation then a co-op or purchase by an existing co-op
	    × Purchase by an existing co-op would likely require the separation of the generation and transmission, from the distribution and water system: each to be sold to a similar co-op
	    × No water cooperatives of size in Florida potentially leaving the water system at Legacy JEA
	    × No co-ops participated in the ITN process
	× Absent any meaningful acquisitions, no imminent improvement in scale and operating leverage

Potential Cooperative Recapitalization Considerations

	Considerations
Recapitalization / Financing	✓ Rationalize the balance sheet to align with future direction of the business × Existing debt would need to be defeased × Limited access to tax-exempt financing; in line with an IOU × New debt securities would be registered with SEC and would require disclosure similar to a public company × Limited access to traditional co-op financing sources (not eligible for RUS funding) × Patronage capital as a financing source offers very little difference to JEA's existing construct × Under scenarios that attempt to address the minimum ITN requirements, JEA would significantly increase its debt
Strategic / Business Development	✓ Ability to acquire new customers and assets × Subject to 85 percent income test, UBIT, etc. × Limited flexibility to provide new services or make investments that may be viewed as outside of its exempt purpose under I.R.C. 501(c)(12)(C) × Potential for the loss of exempt status
Community Development	✓ Consistent with JEA's existing principles ✓ One of the key functions of any co-op business is the advancement of its members' interests and the betterment of the community the co-op serves ✓ Commitment levels and activity will be dictated by members
Vogtle	✓ No change from ITN approach

Key Approvals and Timing

Issue `	Timing and Considerations
JEA Board approvals	■ Board selects the Community Ownership Plan of the five potential scenarios as path forward for JEA ■ January – March 2020
Change to Florida Statues	■ Change to Florida law to allow for the reconstitution of JEA as utility cooperative ■ Bill would be introduced as part of the 2021 legislative session and may require further consideration during the 2022 session
City Council	■ City Council action would follow any necessary legislative approvals authorizing JEA to reconstitute as a cooperative ■ Look to seek approvals following 2022 legislative session ■ In the event that changes to law are addressed in 2021 legislative session, JEA may seek City Council approvals mid-year 2021
Referendum	■ Voter approval will be the final administrative step prior to launching financing ■ Regular election is scheduled for November 2022 ■ In the event that JEA was able to secure legislative and City Council approval in 2021, a special election would be required as there are no regular elections in 2021 ■ City Council has legislative discretion regarding if and when a voter referendum would be added to scheduled or special ballot
Financing	■ Following voter approval, the recapitalization / financing of the new JEA cooperative would take 4-6 weeks ■ Timing will be dependent on the size of the recapitalization and the amount of work that would be addressed in parallel with other phases of the transaction ■ Timing may be significantly reduced by entering in to a financing commitment to fund the transactions at close ■ Commitment would be retired through orderly capital markets transactions following close

	Board Approvals	Legislation	City Council Approvals	Voter Referendum	Financing
Execution period:	January – March 2020	2021 / 2022 Session	Mid-year 2022	November 2022	4 – 6 Weeks

January – March 2020