21 West Church Street
Jacksonville, Florida 32202-3139

ELECTRIC

WATER

SEWER

February 26, 2020

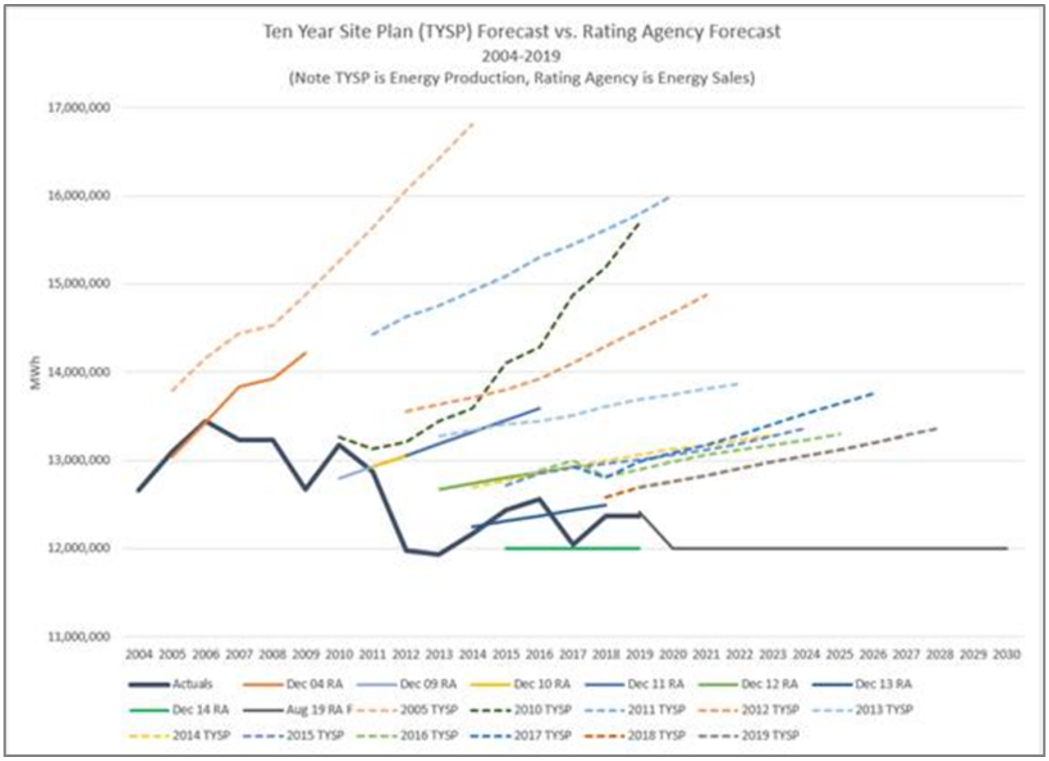
JEA Board of Directors
April Green, Chair
Rev. Frederick Newbill, Vice Chair
Henry Brown
Kelly Flanagan
Dane Grey
Camille Lee-Johnson

Board members,

Developing a common understanding with our community about the challenges and future of JEA is critical to developing our path forward and to restoring the public's trust and confidence in JEA. Monday's Council Investigatory Committee meeting included a presentation by two attorneys from the Nelson Mullins law firm who discussed JEA's forecasting methodology. Much of the information the lawyers provided and the conclusions they reached were so deeply flawed and misguided that I feel it necessary to provide you as Board members with correct information. Their errors further complicate our efforts to help the community understand JEA's business and the circumstances under which it operates.

One critical flaw in the Nelson Mullins presentation was the comparison of JEA's Ten Year Site Plan (TYSP) to the financial forecast. While true that for many years JEA based its financial forecast on its TYSP, that practice ended in 2014. For good reason. While the TYSP is useful for the purpose it serves, it does not accurately forecast electric sales. It consistently forecasts overly positive sales growth for a variety of reasons, including reliance on historical (and static) technology and energy efficiency assumptions.

In 2014, JEA decided to stop using the TYSP for financial forecasting and to start using a flat, 12 million MWh/year sales forecast. The chart on the following page illustrates how inaccurate the TYSP was compared to actual results, and it shows the flat-sales forecast that began in 2014. This top-down methodology JEA began using in 2014 was relatively unsophisticated, but recognized that JEA's business was changing, and the methodology used in the TYSP no longer gave JEA an accurate picture of the future of its electric sales.



JEA’s decision to abandon the TYSP in favor of forecasting flat growth was lauded by credit rating agencies. Immediately, in February 2015, Fitch said, “JEA’s forecast through fiscal 2019 assumes flat load growth, a positively viewed departure from prior years when growth assumptions were forecast to be more aggressive despite continued declines in energy sales.”[1]

Despite not using the TYSP to forecast electric sales, JEA continues to file the TYSP with the Florida Public Service Commission using the same methodology because it serves an important purpose – to conservatively identify future demand and generation resource requirements. In other words, this ensures JEA has enough energy capacity. Because we never want to interrupt service due to capacity issues, this methodology continues to be conservative in the direction of projecting higher needs. It has not been used as a financial forecast since 2014 because it is unreliable for that purpose. The flat financial forecast has been presented both to the Board and to the rating agencies from 2014 to the present.[2]

---

[1] JEA, Florida Revenue Bonds New Issue Report dated February 13, 2015, which was the first Fitch report published after our December 2014 meetings with the rating agencies.
[2] Page 233 of October 2014 Board package, page 162 of October 2015 Board package, page 226 of October 2016 Board package, page 216 of October 2017 Board package, page 139 of October 2018 Board package.

The change to a flat forecast methodology was monumental in terms of the way we look at our business. Instead of showing a historical growth rate of about 3% per year, JEA now predicts that it will never regain the sales lost between 2006 and 2014, and JEA would not grow significantly thereafter. This was and is a sea change for JEA. Between 2006 and 2019, based on the TYSP, JEA would have expected to grow about 40%, and instead shrunk 8% despite an 18% increase in number of customers. While Nelson Mullins criticized the decision to include wholesale sales in the calculation that showed a sales decline of 8%—apparently believing that "all-sales" should not mean "all-sales,"—even if one were to exclude wholesale sales, the decline was about 4%, which is still a monumental change to JEA's business. During their presentation the Nelson Mullins lawyers correctly pointed out that in 7 of the past 8 years electric sales have modestly grown, yet they failed to explain—except in a footnote to their memo—that the growth was due primarily to abnormal weather.[3] Abnormal weather patterns drove both the sales increases and declines over the last eight years. Otherwise, sales were essentially flat (0.1% annualized growth rate in weather normalized sales).

Nelson Mullins also opined that 45% of JEA's sales decline between 2006 and 2018 was attributable to a single customer's contract expiring. This is false. While the Florida Public Utilities' (FPU) contract ended in 2017, even before the contract ended JEA's sales to FPU had fallen 62% because FPU had less demand due to distributed generation and energy efficiency - exactly the challenges facing the utilities industry. Nelson Mullins conceded as much in a footnote to their memo but did not share this observation with the Council Committee.[4]

Our last strategic planning process, conducted in partnership with McKinsey & Co., included a more sophisticated look at our sales forecast. McKinsey and JEA analyzed 24 variables individually—e.g., population, solar and battery costs, adoption rates, and electric vehicle penetration—and assimilated those variables into a sophisticated sales forecast model to give a more accurate picture of the business. The variables were presented to the JEA Board by category at the May 2019 Board meeting.[5] The financial forecast developed in partnership with McKinsey was no doomsday scenario; it was simply an evolution of the same financial forecast JEA has been using since 2014. In fact, the straight average of McKinsey's 5-year forecast from 2020 to 2024 is about 12 million MWh, which is consistent with the financial forecasts that have been in place since 2014. Everyone recognizes that there exists a trust deficit between the public and JEA – a deficit that we are working hard to overcome. Unfortunately, the

[3] Measured in degree days.
[4] In footnote 7 to its memo Nelson Mullins observed that "Sales to Florida Public Utilities declined over this period due to the construction of cogeneration facilities at the paper mill and energy efficiency."
[5] Page 218 of the May 2019 Board package. The 24 variables were distilled into 4 categories, but the format was used to give Board members a sense of the amount of underlying work and complexity.

misinformation presented at Monday’s Council Investigatory Committee meeting only exacerbated the problem.

Regards,

Melissa

P.S. JEA’s budget for FY20 is a weather-normalized 12.2 million MWh, which Nelson Mullins characterized as “fairly dramatic,” implying that it too was flawed, yet JEA is on track for 12.17 million MWh in total sales this year.