

<p style="text-align: right;">Page 1</p> <p style="text-align: center;">IN RE: DERYLE CALHOUN, JR. - TERMINATION OF EMPLOYMENT AGREEMENT WITH JEA</p> <hr/> <p style="text-align: center;">SWORN STATEMENT OF DERYLE CALHOUN, JR.</p> <p>DATE TAKEN: Tuesday, July 7, 2020 TIME: 8:02 a.m. - 9:15 a.m. PLACE: 50 North Laura Street 41st Floor Jacksonville, Florida REPORTED BY: Marianne Branson, RPR, FPR Court Reporter</p> <p style="text-align: center;">- - -</p>	<p style="text-align: right;">Page 3</p> <p style="text-align: center;">I N D E X</p> <p>WITNESS: DERYLE CALHOUN, JR.</p> <p>EXAMINATION</p> <p>By Mr. Wedekind 4</p> <p>CERTIFICATE OF OATH 53</p> <p>CERTIFICATE OF REPORTER 54</p> <p>ERRATA SHEET 55</p> <p style="text-align: center;">- - -</p> <p style="text-align: center;">EXBHIITS</p> <p>1 Status Quo 2 Baseline - Assumptions review 16</p> <p>2 Draft Status Quo Case slides 46</p> <p style="text-align: center;">- - -</p>
<p style="text-align: right;">Page 2</p> <p>1 APPEARANCES FOR THE CITY OF JACKSONVILLE:</p> <p>2 LEE WEDEKIND, ESQUIRE</p> <p>3 DANIEL B. NUNN, JR, ESQUIRE</p> <p>4 Nelson, Mullins, Riley & Scarborough, LLP</p> <p>5 50 North Laura Street</p> <p>6 41st Floor</p> <p>7 Jacksonville, Florida 32202</p> <p>8 ADINA TEODORESCU, ESQUIRE</p> <p>9 ARIEL COOK, ESQUIRE (appearing via phone)</p> <p>10 Office of General Counsel</p> <p>11 117 West Duval Street</p> <p>12 Suite 480</p> <p>13 Jacksonville, Florida 32202</p> <p>14 KEVIN P. BLODGETT, Esquire</p> <p>15 Smith, Hulsey & Busey</p> <p>16 One Independent Drive</p> <p>17 Suite 3300</p> <p>18 Jacksonville, Florida 32202</p> <p>19 ALSO PRESENT:</p> <p>20 THOMAS EDWARDS, ESQUIRE</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p> <p style="text-align: center;">- - -</p>	<p style="text-align: right;">Page 4</p> <p>1 DERYLE CALHOUN, JR.,</p> <p>2 having been produced and first duly sworn as a witness,</p> <p>3 testified as follows:</p> <p>4 THE WITNESS: Yes, ma'am.</p> <p>5 DIRECT EXAMINATION</p> <p>6 BY MR. WEDEKIND:</p> <p>7 Q Will you please state your name and address</p> <p>8 for the record?</p> <p>9 A Yes. Deryle Calhoun, Jr., and it's 2319</p> <p>10 Broadmoor Lane, B-R-O-A-D-M-O-O-R, Lane, Jacksonville,</p> <p>11 Florida, 32207.</p> <p>12 Q And, Mr. Calhoun, you know that you are here</p> <p>13 today because you're currently on administrative leave</p> <p>14 by JEA?</p> <p>15 A Correct.</p> <p>16 Q And this interview is being conducted as part</p> <p>17 of an investigation to determine whether there exists</p> <p>18 grounds for terminating your employment for cause?</p> <p>19 A Correct.</p> <p>20 Q Okay. You have previously been provided a</p> <p>21 Garrity warning and statement of rights; correct?</p> <p>22 A Correct, yes.</p> <p>23 Q That you have signed, that Mr. McElroy has</p> <p>24 signed, and that I have now signed; correct?</p> <p>25 A Correct.</p>

<p style="text-align: right;">Page 5</p> <p>1 Q Okay. And just so that the record reflects</p> <p>2 this, I signed this Garrity form in front of</p> <p>3 Mr. Calhoun immediately prior to the beginning of</p> <p>4 today's deposition.</p> <p>5 You understand that you are here today under</p> <p>6 penalty of discipline up to and including your</p> <p>7 termination for cause; correct?</p> <p>8 A Yes, sir.</p> <p>9 Q Okay. You also understand that you have a</p> <p>10 duty to answer all of my questions completely and</p> <p>11 honest -- completely and honestly?</p> <p>12 A Yes, sir.</p> <p>13 Q And that means that if there is any kind of</p> <p>14 information that bears at all on any of the questions</p> <p>15 that I'm asking you, I would ask that you provide it</p> <p>16 for me. Can you do that?</p> <p>17 A Yes, sir.</p> <p>18 Q Okay. This is not a deposition. It looks a</p> <p>19 lots like a deposition; this is not, however, a</p> <p>20 deposition. We are not operating under the Rules of</p> <p>21 Civil Procedure.</p> <p>22 You currently are -- you have a witness here</p> <p>23 today, who is your attorney, Mr. Edwards. However,</p> <p>24 unlike in a deposition, he doesn't really have the</p> <p>25 opportunity to object to the form of my questions.</p>	<p style="text-align: right;">Page 7</p> <p>1 A Good question. So those are the folks that I</p> <p>2 worked with most closely, wanted to see if their</p> <p>3 recollection of events were any different than mine.</p> <p>4 Q So when you went back and read your interview</p> <p>5 transcript and those of the people you've identified,</p> <p>6 did you see anything that -- in your interview</p> <p>7 transcript that you felt like could use a little bit</p> <p>8 further explanation or maybe a correction?</p> <p>9 A Yeah. Two things. So we were pretty</p> <p>10 consistent about our recollection about the strategic</p> <p>11 work and the PUP.</p> <p>12 And let me clarify on Wannemacher's. I don't</p> <p>13 work with him -- or I didn't, but I wanted to go see</p> <p>14 what he had to say about the PUP development and when,</p> <p>15 you know, that all transpired, so -- but, no, nothing</p> <p>16 that comes to mind that was glaring.</p> <p>17 Q So no errors or omissions that you noticed?</p> <p>18 A Yeah. That's a big question about the big</p> <p>19 totality of it, but I'll just say off the cuff, I</p> <p>20 don't -- you know, nothing stuck out in my head that I</p> <p>21 needed to clarify.</p> <p>22 Q Okay. Anything from any of the other</p> <p>23 interview transcripts that you -- that struck you as</p> <p>24 either odd or unusual or needed some correction or</p> <p>25 explanation?</p>
<p style="text-align: right;">Page 6</p> <p>1 However, I would ask that if any of the questions that</p> <p>2 I ask are confusing that either you or he ask me to</p> <p>3 either restate them or repeat them, and I'll be happy</p> <p>4 to do that, because I want to make sure that we have a</p> <p>5 clean record of our conversation today.</p> <p>6 A Sure.</p> <p>7 Q Okay. Also, if you could help our court</p> <p>8 reporter here today keep a clean record of our</p> <p>9 conversation by waiting until I finish my question</p> <p>10 before you begin your answer, I will do the same thing</p> <p>11 and wait until you've completed your answer before I</p> <p>12 ask my next question. That way we're not talking over</p> <p>13 one another and we have a clean record of our</p> <p>14 conversation today. Can you do that?</p> <p>15 A Sure.</p> <p>16 Q Okay. What did you do to prepare for today's</p> <p>17 interview?</p> <p>18 A Reread my last interview and went to the</p> <p>19 special investigatory committee website, read those of</p> <p>20 others that have been interviewed.</p> <p>21 Q Do you happen to remember what other</p> <p>22 interviews you read?</p> <p>23 A Yeah. Wannemacher, Paul Steinbrecher, Caren</p> <p>24 Anders, and I glanced at Steve McNall's this morning.</p> <p>25 Q Why did you pick those four to look at?</p>	<p style="text-align: right;">Page 8</p> <p>1 A Not that I can recall, no.</p> <p>2 Q Did you talk with anybody other than your</p> <p>3 attorney?</p> <p>4 A Just -- well, just in the lead-up to,</p> <p>5 wondering -- we kept seeing people get called for</p> <p>6 interviews and I wasn't, and so I ended up talking with</p> <p>7 my other folks saying, Hey, have you been called? And</p> <p>8 one by one they kept getting their notice, and -- but</p> <p>9 nothing of substance, just that we'll be glad when this</p> <p>10 whole thing is over.</p> <p>11 And I apologize for missing the letter. It</p> <p>12 was in an email account that's full of Best Buy, Home</p> <p>13 Depot and all that; it was sent on Sunday and I missed</p> <p>14 it, but -- Tom wasn't copied.</p> <p>15 So I was just calling folks to say, Hey, how</p> <p>16 come, you know, I'm the only one that hasn't been</p> <p>17 called. But nothing of substance.</p> <p>18 Q I have an email account like that, so I</p> <p>19 understand.</p> <p>20 A I have been on JEA.com since 1997. That's</p> <p>21 the one I've been monitoring 24-7, so it's kind of a</p> <p>22 shift.</p> <p>23 Q Understood. Did Aaron Zahn, Melissa Dykes,</p> <p>24 Ryan Wannemacher, Herschel Vinyard, or Lynne Rhode</p> <p>25 contact you about today's deposition?</p>

<p style="text-align: right;">Page 9</p> <p>1 A No, they didn't. Melissa Dykes called after 2 we were terminated to express her sadness on the whole 3 thing, but it was just a friendly conversation. 4 Q What did she say, other than to -- 5 A Sorry. I'm sorry, I just talked over you. 6 Just that she was sorry that this whole thing had 7 happened and that, you know, we're out. Paraphrasing. 8 Q Mr. Zahn hasn't reached out to you? 9 A No. 10 Q Anything else you did to prepare for today's 11 interview? 12 A No. 13 Q Okay. 14 A I take that back. I did go back and look at 15 the media accounts, kind of just in my mind how that 16 whole thing started to unravel after the July board 17 meeting. So I did go back and look at kind of the 18 timeline of when the PUP started hitting the media and 19 all that mess. 20 Q Through the Times-Union? 21 A Yeah. Just Googling around, yeah. 22 Q Anything else? 23 A No. 24 Q Okay. You mentioned your personal email 25 address. Could you please identify all of the email</p>	<p style="text-align: right;">Page 11</p> <p>1 JEA? 2 A I have no idea. 3 Q You have had a long career at JEA. 4 A Yeah. 5 Q Since '97, I think you said? 6 A Actually '93 with public utilities. 7 Q And what was your last position? 8 A Vice president and general manager for water 9 wastewater systems. 10 Q And you came up through the wastewater side? 11 A Well, I did -- water and wastewater; it's a 12 combined utility. 13 MR. WEDEKIND: Let's go off the record. 14 (Off-the-record discussion) 15 BY MR. WEDEKIND: 16 Q Who do you think is responsible for what has 17 happened at JEA over the last 18 months? 18 A I mean it was Aaron Zahn's direction. We 19 were following orders of, in my case, my boss's boss. 20 I don't know the genesis of the whole thing. 21 I -- in some cases I truly think he was a 22 visionary. He talked at one point about a goal of 23 eliminating all of our wastewater -- treated wastewater 24 effluent discharges to the St. Johns River going to 25 zero discharge, which would be incredibly expensive.</p>
<p style="text-align: right;">Page 10</p> <p>1 addresses you've used over the last two years? 2 A Yeah. calhdi@at&t.net and then 3 calhdi@jea.com. 4 Q How about cell phones over the last two 5 years? 6 A 904-994-3935. 7 Q Any others? 8 A No. That's the only one I've ever had. 9 Q Did JEA ever issue you a laptop or tablet? 10 A Yes. That's -- I had a tablet and a laptop. 11 And that was in the disclosure information that was 12 sent over to the sixth, so IT has already identified 13 all those things. 14 Q Where physically are those -- 15 A I turned them in. 16 Q Okay. 17 A Yeah. Within 48 hours as I was instructed to 18 do. 19 Q Okay. Before we really get into kind of the 20 nuts and bolts of my questions, I wanted to give you, 21 because this is an interview, an opportunity to say 22 anything that you want to say on the record. 23 A I've had 30 days to think about what I'd want 24 to say, but I'd prefer not to, to be honest with you. 25 Q Why do you think that you were terminated by</p>	<p style="text-align: right;">Page 12</p> <p>1 And there's actually a bill that was filed in the state 2 legislature last session about just that. 3 He talked about purified water, looking for 4 alternatives to aquifer withdrawals as we continue to 5 grow, really pushing that. 6 So I think in many instances his heart was in 7 the right place, and he just got way, way ahead of 8 where he should have been. I'm not going to opine on 9 the financial and the solar batteries; I'm not educated 10 enough on that. 11 But, you know, clearly it was his direction. 12 He's the CEO -- or he was the CEO. 13 Q Do you think that the visions that Mr. Zahn 14 attempted to cast for JEA were realistic? 15 A Again, you know, you can argue about solars 16 and battery -- solar and battery becoming on parity 17 with utility generation. I don't know the timing on 18 that. 19 You know, McKinsey came in. They are this 20 international firm. They were slinging metrics around 21 and forecasts of that. You know, the water and 22 wastewater story was a growth story, if you looked at 23 the Atlanta presentation, so -- 24 Q I think that you mentioned that he had 25 specifically identified a potential goal as a zero</p>

<p style="text-align: right;">Page 13</p> <p>1 discharge goal?</p> <p>2 A Yeah.</p> <p>3 Q Do you think that was realistic?</p> <p>4 A You put enough money in anything, you can do</p> <p>5 anything you want. I didn't -- I didn't think it was</p> <p>6 the right use of the dollars, and that eventually</p> <p>7 that -- you know, that went away. But it was something</p> <p>8 he did verbalize at one point about, you know, having a</p> <p>9 big goal.</p> <p>10 Q So you -- but you'd characterize that goal as</p> <p>11 not financially feasible?</p> <p>12 A I didn't think it was the right use of</p> <p>13 capital. I mean one of the things that we learned on</p> <p>14 our United Way tour was like 40 percent of our</p> <p>15 customers are ALICE, asset limited, income constrained,</p> <p>16 but employed. And so if people are trying to pay their</p> <p>17 bills, is that really the right use of capital, which</p> <p>18 will ultimately impact rates, to go pull those</p> <p>19 discharges out of the river when we're -- I forget.</p> <p>20 Our permit is 683 tons and we're forecast to be like at</p> <p>21 350 tons this year, so we're well below our permitted</p> <p>22 limit for nitrogen discharge.</p> <p>23 So is it the right use of capital? Probably</p> <p>24 not, in my mind, but, you know, there are a lot of</p> <p>25 folks that have one issue, you know. But, anyway,</p>	<p style="text-align: right;">Page 15</p> <p>1 correct?</p> <p>2 A Correct.</p> <p>3 Q But you probably did have some involvement on</p> <p>4 the water and wastewater side?</p> <p>5 A Right.</p> <p>6 Q Okay. So could you just walk me through what</p> <p>7 your role was in the long-term strategic planning</p> <p>8 process as it related to water and wastewater?</p> <p>9 A Sure. So McKinsey -- I think it was spring</p> <p>10 when we started having the Ponte Vedra meetings, but</p> <p>11 probably before the Ponte Vedra meetings, I can't</p> <p>12 recall, but McKinsey came in and, like any good</p> <p>13 consultant, we think you ought to do this, and here is</p> <p>14 your goal over there. And I'm sure they're very smart,</p> <p>15 but some of them looked about half my age, and so I --</p> <p>16 you know, my job was to push back, in my mind, push</p> <p>17 back and -- and question some of the goals they had.</p> <p>18 But, anyway, so it was a back and forth.</p> <p>19 I had said in my prior interview that, in</p> <p>20 addition, there were some meetings with McKinsey staff</p> <p>21 where they came and sat down with me and said, What do</p> <p>22 you think, you know. And then you mark up the</p> <p>23 PowerPoint and you slide it back across the table kind</p> <p>24 of thing. And so it was just a back-and-forth exchange</p> <p>25 of ideas and so forth.</p>
<p style="text-align: right;">Page 14</p> <p>1 ultimately it didn't go anywhere.</p> <p>2 But I think it's just an example of how he</p> <p>3 was out there thinking about, you know, things</p> <p>4 differently.</p> <p>5 Q What were your goals for your side of the</p> <p>6 business?</p> <p>7 A Well, I mentioned nitrogen discharge to the</p> <p>8 river; response time for customer calls for service;</p> <p>9 water pressure. They're all listed on the corporate</p> <p>10 metrics that we present each month at the board.</p> <p>11 Q What about septic phase-out, was that within</p> <p>12 your --</p> <p>13 A Yes.</p> <p>14 Q -- bailiwick?</p> <p>15 A Yeah, yeah. So there was a -- there's an</p> <p>16 agreement with the city for septic phase-out. As I</p> <p>17 recall, there was \$15 million that came about from the</p> <p>18 sale of the Southside generating property that got put</p> <p>19 into a pot for septic tank phase-out, and that design</p> <p>20 and construction management is run out of JEA.</p> <p>21 Q I want to talk for a minute about the long-</p> <p>22 term strategic planning process. I understand that a</p> <p>23 lot of the coverage on it has been focused on the</p> <p>24 electric side of the business and that you really had</p> <p>25 very limited to no involvement on that piece of it;</p>	<p style="text-align: right;">Page 16</p> <p>1 Q Did you ultimately get a chance to read the</p> <p>2 final, as it was, McKinsey work product?</p> <p>3 A Yes, sir. It's been a while. Yeah.</p> <p>4 Q Do you remember seeing anything in there as</p> <p>5 it related to your side of the business that you just</p> <p>6 completely disagreed with?</p> <p>7 A Not that I can recall. Nothing that</p> <p>8 pushed -- I just remember pushing back on the</p> <p>9 percentage of cuts that they wanted. You know, we're</p> <p>10 such a huge system, from Nassau down past Guana</p> <p>11 Preserve, and they wanted some pretty -- I thought</p> <p>12 pretty dramatic cuts to operational costs.</p> <p>13 Q Is that in connection with the Status Quo 2</p> <p>14 approach?</p> <p>15 A Correct.</p> <p>16 MR. WEDEKIND: Okay. I want to hand you a</p> <p>17 document. We're going to mark this as an exhibit.</p> <p>18 It'll be Exhibit 1. I've got copies for everybody</p> <p>19 here.</p> <p>20 (Exhibit Number 1 was marked for</p> <p>21 identification.)</p> <p>22 BY MR. WEDEKIND:</p> <p>23 Q I'm handing you a document that's titled</p> <p>24 Status Quo 2 Baseline - Assumptions review. It's</p> <p>25 marked "draft" on the front of it.</p>

<p style="text-align: right;">Page 17</p> <p>1 Have you seen this document before?</p> <p>2 A I don't recall it specifically, but I don't</p> <p>3 doubt you.</p> <p>4 Q I'll tell you this is a document that was</p> <p>5 circulated in the spring of 2019. I don't have an</p> <p>6 exact date on it.</p> <p>7 MR. EDWARDS: Shows March of -- or, I'm</p> <p>8 sorry, May of '19.</p> <p>9 MR. WEDEKIND: Was it May? There you go.</p> <p>10 Thank you.</p> <p>11 BY MR. WEDEKIND:</p> <p>12 Q On Page 3 it says "Draft 5/3/2019."</p> <p>13 First question is: Did you ever hear of the</p> <p>14 Status Quo 2 approach as a doom-and-gloom approach?</p> <p>15 A I can't remember the numbers. There was one</p> <p>16 where it was you just let the thing keep running, you</p> <p>17 let the business keep running; you don't make any</p> <p>18 substantive changes and it goes where it goes.</p> <p>19 And 2 was where you really tried to get into</p> <p>20 cuts, whether it be costs or people, but -- people are</p> <p>21 costs, but other cuts, reduction in services, service</p> <p>22 level reductions, that kind of thing.</p> <p>23 And, that's right, I think those are the</p> <p>24 Status Quo 1, Status Quo 2.</p> <p>25 Q Did you ever hear of it referred to as the</p>	<p style="text-align: right;">Page 19</p> <p>1 were pushing back against?</p> <p>2 A Yeah. This was absolutely part of the</p> <p>3 conversation, yes.</p> <p>4 Q Okay. So you can see under -- it looks like</p> <p>5 it compares Status Quo 1, which you've described, and</p> <p>6 Status Quo 2, which you've also described, the</p> <p>7 headcount being a significant reduction, 22 total</p> <p>8 people by 2030; is that right?</p> <p>9 A Yeah. If I'm reading the chart correctly.</p> <p>10 Q Not people, excuse me.</p> <p>11 A FTE is the straight line with the black</p> <p>12 font -- oh, so it's cost is what it is, I'm sorry.</p> <p>13 Q That's right, labor costs.</p> <p>14 A And the headcount is the secondary Y axis.</p> <p>15 Q Yeah.</p> <p>16 A Yeah, so it looks like we're going from</p> <p>17 roughly 800 with Status Quo 1 to about 600 in Status</p> <p>18 Quo 2, if I'm reading that right.</p> <p>19 Q Yeah. And on the -- you see the table on the</p> <p>20 right side shows a 13-percent headcount reduction, and</p> <p>21 then other reductions and the implications that would</p> <p>22 be caused by those reductions.</p> <p>23 A Yeah, sorry. So I got it wrong. The FTEs</p> <p>24 for Status Quo 1 is roughly 500 in Status Quo 1.</p> <p>25 That's the black line I referred to earlier. And it</p>
<p style="text-align: right;">Page 18</p> <p>1 doom-and-gloom approach?</p> <p>2 A Death spiral, maybe, might be the better -- I</p> <p>3 think that was what was being used at the time. Maybe</p> <p>4 it was a -- we were in a death spiral.</p> <p>5 Q Who said that? Who called it that?</p> <p>6 A I don't recall, but I'm sure it was -- it</p> <p>7 was -- Aaron used the phrase. It may have even been in</p> <p>8 a presentation or two. I'd have to go back and really</p> <p>9 look.</p> <p>10 But, yeah, that word was being -- or that</p> <p>11 phrase was being used.</p> <p>12 Q I want to ask you to turn to the section on</p> <p>13 the water and wastewater.</p> <p>14 MR. EDWARDS: Take a look at Page 9, I think.</p> <p>15 Is that what you're asking?</p> <p>16 THE WITNESS: It kind of jumps around.</p> <p>17 BY MR. WEDEKIND:</p> <p>18 Q It does jump around a little bit. There's</p> <p>19 also 15 that I want to talk about.</p> <p>20 A Okay. Yeah. Labor -- yeah, Labor details,</p> <p>21 water and wastewater, Page 9.</p> <p>22 Q Okay. So let's start at Page 9, Labor</p> <p>23 Details, water and wastewater. Was this part of some</p> <p>24 of the assumptions that were being made as part of</p> <p>25 Status Quo 2, or this death spiral approach, that you</p>	<p style="text-align: right;">Page 20</p> <p>1 looks like just over 400 in Status Quo 2.</p> <p>2 I think that's -- see right here, FTE is the</p> <p>3 line? So I said it wrong earlier. Those were costs I</p> <p>4 was reading earlier. So, yeah, see the major</p> <p>5 assumptions over there.</p> <p>6 Q Okay. And this -- the real point of this is</p> <p>7 this -- the bottom approach, the Status Quo 2 approach,</p> <p>8 was the approach that you were pushing back against</p> <p>9 when McKinsey was presenting to you all the what I</p> <p>10 think you considered to be fairly harsh cuts?</p> <p>11 A Well, I say fairly harsh cuts -- or you say.</p> <p>12 There was one area in particular they wanted a large</p> <p>13 reduction in, and that was in our pipe group. We add</p> <p>14 hundreds of miles of pipe a year, and I just didn't</p> <p>15 think it was a -- you know, and 25 pump stations; we</p> <p>16 have over 1400 of them. So I was really pushing back</p> <p>17 on those cost reductions in that one particular area.</p> <p>18 But, yeah, this was part of the back-and-</p> <p>19 forth, or the trade off. Caren even talked about -- in</p> <p>20 her interview about, you know, end of the day it's not</p> <p>21 McKinsey they're going to be calling if something goes</p> <p>22 wrong, it's going to be Caren, and in this case, if I</p> <p>23 get it wrong they're going to be calling me.</p> <p>24 So, yeah, it was part of the back-and-forth</p> <p>25 with McKinsey.</p>

<p style="text-align: right;">Page 21</p> <p>1 Q All right. If you could turn to Page 15, 2 same sort of questions here. 3 First of all, what do these figures show? 4 What is this slide attempting to explain? 5 A Yeah, I tell you what, it's a good -- I mean 6 it's rough to read. You've got to really pay 7 attention. 8 So the bars represent the -- as I recall, the 9 amount of money we're talking about, and it's 10 getting -- if you go down to the total -- well, first 11 of all, the rows are different issues or parts of the 12 business, if you will. So first line is just R&R, 13 renewal and replacement of existing assets, for 14 instance, and then, you know, down at the very bottom 15 biosolids; that's the stuff after the wastewater 16 treatment. 17 So it's just laying out various big-ticket -- 18 I would characterize as big-ticket items of the 19 business, and it looks to me that there's a 21-percent 20 overall reduction going from Status Quo 1 to 2, if I'm 21 remembering this slide correctly. 22 Q And I think that if you look in kind of the 23 middle row it says "new supply - purification, 24 pipelines, wells." 25 A Right.</p>	<p style="text-align: right;">Page 23</p> <p>1 Q And as I understand it, the water grid was 2 previously disconnected, two separate grids; right? 3 A Correct. 4 Q And then fairly recently the total water 5 management project connected the two grids? 6 A Correct. Yeah, the water quality is better 7 on the north and the west side of the river, and so 8 there's a couple of drills under the river that move 9 the water from our Main Street plant down near First 10 Street over to that south grid, and then push it to the 11 south. 12 But there are other projects planned to get 13 more water down there. 14 Q And that's because the -- the pumps are 15 better connected to the aquifer on the north and west 16 side of the river? 17 A Just the water quality is better. We have 18 restrictions in our consumptive use permit about how 19 much we can pull from the aquifer on the south and east 20 side; primarily chlorides are an issue. So you're 21 trying not to -- there's a restriction on how much we 22 can pull to, you know, preserve the health of the 23 aquifer on that south and east side. 24 So it's not a pump issue, it's a water 25 quality issue, so it's moving water from this side of</p>
<p style="text-align: right;">Page 22</p> <p>1 Q And it shows a 61-percent reduction from 2 Status Quo 1. Is that the pipe group that you were 3 just talking about? 4 A No -- well, the pipe group operates and 5 maintains the asset after it gets constructed. This 6 capital -- and this slide, by the way, is with respect 7 to capital expenditures. I just want to make that 8 clear. 9 But -- so this row that you focused on is -- 10 would be JEA-built infrastructure, where we're putting 11 new infrastructure in the ground to meet the growth 12 demands. 13 Once it's in the ground, then it's turned 14 over to that operations group to operate and maintain, 15 either with O&M dollars or the R&R dollars back up 16 there on that first line. 17 Q Okay. So that's really who you're talking 18 about is kind of the maintenance -- 19 A The maintenance folks, the guys that dig the 20 holes and fix the leaks and do all that stuff, correct. 21 Q Gotcha, okay. 22 A So this row, "new supply," was, as I stated 23 earlier, about starting to think about alternative 24 water supplies and the pipelines to get the water down 25 to the growth areas, primarily St. Johns County.</p>	<p style="text-align: right;">Page 24</p> <p>1 the river to the south side of the river. 2 Q And then pushing it down further south? 3 A Yeah, down where all the growth is occurring. 4 Q Nocatee area? 5 A Yeah, yeah. Yep. 6 Q I think from a big-picture perspective what 7 Page 15 says at the very bottom is that there's 8 about -- the Status Quo 2 approach would result in a 9 21-percent decrease in water and wastewater capital 10 expenditures as compared to a Status Quo 1 approach? 11 A Correct. And the title of the slide says 12 from the year 2019 to 2030. 13 Q Okay. So this is projecting out -- 14 A That's a ten-year look that McKinsey was 15 working on, yeah. 16 Q Okay. On the next page, Page 16, it talks 17 about non-labor O&M by 10 percent. Is this what you 18 were referring to? 19 It doesn't really explain whether or not this 20 is related -- well, no, it does. It breaks it down by 21 color, right, water and energy? 22 A Yeah, up in the upper right, water and energy 23 is called out, yes, sir. 24 Q So is this what you were referring to, the 25 O&M reduction?</p>

<p style="text-align: right;">Page 25</p> <p>1 A Yeah -- now, well, this is non-labor O&M.</p> <p>2 But, yeah, it was all part of the discussion.</p> <p>3 So, yeah, there are -- we have a lot -- we had a lot of</p> <p>4 contracts, obviously, for services, and in addition to</p> <p>5 that labor costs obviously, operational costs. So,</p> <p>6 yeah, this is -- this slide is in particular just for</p> <p>7 non-labor O&M.</p> <p>8 Q What kind of conversations were you having</p> <p>9 within the SLT in connection with the work that</p> <p>10 McKinsey was doing?</p> <p>11 A That's a -- you know, that's a wide berth</p> <p>12 there obviously. But, you know, it evolved. You know,</p> <p>13 I've been through these before. It was nothing</p> <p>14 particularly new having a consultant come in and look</p> <p>15 at your business. So it was just a back-and-forth.</p> <p>16 My recollection is most of the work at the</p> <p>17 SLT level always had three or four McKinsey in the</p> <p>18 room, and, you know, there'd be a slide show. And they</p> <p>19 would say, What do you think of this, and we'd push</p> <p>20 back on that.</p> <p>21 And, obviously, most of the conversation was</p> <p>22 about energy side of the business, you know, because of</p> <p>23 the whole solar battery argument and the expenses on</p> <p>24 that side of the business and the essentially flat</p> <p>25 sales.</p>	<p style="text-align: right;">Page 27</p> <p>1 egregious or anything. As I understood it, this was</p> <p>2 going to be an exercise. And, you know, at the end of</p> <p>3 the day, we didn't want to cut services. That's what</p> <p>4 JEA is about is about excellent service.</p> <p>5 So I took it as an exercise from the</p> <p>6 financial wing of the house, what needs to happen to</p> <p>7 keep rates down as costs continue to escalate. And so</p> <p>8 in my mind, I didn't think we would ever get there</p> <p>9 where we're letting people go. I mean that would just</p> <p>10 be -- that would be so unlike JEA, I didn't think it</p> <p>11 was ever going to be a reality. It was just a bookend,</p> <p>12 you know, on a continuum of potential what do you do to</p> <p>13 hold costs down. I just figured it was -- you know, it</p> <p>14 was just part of that discussion.</p> <p>15 Q So, in your mind, was the Status Quo 2</p> <p>16 approach unrealistic, given what you knew about JEA?</p> <p>17 A So there are a lot of utilities out there</p> <p>18 that don't perform at the level JEA does, and we</p> <p>19 benchmark incredibly well against many.</p> <p>20 Miami-Dade is, you know, in a consent order</p> <p>21 now, spending billions -- or 8 billion plus dollars</p> <p>22 because they didn't do what they should have done over</p> <p>23 the years.</p> <p>24 So from my perspective, having -- we got out</p> <p>25 of an administrative in order '96 because we did the</p>
<p style="text-align: right;">Page 26</p> <p>1 But, you know, I had my share, but the -- you</p> <p>2 know, that was typically how the thing went, was you</p> <p>3 get together, you know, review what they had put</p> <p>4 together since last time, and then there would be -- as</p> <p>5 I said, I'd have a McKinsey or two come to my office</p> <p>6 and we'd go through some slides.</p> <p>7 Q Did you ever complain to Ms. Dykes about some</p> <p>8 of the -- any of the work that McKinsey was doing?</p> <p>9 A No.</p> <p>10 Q So nothing ever needed to be elevated to her</p> <p>11 level?</p> <p>12 A No, sir.</p> <p>13 Q Did you ever express any concerns to any</p> <p>14 member of the SLT about the work that McKinsey was</p> <p>15 doing?</p> <p>16 A No, sir, not that I can recall. I mean</p> <p>17 there's nothing that sticks out that this is egregious</p> <p>18 and I'm outraged, none of that kind of thing. It was</p> <p>19 just a continual back-and-forth until the work product</p> <p>20 spit out.</p> <p>21 Q Was there ever any conversation among the SLT</p> <p>22 that the Status Quo 2 projections were unnecessarily</p> <p>23 dire?</p> <p>24 A In my -- no. Well, I take that back. I</p> <p>25 can't speak for others. I don't recall saying this is</p>	<p style="text-align: right;">Page 28</p> <p>1 right thing, spent a bunch of money on the</p> <p>2 infrastructure. So that's just not the culture of JEA</p> <p>3 to say we're going to whack services, you know, and</p> <p>4 more, you know, sanitary sewer overflows and less</p> <p>5 reliable performance. I just didn't see that as a</p> <p>6 reality.</p> <p>7 Q Given your longevity with JEA, did you notice</p> <p>8 a kind of a change in the culture when Mr. Zahn became</p> <p>9 the CEO?</p> <p>10 A No, no. People are still focused on doing</p> <p>11 the job. I mean that's been well documented. Our</p> <p>12 metrics are as good as they've ever done. You know,</p> <p>13 I've had one OSHA recordable in my entire staff of 500</p> <p>14 people when I left. And the budget's great, nitrogen's</p> <p>15 great. So, no, the focus didn't change.</p> <p>16 You know, Aaron added ideas to our core</p> <p>17 values and tried to get the ball rolling on people</p> <p>18 thinking about things that could be done. So that</p> <p>19 piece of the culture, you know, he was trying to</p> <p>20 affect. But the day-to-day operations or the -- you</p> <p>21 know, nobody put their hands in their pockets and said,</p> <p>22 I quit, I'm not continuing to work as hard as I can. I</p> <p>23 didn't see any of that.</p> <p>24 Q Then why the need for every JEA employee to</p> <p>25 have a retention agreement?</p>

<p style="text-align: right;">Page 29</p> <p>1 A Well, because last time I heard that --</p> <p>2 that -- or I seem to recall the last time something</p> <p>3 like that came up there had been talk that the</p> <p>4 executives were going to have retention and nobody else</p> <p>5 did. And so that got built into the union -- the labor</p> <p>6 agreements in this last cycle.</p> <p>7 And so, you know, when I was out trying to</p> <p>8 keep the fires from taking over the place, I said,</p> <p>9 look, it's not the guy fixing the pipe that's going to</p> <p>10 be let go, it's more likely going to be me. Because</p> <p>11 when there's an acquisition or a change of structure,</p> <p>12 it's the top tier that usually goes.</p> <p>13 Hell, that's how Caren ended up here, was</p> <p>14 from the Exelon-Duke stuff.</p> <p>15 But -- so I think it's just a way of trying</p> <p>16 to get the union folks to say, hey, settle down, we</p> <p>17 need you, you're important; if there's any type of</p> <p>18 headcount reduction, if something does happen, then,</p> <p>19 you know, you're going to be protected.</p> <p>20 Q Did you ever hear Mr. Zahn say that in the</p> <p>21 event of a sale of the utility that he would take care</p> <p>22 of the SLT?</p> <p>23 A I don't --</p> <p>24 Q Or that the SLT would be taken care of.</p> <p>25 A I don't -- I don't recall that in particular.</p>	<p style="text-align: right;">Page 31</p> <p>1 externalities, and we were -- I think that's why he</p> <p>2 organized it the way he did, frankly.</p> <p>3 Q What do you mean by that?</p> <p>4 A Well, I mean we all reported to Melissa, and</p> <p>5 there was a core group reporting to him. So, you know,</p> <p>6 he didn't get involved in the day-to-day operations of</p> <p>7 the business.</p> <p>8 Q And you reported directly to Ms. Dykes?</p> <p>9 A Yes, sir.</p> <p>10 Q How frequently would you interact with her?</p> <p>11 A I -- we'd have feedbacks every other week, I</p> <p>12 think, were on the calendar, and we were pretty</p> <p>13 consistent with that.</p> <p>14 Q So I've heard testimony that there were</p> <p>15 weekly meetings at the SLT level and that every other</p> <p>16 week it was a core -- what I would call a core group</p> <p>17 meeting of the senior-senior leaders, and then every</p> <p>18 other week it was an all SLT meeting; is that right?</p> <p>19 A That's about right. I don't know about the</p> <p>20 core -- or the senior-senior team. I don't know their</p> <p>21 schedule. But, yeah, we had a routine business meeting</p> <p>22 with Melissa's direct reports.</p> <p>23 Q The employment contract that you mentioned</p> <p>24 before, had you ever heard about receiving a contract</p> <p>25 until July 23rd, 2019?</p>
<p style="text-align: right;">Page 30</p> <p>1 I took the contract to be that vehicle.</p> <p>2 Q What do you mean by that?</p> <p>3 A Well, it -- it was certainly a contract. I</p> <p>4 didn't have a contract before the July board meeting.</p> <p>5 So I took that as a -- as some lifeline, if you will,</p> <p>6 if something were to have occurred.</p> <p>7 Q Did Mr. Zahn -- did you ever hear Mr. Zahn</p> <p>8 tell the SLT that the other members of the SLT besides</p> <p>9 himself, Ms. Dykes, Mr. Wannemacher, and Mr. Vinyard</p> <p>10 would need to run the utility so that they could focus</p> <p>11 on selling it?</p> <p>12 A I didn't hear him say "so we can sell it."</p> <p>13 What he did tell Caren and me very explicitly is: You</p> <p>14 go run your business, and I'll -- you know, all this</p> <p>15 other stuff external going on -- because we still need</p> <p>16 good metrics. We've got to keep the place running in</p> <p>17 excellent condition.</p> <p>18 And so he did say that. I don't remember the</p> <p>19 comma, while we go sell the utility. I don't remember</p> <p>20 that.</p> <p>21 Q Okay. But the concept was that the senior-</p> <p>22 senior leaders would be focused on the external things</p> <p>23 and that you and Ms. Anders would be focused on running</p> <p>24 your businesses?</p> <p>25 A No question, yeah. They were focused on the</p>	<p style="text-align: right;">Page 32</p> <p>1 A I don't recall if I knew about it before.</p> <p>2 You know, I may have looked at it in the board package.</p> <p>3 I don't even remember if I heard it was coming, to be</p> <p>4 honest with you. But no.</p> <p>5 Q Just handed to you and said, Hey, sign this?</p> <p>6 A Yeah, they were all passed out. Somebody</p> <p>7 testified to that. That's my recollection as well, is</p> <p>8 they went around the table and handed them out.</p> <p>9 Q Do you remember who handed them out?</p> <p>10 A I do not.</p> <p>11 Q What do you remember about the development of</p> <p>12 the long-term incentive plan, or the PUP?</p> <p>13 A Yeah. I wracked my brain. And of course</p> <p>14 there's media, it's all -- that's why I went back and</p> <p>15 looked.</p> <p>16 But, yeah, there was -- I seem to recall --</p> <p>17 well, I testified earlier that I distinctly remember</p> <p>18 the three -- I called it three-legged stool. It's</p> <p>19 salary, annual potential to earn, all employees, for</p> <p>20 metrics, and then Aaron started talking about a long-</p> <p>21 term incentive, to grow the company, kind of in line</p> <p>22 with his ideas, thing that he added to our core values,</p> <p>23 is to get people thinking about the long-term financial</p> <p>24 health of the company.</p> <p>25 And he introduced EBITDA. I'd never heard of</p>

<p style="text-align: right;">Page 33</p> <p>1 that before, because I'm from the operations</p> <p>2 background. So he started using financial terms and</p> <p>3 speaking in that language to try to get folks thinking</p> <p>4 about that long-term thing.</p> <p>5 Q So to summarize what I think I understand the</p> <p>6 way you've described it as a three-legged stool, right,</p> <p>7 you've got your salary, your base salary, short-term</p> <p>8 incentives, annual --</p> <p>9 A That's the annual.</p> <p>10 Q -- bonuses, and then this new kind of long-</p> <p>11 term incentive plan?</p> <p>12 A Yeah, yeah.</p> <p>13 Q Is that right?</p> <p>14 A Yeah, that's correct.</p> <p>15 Q So before Mr. Zahn, there was never any</p> <p>16 discussion about financial metrics, like EBITDA?</p> <p>17 A No, no. Now, not to say we don't talk</p> <p>18 budget. All of my -- when I was treatment director --</p> <p>19 well, even back to the pipe director role, I expected</p> <p>20 all my managers to monthly have that conversation at</p> <p>21 their cost center level with their folks to say we're</p> <p>22 plus or we're minus, here is what we need to be doing</p> <p>23 to meet budget.</p> <p>24 So not to say budget has not been an issue;</p> <p>25 it's always been an issue at JEA. We always try to</p>	<p style="text-align: right;">Page 35</p> <p>1 had always thought of JEA as a nonprofit; is that</p> <p>2 right?</p> <p>3 A No.</p> <p>4 Q Okay. I misunderstood.</p> <p>5 A No, no. I'm just saying that's what the</p> <p>6 front-line staff tend to think, is we're not in it to</p> <p>7 make money. But, as I said prior, if you think about</p> <p>8 the fact we have to have free cash to fund capital and</p> <p>9 the city contribution, then, you know, it's not a bad</p> <p>10 analogy.</p> <p>11 Q Do you remember ever making a statement that</p> <p>12 you were going to be enriched as a result of the sale</p> <p>13 of JEA, or words to that effect?</p> <p>14 A I don't recall those specific words, but --</p> <p>15 and I'd have to know the timing or the context. At</p> <p>16 some point this thing came out. If you read my</p> <p>17 testimony, it was like, You've got to be kidding me. I</p> <p>18 even used the word embarrassed. I would have hoped</p> <p>19 that the uncapped nature of this thing would have never</p> <p>20 seen the light of day.</p> <p>21 Q And when you say the uncapped nature of this</p> <p>22 thing, you're referring to the PUP?</p> <p>23 A The PUP, yes, sir. I read Wannemacher's</p> <p>24 testimony, and, you know, there was a lot of discussion</p> <p>25 in those 200 pages about the PUP and all the lawyers</p>
<p style="text-align: right;">Page 34</p> <p>1 hold costs down. But not thinking in terms of a</p> <p>2 quote-unquote profit thinking.</p> <p>3 He was -- he would -- Aaron would explain it</p> <p>4 to the folks that of course we have to make some type</p> <p>5 of a profit. We have to contribute to the city, we</p> <p>6 have to pay for R&R, so if you want to think about</p> <p>7 leftover cash as profit, then, you know, that might be</p> <p>8 a good analogy.</p> <p>9 So those were the kind of conversations he</p> <p>10 was having with the front line folks.</p> <p>11 Q Was JEA a well-run utility before Mr. Zahn</p> <p>12 became the --</p> <p>13 A Sure.</p> <p>14 Q -- CEO?</p> <p>15 A Sure. I didn't mean to talk over you. But</p> <p>16 yes. Yeah.</p> <p>17 Q So did this new profit culture add anything</p> <p>18 to JEA?</p> <p>19 A So, you know, been around this before. The</p> <p>20 front-line staff likes to think of -- think of</p> <p>21 ourselves as a nonprofit, and so to the extent it made</p> <p>22 people think about where does the cash go that our</p> <p>23 customers give us, I thought it was a good</p> <p>24 conversation.</p> <p>25 Q I think that I heard you just say that you</p>	<p style="text-align: right;">Page 36</p> <p>1 and bankers.</p> <p>2 Anyway, the uncapped nature of it was</p> <p>3 definitely part of the discussion. And that's --</p> <p>4 that's -- that gap, you know, beyond a sale and the</p> <p>5 contribution to the city, it's all boggled -- it</p> <p>6 boggles my mind. But, yeah, I used the word</p> <p>7 embarrassed. It would have been horrible.</p> <p>8 (Mr. Blodgett enters the interview.)</p> <p>9 BY MR. WEDEKIND:</p> <p>10 Q When all of this -- this was after the fact,</p> <p>11 right --</p> <p>12 A Correct.</p> <p>13 Q -- when you realized all of this.</p> <p>14 While it was going on, before the July 23rd</p> <p>15 board meeting, did you have any visibility into what</p> <p>16 was going on in the development of the PUP in</p> <p>17 connection with the long-term strategic plan?</p> <p>18 A The tying the two together, that didn't occur</p> <p>19 to me at all.</p> <p>20 Q Was there ever any discussion among the SLT</p> <p>21 about having a cap on the PUP?</p> <p>22 A Not that I recall. Not that I had, anyway.</p> <p>23 Q One way or the other, capped or uncapped?</p> <p>24 A Capped or uncapped.</p> <p>25 Q There were a series of off-sites in</p>

<p style="text-align: right;">Page 37</p> <p>1 connection with the long-term strategic plan.</p> <p>2 A Uh-huh.</p> <p>3 Q The first one that I know of was at White</p> <p>4 Oak. Did you attend White Oak?</p> <p>5 A No, sir.</p> <p>6 Q Okay. There were at least two at Ponte</p> <p>7 Vedra. Did you attend those?</p> <p>8 A Yeah, I attended all of those. I think there</p> <p>9 were four, actually.</p> <p>10 Q Four total?</p> <p>11 A April, May, and two in August, if I'm not</p> <p>12 mistaken.</p> <p>13 Q Okay. So what was the purpose of the</p> <p>14 off-sites at Ponte Vedra?</p> <p>15 A It was the strategic work by McKinsey. I</p> <p>16 testified last time that I went back and looked at my</p> <p>17 calendar. One of the meeting invites noted that the</p> <p>18 first part would be talking about fiscal '19</p> <p>19 performance and then goals for fiscal '20. But, yeah,</p> <p>20 McKinsey was, you know, there.</p> <p>21 Q Were the bankers there?</p> <p>22 A I don't recall that, actually. That's a good</p> <p>23 question. I think -- my recollection, it was just</p> <p>24 McKinsey. It was a roomful of people.</p> <p>25 Q Outside law firms?</p>	<p style="text-align: right;">Page 39</p> <p>1 nothing substantive. Nothing sticks in my mind.</p> <p>2 Q Was it a regular practice of yours to attend</p> <p>3 the JEA board meetings?</p> <p>4 A Yes.</p> <p>5 Q Okay. Did you attend all of them in 2019?</p> <p>6 A To the best of my recollection. I'd have to</p> <p>7 look at a calendar, but, yeah, it wouldn't surprise me.</p> <p>8 Q Do you remember hearing anything from any of</p> <p>9 the presentations that were made at those meetings that</p> <p>10 were inaccurate or misleading to you?</p> <p>11 A Wow. Without going back and looking at the</p> <p>12 tape, I -- I couldn't answer that. There was so</p> <p>13 much -- you know, it was hours long and there's</p> <p>14 multiple board meetings. I don't -- nothing sticks out</p> <p>15 in my head, anyway.</p> <p>16 Q Nothing leapt out at you saying, oh, my gosh,</p> <p>17 that's a complete fabrication?</p> <p>18 A Correct. I don't recall anything.</p> <p>19 Q Did you attend the City Council investigation</p> <p>20 meeting in December of 2019?</p> <p>21 A No, I did not.</p> <p>22 Q Did you watch it?</p> <p>23 A Is that the one with Aaron and Ryan and</p> <p>24 Herschel at the table?</p> <p>25 Q Yes.</p>
<p style="text-align: right;">Page 38</p> <p>1 A I don't recall that. I just know the</p> <p>2 McKinsey faces. I can remember seeing the McKinsey</p> <p>3 people there.</p> <p>4 But obviously there was an invite list you</p> <p>5 could go check.</p> <p>6 Q And so all of those off-sites were focused on</p> <p>7 various parts of the strategic planning that McKinsey</p> <p>8 was doing?</p> <p>9 A Correct.</p> <p>10 MR. NUNN: Excuse me.</p> <p>11 Did you attend the off-site meeting at Ponte</p> <p>12 Vedra in July of 2018?</p> <p>13 THE WITNESS: I would -- I took the job</p> <p>14 sometime in July '18, and I was at runner's camp</p> <p>15 with my daughter when I got the call that I got</p> <p>16 the job. I can't -- that may have been June. I</p> <p>17 don't remember.</p> <p>18 I don't remember a meeting in July of '18 in</p> <p>19 Ponte Vedra. You know, I -- I would have to check</p> <p>20 a calendar.</p> <p>21 BY MR. WEDEKIND:</p> <p>22 Q Did you ever have any conversations with</p> <p>23 Herschel Vinyard or Lynne Rhode about the long-term</p> <p>24 strategic planning process?</p> <p>25 A It would have been just ancillary stuff,</p>	<p style="text-align: right;">Page 40</p> <p>1 A Yeah, I watched it, or I remember parts of</p> <p>2 it, anyway. I can't remember ...</p> <p>3 Q Do you remember as you watched parts of it</p> <p>4 hearing anything that you believed were inaccurate or</p> <p>5 misleading?</p> <p>6 A Again, I'd have to go back and look at the</p> <p>7 tape. My recollection of that is that was really the</p> <p>8 first hard -- that's the Salem-Diamond thing; right?</p> <p>9 Q Yeah.</p> <p>10 A That was the first, you know, airing of the</p> <p>11 whole thing, that I recall.</p> <p>12 Q But you don't remember anybody saying</p> <p>13 anything that just didn't sit right with you in</p> <p>14 connection -- at that hearing?</p> <p>15 A No, no. In fact, I think I was out in the</p> <p>16 field watching -- or listening to it on my phone, now</p> <p>17 that I think about it. And I'd have to go back and</p> <p>18 look.</p> <p>19 Q Have you watched any of the follow-up special</p> <p>20 investigation committee meetings?</p> <p>21 A Sure.</p> <p>22 Q Did you see anything in any of those that you</p> <p>23 felt like was misleading or inaccurate?</p> <p>24 A No. I -- I remember seeing Pat Maillis. I</p> <p>25 thought -- you know, I don't know what she did or</p>

<p style="text-align: right;">Page 41</p> <p>1 didn't -- but she was very thorough, I thought. I</p> <p>2 thought McInall -- Steve McInall did a nice job</p> <p>3 explaining the ten-year site plan.</p> <p>4 Mike Brost, of course I worked with him for a</p> <p>5 while over the years. He -- you know, he gave his</p> <p>6 perspective. I didn't see anything -- didn't see</p> <p>7 anything that I said, you know, was outrageous.</p> <p>8 Q Did you disagree with anything Mr. Brost</p> <p>9 said?</p> <p>10 A I'm not the finance guy, I'm not the energy</p> <p>11 guy. I'm not going to even opine on that.</p> <p>12 Q So you don't know?</p> <p>13 A No, I don't.</p> <p>14 Q Were there any other meetings, presentations,</p> <p>15 or public statements by any of the SLT members that you</p> <p>16 ever heard that you felt like were misleading or</p> <p>17 inaccurate?</p> <p>18 A No.</p> <p>19 Q Or just didn't sit right with you?</p> <p>20 A Not that I can think of.</p> <p>21 Q I think that we covered this already, but I'm</p> <p>22 just going to ask you the direct question again.</p> <p>23 A Yes.</p> <p>24 Q Based on what you know today about the PUP,</p> <p>25 do you think it was right that the senior executives</p>	<p style="text-align: right;">Page 43</p> <p>1 I say "we," the people who were focused on this started</p> <p>2 talking with the community, you know.</p> <p>3 It went too fast, obviously, and the PUP</p> <p>4 should have never been there, in my mind, if you were</p> <p>5 contemplating some type of restructuring.</p> <p>6 Q Okay. What do you mean -- when you said</p> <p>7 something changed, what do you mean by that?</p> <p>8 A Well, I mean it was -- look, I was new to the</p> <p>9 executive floor, but this thing was rolling very</p> <p>10 quickly.</p> <p>11 Aaron became CEO. You know, the board gave</p> <p>12 approval to go pursue an alternative structure, which,</p> <p>13 by the way, there were other things out there,</p> <p>14 obviously, co-op and IPO. I was reading on that in</p> <p>15 Wannemacher's testimony. The bankers and so forth were</p> <p>16 doing work on that as well.</p> <p>17 But we were rolling along, and something --</p> <p>18 something changed, obviously. Was it the PUP that</p> <p>19 killed it? I don't know, but ...</p> <p>20 Q What did you make of the IPO and co-op</p> <p>21 alternatives that were being discussed?</p> <p>22 A That's way over my head. I'm just the</p> <p>23 operations guy.</p> <p>24 Q Did it have any effect on the water/</p> <p>25 wastewater side of the business?</p>
<p style="text-align: right;">Page 42</p> <p>1 could have made millions of dollars if JEA were sold?</p> <p>2 A No. I mean I -- like I said, I used the word</p> <p>3 embarrassing.</p> <p>4 Q Why was it embarrassing?</p> <p>5 A Well, it -- you know, as I said in the</p> <p>6 testimony, the thing going through my head was it was a</p> <p>7 three-year look -- or a three-year period on which</p> <p>8 you'd be graded. And if some type of a restructure</p> <p>9 occurred prior to that three year, how would you</p> <p>10 measure it. And it never -- it never dawned on me that</p> <p>11 just the sale alone would be part of that calculation.</p> <p>12 Q Do you think that the JEA board received good</p> <p>13 information from management in connection with -- and</p> <p>14 McKinsey management, through management, as part of the</p> <p>15 long-term strategic planning process?</p> <p>16 A I was comfortable with my area. I'm not</p> <p>17 going to -- you know, I can't tell you when solar</p> <p>18 batteries are going to be here, but, you know, I</p> <p>19 thought the water work was good work.</p> <p>20 Q With the benefit now of hindsight, is there</p> <p>21 anything that you think that the SLT could have done</p> <p>22 better in connection with this process?</p> <p>23 A Not do it. You know, look, it's -- something</p> <p>24 changed. I thought it was an interesting conversation.</p> <p>25 I thought we started talking with the community the --</p>	<p style="text-align: right;">Page 44</p> <p>1 A I don't know if the structures would have</p> <p>2 made a substantive change to the way we do business.</p> <p>3 Q Is there such a thing as a water and</p> <p>4 wastewater co-op?</p> <p>5 A I don't know. I have no idea.</p> <p>6 Q Ever heard of one?</p> <p>7 A No, I don't -- I don't -- I can't think of</p> <p>8 one right now, but that doesn't mean they don't exist.</p> <p>9 Q With the benefit of hindsight, is there</p> <p>10 anything that you wish that you had done differently as</p> <p>11 part of this process?</p> <p>12 A I -- I wasn't in the driver's seat. I was</p> <p>13 along for the ride. I can't think of anything -- I did</p> <p>14 my best to, you know, keep the troops settled down and</p> <p>15 assure them that they would have a job and work no</p> <p>16 matter where we ended up on the other side. I can't</p> <p>17 think of anything I would do differently.</p> <p>18 Q You said that you weren't in the driver's</p> <p>19 seat. Mr. Zahn was in the driver's seat?</p> <p>20 A No question.</p> <p>21 Q Is he responsible for what has happened at</p> <p>22 JEA over the last 18 months?</p> <p>23 A Boy, that's a big question. He set</p> <p>24 direction, no doubt. He was the CEO. He had a board</p> <p>25 that gave him the approval to do things, so from that</p>


<p style="text-align: right;">Page 45</p> <p>1 perspective, sure.</p> <p>2 I mean -- but, you know, what other</p> <p>3 influences were working on him, I don't know. But</p> <p>4 yeah, he's ultimately responsible. I think he even</p> <p>5 said that in one of the hearings. But he's the CEO.</p> <p>6 Q I gave you the opportunity at the beginning</p> <p>7 of the interview to say anything that you wanted to</p> <p>8 say.</p> <p>9 A Yeah.</p> <p>10 Q I want to give you that opportunity again.</p> <p>11 If you have anything that you want to provide that I</p> <p>12 haven't asked about that you think is relevant to the</p> <p>13 investigations that are going on right now --</p> <p>14 A Yeah.</p> <p>15 Q -- or any of the issues at JEA, I want to</p> <p>16 give you the chance to provide that to us now.</p> <p>17 A Yeah. No, thank you. I can't think of</p> <p>18 anything in addition to what we've covered.</p> <p>19 MR. WEDEKIND: Let's go off the record. I'm</p> <p>20 going to take a quick second.</p> <p>21 We're going to huddle up. They're going to</p> <p>22 tell me all the mistakes I made, and then I might</p> <p>23 have a handful of questions or I might not.</p> <p>24 THE WITNESS: Okay, great.</p> <p>25 MR. WEDEKIND: We're close to being done.</p>	<p style="text-align: right;">Page 47</p> <p>1 growth usage and our consumptive use permit, that's</p> <p>2 what CUP is, and the limit there.</p> <p>3 On the right side it says something about</p> <p>4 Water Market, Customer growth, Water Efficiency and</p> <p>5 Conservation, which is obviously a piece, is to try to</p> <p>6 reduce usage.</p> <p>7 I'm not sure what they meant by Regulation,</p> <p>8 but then, you know, CUP limits, as I described.</p> <p>9 Q So this slide says it needs more information</p> <p>10 from water planning and environmental.</p> <p>11 Would water planning fall under your group?</p> <p>12 A I can't remember when Steve McInall became VP</p> <p>13 for planning. He took both water planning and energy</p> <p>14 planning, and they created -- or I guess Melissa</p> <p>15 created a VP of planning.</p> <p>16 But when I first took the position in July of</p> <p>17 '18, planning was in my area.</p> <p>18 Q And then environmental would be --</p> <p>19 A Paul Steinbrecher.</p> <p>20 Q Got it.</p> <p>21 A Right. And so I am assuming -- you know,</p> <p>22 I'll just suppose -- that planning was around growth</p> <p>23 projections, and the water management -- or, I'm sorry,</p> <p>24 the total water management plan that we've been talking</p> <p>25 about.</p>
<p style="text-align: right;">Page 46</p> <p>1 THE WITNESS: Okay, thank you.</p> <p>2 (Recess from 8:57 a.m. to 9:06 a.m.)</p> <p>3 (Exhibit Number 2 was marked for</p> <p>4 identification.)</p> <p>5 BY MR. WEDEKIND:</p> <p>6 Q All right. Mr. Calhoun, I'm going to mark</p> <p>7 Exhibit Number 2. This appears to be a draft of a JEA</p> <p>8 Status Quo Case.</p> <p>9 The second page of it looks like it's dated</p> <p>10 October 2018. There's handwritten notes on it. I</p> <p>11 understand that these are not your notes.</p> <p>12 A That's correct.</p> <p>13 Q But it looks like this work product related</p> <p>14 to work that was being done on the status quo in</p> <p>15 October of 2018, and there is a page in here that</p> <p>16 relates to what's called the water market. I've turned</p> <p>17 there.</p> <p>18 Could you describe what that shows?</p> <p>19 A Yeah. So the title at the top of the slide</p> <p>20 in red font says: Need more information from water</p> <p>21 planning and environmental.</p> <p>22 So it appears that the slide was being</p> <p>23 developed to talk about the water supply situation that</p> <p>24 we talked about earlier.</p> <p>25 On the left side it speaks to growth -- water</p>	<p style="text-align: right;">Page 48</p> <p>1 And then from an environmental perspective,</p> <p>2 it's about the aquifer and any additional withdrawals</p> <p>3 that we might expect when our permit comes up in 2031.</p> <p>4 And, then, of course, conservation is in that</p> <p>5 environmental wheelhouse as well.</p> <p>6 Q Would you recognize Mr. Steinbrecher's</p> <p>7 handwriting?</p> <p>8 A No, I would not.</p> <p>9 Q Okay. Any notes on there that you find</p> <p>10 interesting?</p> <p>11 A Yeah. I was just trying to -- so that says</p> <p>12 resource limited, which I would agree with that. Our</p> <p>13 aquifer, you know, as I've described earlier, we're</p> <p>14 constrained on the south and east side of the river.</p> <p>15 The comment, Do as if no additional conservation,</p> <p>16 that's probably not a bad thought. We have some of the</p> <p>17 lowest per capita use in the state right now, and I</p> <p>18 really don't see that being driven down much further.</p> <p>19 I'm not the expert on that, and that was part</p> <p>20 of the total water management work that C.M. Smith is</p> <p>21 doing that I think wraps up in the fall. So that's not</p> <p>22 bad.</p> <p>23 I'm not sure what this down here says. It</p> <p>24 looks like the word "what." And then something about</p> <p>25 maybe limit, I can't read that. And I can't read</p>

<p style="text-align: right;">Page 49</p> <p>1 anything else.</p> <p>2 Q What's on the following page?</p> <p>3 A Water customer growth drives increased</p> <p>4 revenue allowing for new debt without rate increases.</p> <p>5 Doing nothing, no change in cost structure;</p> <p>6 no change in capital; no change in rate; continue to</p> <p>7 comply with current pricing policy throughout proforma.</p> <p>8 Results in, new debt for capital; no</p> <p>9 additional revenue required from customers.</p> <p>10 So I'm assuming from the bar chart here, you</p> <p>11 know, it looks like our revenues in 2018 were about 463</p> <p>12 million, and they were forecasted to be 556 in 2030 --</p> <p>13 in the year 2030. And they're saying do nothing, and</p> <p>14 then some sub bullets, results in new debt for capital</p> <p>15 investments.</p> <p>16 It looked like we were -- that this slide</p> <p>17 would contemplate continue to pay for capital</p> <p>18 investments with cash, which is what we've been doing</p> <p>19 for 12 to 15 years now, all cash, no new debt.</p> <p>20 Q Was it ever part of the conversation among</p> <p>21 the SLT that government constraints were a problem for</p> <p>22 JEA?</p> <p>23 A The -- I testified to the -- to the I guess</p> <p>24 it was April meeting. I don't remember, I'd have to go</p> <p>25 back. But I just remember that famous constraint</p>	<p style="text-align: right;">Page 51</p> <p>1 A Yeah. I don't -- honestly, I don't remember</p> <p>2 when Herschel came on board, so -- you know, it all</p> <p>3 runs together. It may have been Lynne, may have been</p> <p>4 Aaron. I don't remember. I just remember the</p> <p>5 x/check -- which is a funny description -- x/check</p> <p>6 chart being at Ponte Vedra.</p> <p>7 Q Do you remember the chart having actual Xs</p> <p>8 and checks, or was it colored in green, yellow, and</p> <p>9 red?</p> <p>10 A We had a -- there was a PowerPoint table.</p> <p>11 You know, it may have been -- I don't know if it was</p> <p>12 hard copy or on a PowerPoint. I just don't remember.</p> <p>13 I just remember the data. First exposure to</p> <p>14 there are limitations to new lines of business.</p> <p>15 Q Did you ever hear Mr. Zahn say that the fact</p> <p>16 that JEA is a municipal utility is a problem with the</p> <p>17 business model?</p> <p>18 A Government ownership, I think, is the way he</p> <p>19 described it.</p> <p>20 Q So you did hear him make those comments?</p> <p>21 A Oh, sure.</p> <p>22 Q Okay. Can you walk us through the comments</p> <p>23 that he made?</p> <p>24 A I don't. I've heard him say it in various</p> <p>25 settings. I mean it was -- that was nothing secret.</p>
<p style="text-align: right;">Page 50</p> <p>1 chart, if you know the one I'm talking about, that</p> <p>2 initially was presented -- or the first time I recall</p> <p>3 seeing it was at Ponte Vedra, where it talked about</p> <p>4 statutory and charter restrictions.</p> <p>5 Q What was your response to the x/check chart?</p> <p>6 A X/check, that's a good description.</p> <p>7 Wow. I don't recall anything, other than</p> <p>8 that I didn't realize that we had those kind of</p> <p>9 constraints.</p> <p>10 Q Did you ever do any independent analysis to</p> <p>11 see whether those constraints were -- actually existed?</p> <p>12 A No.</p> <p>13 Q Do you know who presented the x/check chart</p> <p>14 on the constraints?</p> <p>15 A My recollection was Herschel. I think that's</p> <p>16 what I said in my -- my other testimony. I don't even</p> <p>17 remember if Lynne Rhode was there or not, but I think</p> <p>18 it was -- it was -- I believe it was Herschel.</p> <p>19 Q At the board meeting or --</p> <p>20 A No.</p> <p>21 Q -- at Ponte Vedra?</p> <p>22 A Ponte Vedra. It was during the strategic</p> <p>23 work.</p> <p>24 Q And that was at one of the meetings in, you</p> <p>25 said, April, May, or August?</p>	<p style="text-align: right;">Page 52</p> <p>1 He thought government was a -- was a constraint.</p> <p>2 Q Okay. So that was a common theme among his</p> <p>3 time at JEA?</p> <p>4 A Yeah, no doubt, from my perspective.</p> <p>5 Somebody else may think differently, but I thought that</p> <p>6 was pretty common knowledge, he felt like government</p> <p>7 was a constraint.</p> <p>8 MR. WEDEKIND: All right. No further</p> <p>9 questions. Thank you for your time today.</p> <p>10 THE WITNESS: Yes, sir. Thank you.</p> <p>11 (Concluded at 9:15 a.m.)</p> <p>12 -- --</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>

1 CERTIFICATE OF OATH
2 STATE OF FLORIDA)
3 COUNTY OF DUVAL)

4 I, the undersigned authority, certify that
5 DERYLE CALHOUN, JR. personally appeared before me and
6 was duly sworn on July 7, 2020.

7 WITNESS my hand and official seal this 14th
8 day of July, 2020.

9
10
11 
12 MARIANNE BRANSON, RPR
13 Notary Public, State of Florida
14 My Commission No.: GG 174097
15 Expires: January 25, 2022



16 Personally Known ____
17 OR Produce Identification X
18 Type of Identification Produced ____
19
20
21
22
23
24
25

1 ERRATA SHEET

2 DO NOT WRITE ON TRANSCRIPT - ENTER CHANGES HERE
3 IN RE: DERYLE CALHOUN, JR. - TERMINATION OF EMPLOYMENT
4 AGREEMENT WITH JEA

5
6 PAGE NO. LINE NO. CHANGE REASON
7 _____
8 _____
9 _____
10 _____
11 _____
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16 _____
17

18 Under penalties of perjury, I declare that I have read
19 my deposition and that it is true and correct subject
20 to any changes in form or substance entered here.

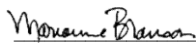
21 DATE DERYLE CALHOUN, JR.
22 mb
23
24
25

1 CERTIFICATE
2 STATE OF FLORIDA)
3 COUNTY OF DUVAL)
4

5 I, Marianne Branson, RPR, FPR, do hereby
6 certify that I was authorized to and did report the
7 foregoing proceedings, and that the transcript, pages 1
8 through 54, is a true record of my stenographic notes.

9 I further certify that I am not a relative,
10 employee, attorney, or counsel of any of the parties,
11 nor am I a relative or employee of any of the parties'
12 attorney or counsel connected with the action, nor am I
13 financially interested in the action.

14 Dated this 14th day of July, 2020.

15
16
17 
18 Marianne Branson, RPR-CP
19 Court Reporter
20
21
22
23
24
25

A	annual 32:19 33:8,9 answer 5:10 6:10,11 39:12 anybody 8:2 40:12 anyway 13:25 15:18 36:2,22 39:15 40:2 apologize 8:11 APPEARAN... 2:1 appeared 53:5 appearing 2:6 appears 46:7,22 approach 16:14 17:14,14 18:1 18:25 20:7,7,8 24:8,10 27:16 approval 43:12 44:25 April 37:11 49:24 50:25 aquifer 12:4 23:15,19,23 48:2,13 area 20:12,17 24:4 42:16 47:17 areas 22:25 argue 12:15 argument 25:23 ARIEL 2:6 asked 45:12 asking 5:15 18:15 asset 13:15 22:5 assets 21:13 assuming 47:21 49:10 assumptions 3:11 16:24 18:24 20:5 assure 44:15 Atlanta 12:23 attempted 12:14 attempting 21:4 attend 37:4,7 38:11 39:2,5	39:19 attended 37:8 attention 21:7 attorney 5:23 8:3 54:9,11 August 37:11 50:25 authority 53:4 authorized 54:5 axis 19:14	B B 2:2 B-R-O-A-D-... 4:10 back 7:4 9:14,14 9:17 15:16,17 15:18,23 16:8 18:8 19:1 20:8 20:16 22:15 25:20 26:24 32:14 33:19 37:16 39:11 40:6,17 49:25 back-and- 20:18 back-and-forth 15:24 20:24 25:15 26:19 background 33:2 bad 35:9 48:16 48:22 bailiwick 14:14 ball 28:17 bankers 36:1 37:21 43:15 bar 49:10 bars 21:8 base 33:7 Based 41:24 Baseline 3:11 16:24 batteries 12:9 42:18 battery 12:16,16 25:23 bears 5:14 becoming 12:16 beginning 5:3	45:6 believe 50:18 believed 40:4 benchmark 27:19 benefit 42:20 44:9 berth 25:11 best 8:12 39:6 44:14 better 18:2 23:6 23:15,17 42:22 beyond 36:4 big 7:18,18 13:9 44:23 big-picture 24:6 big-ticket 21:17 21:18 bill 12:1 billion 27:21 billions 27:21 bills 13:17 biosolids 21:15 bit 7:7 18:18 black 19:11,25 Blodgett 2:9 36:8 board 9:16 14:10 30:4 32:2 36:15 39:3,14 42:12 43:11 44:24 50:19 51:2 boggled 36:5 boggles 36:6 bolts 10:20 bonuses 33:10 bookend 27:11 boss 11:19 boss's 11:19 bottom 20:7 21:14 24:7 Boy 44:23 brain 32:13 Branson 1:21 53:11 54:4,18 breaks 24:20 Broadmoor 4:10 Brost 41:4,8	budget 33:18,23 33:24 budget's 28:14 built 29:5 bullets 49:14 bunch 28:1 Busey 2:9 business 14:6,24 16:5 17:17 21:12,19 25:15 25:22,24 30:14 31:7,21 43:25 44:2 51:14,17 businesses 30:24 Buy 8:12
				C C 54:1,1 C.M 48:20 calculation 42:11 calendar 31:12 37:17 38:20 39:7 calhdi@at&t... 10:2 calhdi@jea.com 10:3 Calhoun 1:7,15 3:2 4:1,9,12 5:3 46:6 53:5 55:3,20 call 31:16 38:15 called 8:5,7,17 9:1 18:5 24:23 32:18 46:16 calling 8:15 20:21,23 calls 14:8 camp 38:14 cap 36:21 capita 48:17 capital 13:13,17 13:23 22:6,7 24:9 35:8 49:6 49:8,14,17 capped 36:23,24 care 29:21,24 career 11:3	

Caren 6:23 20:19,22 29:13 30:13 case 3:12 11:19 20:22 46:8 cases 11:21 cash 34:7,22 35:8 49:18,19 cast 12:14 cause 4:18 5:7 caused 19:22 cell 10:4 center 33:21 CEO 12:12,12 28:9 34:14 43:11 44:24 45:5 certainly 30:3 CERTIFICA... 3:5,6 53:1 certify 53:4 54:5 54:8 chance 16:1 45:16 change 28:8,15 29:11 44:2 49:5,6,6 55:6 changed 42:24 43:7,18 changes 17:18 55:2,18 characterize 13:10 21:18 chart 19:9 49:10 50:1,5,13 51:6 51:7 charter 50:4 check 38:5,19 checks 51:8 chlorides 23:20 circulated 17:5 city 2:1 14:16 34:5 35:9 36:5 39:19 Civil 5:21 clarify 7:12,21 clean 6:5,8,13 clear 22:8 clearly 12:11	close 45:25 closely 7:2 co-op 43:14,20 44:4 color 24:21 colored 51:8 combined 11:12 come 8:16 25:14 26:5 comes 7:16 48:3 comfortable 42:16 coming 32:3 comma 30:19 comment 48:15 comments 51:20 51:22 Commission 53:12 committee 6:19 40:20 common 52:2,6 community 42:25 43:2 company 32:21 32:24 compared 24:10 compares 19:5 complain 26:7 complete 39:17 completed 6:11 completely 5:10 5:11 16:6 comply 49:7 concept 30:21 concerns 26:13 Concluded 52:11 condition 30:17 conducted 4:16 confusing 6:2 connected 23:5 23:15 54:11 connection 16:13 25:9 36:17 37:1 40:14 42:13,22 consent 27:20 conservation	47:5 48:4,15 considered 20:10 consistent 7:10 31:13 constrained 13:15 48:14 constraint 49:25 52:1,7 constraints 49:21 50:9,11 50:14 constructed 22:5 construction 14:20 consultant 15:13 25:14 consumptive 23:18 47:1 contact 8:25 contemplate 49:17 contemplating 43:5 context 35:15 continual 26:19 continue 12:4 27:7 49:6,17 continuing 28:22 continuum 27:12 contract 30:1,3 30:4 31:23,24 contracts 25:4 contribute 34:5 contribution 35:9 36:5 conversation 6:5 6:9,14 9:3 19:3 25:21 26:21 33:20 34:24 42:24 49:20 conversations 25:8 34:9 38:22 COOK 2:6 copied 8:14	copies 16:18 copy 51:12 core 28:16 31:5 31:16,16,20 32:22 corporate 14:9 correct 4:15,19 4:21,22,24,25 5:7 15:1,2 16:15 22:20 23:3,6 24:11 33:14 36:12 38:9 39:18 46:12 55:18 correction 7:8 7:24 correctly 19:9 21:21 cost 19:12 20:17 33:21 49:5 costs 16:12 17:20,21 19:13 20:3 25:5,5 27:7,13 34:1 Council 39:19 counsel 2:6 54:9 54:11 County 22:25 53:2 54:3 couple 23:8 course 32:13 34:4 41:4 48:4 court 1:21 6:7 54:19 coverage 14:23 covered 41:21 45:18 created 47:14,15 cuff 7:19 culture 28:2,8 28:19 34:17 CUP 47:2,8 current 49:7 currently 4:13 5:22 customer 14:8 47:4 49:3 customers 13:15 34:23 49:9	cut 27:3 cuts 16:9,12 17:20,21 20:10 20:11 cycle 29:6 <hr/> D <hr/> D 3:1 DANIEL 2:2 data 51:13 date 1:17 17:6 55:20 dated 46:9 54:13 daughter 38:15 dawned 42:10 day 20:20 27:3 35:20 53:8 54:13 day-to-day 28:20 31:6 days 10:23 death 18:2,4,25 debt 49:4,8,14 49:19 December 39:20 declare 55:17 decrease 24:9 definitely 36:3 demands 22:12 deposition 5:4 5:18,19,20,24 8:25 55:18 Depot 8:13 Deryle 1:7,15 3:2 4:1,9 53:5 55:3,20 describe 46:18 described 19:5,6 33:6 47:8 48:13 51:19 description 50:6 51:5 design 14:19 details 18:20,23 determine 4:17 developed 46:23 development 7:14 32:11 36:16
--	--	--	--	---

different 7:3 21:11 differently 14:4 44:10,17 52:5 dig 22:19 dire 26:23 direct 4:5 31:22 41:22 direction 11:18 12:11 44:24 directly 31:8 director 33:18 33:19 disagree 41:8 disagreed 16:6 discharge 11:25 13:1,22 14:7 discharges 11:24 13:19 discipline 5:6 disclosure 10:11 disconnected 23:2 discussed 43:21 discussion 11:14 25:2 27:14 33:16 35:24 36:3,20 distinctly 32:17 document 16:17 16:23 17:1,4 documented 28:11 doing 25:10 26:8 26:15 28:10 33:22 38:8 43:16 48:21 49:5,18 dollars 13:6 22:15,15 27:21 42:1 doom-and-glo... 17:14 18:1 doubt 17:3 44:24 52:4 draft 3:12 16:25 17:12 46:7 dramatic 16:12 drills 23:8	Drive 2:10 driven 48:18 driver's 44:12 44:18,19 drives 49:3 duly 4:2 53:6 duty 5:10 Duval 2:7 53:2 54:3 Dykes 8:23 9:1 26:7 30:9 31:8 <hr/> E E 3:1 54:1,1 55:1,1,1 earlier 19:25 20:3,4 22:23 32:17 46:24 48:13 earn 32:19 east 23:19,23 48:14 EBITDA 32:25 33:16 educated 12:9 Edwards 2:13 5:23 17:7 18:14 effect 35:13 43:24 Efficiency 47:4 effluent 11:24 egregious 26:17 27:1 either 6:2,3 7:24 22:15 electric 14:24 elevated 26:10 eliminating 11:23 email 8:12,18 9:24,25 embarrassed 35:18 36:7 embarrassing 42:3,4 employed 13:16 employee 28:24 54:9,10	employees 32:19 employment 1:7 4:18 31:23 55:3 ended 8:6 29:13 44:16 energy 24:21,22 25:22 41:10 47:13 enriched 35:12 ENTER 55:2 entered 55:18 enters 36:8 entire 28:13 environmental 46:21 47:10,18 48:1,5 ERRATA 3:7 errors 7:17 escalate 27:7 Esquire 2:2,2,5 2:6,9,13 essentially 25:24 event 29:21 events 7:3 eventually 13:6 everybody 16:18 evolved 25:12 exact 17:6 EXAMINATI... 3:3 4:5 example 14:2 EXBHIITS 3:10 excellent 27:4 30:17 exchange 15:24 excuse 19:10 38:10 executive 43:9 executives 29:4 41:25 Exelon-Duke 29:14 exercise 27:2,5 exhibit 16:17,18 16:20 46:3,7 exist 44:8 existed 50:11 existing 21:13	exists 4:17 expect 48:3 expected 33:19 expenditures 22:7 24:10 expenses 25:23 expensive 11:25 expert 48:19 Expires 53:13 explain 21:4 24:19 34:3 explaining 41:3 explanation 7:8 7:25 explicitly 30:13 exposure 51:13 express 9:2 26:13 extent 34:21 external 30:15 30:22 externalities 31:1 <hr/> F F 54:1 fabrication 39:17 faces 38:2 fact 35:8 36:10 40:15 51:15 fairly 20:10,11 23:4 fall 47:11 48:21 famous 49:25 fast 43:3 feasible 13:11 feedbacks 31:11 felt 7:7 40:23 41:16 52:6 field 40:16 figured 27:13 figures 21:3 filed 12:1 final 16:2 finance 41:10 financial 12:9 27:6 32:23 33:2,16	financially 13:11 54:12 find 48:9 finish 6:9 fires 29:8 firm 12:20 firms 37:25 first 4:2 17:13 21:3,10,12 22:16 23:9 37:3,18 40:8 40:10 47:16 50:2 51:13 fiscal 37:18,19 fix 22:20 fixing 29:9 flat 25:24 floor 1:19 2:4 43:9 Florida 1:20 2:4 2:8,11 4:11 53:2,12 54:2 focus 28:15 30:10 focused 14:23 22:9 28:10 30:22,23,25 38:6 43:1 folks 7:1 8:7,15 13:25 22:19 29:16 33:3,21 34:4,10 follow-up 40:19 following 11:19 49:2 follows 4:3 font 19:12 46:20 forecast 13:20 forecasted 49:12 forecasts 12:21 foregoing 54:6 forget 13:19 form 5:2,25 55:18 forth 15:18,25 20:19 43:15 four 6:25 25:17 37:9,10 FPR 1:21 54:4
--	---	--	--	---

frankly 31:2 free 35:8 frequently 31:10 friendly 9:3 front 5:2 16:25 34:10 front-line 34:20 35:6 FTE 19:11 20:2 FTEs 19:23 full 8:12 fund 35:8 funny 51:5 further 7:8 24:2 48:18 52:8 54:8 <hr/> G <hr/> gap 36:4 Garrity 4:21 5:2 general 2:6 11:8 generating 14:18 generation 12:17 genesis 11:20 getting 8:8 21:10 GG 53:12 give 10:20 34:23 45:10,16 given 27:16 28:7 glad 8:9 glanced 6:24 glaring 7:16 go 7:13 9:14,17 11:13 13:18 14:1 17:9 18:8 21:10 26:6 27:9 29:10 30:14,19 34:22 38:5 40:6,17 43:12 45:19 49:24 goal 11:22 12:25 13:1,9,10 15:14 goals 14:5 15:17 37:19	goes 17:18,18 20:21 29:12 going 11:24 12:8 16:17 19:16 20:21,22,23 21:20 27:2,11 28:3 29:4,9,10 29:19 30:15 35:12 36:14,16 39:11 41:11,22 42:6,17,18 45:13,20,21,21 46:6 good 7:1 15:12 21:5 28:12 30:16 34:8,23 37:22 42:12,19 50:6 Googling 9:21 gosh 39:16 Gotcha 22:21 government 49:21 51:18 52:1,6 graded 42:8 great 28:14,15 45:24 green 51:8 grid 23:1,10 grids 23:2,5 ground 22:11,13 grounds 4:18 group 20:13 22:2,4,14 31:5 31:16 47:11 grow 12:5 32:21 growth 12:22 22:11,25 24:3 46:25 47:1,4 47:22 49:3 Guana 16:10 guess 47:14 49:23 guy 29:9 41:10 41:11 43:23 guys 22:19 <hr/> H <hr/> H 55:1	half 15:15 hand 16:16 53:7 handed 32:5,8,9 handful 45:23 handing 16:23 hands 28:21 handwriting 48:7 handwritten 46:10 happen 6:21 27:6 29:18 happened 9:7 11:17 44:21 happy 6:3 hard 28:22 40:8 51:12 harsh 20:10,11 head 7:20 39:15 42:6 43:22 headcount 19:7 19:14,20 29:18 health 23:22 32:24 hear 17:13,25 29:20 30:7,12 51:15,20 heard 29:1 31:14,24 32:3 32:25 34:25 41:16 44:6 51:24 hearing 39:8 40:4,14 hearings 45:5 heart 12:6 Hell 29:13 help 6:7 Herschel 8:24 38:23 39:24 50:15,18 51:2 hey 8:7,15 29:16 32:5 hindsight 42:20 44:9 hitting 9:18 hold 27:13 34:1 holes 22:20 Home 8:12	honest 5:11 10:24 32:4 honestly 5:11 51:1 hoped 35:18 horrible 36:7 hours 10:17 39:13 house 27:6 huddle 45:21 huge 16:10 Hulsey 2:9 hundreds 20:14 <hr/> I <hr/> idea 11:2 44:5 ideas 15:25 28:16 32:22 identification 16:21 46:4 53:15,16 identified 7:5 10:12 12:25 identify 9:25 immediately 5:3 impact 13:18 implications 19:21 important 29:17 inaccurate 39:10 40:4,23 41:17 incentive 32:12 32:21 33:11 incentives 33:8 including 5:6 income 13:15 increased 49:3 increases 49:4 incredibly 11:25 27:19 independent 2:10 50:10 influences 45:3 information 5:14 10:11 42:13 46:20 47:9 infrastructure	22:10,11 28:2 initially 50:2 instance 21:14 instances 12:6 instructed 10:17 interact 31:10 interested 54:12 interesting 42:24 48:10 international 12:20 interview 4:16 6:17,18 7:4,6 7:23 9:11 10:21 15:19 20:20 36:8 45:7 interviewed 6:20 interviews 6:22 8:6 introduced 32:25 investigation 4:17 39:19 40:20 investigations 45:13 investigatory 6:19 investments 49:15,18 invite 38:4 invites 37:17 involved 31:6 involvement 14:25 15:3 IPO 43:14,20 issue 10:9 13:25 23:20,24,25 33:24,25 issues 21:11 45:15 It'll 16:18 items 21:18 <hr/> J <hr/> Jacksonville 1:20 2:1,4,8,11
---	--	---	---	--

4:10	34:9 50:8	leapt 39:16	looked 12:22	McKinsey 12:19
January 53:13	knew 27:16 32:1	learned 13:13	15:15 32:2,15	15:9,12,20
JEA 1:7 4:14	know 4:12 7:15	leave 4:13	37:16 49:16	16:2 20:9,21
10:9 11:1,3,17	7:20 8:16 9:7	LEE 2:2	looking 12:3	20:25 24:14
12:14 14:20	11:20 12:11,15	left 28:14 46:25	39:11	25:10,17 26:5
27:4,10,16,18	12:17,19,21	leftover 34:7	looks 5:18 19:4	26:8,14 37:15
28:2,7,24	13:7,8,24,25	legislature 12:2	19:16 20:1	37:20,24 38:2
33:25 34:11,18	14:3 15:16,22	let's 11:13 18:22	21:19 46:9,13	38:2,7 42:14
35:1,13 39:3	16:9 20:15,20	45:19	48:24 49:11	mean 11:18
42:1,12 44:22	21:14 23:22	letter 8:11	lot 13:24 14:23	13:13 21:5
45:15 46:7	25:11,12,12,18	letting 27:9	25:3,3 27:17	26:16 27:9
49:22 51:16	25:22 26:1,2,3	level 17:22	35:24	28:11 30:2
52:3 55:3	27:2,12,13,20	25:17 26:11	lots 5:19	31:3,4 34:15
JEA-built 22:10	28:3,4,12,16	27:18 31:15	lowest 48:17	42:2 43:6,7,8
JEA.com 8:20	28:19,21 29:7	33:21	Lynne 8:24	44:8 45:2
job 15:16 28:11	29:19 30:14	lifeline 30:5	38:23 50:17	51:25
38:13,16 41:2	31:5,19,20	light 35:20	51:3	means 5:13
44:15	32:2 34:7,19	likes 34:20		meant 47:7
Johns 11:24	35:9,15,24	limit 13:22 47:2	M	measure 42:10
22:25	36:4 37:3,20	48:25	ma'am 4:4	media 9:15,18
Jr 1:7,15 2:2 3:2	38:1,19 39:13	limitations	Maillis 40:24	32:14
4:1,9 53:5 55:3	40:10,25,25	51:14	Main 23:9	meet 22:11
55:20	41:5,7,12,24	limited 13:15	maintain 22:14	33:23
July 1:17 9:16	42:5,17,18,23	14:25 48:12	maintains 22:5	meeting 9:17
30:4 31:25	43:2,11,19	limits 47:8	maintenance	30:4 31:17,18
36:14 38:12,14	44:1,5,14 45:2	line 19:11,25	22:18,19	31:21 36:15
38:18 47:16	45:3 47:8,21	20:3 21:12	major 20:4	37:17 38:11,18
53:8 54:13	48:13 49:11	22:16 32:21	making 35:11	39:20 49:24
Julyl 53:6	50:1,13 51:2	34:10 55:6	management	50:19
jump 18:18	51:11,11	lines 51:14	14:20 23:5	meetings 15:10
jumps 18:16	knowledge 52:6	list 38:4	42:13,14,14	15:11,20 31:15
June 38:16	Known 53:15	listed 14:9	47:23,24 48:20	39:3,9,14
		listening 40:16	manager 11:8	40:20 41:14
K	L	little 7:7 18:18	managers 33:20	50:24
keep 6:8 17:16	labor 18:20,20	LLP 2:3	March 17:7	Melissa 8:23 9:1
17:17 27:7	18:22 19:13	long 11:3 39:13	Marianne 1:21	31:4 47:14
29:8 30:16	25:5 29:5	long- 14:21	53:11 54:4,18	Melissa's 31:22
44:14	Lane 4:10,10	32:20 33:10	mark 15:22	member 26:14
kept 8:5,8	language 33:3	long-term 15:7	16:17 46:6	members 30:8
KEVIN 2:9	laptop 10:9,10	32:12,23 33:4	marked 16:20	41:15
kidding 35:17	large 20:12	36:17 37:1	16:25 46:3	mentioned 9:24
killed 43:19	Laura 1:19 2:3	38:23 42:15	market 46:16	12:24 14:7
kind 5:13 8:21	law 37:25	longevity 28:7	47:4	31:23
9:15,17 10:19	lawyers 35:25	look 6:25 9:14	matter 44:16	mess 9:19
15:23 17:22	laying 21:17	9:17 18:9,14	mb 55:21	metrics 12:20
18:16 21:22	lead-up 8:4	21:22 24:14	McElroy 4:23	14:10 28:12
22:18 25:8	leaders 30:22	25:14 29:9	McInall 41:2,2	30:16 32:20
26:18 28:8	31:17	39:7 40:6,18	47:12	33:16
32:21 33:10	leaks 22:20	42:7,23 43:8	McInall's 6:24	Miami-Dade

27:20 middle 21:23 Mike 41:4 miles 20:14 million 14:17 49:12 millions 42:1 mind 7:16 9:15 13:24 15:16 27:8,15 36:6 39:1 43:4 mine 7:3 minus 33:22 minute 14:21 misleading 39:10 40:5,23 41:16 missed 8:13 missing 8:11 mistaken 37:12 mistakes 45:22 misunderstood 35:4 model 51:17 money 13:4 21:9 28:1 35:7 monitoring 8:21 month 14:10 monthly 33:20 months 11:17 44:22 morning 6:24 move 23:8 moving 23:25 Mullins 2:3 multiple 39:14 municipal 51:16	26:10 needs 27:6 47:9 Nelson 2:3 never 32:25 33:15 35:19 42:10,10 43:4 new 21:23 22:11 22:22 25:14 33:10 34:17 43:8 49:4,8,14 49:19 51:14 nice 41:2 nitrogen 13:22 14:7 nitrogen's 28:14 Nocatee 24:4 non-labor 24:17 25:1,7 nonprofit 34:21 35:1 north 1:19 2:3 23:7,15 Notary 53:12 noted 37:17 notes 46:10,11 48:9 54:7 notice 8:8 28:7 noticed 7:17 Number 16:20 46:3,7 numbers 17:15 NUNN 2:2 38:10 nuts 10:20	October 46:10 46:15 odd 7:24 off-site 38:11 off-sites 36:25 37:14 38:6 Off-the-record 11:14 office 2:6 26:5 official 53:7 oh 19:12 39:16 51:21 okay 4:20 5:1,9 5:18 6:7,16 7:22 9:13,24 10:16,19 15:6 16:16 18:20,22 19:4 20:6 22:17,21 24:13 24:16 30:21 35:4 37:6,13 39:5 43:6 45:24 46:1 48:9 51:22 52:2 omissions 7:17 Once 22:13 operate 22:14 operates 22:4 operating 5:20 operational 16:12 25:5 operations 22:14 28:20 31:6 33:1 43:23 opine 12:8 41:11 opportunity 5:25 10:21 45:6,10 order 27:20,25 orders 11:19 organized 31:2 OSHA 28:13 ought 15:13 outraged 26:18 outrageous 41:7 Outside 37:25 overall 21:20	overflows 28:4 ownership 51:18	perform 27:18 performance 28:5 37:19 period 42:7 perjury 55:17 permit 13:20 23:18 47:1 48:3 permitted 13:21 personal 9:24 personally 53:5 53:15 perspective 24:6 27:24 41:6 45:1 48:1 52:4 phase-out 14:11 14:16,19 phone 2:6 40:16 phones 10:4 phrase 18:7,11 physically 10:14 pick 6:25 piece 14:25 28:19 47:5 pipe 20:13,14 22:2,4 29:9 33:19 pipelines 21:24 22:24 place 1:19 12:7 29:8 30:16 plan 32:12 33:11 36:17 37:1 41:3 47:24 planned 23:12 planning 14:22 15:7 38:7,24 42:15 46:21 47:10,11,13,13 47:14,15,17,22 plant 23:9 please 4:7 9:25 plus 27:21 33:22 pockets 28:21 point 11:22 13:8 20:6 35:16 policy 49:7 Ponte 15:10,11 37:6,14 38:11
N	O		P	
N 3:1 name 4:7 Nassau 16:10 nature 35:19,21 36:2 near 23:9 need 28:24 29:17 30:10,15 33:22 46:20 needed 7:21,24	O&M 22:15 24:17,25 25:1 25:7 Oak 37:4,4 OATH 3:5 53:1 object 5:25 obviously 25:4,5 25:12,21 38:4 43:3,14,18 47:5 occur 36:18 occurred 30:6 42:9 occurring 24:3		P 2:9 package 32:2 page 17:12 18:14,21,22 21:1 24:7,16 24:16 46:9,15 49:2 55:6 pages 35:25 54:6 Paraphrasing 9:7 parity 12:16 part 4:16 18:23 18:24 19:2 20:18,24 25:2 27:14 36:3 37:18 42:11,14 44:11 48:19 49:20 particular 20:12 20:17 25:6 29:25 particularly 25:14 parties 54:9 parties' 54:10 parts 21:11 38:7 40:1,3 passed 32:6 Pat 40:24 Paul 6:23 47:19 pay 13:16 21:6 34:6 49:17 penalties 55:17 penalty 5:6 people 7:5 8:5 13:16 17:20,20 19:8,10 27:9 28:10,14,17 32:23 34:22 37:24 38:3 43:1 percent 13:14 24:17 percentage 16:9	

38:19 50:3,21 50:22 51:6 position 11:7 47:16 pot 14:19 potential 12:25 27:12 32:19 PowerPoint 15:23 51:10,12 practice 39:2 prefer 10:24 prepare 6:16 9:10 present 2:12 14:10 presentation 12:23 18:8 presentations 39:9 41:14 presented 50:2 50:13 presenting 20:9 preserve 16:11 23:22 president 11:8 pressure 14:9 pretty 7:9 16:11 16:12 31:12 52:6 previously 4:20 23:2 pricing 49:7 primarily 22:25 23:20 prior 5:3 15:19 35:7 42:9 probably 13:23 15:3,11 48:16 problem 49:21 51:16 Procedure 5:21 proceedings 54:6 process 14:22 15:8 38:24 42:15,22 44:11 Produce 53:15 produced 4:2 53:16	product 16:2 26:19 46:13 profit 34:2,5,7 34:17 proforma 49:7 project 23:5 projecting 24:13 projections 26:22 47:23 projects 23:12 property 14:18 protected 29:19 provide 5:15 45:11,16 provided 4:20 public 11:6 41:15 53:12 pull 13:18 23:19 23:22 pump 20:15 23:24 pumps 23:14 PUP 7:11,14 9:18 32:12 35:22,23,25 36:16,21 41:24 43:3,18 purification 21:23 purified 12:3 purpose 37:13 pursue 43:12 push 15:16,16 23:10 25:19 pushed 16:8 pushing 12:5 16:8 19:1 20:8 20:16 24:2 put 13:4 14:18 26:3 28:21 putting 22:10	44:20,23 questions 5:10 5:14,25 6:1 10:20 21:2 45:23 52:9 quick 45:20 quickly 43:10 quit 28:22 quo 3:11,12 16:13,24 17:14 17:24,24 18:25 19:5,6,17,18 19:24,24 20:1 20:7 21:20 22:2 24:8,10 26:22 27:15 46:8,14 quote-unquote 34:2	15:12 16:7 17:2 18:6 21:8 26:16,25 29:2 29:25 32:1,16 35:14 36:22 37:22 38:1 39:18 40:11 50:2,7 received 42:12 receiving 31:24 Recess 46:2 recognize 48:6 recollection 7:3 7:10 25:16 32:7 37:23 39:6 40:7 50:15 record 4:8 5:1 6:5,8,13 10:22 11:13 45:19 54:7 recordable 28:13 red 46:20 51:9 reduce 47:6 reduction 17:21 19:7,20 20:13 21:20 22:1 24:25 29:18 reductions 17:22 19:21,22 20:17 referred 17:25 19:25 referring 24:18 24:24 35:22 reflects 5:1 regular 39:2 Regulation 47:7 related 15:8 16:5 24:20 46:13 relates 46:16 relative 54:8,10 relevant 45:12 reliable 28:5 remember 6:21 16:4,8 17:15 30:18,19 32:3	32:9,11,17 35:11 38:2,17 38:18 39:8 40:1,2,3,12,24 47:12 49:24,25 50:17 51:1,4,4 51:7,12,13 remembering 21:21 renewal 21:13 repeat 6:3 replacement 21:13 report 54:5 reported 1:21 31:4,8 reporter 1:21 3:6 6:8 54:19 reporting 31:5 reports 31:22 represent 21:8 required 49:9 Reread 6:18 resource 48:12 respect 22:6 response 14:8 50:5 responsible 11:16 44:21 45:4 restate 6:3 restriction 23:21 restrictions 23:18 50:4 restructure 42:8 restructuring 43:5 result 24:8 35:12 results 49:8,14 retention 28:25 29:4 revenue 49:4,9 revenues 49:11 review 3:11 16:24 26:3 Rhode 8:24 38:23 50:17 ride 44:13
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right 12:7 13:6 13:12,17,23 15:5 17:23 19:8,13,18,20 20:2 21:1,25 23:2 24:21,22 28:1 31:18,19 33:6,13 35:2 36:11 40:8,13 41:19,25 44:8 45:13 46:6 47:3,21 48:17 52:8	35:12 36:4 42:11 Salem-Diamond 40:8 sales 25:25 sanitary 28:4 sat 15:21 saying 8:7 26:25 35:5 39:16 40:12 49:13 says 17:12 21:23 24:7,11 46:20 47:3,9 48:11 48:23	session 12:2 set 44:23 settings 51:25 settle 29:16 settled 44:14 sewer 28:4 share 26:1 SHEET 3:7 shift 8:22 short-term 33:7 show 21:3 25:18 shows 17:7 19:20 22:1 46:18	Smith 2:9 48:20 solar 12:9,16 25:23 42:17 solars 12:15 sold 42:1 Somebody 32:6 52:5 sorry 9:5,5,6 17:8 19:12,23 47:23 sort 21:2 south 23:10,11 23:19,23 24:1 24:2 48:14 Southside 14:18 speak 26:25 speaking 33:3 speaks 46:25 special 6:19 40:19 specific 35:14 specifically 12:25 17:2 spending 27:21 spent 28:1 spiral 18:2,4,25 spit 26:20 spring 15:9 17:5 St 11:24 22:25 staff 15:20 28:13 34:20 35:6 start 18:22 started 9:16,18 15:10 32:20 33:2 42:25 43:1 starting 22:23 state 4:7 12:1 48:17 53:2,12 54:2 stated 22:22 statement 1:13 4:21 35:11 statements 41:15 stations 20:15 status 3:11,12 16:13,24 17:14 17:24,24 18:25	19:5,6,17,17 19:24,24 20:1 20:7 21:20 22:2 24:8,10 26:22 27:15 46:8,14 statutory 50:4 Steinbrecher 6:23 47:19 Steinbrecher's 48:6 stenographic 54:7 Steve 6:24 41:2 47:12 sticks 26:17 39:1 39:14 stool 32:18 33:6 story 12:22,22 straight 19:11 strategic 7:10 14:22 15:7 36:17 37:1,15 38:7,24 42:15 50:22 Street 1:19 2:3,7 23:9,10 struck 7:23 structure 29:11 43:12 49:5 structures 44:1 stuck 7:20 stuff 21:15 22:20 29:14 30:15 38:25 sub 49:14 subject 55:18 substance 8:9,17 55:18 substantive 17:18 39:1 44:2 Suite 2:7,10 summarize 33:5 Sunday 8:13 supplies 22:24 supply 21:23 22:22 46:23 suppose 47:22
rights 4:21 Riley 2:3 river 11:24 13:19 14:8 23:7,8,16 24:1 24:1 48:14 role 15:7 33:19 rolling 28:17 43:9,17 room 25:18 roomful 37:24 rough 21:6 roughly 19:17 19:24 routine 31:21 row 21:23 22:9 22:22 rows 21:11 RPR 1:21 53:11 54:4 RPR-CP 54:18 Rules 5:20 run 14:20 30:10 30:14 runner's 38:14 running 17:16 17:17 30:16,23 runs 51:3 Ryan 8:24 39:23	Scarborough 2:3 schedule 31:21 seal 53:7 seat 44:12,19,19 second 45:20 46:9 secondary 19:14 secret 51:25 section 18:12 see 7:2,6,13 19:4 19:19 20:2,4 28:5,23 40:22 41:6,6 48:18 50:11 seeing 8:5 16:4 38:2 40:24 50:3 seen 17:1 35:20 sell 30:12,19 selling 30:11 senior 30:22 41:25 senior- 30:21 senior-senior 31:17,20 sent 8:13 10:12 separate 23:2 septic 14:11,16 14:19 series 36:25 service 14:8 17:21 27:4 services 17:21 25:4 27:3 28:3	side 11:10 14:5 14:24 15:4 16:5 19:20 23:7,16,20,23 23:25 24:1 25:22,24 43:25 44:16 46:25 47:3 48:14 sign 32:5 signed 4:23,24 4:24 5:2 significant 19:7 sir 5:8,12,17 16:3 24:23 26:12,16 31:9 35:23 37:5 52:10 sit 40:13 41:19 site 41:3 situation 46:23 sixth 10:12 slide 15:23 21:4 21:21 22:6 24:11 25:6,18 46:19,22 47:9 49:16 slides 3:12 26:6 slinging 12:20 SLT 25:9,17 26:14,21 29:22 29:24 30:8,8 31:15,18 36:20 41:15 42:21 49:21 smart 15:14	start 18:22 started 9:16,18 15:10 32:20 33:2 42:25 43:1 starting 22:23 state 4:7 12:1 48:17 53:2,12 54:2 stated 22:22 statement 1:13 4:21 35:11 statements 41:15 stations 20:15 status 3:11,12 16:13,24 17:14 17:24,24 18:25	stuck 7:20 stuff 21:15 22:20 29:14 30:15 38:25 sub 49:14 subject 55:18 substance 8:9,17 55:18 substantive 17:18 39:1 44:2 Suite 2:7,10 summarize 33:5 Sunday 8:13 supplies 22:24 supply 21:23 22:22 46:23 suppose 47:22
S S 55:1 sadness 9:2 salary 32:19 33:7,7 sale 14:18 29:21				

<p>sure 6:4,6,15 15:9,14 18:6 34:13,15 40:21 45:1 47:7 48:23 51:21 surprise 39:7 sworn 1:13 4:2 53:6 system 16:10 systems 11:9</p> <hr/> <p>T</p> <p>T 54:1,1 55:1,1 table 15:23 19:19 32:8 39:24 51:10 tablet 10:9,10 take 9:14 18:14 26:24 29:21 45:20 taken 1:17 29:24 talk 8:2 14:21 18:19 29:3 33:17 34:15 46:23 talked 9:5 11:22 12:3 20:19 46:24 50:3 talking 6:12 8:6 21:9 22:3,17 32:20 37:18 42:25 43:2 47:24 50:1 talks 24:16 tank 14:19 tape 39:12 40:7 team 31:20 tell 17:4 21:5 30:8,13 42:17 45:22 ten-year 24:14 41:3 tend 35:6 TEODORES... 2:5 term 14:22 32:21 33:11 terminated 9:2 10:25</p>	<p>terminating 4:18 termination 1:7 5:7 55:3 terms 33:2 34:1 testified 4:3 32:7 32:17 37:16 49:23 testimony 31:14 35:17,24 42:6 43:15 50:16 thank 17:10 45:17 46:1 52:9,10 theme 52:2 thing 6:10 8:10 9:3,6,16 11:20 15:24 17:16,22 26:2,18 28:1 32:22 33:4 35:16,19,22 40:8,11 42:6 43:9 44:3 things 7:9 10:13 13:13 14:3 28:18 30:22 43:13 44:25 think 10:23,25 11:5,16,21 12:6,13,24 13:3,5,12 14:2 15:9,13,22 17:23 18:3,14 20:2,10,15 21:22 22:23 24:6 25:19 27:8,10 29:15 31:1,12 33:5 34:6,20,20,22 34:25 35:6,7 37:8,23 40:15 40:17 41:20,21 41:25 42:12,21 44:7,13,17 45:4,12,17 48:21 50:15,17 51:18 52:5 thinking 14:3 28:18 32:23</p>	<p>33:3 34:1,2 THOMAS 2:13 thorough 41:1 thought 16:11 34:23 35:1 40:25 41:1,2 42:19,24,25 48:16 52:1,5 three 25:17 32:18 42:9 three-legged 32:18 33:6 three-year 42:7 42:7 tier 29:12 time 1:18 14:8 18:3 26:4 29:1 29:2 37:16 50:2 52:3,9 timeline 9:18 Times-Union 9:20 timing 12:17 35:15 title 24:11 46:19 titled 16:23 today 4:13 5:5 5:23 6:5,8,14 41:24 52:9 today's 5:4 6:16 8:25 9:10 Tom 8:14 tons 13:20,21 top 29:12 46:19 total 19:7 21:10 23:4 37:10 47:24 48:20 totality 7:19 tour 13:14 trade 20:19 transcript 7:5,7 54:6 55:2 transcripts 7:23 transpired 7:15 treated 11:23 treatment 21:16 33:18 tried 17:19 28:17</p>	<p>troops 44:14 true 54:7 55:18 truly 11:21 try 33:3,25 47:5 trying 13:16 23:21 28:19 29:7,15 48:11 Tuesday 1:17 turn 18:12 21:1 turned 10:15 22:13 46:16 two 7:9 10:1,4 18:8 23:2,5 26:5 36:18 37:6,11 tying 36:18 type 29:17 34:4 42:8 43:5 53:16 typically 26:2</p> <hr/> <p>U</p> <p>Uh-huh 37:2 ultimately 13:18 14:1 16:1 45:4 uncapped 35:19 35:21 36:2,23 36:24 undersigned 53:4 understand 5:5 5:9 8:19 14:22 23:1 33:5 46:11 understood 8:23 27:1 union 29:5,16 United 13:14 unnecessarily 26:22 unravel 9:16 unrealistic 27:16 unusual 7:24 upper 24:22 usage 47:1,6 use 7:7 13:6,12 13:17,23 23:18 47:1 48:17</p>	<p>usually 29:12 utilities 11:6 27:17 utility 11:12 12:17 29:21 30:10,19 34:11 51:16</p> <hr/> <p>V</p> <p>values 28:17 32:22 various 21:17 38:7 51:24 Vedra 15:10,11 37:7,14 38:12 38:19 50:3,21 50:22 51:6 vehicle 30:1 verbalize 13:8 Vice 11:8 Vinyard 8:24 30:9 38:23 visibility 36:15 visionary 11:22 visions 12:13 VP 47:12,15</p> <hr/> <p>W</p> <p>wait 6:11 waiting 6:9 walk 15:6 51:22 Wannemacher 6:23 8:24 30:9 Wannemache... 7:12 35:23 43:15 want 6:4 10:22 10:23 13:5 14:21 16:16 18:12,19 22:7 27:3 34:6 45:10,11,15 wanted 7:2,13 10:20 16:9,11 20:12 45:7 warning 4:21 wasn't 8:6,14 44:12 wastewater 11:9 11:10,11,23,23</p>
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12:22 15:4,8 18:13,21,23 21:15 24:9 43:25 44:4 watch 39:22 watched 40:1,3 40:19 watching 40:16 water 11:8,11 12:3,21 14:9 15:4,8 18:13 18:21,23 22:24 22:24 23:1,4,6 23:9,13,17,24 23:25 24:9,21 24:22 42:19 44:3 46:16,20 46:23,25 47:4 47:4,10,11,13 47:23,24 48:20 49:3 water/ 43:24 way 6:12 12:7,7 13:14 22:6 29:15 31:2 33:6 36:23 43:13,22 44:2 51:18 we'll 8:9 we're 6:12 9:7 13:19,20,21 16:9,17 19:16 21:9 22:10 27:9 28:3 33:21,22 35:6 45:21,25 48:13 we've 30:16 45:18 47:24 49:18 website 6:19 Wedekind 2:2 3:4 4:6 11:13 11:15 16:16,22 17:9,11 18:17 36:9 38:21 45:19,25 46:5 52:8 week 31:11,16 31:18	weekly 31:15 well-run 34:11 wells 21:24 went 6:18 7:4 13:7 26:2 32:8 32:14 37:16 43:3 weren't 44:18 west 2:7 23:7,15 whack 28:3 wheelhouse 48:5 White 37:3,4 wide 25:11 wing 27:6 wish 44:10 withdrawals 12:4 48:2 witness 3:2 4:2,4 5:22 18:16 38:13 45:24 46:1 52:10 53:7 wondering 8:5 word 18:10 35:18 36:6 42:2 48:24 words 35:13,14 work 7:11,13 16:2 25:9,16 26:8,14,19 28:22 37:15 42:19,19 43:16 44:15 46:13,14 48:20 50:23 worked 7:2 41:4 working 24:15 45:3 wouldn't 39:7 Wow 39:11 50:7 wracked 32:13 wraps 48:21 WRITE 55:2 wrong 19:23 20:3,22,23	Xs 51:7 <hr/> Y <hr/> Y 19:14 yeah 6:23 7:9,18 9:21,21 10:2 10:17 11:4 13:2 14:15,15 16:3 18:10,20 18:20 19:2,9 19:15,16,19,23 20:4,18,24 21:5 23:6 24:3 24:5,5,15,22 25:1,2,3,6 30:25 31:21 32:6,13,16 33:12,12,14 34:16 36:6 37:8,19 39:7 40:1,9 45:4,9 45:14,17 46:19 48:11 51:1 52:4 year 13:21 20:14 24:12 42:9 49:13 years 10:1,5 27:23 41:5 49:19 yellow 51:8 Yep 24:5 <hr/> Z <hr/> Zahn 8:23 9:8 12:13 28:8 29:20 30:7,7 33:15 34:11 44:19 51:15 Zahn's 11:18 zero 11:25 12:25 <hr/> 0 <hr/> 1 <hr/> 1 3:11 16:18,20 17:24 19:5,17 19:24,24 21:20 22:2 24:10 54:6	10 24:17 117 2:7 12 49:19 13-percent 19:20 1400 20:16 14th 53:7 54:13 15 14:17 18:19 21:1 24:7 49:19 16 3:11 24:16 174097 53:12 18 11:17 38:14 38:18 44:22 47:17 19 17:8 37:18 1997 8:20 <hr/> 2 <hr/> 2 3:11,12 16:13 16:24 17:14,19 17:24 18:25 19:6,18 20:1,7 21:20 24:8 26:22 27:15 46:3,7 20 37:19 200 35:25 2018 38:12 46:10,15 49:11 2019 17:5 24:12 31:25 39:5,20 2020 1:17 53:6,8 54:13 2022 53:13 2030 19:8 24:12 49:12,13 2031 48:3 21-percent 21:19 24:9 22 19:7 2319 4:9 23rd 31:25 36:14 24-7 8:21 25 20:15 53:13 <hr/> 3 <hr/> 3 17:12 30 10:23	32202 2:4,8,11 32207 4:11 3300 2:10 350 13:21 <hr/> 4 <hr/> 4 3:4 40 13:14 400 20:1 41st 1:19 2:4 46 3:12 463 49:11 48 10:17 480 2:7 <hr/> 5 <hr/> 5/3/2019 17:12 50 1:19 2:3 500 19:24 28:13 53 3:5 54 3:6 54:7 55 3:7 556 49:12 <hr/> 6 <hr/> 600 19:17 61-percent 22:1 683 13:20 <hr/> 7 <hr/> 7 1:17 53:6 <hr/> 8 <hr/> 8 27:21 8:02 1:18 8:57 46:2 800 19:17 <hr/> 9 <hr/> 9 18:14,21,22 9:06 46:2 9:15 1:18 52:11 904-994-3935 10:6 93 11:6 96 27:25 97 11:5
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Status Quo 2 Baseline - Assumptions review

DRAFT

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The following "Baseline Conversation" financial projections are presented solely for JEA Board of Directors planning and action. They are not a projection of future financial performance and, as such, should not be relied upon by present or prospective JEA bond investors to purchase or sell any security or to make an investment decision. The projections are merely a mathematical representation of a hypothetical case for change. Actual results are likely to differ materially from this business case. Use of this presentation not in its entirety could result in material financial harm to the company.

Goals for today

April recap

- Following April 4, the SLT aligned on 3 areas in which to further develop Status Quo 2
 - **Headcount:** SLT developed perspective on reductions and business impact, HR team developed financial impact estimate
 - **Non-labor O&M:** SLT developed additional initiatives towards goal of reducing 2020 non-labor O&M budget by 10%
 - **Capex:** Energy, Water, Planning developed reduced capex forecast, using Status Quo 1 as a baseline
- We developed an updated status quo 2 cash flow projections based on the analyses above

Goals for today

- Review case for change presentation
- Align on Status Quo 2 key messages (what it is and is not and main outcomes)
- Review and align on major assumptions that underpin Status Quo 2; agree on any specific changes to be made to finalize if needed

The following "Baseline Conversation" financial projections are presented solely for JEA Board of Directors planning and action. They are not a projection of future financial performance and, as such, should not be relied upon by present or prospective JEA bond investors to purchase or sell any security or to make an investment decision. The projections are merely a mathematical representation of a hypothetical case for change. Actual results are likely to differ materially from this business case. Use of this presentation not in its entirety could result in material financial harm to the company.

Approach to status quo 2

✓ What status quo 2 IS...

- A preliminary assessment of one course of action JEA could take within the boundaries of the current charter
- A high level assessment of the trade-offs that accompany this course of action against JEA's core values

✗ ... and IS NOT

- A proposed course of action
- An exhaustive analysis of all possible opportunities to reduce cost while minimizing impact to the organization
- A set of only "off the table options" (some initiatives proposed in status quo 2 may be implemented pending further analysis)



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Executive summary

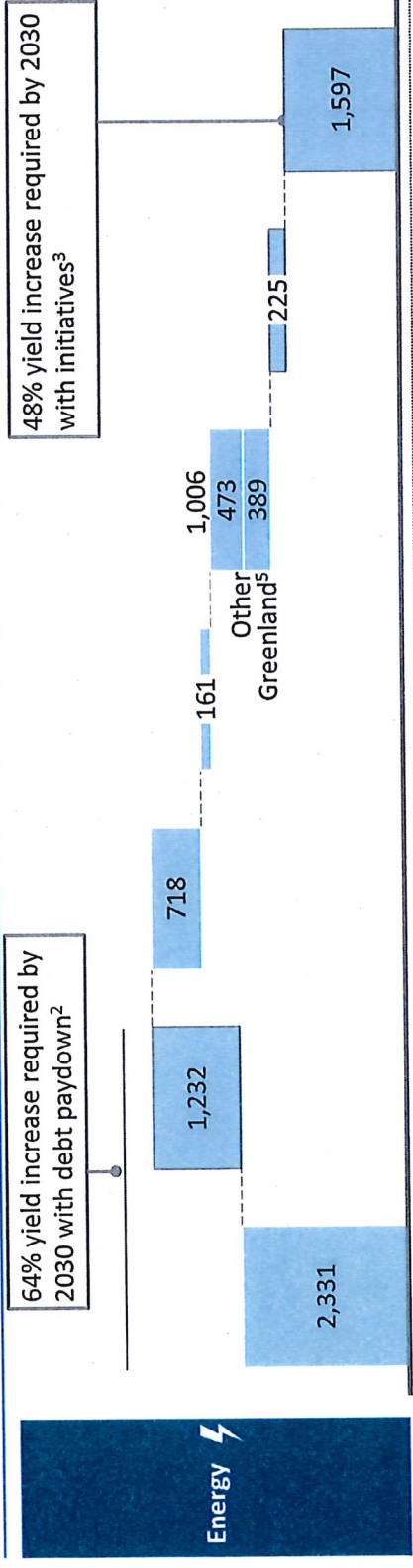
- Status quo 2 follows from Status Quo 1 – a business as usual scenario that projects revenues to fall, costs to increase and a **\$3.2B cash flow gap by 2030** in the absence of any action by JEA
- Status Quo 2 addresses this gap **without going outside the current charter**, which prevents JEA from aggressively pursuing new business opportunities
- In the absence of charter change, **Status Quo 2 reduces headcount, cuts capital investment, initiates allowable new revenue opportunities, and raises rates where necessary**
- **Status Quo 2 also reduces debt levels in the energy business**, anticipating increased competition from distributed generation and accelerated revenue loss post 2030
- Status Quo 2 **cuts the cumulative cash flow gap in half** (\$1.6B by 2030) and eliminates the cash gap in the water business, and still requires a 48% increase in required energy revenue yield by 2030
- However, absent an integrated strategic plan, **Status Quo 2 will reduce the quality of service JEA provides**, negatively impacting customers, the community, the environment, and JEA employees

The following "Baseline Conversation" financial projections are presented solely for JEA Board of Directors planning and action. They are not a projection of future financial performance and, as such, should not be relied upon by present or prospective JEA bond investors to purchase or sell any security or to make an investment decision. The projections are merely a mathematical representation of a hypothetical case for change. Actual results are likely to differ materially from this business case. Use of this presentation not in its entirety could result in material financial harm to the company.

PRELIMINARY

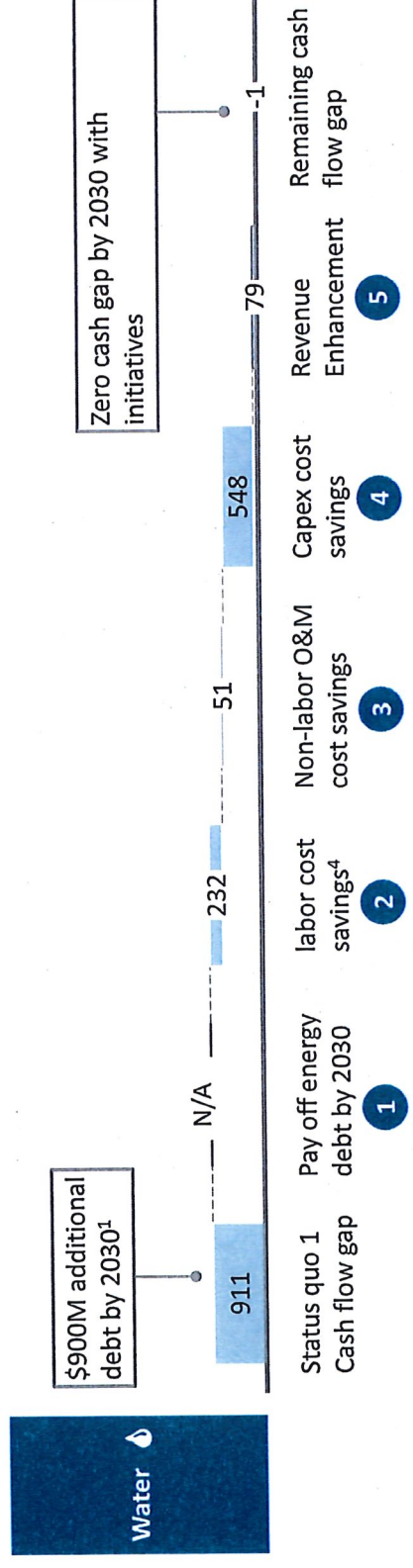
Potential to reduce cash flow gap by \$1.9B through levers within JEA constraints

Cumulative cash flows 2019 – 2030, \$M



Status quo 2 cost reductions now exceed top-down opportunity sizing for both energy and water

NOTE: Status Quo 1 cash flow gap has increase by \$400M for energy, \$300M for water since April 4 due to updated O&M projects for 2020



- 1 Status quo 1 Pay off energy debt by 2030
- 2 labor cost savings⁴
- 3 Non-labor O&M cost savings
- 4 Capex cost savings
- 5 Revenue Enhancement
- 6 Remaining cash flow gap

1 Relative to "all rates case" debt level in 2030

2 42% increase in monthly customer bill

3 36% increase in monthly customer bill

4 Includes capitalized labor

5 Net of \$144M increase in purchased power from Greenland PPA (capex savings total \$533M)

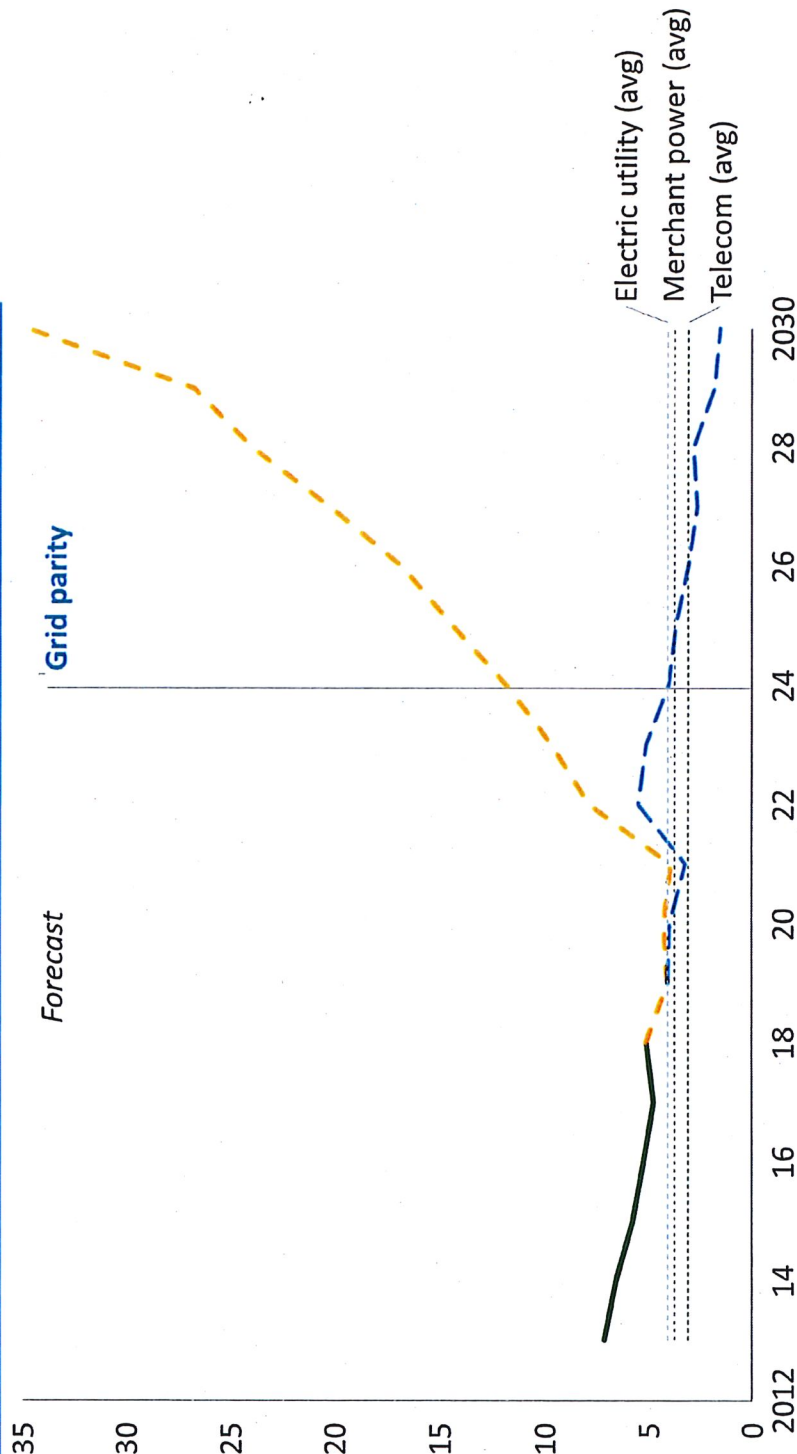
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1 Status Quo 2 shows JEA Energy Business reducing debt levels in line with other competitive sectors post grid parity

— Status Quo 1
— Status Quo 2

INCLUDES ON AND OFF-BALANCE SHEET DEBT

Historic and projected debt to EBITDA - Energy, multiple



■ In Status Quo 1, reduced EBITDA (assuming no rate increases) plus financing for Greenland Power Plant lead to debt levels increasing to unsustainable levels, especially when JEA enters a competitive environment

■ In Status Quo 2, JEA pays off all debt and does not incur new debt, leading to Debt: EBITDA ratios in line with those maintained by other utilities and sectors with asset-heavy, competitive businesses

1 Electric, telecom and merchant constitute median ratios 2013 - 2017

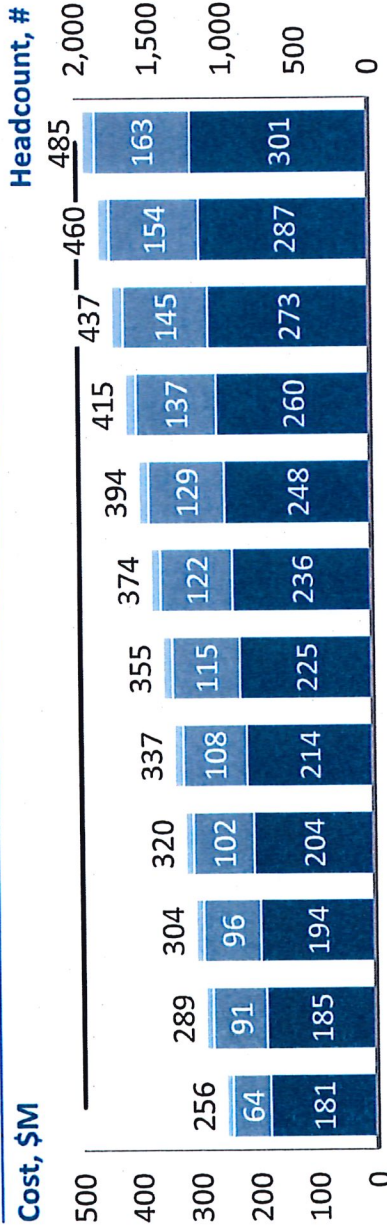
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2 Status Quo 2 reduces headcount by 23%, but maintains the salary increases projected in Status Quo 1

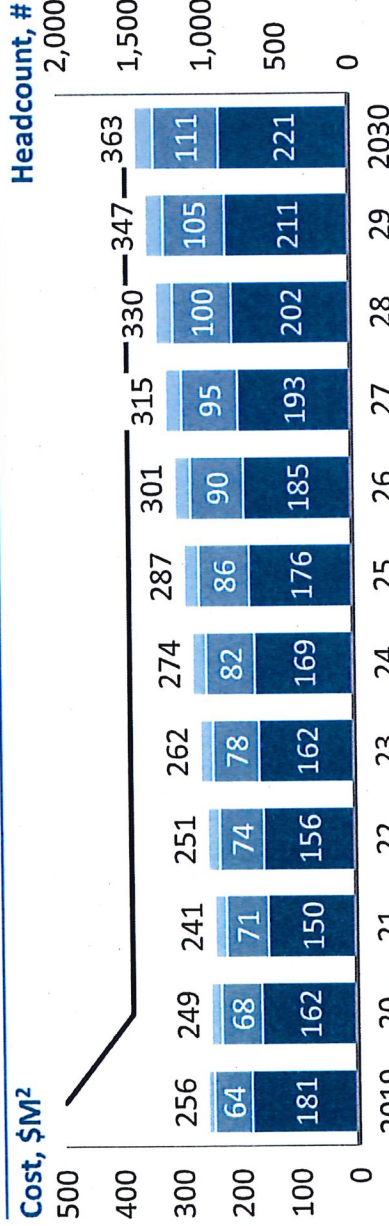
460 e's

— FTE ■ OT ■ Benefits¹ ■ Salary

Status Quo 1



Status Quo 2



Assumptions

- In status quo 1, labor costs increase by 13% from FY19 to 20 (current estimate of FY20 costs) and 5-6% thereafter, based on historical increases
- In status quo 2, a headcount reduction conducted in FY19 is realized in FY20, given severance and leave
- Status quo 2 shows the same 5-6% annual labor cost increase after FY20 *Review*

*look at smaller cost 1
perhaps cut benefits
but OT 1*

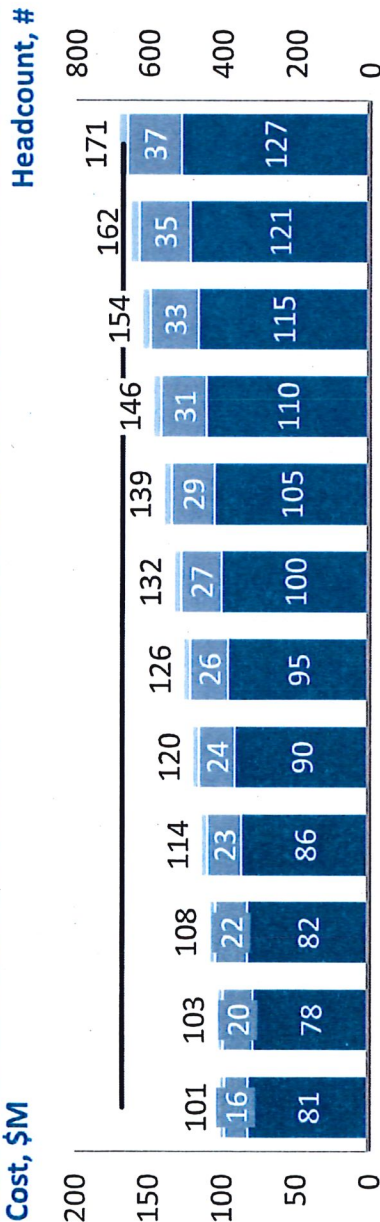
1 2020 includes estimated \$15M increase due to long-term compensation change, scaled back for SQ2 by % total labor cost reduction 2 Salary costs incorporate contracted cost from TS outsourcing, for break-out see page 11

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2 Labor details - energy

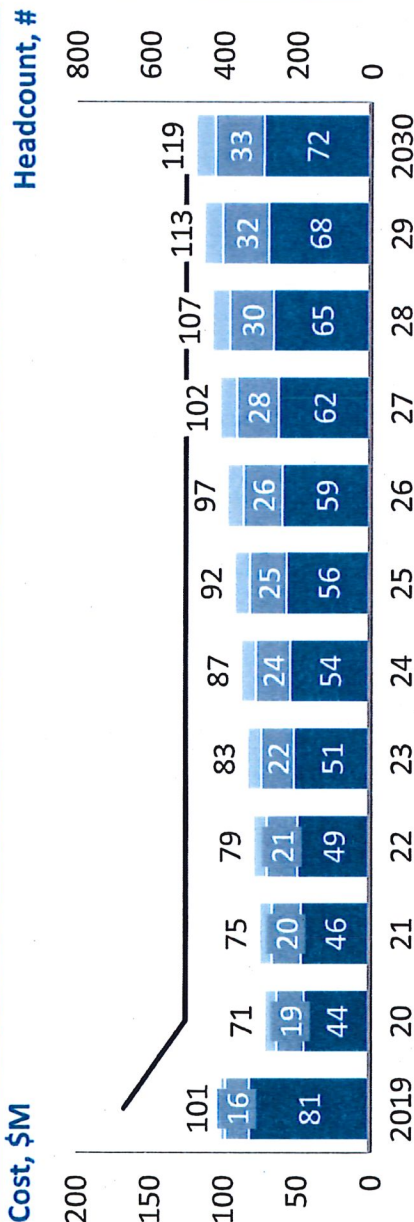
Status Quo 1

Cost, \$M



Status Quo 2

Cost, \$M



Major assumptions:

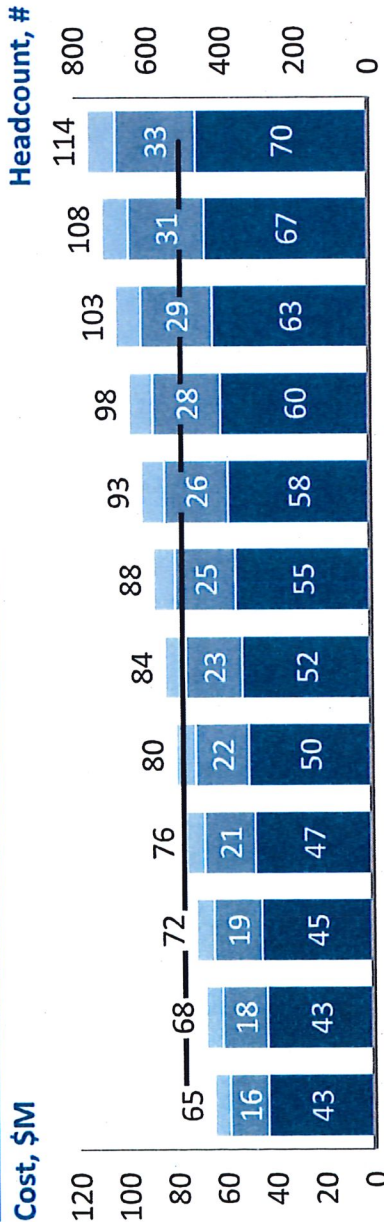
- 25% headcount reduction in all electric system areas (generation, substation and transmission, distribution)
 - Outsourcing of select functions in generation
- ### Implications:
- Customer:** Decrease in reliability with fewer employees available for regular maintenance and outage response (potential reversal of recent gains in SAIDI / SAIFI / CEMIS to among best in state)
 - Community:** Reliability impact to community buildings and public lighting; reduced ability to provide mutual aid during storm events
 - Financial:** Will likely increase corrective maintenance and replacement power purchase
 - Employee:** decreased leadership oversight, training opportunities, morale

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2 Labor details – water and wastewater

— FTE ■ OT ■ Benefits ■ Salary

Status Quo 1



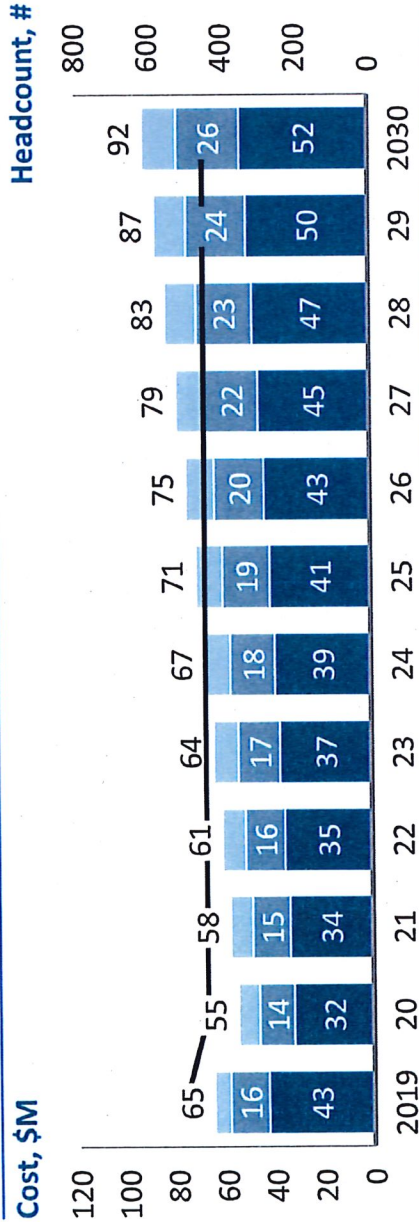
Major assumptions:

- 13% headcount reduction overall
- Reductions come from reduction in night and weekend crew capabilities, reduced maintenance schedules, reduced support function capabilities within business area

Implications:

- **Customer and community:** Decrease in reliability with reduced regular maintenance, increased risk of extended water safety issues during storms
- **Financial:** Will likely increase corrective maintenance spend; potential need to rely on additional contractors
- **Environmental:** increased risk of pump station overflows due to fewer clean-outs and maintenance
- **Employee:** decreased leadership oversight, training opportunities, morale

Status Quo 2

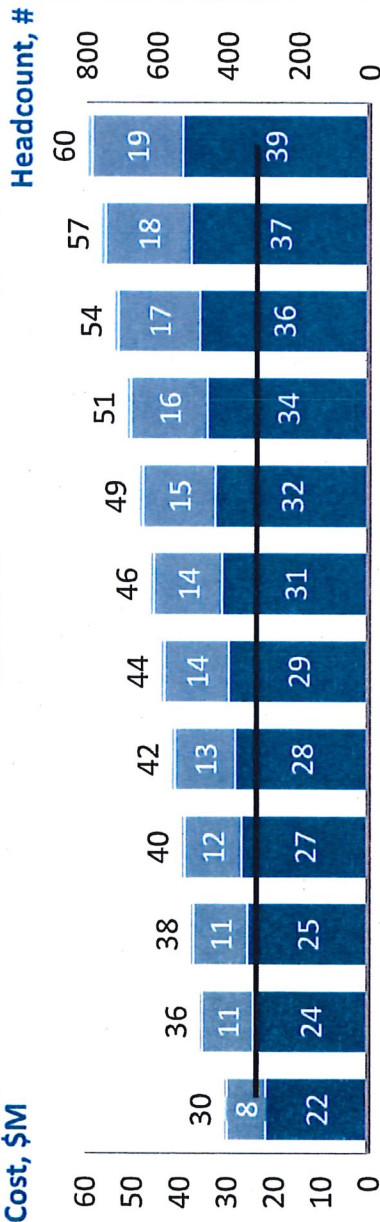


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2 Labor details - customer

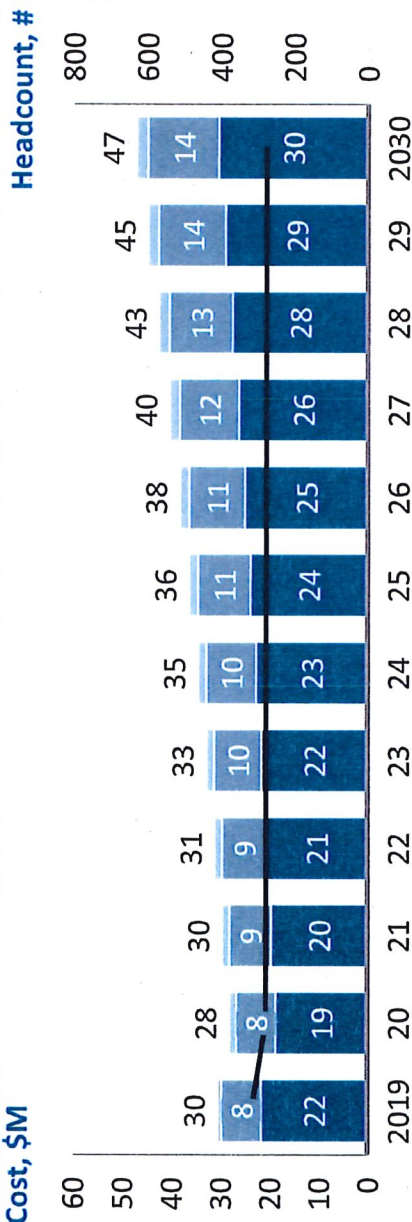
Status Quo 1

Cost, \$M



Status Quo 2

Cost, \$M



Major assumptions:

- 12% headcount reduction overall
- Reduces or eliminates most community engagement and communication functions
- Reduces customer service levels, e.g. by reducing key account and low income teams, closing customer care center, reducing scope of customer solutions programs

Implications:

- Customer:** Decreased service levels and options for customers
- Community:** Reduced awareness of JEA activities, reduced understanding of JEA's role in community
- Employee:** decreased leadership oversight, training opportunities, morale

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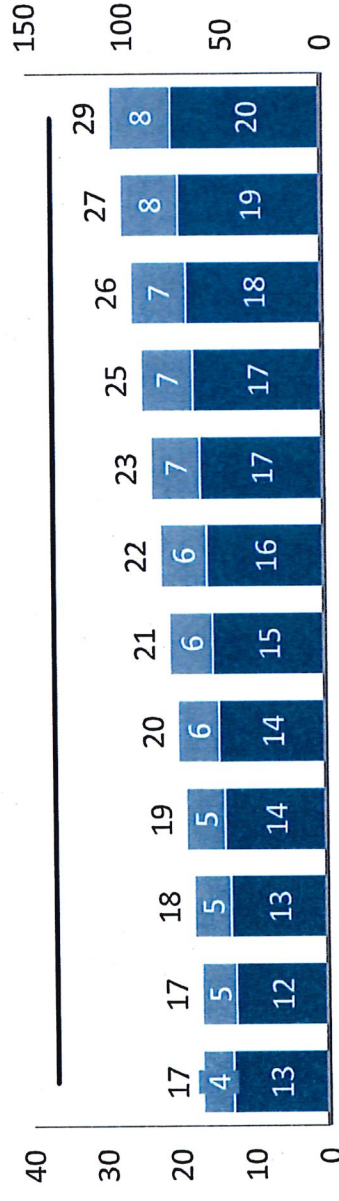
2 Labor details - TS

Status Quo 1

Cost, \$M

— FTE ■ Benefits ■ Salary ■ Contract

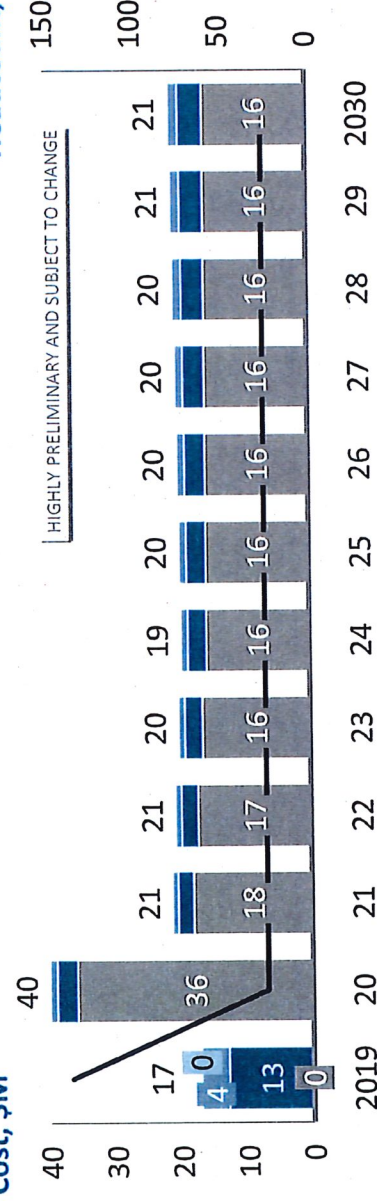
Headcount, #



Status Quo 2

Cost, \$M

Headcount, #



Major assumptions:

- Outsource ~80% of JEA TS staff to 3rd party provider
- Retain core TS team to manage contract and pursue specific technology projects needed by utility (limited to what is still needed in status quo 2)
- Assume transition period in 2020 with both contract and employee costs, and \$13M one-time costs to set up contract
- Savings begin to accrue in 2023 post transition period, with net \$4M savings 2020-2030

Implications:

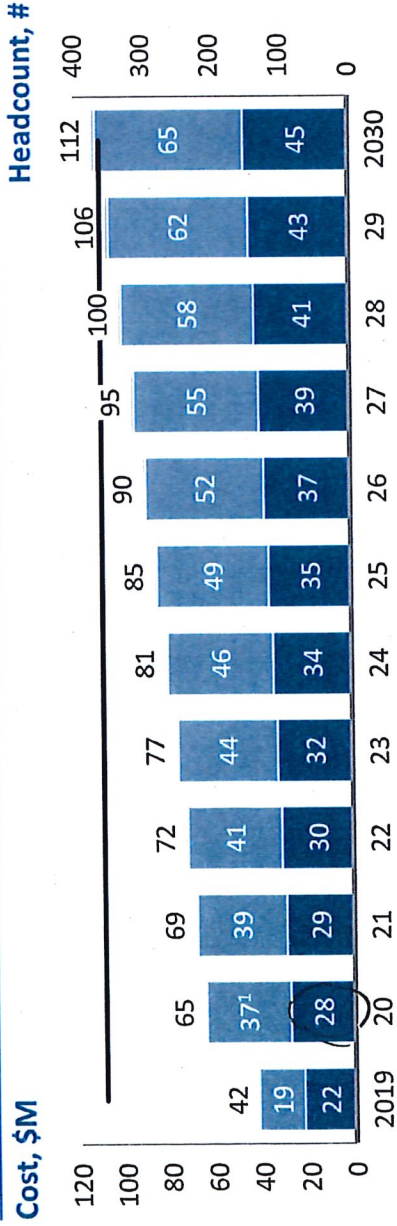
- **JEA internal:** lower cost and higher quality service in long run, with increased access to IT innovations; potential for disruption in service in interim and need for rigorous contract management

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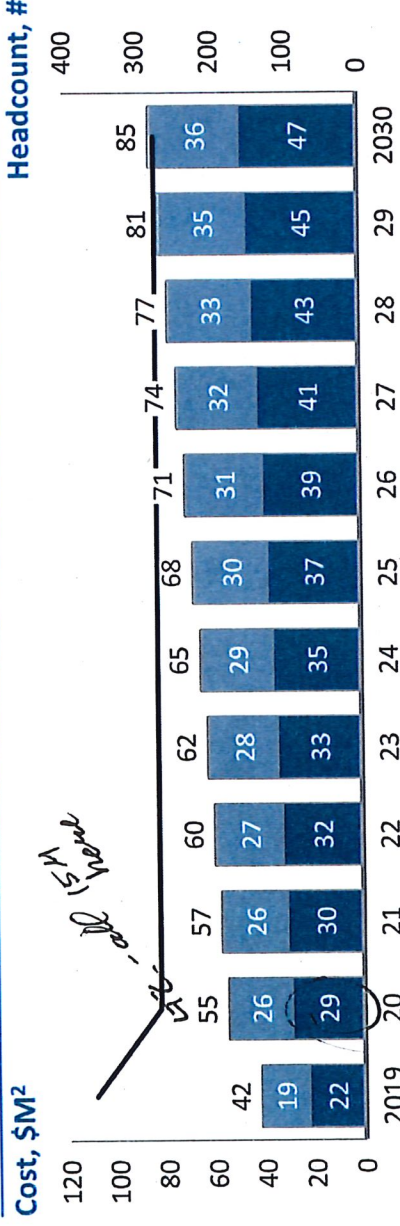
2 Labor details – corporate, administrative, SLT

— FTE ■ OT ■ Benefits¹ ■ Salary

Status Quo 1



Status Quo 2



Major assumptions:

- Reductions vary by area across environmental, compliance, government affairs, finance, HR, planning
- Positions reduced or eliminated include technicians, clerks, security staff, and analysts
- Outsourcing assumed for select groups
- Includes reduction of SLT by 40% (from 15 positions to 9), including eliminating CEO, COO, and CFO

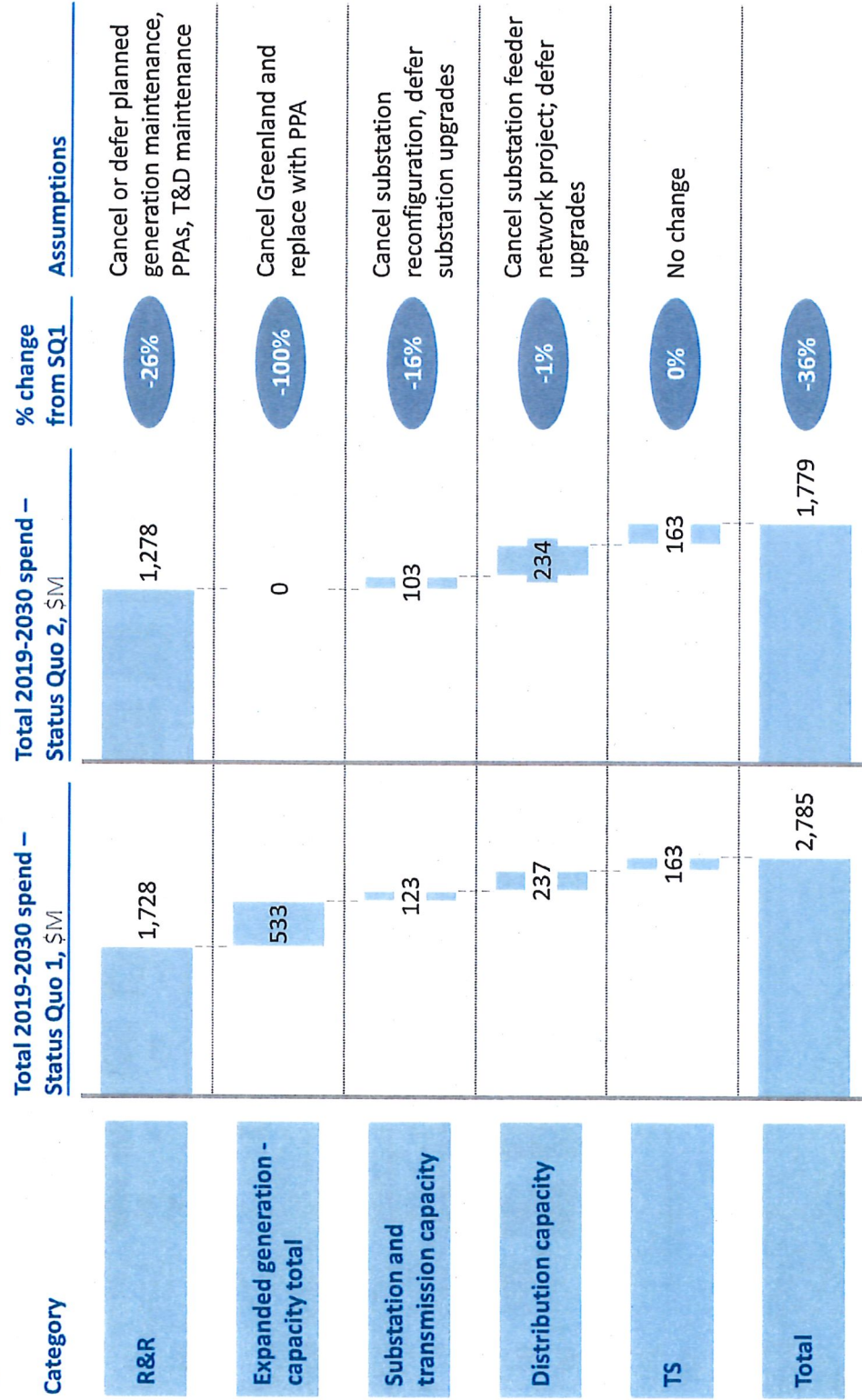
Implications:

- JEA internal: potentially reduced ability to perform core services with lower levels of support

¹ 2020 includes estimated \$15M increase due to long-term compensation change, scaled back for SQ2 by % total labor cost reduction ² \$1M net annual savings from outsourcing select groups included in salary cost calculation

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3 Status Quo 2 reduces total 2019-30 energy capex by 36%

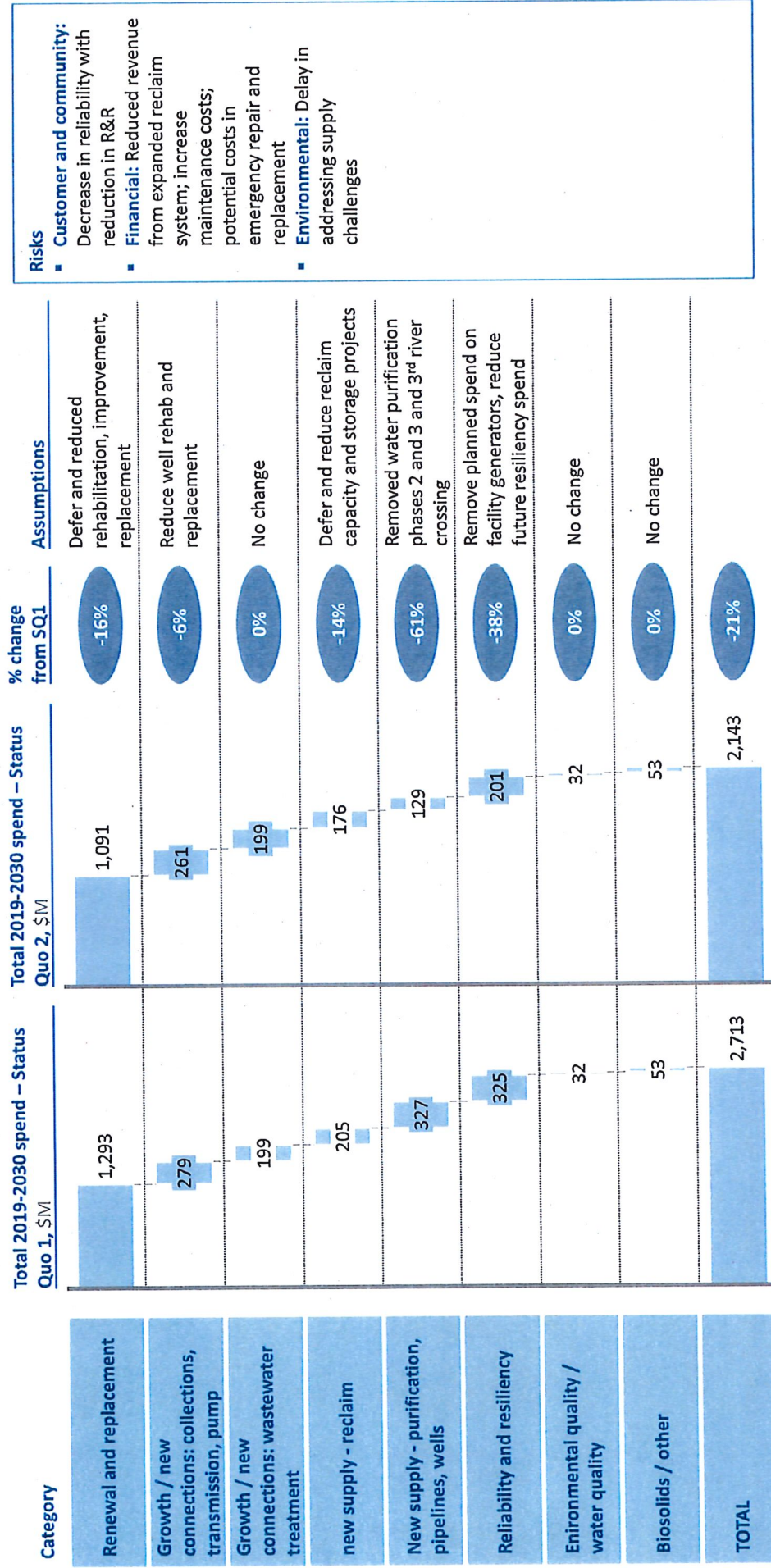


Risks

- **Customer and community:** Decrease in reliability with reduction in R&R
- **Financial:** Increase maintenance costs; potential costs in emergency repair and replacement; PPA terms potentially unattractive in long term
- **Environmental:** Potentially reduced air quality from decreased generation fleet maintenance

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3 Status Quo 2 reduces total 2019-30 water and wastewater capex by 21%

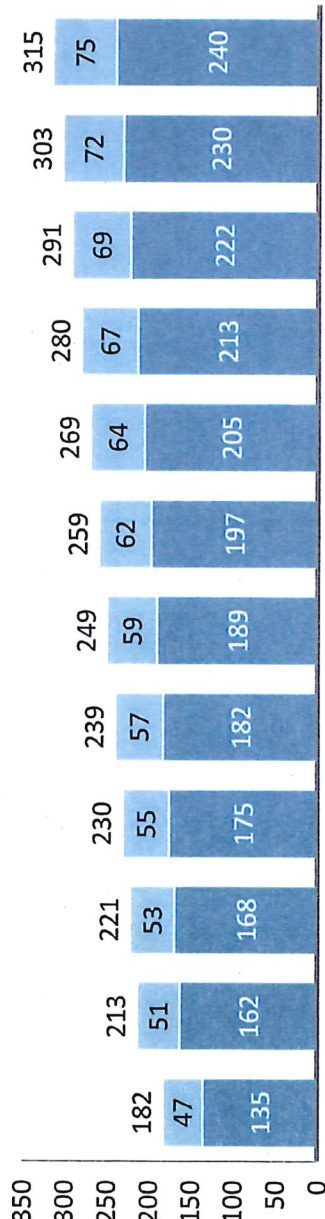


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4 Status Quo 2 reduces non-labor O&M by 10% in 2020 from Status Quo 1 base, but maintains increases thereafter

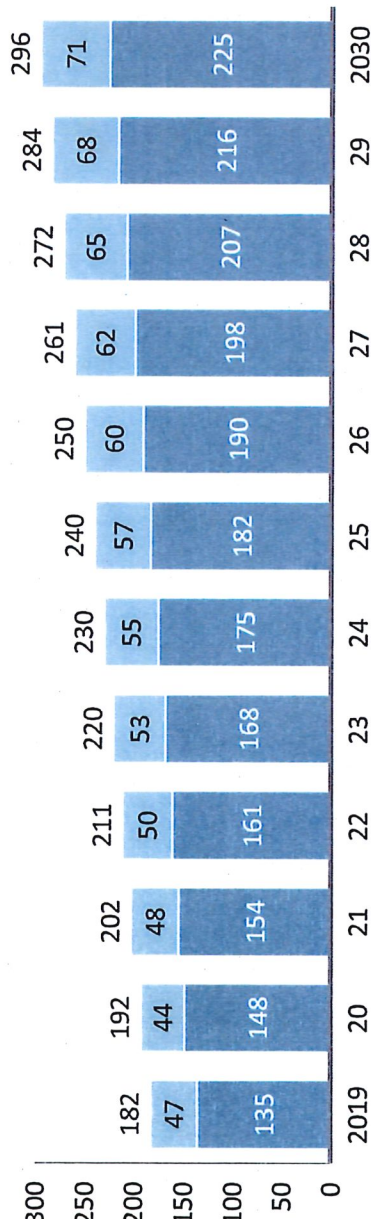
Status Quo 1 non-labor O&M, \$M

Cost, \$M



Status Quo 2 non-labor O&M, \$M

Cost, \$M



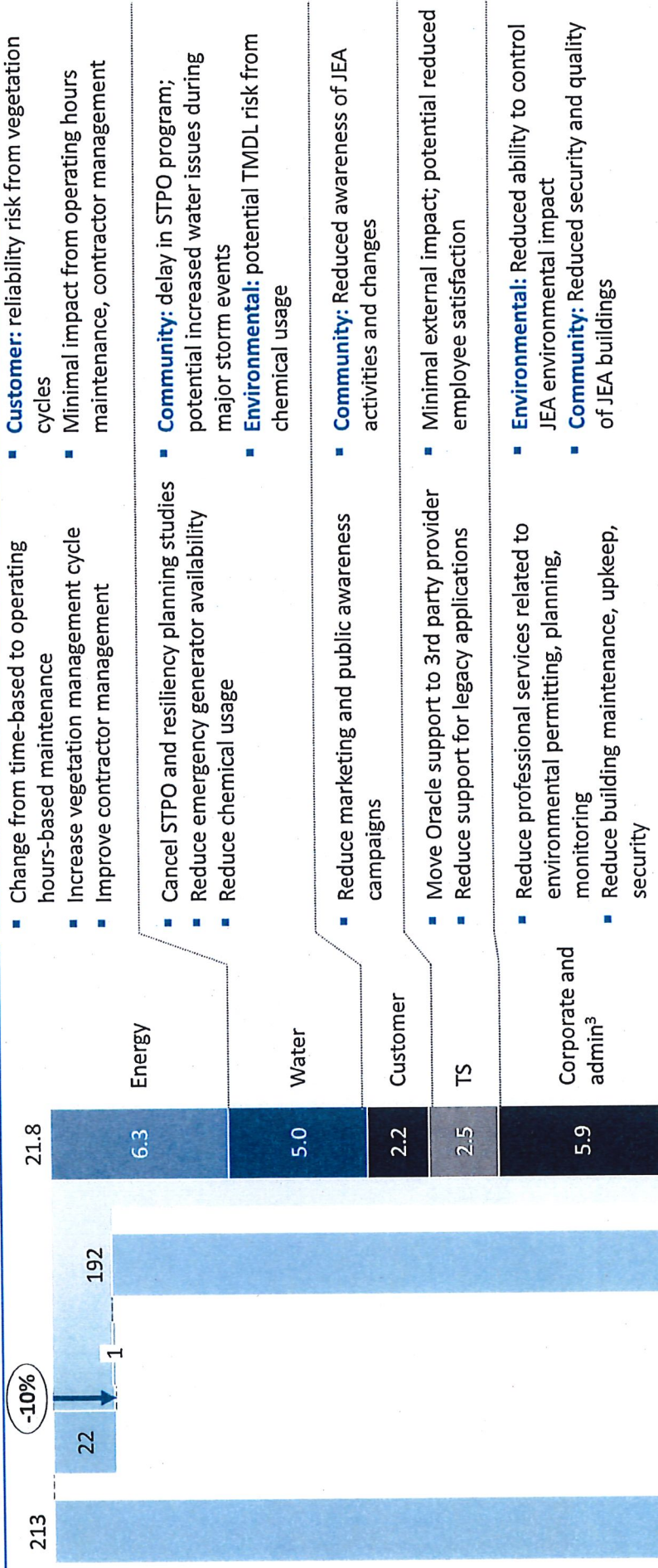
Assumptions

- Status Quo 1 projects a 17% increase in FY20, followed by annual 4% increase in non-labor O&M (materials and supplies, contractors, other), based on historical rate of increase
- In status quo 2, cost reduction measures are taken in 2020 totaling \$21M, less \$1M in 1-time costs to implement measures
- The projected SQ1 cost increase in FY20 means non-labor costs still increase in FY20 under SQ2, by 5% rather than 17%
- While \$18 of \$21m cost reduction measures are ongoing each year, reductions are applied to the same 4% growth of O&M as in SQ1

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4 Non-labor O&M – key initiatives

FY20 SQ1 vs SQ2 comparison, \$M



SQ1¹ SQ2 1-time SQ2 Reductions² cost

¹ Includes utility spend, which was not evaluated for reduction

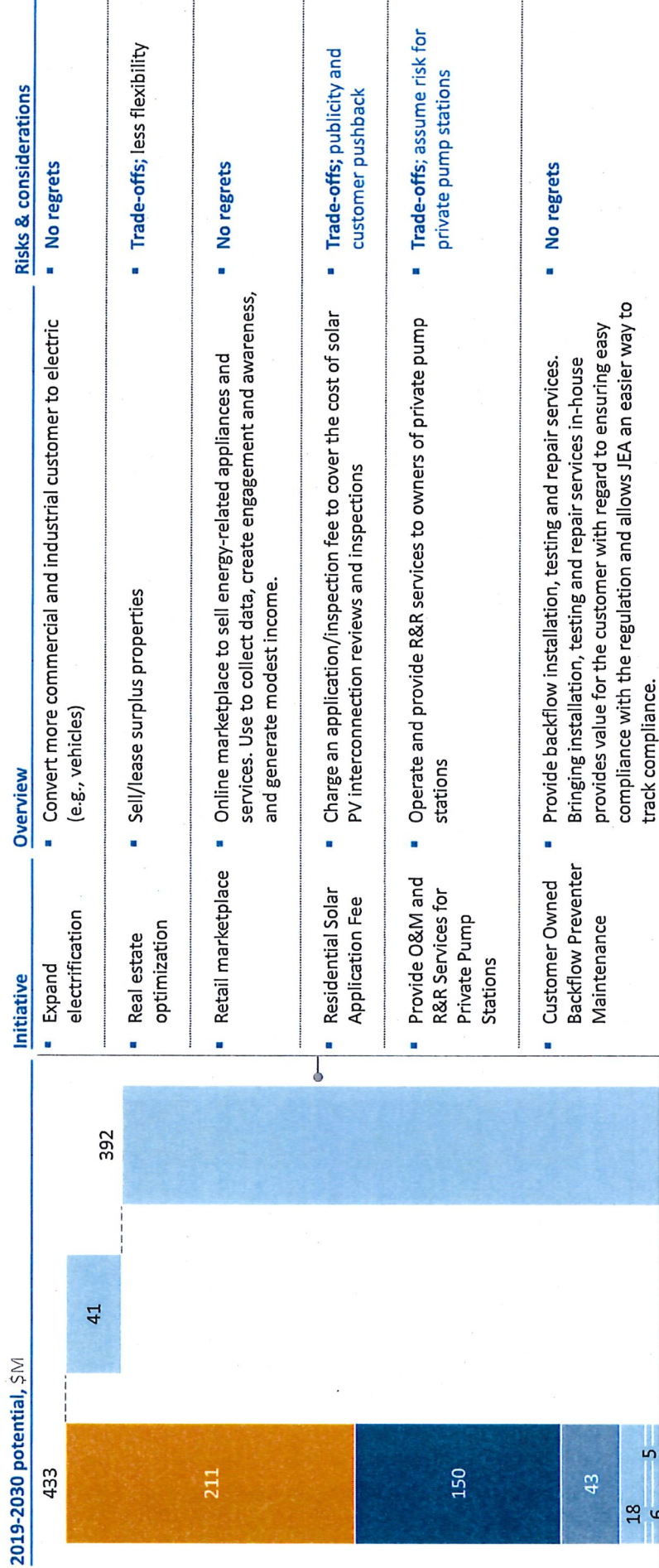
² Does not include non-labor savings from outsourcing initiatives

³ Includes supply chain, environmental, compliance, gov affairs, HR

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5 Revenue initiatives developed to date provide \$400M additional revenue by 2030

- Expand electrification
- Retail marketplace
- Provide O&M and R&R Services for Private Pump Stations
- Real estate optimization
- Residential Solar Application Fee



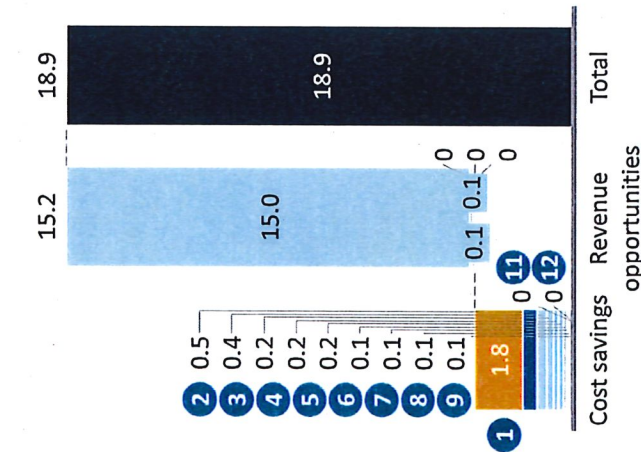
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Additional non-labor O&M reduction and revenue enhancement initiatives

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Corporate cost (1/2)

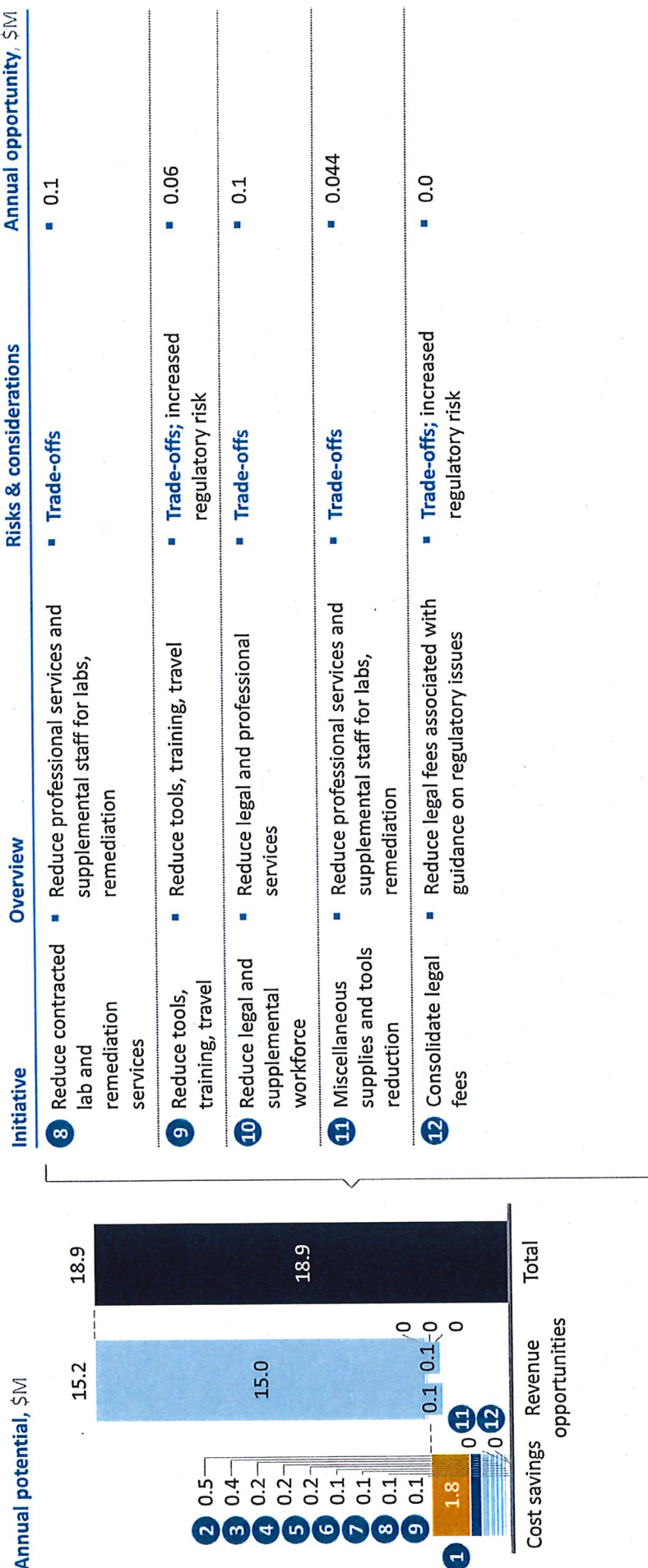
Annual potential, \$M



Initiative	Overview	Risks & considerations	Annual opportunity, \$M
1 Facilities O&M Other Services and Charges (OSC) reduction	<ul style="list-style-type: none"> 40% reduction in maintenance, landscaping, painting, planned rehab work 	<ul style="list-style-type: none"> Trade-offs 	1.8
2 Reduce security patrol	<ul style="list-style-type: none"> Reduce number of security patrol personnel 	<ul style="list-style-type: none"> Difficult; increased security risk across affected areas 	0.5
3 Professional services reduction	<ul style="list-style-type: none"> Reduce professional services and supplemental staff for permitting, compliance 	<ul style="list-style-type: none"> Trade-offs 	0.375
4 Reduce professional services	<ul style="list-style-type: none"> Reduce professional services 	<ul style="list-style-type: none"> Trade-offs 	0.243
5 Reduce professional services	<ul style="list-style-type: none"> Reduce professional services related to resource planning 	<ul style="list-style-type: none"> Trade-offs 	0.2
6 Reduce professional services	<ul style="list-style-type: none"> Reduce professional services for QA, other activities 	<ul style="list-style-type: none"> Trade-offs; increased regulatory risk 	0.193
7 Reduce downtown security	<ul style="list-style-type: none"> Reduce number of downtown security personnel 	<ul style="list-style-type: none"> Trade-offs; increased security risk across affected areas 	0.1

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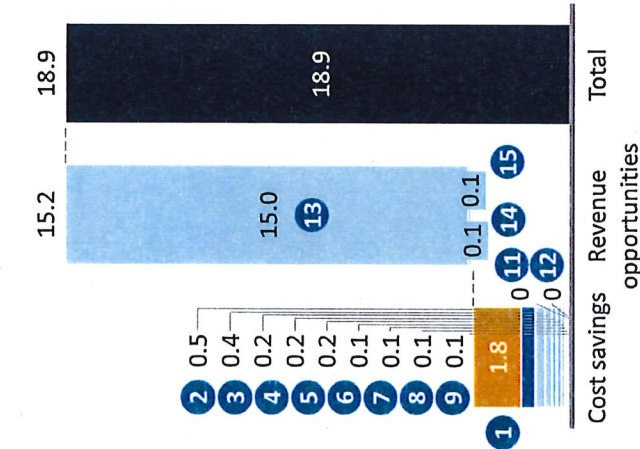
Corporate cost (2/2)



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Corporate revenue

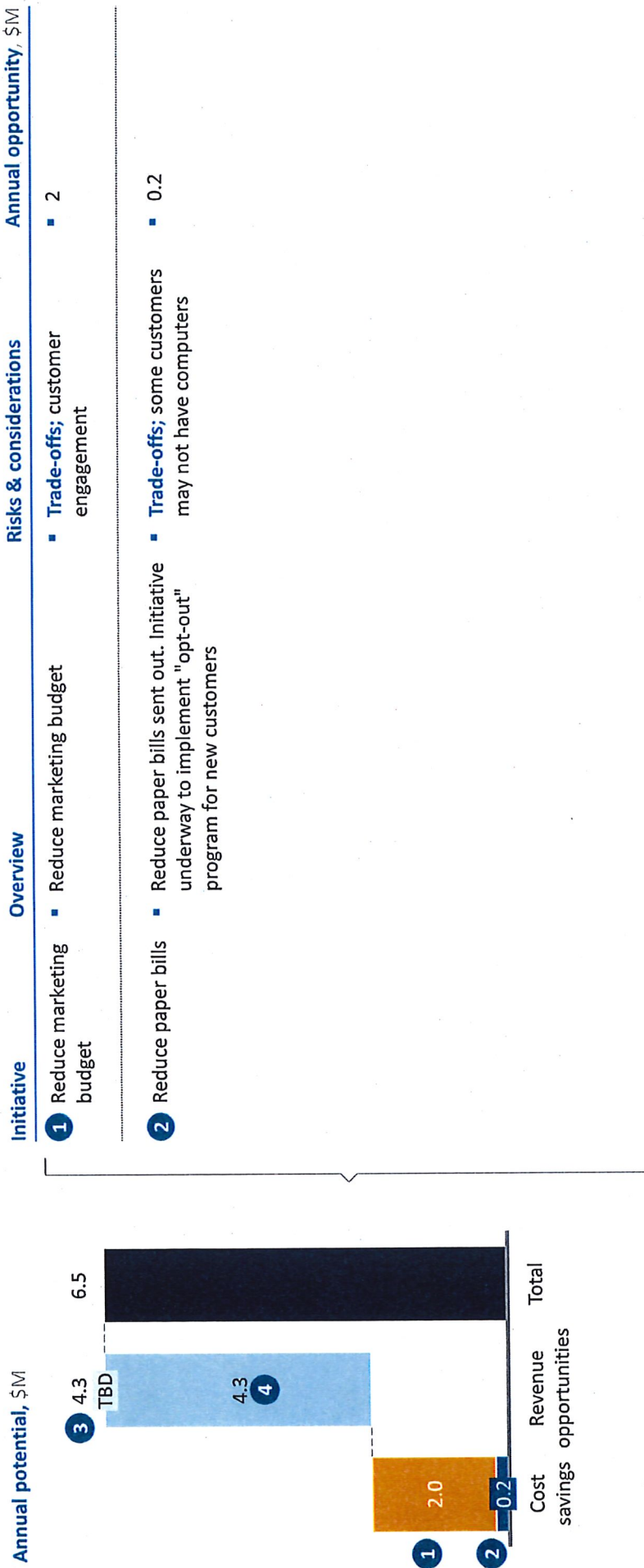
Annual potential, \$M



Initiative	Overview	Risks & considerations	Annual opportunity, \$M
13 Real estate optimization (Planning)	<ul style="list-style-type: none"> Sell/lease surplus properties 	<ul style="list-style-type: none"> Trade-offs; less flexibility 	<ul style="list-style-type: none"> 15.0 10.0
14 Consult out ethics services (Compliance)	<ul style="list-style-type: none"> Provide Ethical compliance services to other independent agencies such as Jacksonville Housing Authority, Jax Port, and DCPS 	<ul style="list-style-type: none"> No regrets 	<ul style="list-style-type: none"> 0.1
15 Permitting fee review (Enviro)	<ul style="list-style-type: none"> Review all permitting fees; fees are among the lowest within the surrounding area and Florida and have not been changed for several years. 	<ul style="list-style-type: none"> Trade-offs; negative feedback maybe received as a result of fee increases 	<ul style="list-style-type: none"> 0.1
16 eLearning Technologies (HR)	<ul style="list-style-type: none"> Sell JEA's eLearning to external parties 	<ul style="list-style-type: none"> No regrets 	<ul style="list-style-type: none"> 0.0
17 Expand lab services (Enviro)	<ul style="list-style-type: none"> Provide lab services to other government agencies 	<ul style="list-style-type: none"> No regrets 	<ul style="list-style-type: none"> 0.0
18 JEA Academy (HR)	<ul style="list-style-type: none"> Opportunity selling JEA's eLearning to public; requires payment for non-JEA customers and ability to sell new services 	<ul style="list-style-type: none"> No regrets 	<ul style="list-style-type: none"> 0.0

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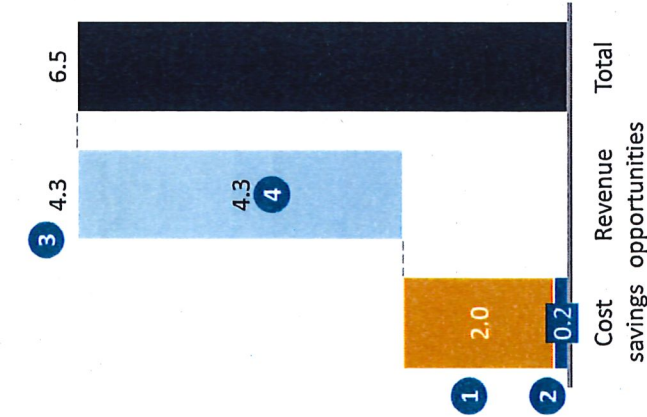
Customer cost



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Customer revenue

Annual potential, \$M



Initiative	Overview	Risks & considerations	Annual opportunity, \$M
3 Co-branded retail sales	<ul style="list-style-type: none"> Sell co-branded items (e.g., wipes, water filtration) and services with major providers. Create awareness for key issues, generate revenues. 	<ul style="list-style-type: none"> Trade-offs; risk of non-performing partner doing reputational damage 	TBD
4 Retail marketplace	<ul style="list-style-type: none"> Online marketplace to sell energy-related appliances and services. Use to collect data, create engagement and awareness, and generate modest income. 	<ul style="list-style-type: none"> No regrets 	<ul style="list-style-type: none"> 4.3 1.7

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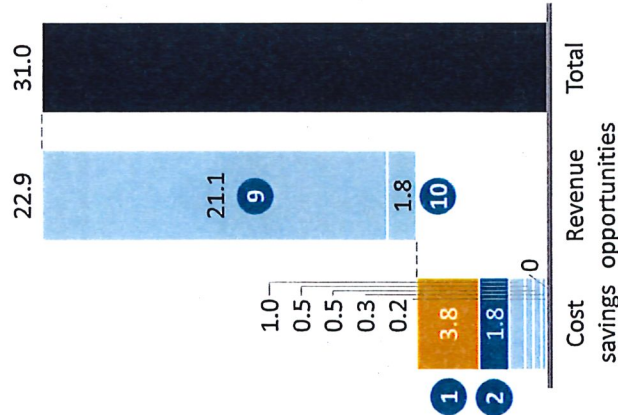
Energy cost (1/2)

Annual potential, \$M	Initiative	Overview	Risks & considerations	Annual opportunity, \$M
<p>31.0 22.9 21.1 1.8 1.0 0.5 0.5 0.3 0.2 3.8 1.8 1.8 0</p> <p>1 2 10</p> <p>Cost savings opportunities Revenue Total</p>	1	Change to an "operating hours" overhaul scheduling strategy	<ul style="list-style-type: none"> Trade-offs; Risk is proportionate to the amount of hours on the machines. Insurance (FM Global) carrier concerns. 	3.8
	2	Outsource material handling functions	<ul style="list-style-type: none"> Outsource material handling functions at Northside Generating. This would include but not limited to, fuel unloading and handling, ash handling and disposal and by-product support 	1.8
	3	Contractor management	<ul style="list-style-type: none"> Develop and implement a contractor management program (currently sized based on NGS) 	1.0 0.1
	4	Inventory optimization	<ul style="list-style-type: none"> Better materials management and siting in business areas where materials are fast-turn and workforce is distributed and currently has to make extra trips to pick up materials 	No regrets 0.5

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Energy cost (2/2)

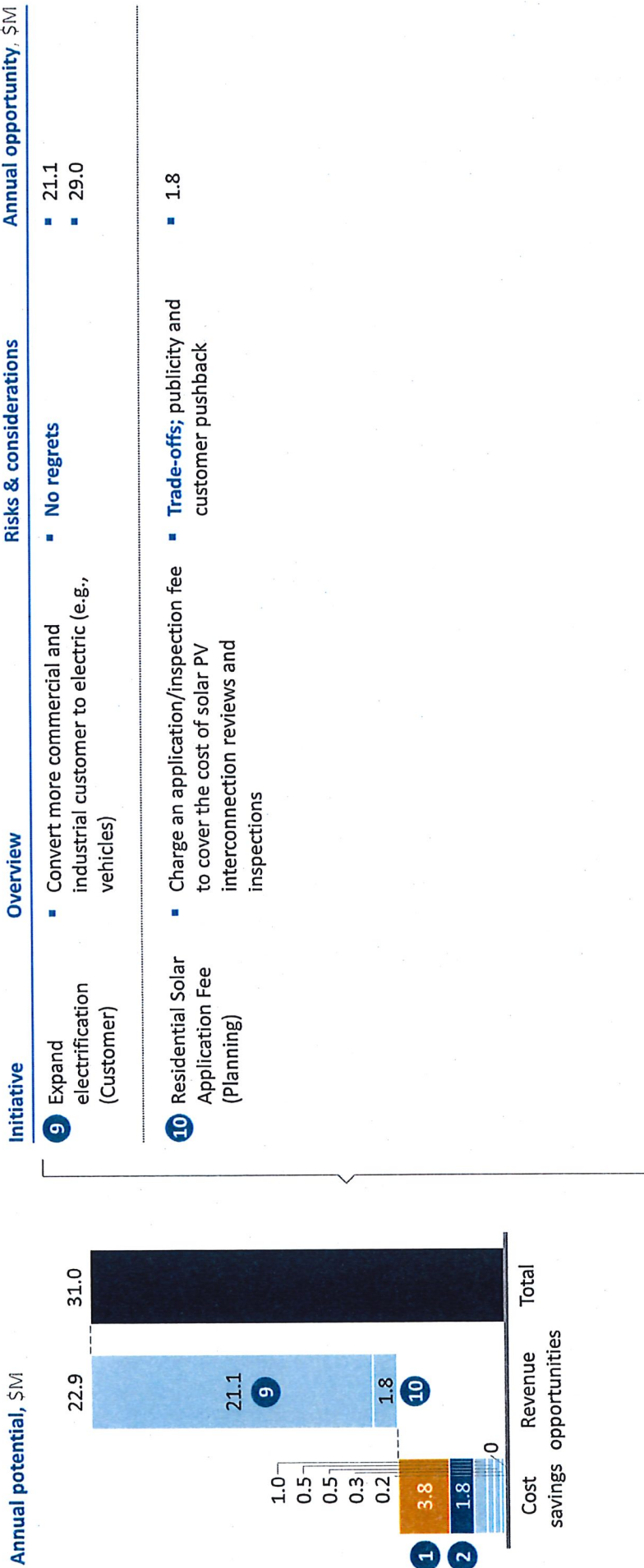
Annual potential, \$M



Initiative	Overview	Risks & considerations	Annual opportunity, \$M
5 Vegetation trim cycle	<ul style="list-style-type: none"> Increase cycle by 20% (to 36 months) to decrease costs 	<ul style="list-style-type: none"> Trade-offs; reliability metrics worsen, customer satisfaction decrease 	0.5
6 JEA personnel for transmission work	<ul style="list-style-type: none"> Utilize JEA personnel to perform transmission maintenance, eliminating need for contractor 	<ul style="list-style-type: none"> Trade-offs; may affect pricing for unit contract 	0.3
7 Eliminate participation in 3 rodeos	<ul style="list-style-type: none"> Eliminate participation in 3 rodeos 	<ul style="list-style-type: none"> Trade-offs; morale 	0.2
8 JEA personnel for capital work	<ul style="list-style-type: none"> Utilize JEA personnel to perform assembly and vacuum oil processing of new power transformers instead of a contractor; potentially negative impact on preventative maintenance 	<ul style="list-style-type: none"> Trade-offs; delayed maintenance work 	0.0

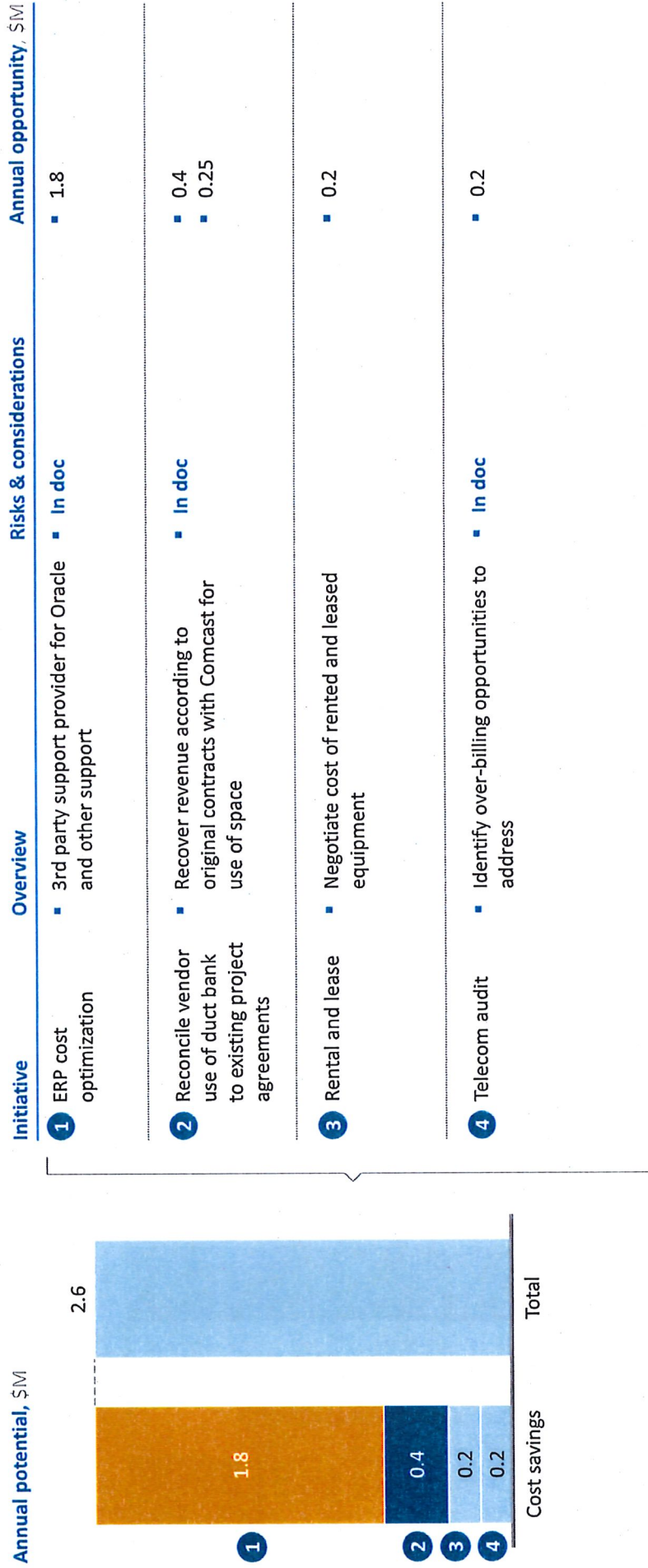
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Energy revenue



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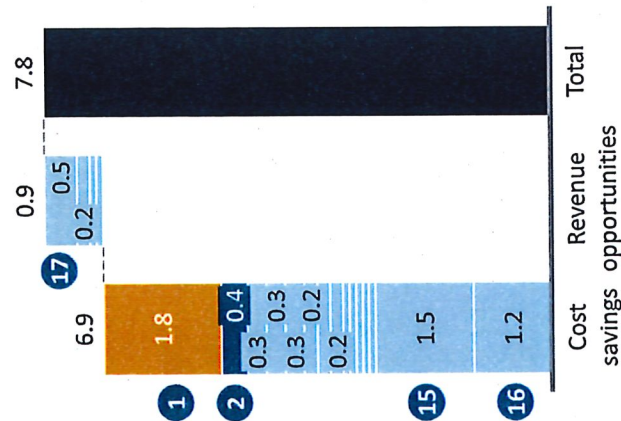
IT cost



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Water cost (1/3)

Annual potential, \$M

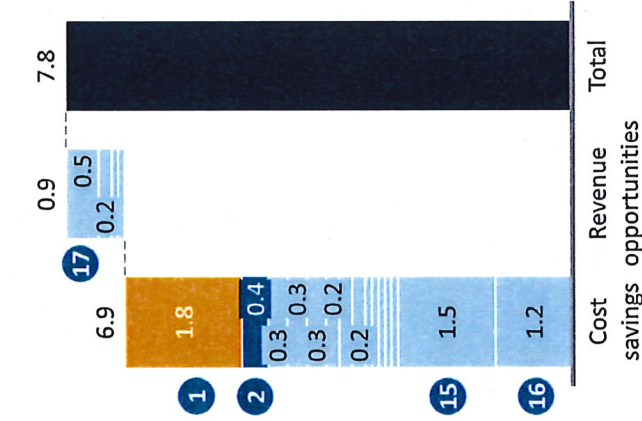


Initiative	Overview	Risks & considerations	Annual opportunity, \$M
1 Scope and Fee Negotiator	<ul style="list-style-type: none"> Hire an expert with experience in negotiating rates and fee structures for capital projects 	<ul style="list-style-type: none"> No regrets 	<ul style="list-style-type: none"> 1.8 0.1
2 Wastewater Biosolids Hauling	<ul style="list-style-type: none"> In-source biosolids hauling from wastewater reclamation facilities to Buckman WRF 	<ul style="list-style-type: none"> Trade-offs; unclear level of impact 	<ul style="list-style-type: none"> 0.4 0.57
3 Design-Build Continuing Service Contract	<ul style="list-style-type: none"> Develop master contracts with qualified design-build contractors for repeat, small capex jobs 	<ul style="list-style-type: none"> No regrets 	<ul style="list-style-type: none"> 0.3
4 Project Funding Revisions	<ul style="list-style-type: none"> Modify project funding processes and requirement to streamline business processes 	<ul style="list-style-type: none"> No regrets 	<ul style="list-style-type: none"> 0.3
5 Reduce coating / paint for metal surfaces	<ul style="list-style-type: none"> Reduce coating / paint for metal surfaces 	<ul style="list-style-type: none"> Trade-offs; reliability 	<ul style="list-style-type: none"> 0.3
6 Remove GIS position for outage mapping	<ul style="list-style-type: none"> Reduce GIS position for outage mapping 	<ul style="list-style-type: none"> Trade-offs; community 	<ul style="list-style-type: none"> 0.2

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Water cost (2/3)

Annual potential, \$M

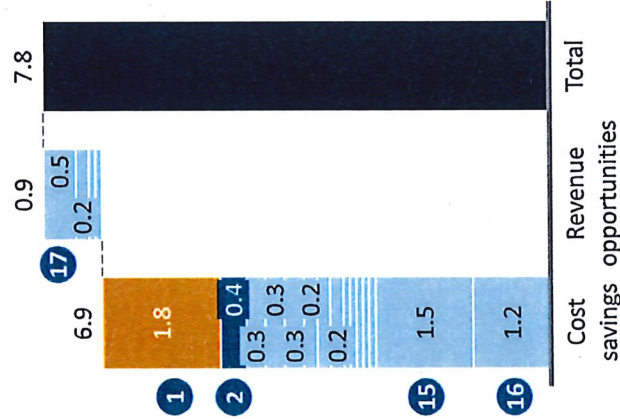


Initiative	Overview	Risks & considerations	Annual opportunity, \$M
7	Hydrogen Peroxide Use Reduction	Optimize hydrogen peroxide feed rate while maintaining odor control (estimate 10% reduction in usage possible)	Trade-offs; potential customer dissatisfaction
8	Reduce portable pump reservation	Reduce portable pump reservation	Trade-offs; resiliency
9	Reduce cleaning of pumps and wells	Reduce cleaning of pumps and wells	Trade-offs; risk of clogging
10	Reduce standards studies	Make do with in-house investigation of proposed standards changes	Trade-offs; efficiency
11	Perform Crane Inspections Utilizing JEA Personnel	Bring crane inspections in-house if certifications can be obtained	Trade-offs; effort involved to certify
12	Perform CCTV inspections in-house	Perform CCTV inspections in-house	Trade-offs; efficiency

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Water cost (3/3)

Annual potential, \$M

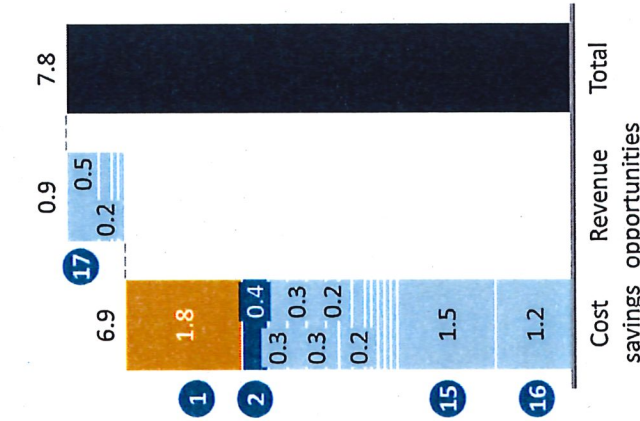


Initiative	Overview	Risks & considerations	Annual opportunity, \$M
13	Glycerin Use Reduction	<ul style="list-style-type: none"> JEA can reduce glycerin usage and still meet compliance limits (28% under compliance limit now) 	<ul style="list-style-type: none"> Trade-offs; environmental risk 0.1
14	Hydrogen Peroxide cost at Arlington East WRF	<ul style="list-style-type: none"> Reduce hydrogen peroxide feed rate and remain under TN TMDL limit 	<ul style="list-style-type: none"> Trade-offs; potential environmental impact 0.0
15	Eliminate Septic tank phase out study	<ul style="list-style-type: none"> Eliminate Septic tank phase out study 	<ul style="list-style-type: none"> Trade-offs; customer satisfaction 1.5
16	Reduce storm resiliency planning	<ul style="list-style-type: none"> Reduce storm resiliency planning 	<ul style="list-style-type: none"> Trade-offs; community 1.2

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Water revenue (1/2)

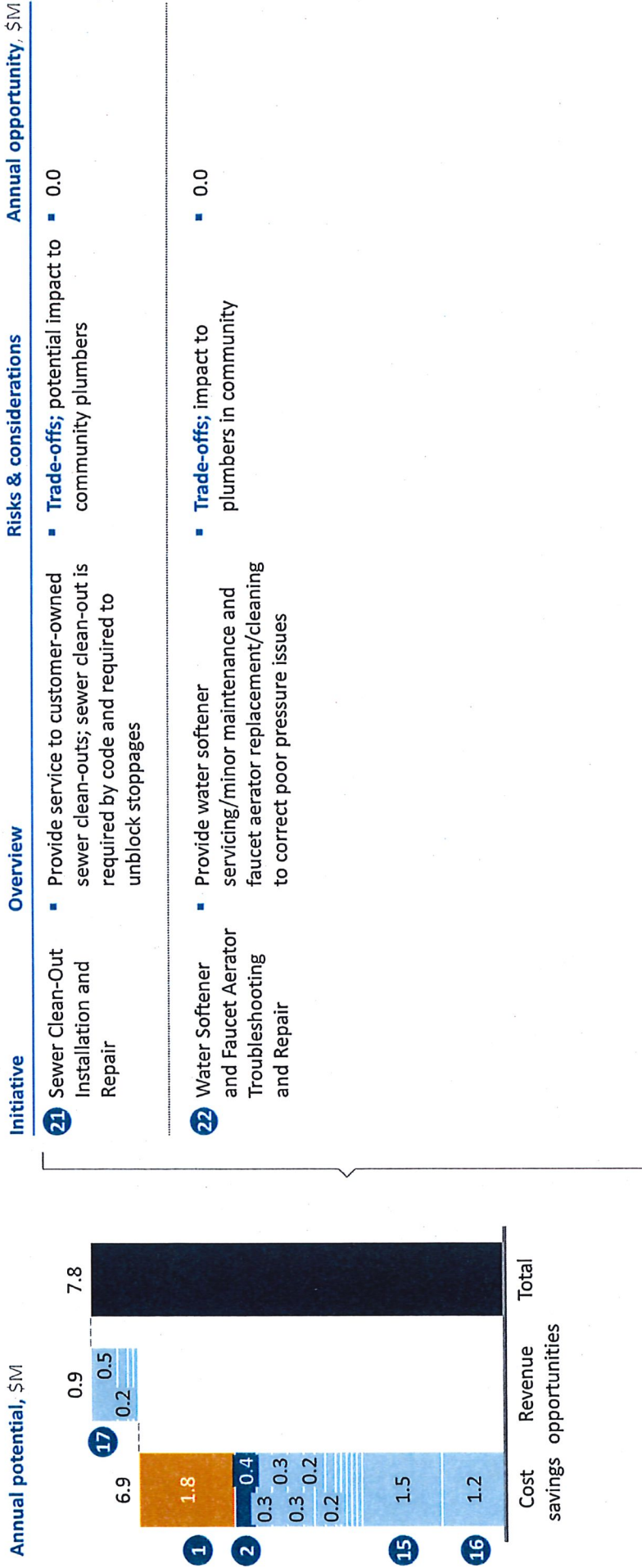
Annual potential, \$M



Initiative	Overview	Risks & considerations	Annual opportunity, \$M
17 Provide O&M and R&R Services for Private Pump Stations	<ul style="list-style-type: none"> Operate and provide R&R services to owners of private pump stations 	<ul style="list-style-type: none"> Trade-offs; assume risk for private pump stations 	<ul style="list-style-type: none"> 0.5 0.265
18 Customer Owned Backflow Preventer Maintenance	<ul style="list-style-type: none"> Provide backflow installation, testing and repair services. Bringing installation, testing and repair services in-house provides value for the customer with regard to ensuring easy compliance with the regulation and allows JEA an easier way to track compliance. 	<ul style="list-style-type: none"> No regrets 	<ul style="list-style-type: none"> 0.2 0.02
19 Sewer Lateral Cleaning and Televising	<ul style="list-style-type: none"> Charge customers to clean out clogs in their sewer laterals. Currently when a customer calls regarding a stoppage, JEA provides a "courtesy" jetting of their pipe to clear the stoppage 	<ul style="list-style-type: none"> Trade-offs; potential impact to community plumbers 	<ul style="list-style-type: none"> 0.1
20 Private Water Repairs in Close Proximity to Water Meter	<ul style="list-style-type: none"> Formalize repairs to private pipe and fittings near the meter the process and offer these services to the customer and include charges on the JEA bill. 	<ul style="list-style-type: none"> Trade-offs; potential customer or local plumber issues 	<ul style="list-style-type: none"> 0.1 0.02

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Water revenue (2/2)



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Status Quo 1-2 summary

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Status quo 1 and 2 summary - energy

	2030 - Status Quo			2030 - Status Quo 2		
	2007	2019	A – keep COJ	B – no COJ	A – keep COJ	B – no COJ
Financial value	Number of accounts, 000 ¹	409	471	543	543	
	Sales, mn MWh ¹	13.2	12.1	11.3	11.3	
	Non-fuel Revenue, \$M	515	860	1,146	1,116	
	Expenses (O&M + capex, \$M)	379 ¹	527	623	445	
	Net income ²	(135)	53	89	302	
	Years to pay off debt	32	25	>100	0	
	Rates (\$ yield per MWh)	37	62	94	86	78
	Rates (monthly residential bill)	104	123	168	159	149
	Quality of service	Good	better			
Value to customer						
Value to community	# employees	TBD	1460	1460	1,071	
	City contribution	73	93	104	0	0
Environmental value	% generation from renewables	0%	2%	6%	6%	

¹ O&M electric system only, all other years include corporate and 2019, using total debt / net income for 2030 projections

² EBTDA minus capex - calculated by solving for coverage ratios such that net income increases in status quo scenarios

³ Balance sheet debt only; using last scheduled payment in 2007

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Status quo 1 and 2 summary - water

	2007	2019	2030 - Status Quo		2030 - Status Quo 2	
			A		A	
Financial value	Number of accounts, 000 ¹	303	353	↑ 417	↑ 417	
	Sales, 000 Kgal ¹	43	36	↓ 38	↓ 38	
	Non-fuel Revenue, \$M	249	474	↑ 520	↑ 523	
	Expenses (O&M + capex, \$M)	266	357	↑ 509	↑ 396	
	Net income ²	(115)	1.2	↓ (-122)	↓ 18	
	Years to pay off debt ³	34	25	N/A	30	
Value to customer	Rates (\$ yield per kgal)	2.4	4.3	↑ 4.6	↑ 4.6	
	Rates (monthly residential bill)	50	70	↑ 70	70	
Value to community	Quality of service	Good	better	↑	↑	
	# employees	TBD	495	↑ 495	↑ 416	
	City contribution	18	25	↑ 31	↑ 31	
	Septic tank phase-out progress	N/A	Minimal	↑ Minimal	↑ None	
Environmental value	Nitrogen discharge (tons)	850	566	↓ 560	↓	

¹ Water accounts

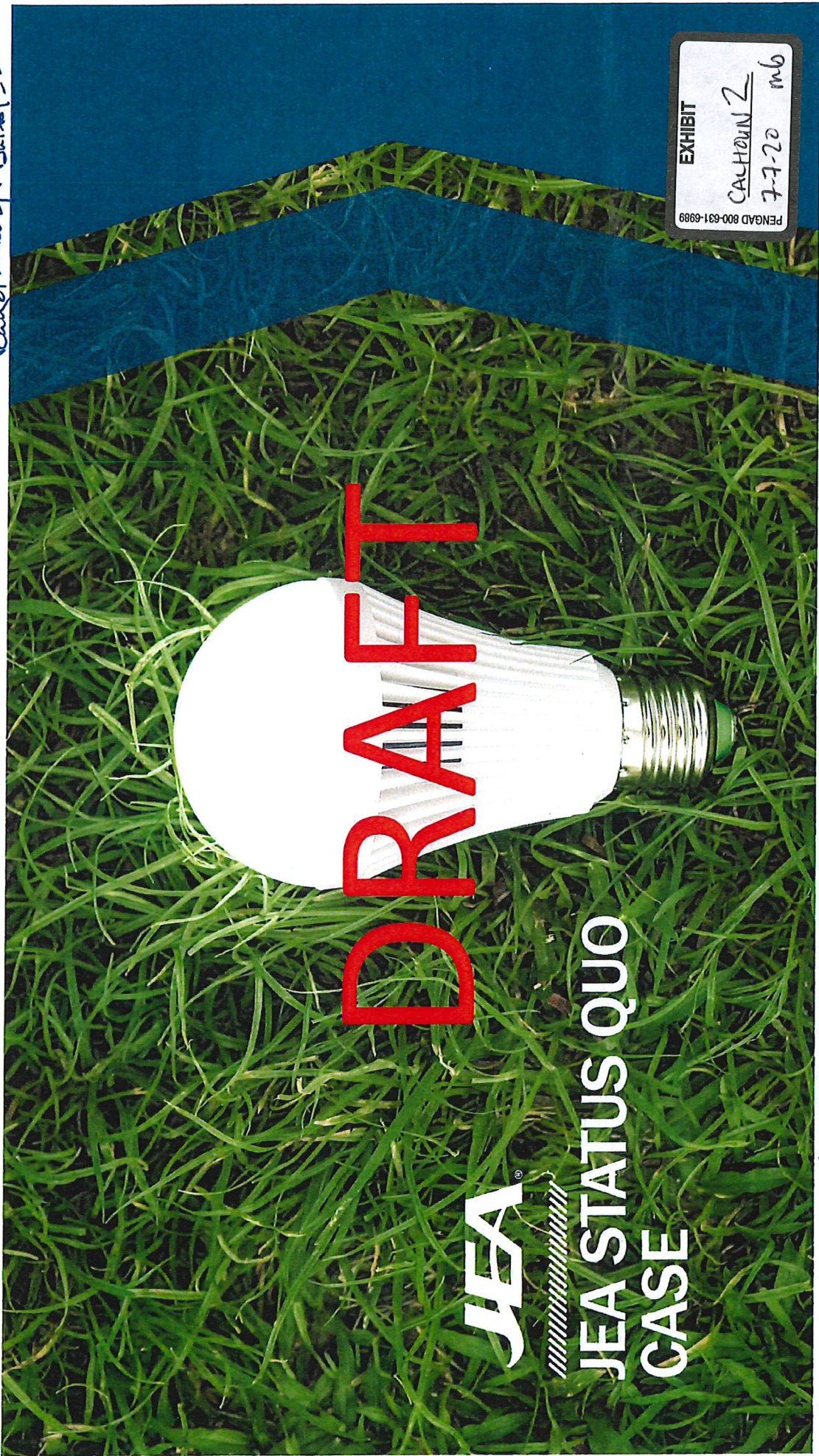
² EBTD minus capex - additional debt is issued to cover capital expenditures

³ Using last scheduled payment for 2007 and 2019. Currently not solved in SQL given that additional debt is issued to cover capex

Calvin

OCTOBER BOARD

2 wks out 1.0
Ravel/Ward/T Barba - JC - standing



JEA

**JEA STATUS QUO
CASE**

*Existing water
existing water
existing water*

*on water issue - we are allowed to SAC
1) Plan for certain alternative w's of fact
2) Factoring in app add'l DSR
status QC should not IWRP in 19 - under in d string of both D*

*ASG
Gowling
Gowling*

JEA CURRENT FRAMEWORK



OCTOBER 2018



**JEA STATUS QUO
CASE**

Florida Public Service Commission

- Require electric power conservation and reliability within a coordinated grid
- Approve territorial agreements and settle territorial disputes
- Prescribes uniform systems of accounts & rate structures for all electric utilities
- This includes oversight that the total revenue requirements of utilities are collected fairly from all customer classes.

City of Jacksonville Charter

- Article 21.01: Established JEA for the express purpose of acquiring, constructing, operating, financing, and otherwise having plenary authority with respect to electric, water, sewer, natural gas, and such other utility systems as may be under its control now or in the future.
- Article 21.04: If JEA determines that it is...appropriate...to provide...any other utility system or function...JEA shall by resolution identify such additional utility system...to the council
- Article 21.07: There shall be assessed upon JEA...from revenues of the electric...and water and sewer system...after the payment of all costs and expenses incurred by JEA in connection with the operation...JEA shall pay the city combined assessment from the electric system and the water and sewer system.

JEA Pricing Policy

- Primary goal is to establish revenue requirements to fully recover the costs necessary to operate and maintain the utility, consistent with its mission, through fair and equitable pricing
- The total revenue requirement of each system must be sufficient to ensure the financial integrity of the utility, including recovery of debt service, sufficient revenue to meet renewal and replacement fund requirements, and maintenance of key financial metrics

ELECTRIC MARKET

Growth is forecasted using multiple regression analysis of history, population, median household income, housing starts, commercial square footage, commercial employment, gross product, and electric rates.

Energy Efficiency continues to meet JEA's Florida Energy Efficiency and Conservation Act (FEECA) goals. JEA's demand-side management programs focus on improving the efficiency of customer end uses as well as improving the system load factor. To encourage efficient customer usage, JEA offers customers both education and economic incentives on more efficient end use technologies.

Rooftop Solar and Storage is anticipated to grow at a rapid pace achieving full saturation in the JEA territory by 2030. Projections indicate a 59% CAGR for residential and 64% CAGR for commercial and industrial.

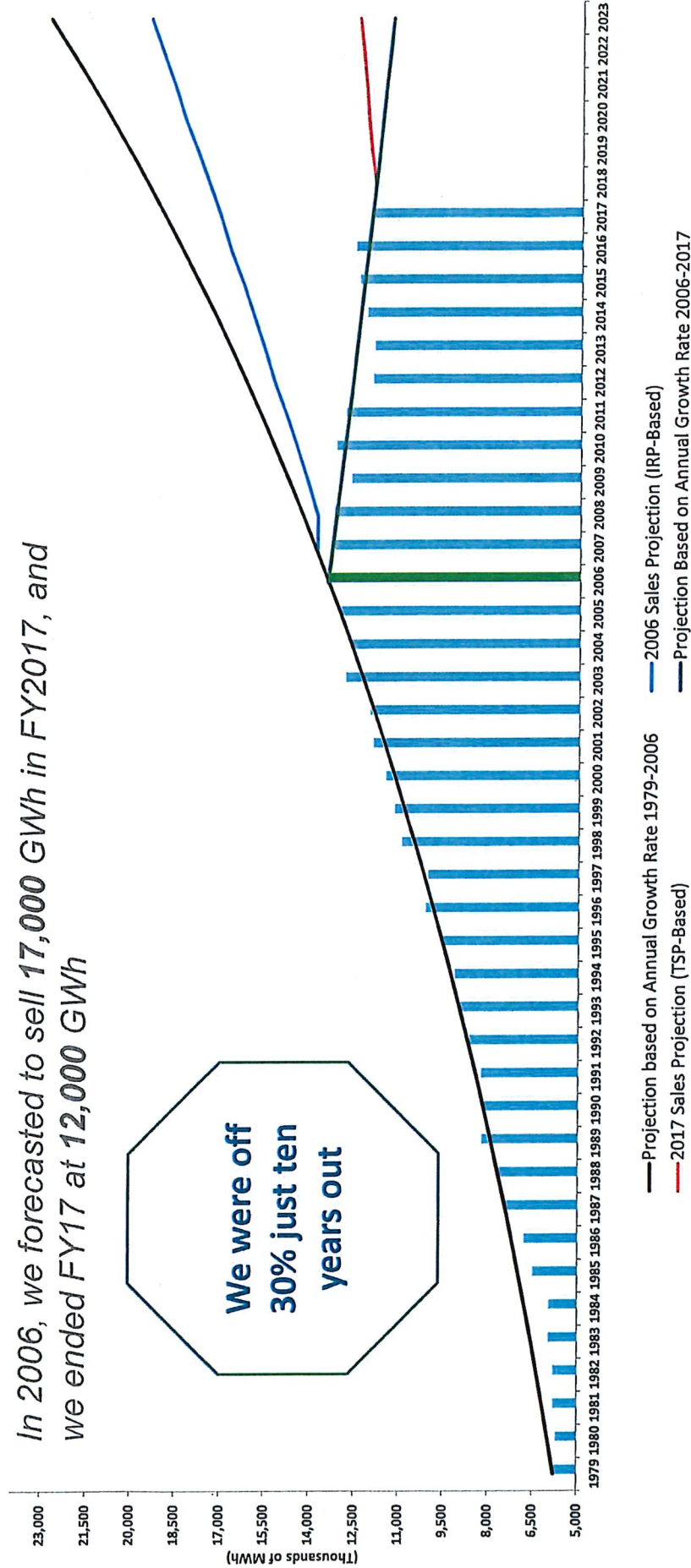
Electric Vehicles Low adoption assumed for Jacksonville, achieving 9 times the 2018 energy in 2030, forecasted based on battery charge and miles driven per day

Non-Road Electrification Low forecast, achieving 3 times the 2018 energy in 2030 including the assumption to not renew/rebid the FY18-20 electrification contract

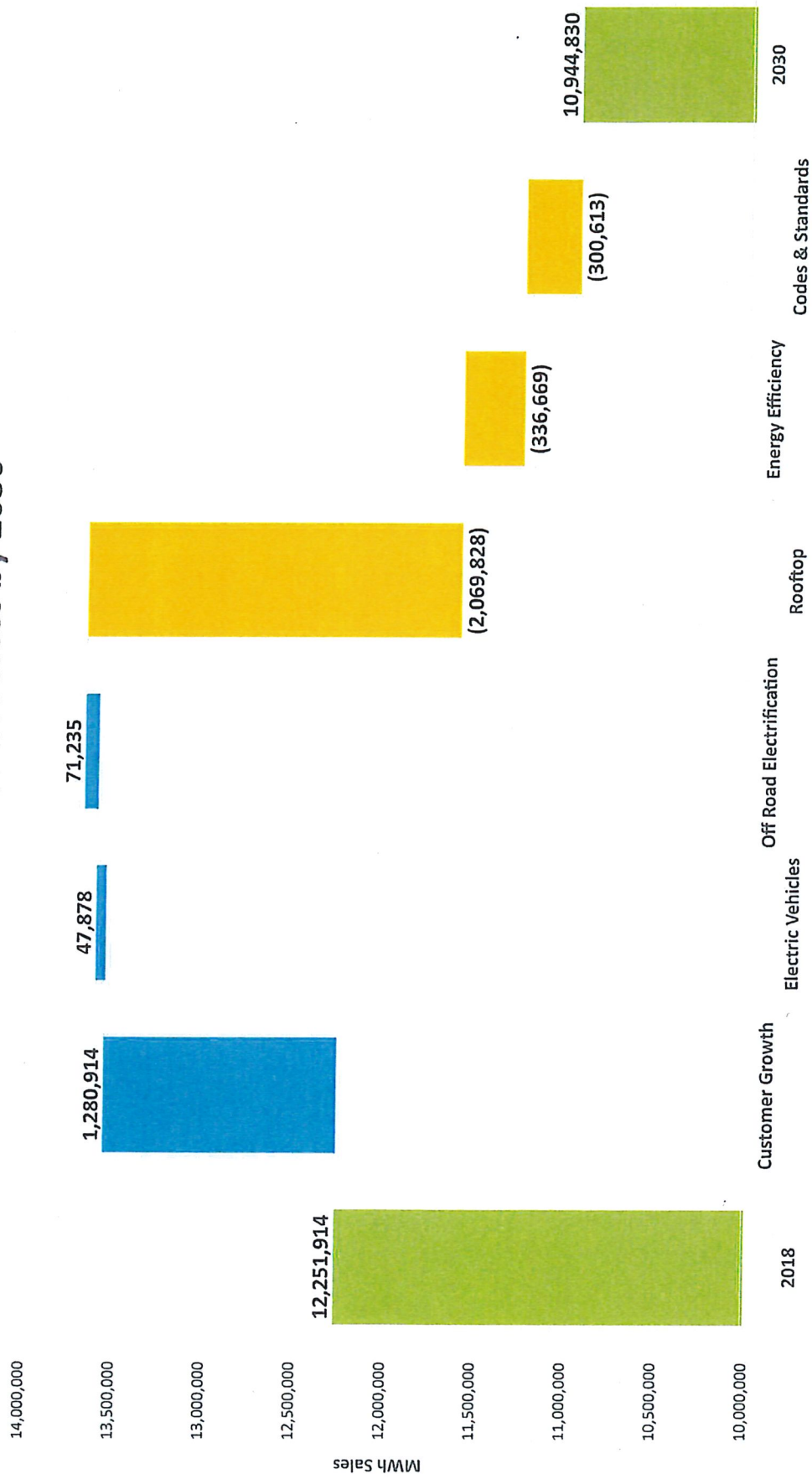
Natural Gas growth not currently projected

JEA ELECTRIC SALES AND PROJECTIONS

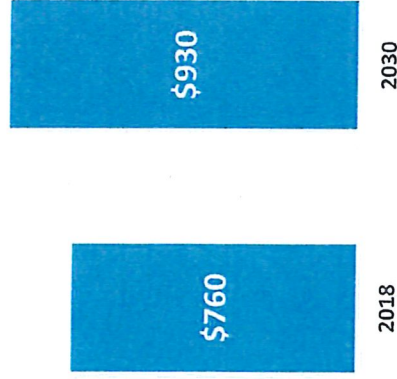
In 2006, we forecasted to sell 17,000 GWh in FY2017, and we ended FY17 at 12,000 GWh



Potential Market Forces by 2030



*Declining electric sales
results in significant rate
increases to meet higher
revenue requirements*



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DOING NOTHING...

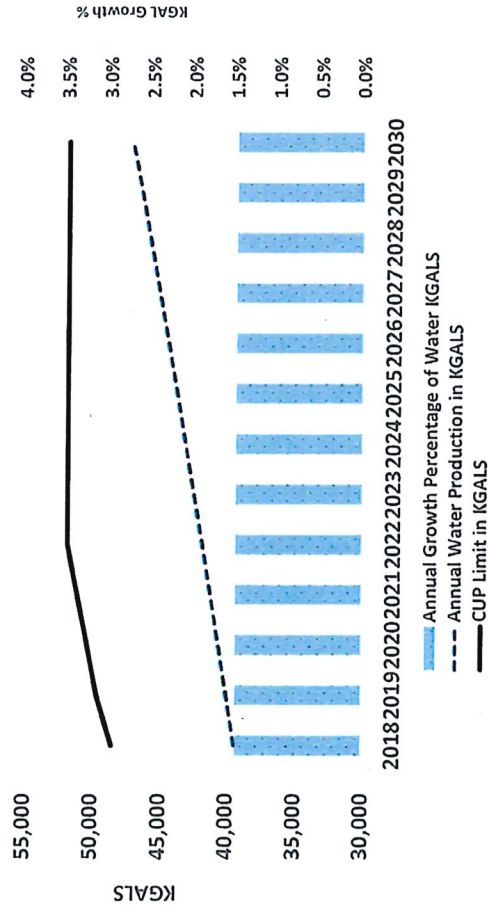
- no change in cost structure
- no change in capital structure
- no change in rate structure
- continue to comply with current Pricing Policy throughout proforma

...RESULTS IN

- Additional revenue required from customers from 2018 to 2030 = \$1 billion

Need more information from Water Planning and Environmental

Water Growth and CUP Limit



An extreme scenario of a sharp decline in per capita consumption would result in additional revenue required from customers, however this scenario is unlikely

Went 12/15/25
 12/15/25
 12/15/25

WATER MARKET

Customer growth

Water Efficiency/Conservation

Regulation

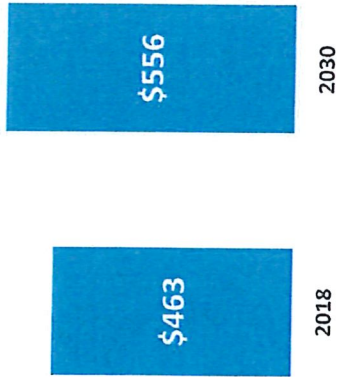
CUP limits

Do As / £ No A'ODL

CONSERVATION

Researcher
 Limited

Water customer growth
drives increased
revenue allowing for
new debt without rate
increases



OCTOBER 2018

**JEA STATUS QUO
CASE**

DOING NOTHING...

- no change in cost structure
- no change in capital structure
- no change in rate structure
- continue to comply with current Pricing Policy throughout proforma

...RESULTS IN

- New debt for capital investments
- No additional revenue required from customers

WMA

Planning RD

Marketing

Conclusion

TBD