

OUTLINE FOR THE INTERVIEW OF MICHAEL BROST

(October 19, 2019)

Provide context: Smith Hulsey & Busey special counsel for the Special Investigatory Committee on JEA Matters. Not recorded, but will take notes.

Context: The documents we have show that Juli Crawford's team prepared a pessimistic status quo forecast in mid-September, before JEA retained McKinsey. (Steve McInall referred to the projection as "doom and gloom.") We also found documents suggesting JEA retained McKinsey not to perform objective strategic planning as I understand it, but instead, to advocate for the preexisting doom and gloom status quo forecast.

Mr. Brost said he had no involvement with McKinsey's projections because he was on his way out at JEA, and (he suspected) other senior leadership members knew Mr. Brost would not support the pessimistic projections.

Attachment 1 (available [here](#)) is a December 19, 2018 McKinsey presentation entitled "JEA demand forecasting: follow-up discussion[.]" This is an updated version of a presentation that was discussed at a meeting on December 17, 2018.

1. Page 4 shows the difference between McKinsey's electric sales forecast and JEA's preliminary "doom and gloom" forecast.
 - a. Do you have any thoughts about the information on this page?

Comparing JEA's projection with McKinsey's projection is not an "apples to apples" comparison. JEA significantly underestimated electric vehicles and other electrification. Mr. Brost believes there is a lot of opportunity for JEA to increase electric sales. As an example, JEA did not pursue electrification contract. Mr. Brost was not sure who was responsible for not pursuing those opportunities.

Mr. Brost believes that, under Aaron Zahn, JEA overestimated the negative impacts of roof solar on electric sales relative to every other utility. Moreover, Mr. Brost believes even McKinsey's rooftop solar erosion estimate of 0.2 million MWh, which is orders of magnitude below JEA's estimate, is high.

Mr. Brost concluded that the scenario 1 and 2 presentations overestimated rooftop solar and underestimated electric vehicles and other revenue-

generating opportunities available to JEA. Mr. Brost believes the overly-pessimistic scenario 1 and 2 projections were setting up JEA for failure.

- b. For the third factor, “Other electrification,” both JEA and McKinsey assumed there would be no gain or nominal gain from non-road electrification. That seems irreconcilable with ICF’s September 2018 presentation, which concluded JEA could increase its electric sales 4.3% by 2024 through of electrification initiatives.

- i. Did you read ICF’s optimistic September 2018 electrification presentation?

Mr. Brost believes they were omitted from JEA’s analysis, but not McKinsey’s analysis.

- c. The fourth factor on page 4 shows JEA was making comparatively high rooftop solar adoption assumption of 60% CAGR. Do you know why JEA was making that assumption in December 2019?

Mr. Brost believes that grid parity “will never happen” in Florida because there is no economic benefit to solar in Florida. Solar is only attractive because of government subsidies currently available, which Mr. Brost believes will be phased out over time.

Mr. Brost also believes a large utility like JEA can provide solar cheaper than individuals because of economies of scale. Accordingly, Mr. Brost disagreed with McKinsey’s 0.2 million MWh solar energy erosion estimate in Exhibit 1.

For these reasons and others, Mr. Brost believes grid parity will never occur.

- d. For factor 6 on page 4, McKinsey adopted a significant “codes and standard” rate. Do you have any opinion on that assumption for JEA’s service territory?

Mr. Brost views energy efficiency and codes/standards as two sides of the same coin.

- 2. We have documents showing that, after this December 2019 presentation came out, JEA’s pessimistic assumptions switched. JEA *lowered* its projected rooftop solar

rates and then adopted high distributed generation rates. Do you know why that switch happened?

Mr. Brost stated there has been a significant decrease in energy used per customer over the last decade. Mr. Brost has also seen a decrease in the cost of solar panels. On the other hand, Mr. Brost thinks energy efficiency will “level out” and will eventually “saturate.” According to Mr. Brost, attachment 1 shows energy efficiency levelling out over time. However, it is hard to predict how much rooftop solar and distributed generation rates will change over the next 10 years.

Mr. Brost believes utility companies will or should have demand rate programs eventually. Demand rate has a rationale similar to internet, cable, etc. services. For those services, companies do not charge customers by the kilobyte of data used/transferred; customers pay lump sum. Mr. Brost believes utilities should adopt a similar model. JEA has been piloting a demand rate program for 5 years. Mr. Brost believes the program will take benefit of solar energy “totally” away.

Mr. Brost heard Mr. Zahn told McKinsey not to say “demand rate.” He also heard Aaron Zahn told JEA employees and consultants “we’re not going to talk about demand rate.” (Mr. Brost could not recall who told him about those statements.)

Mr. Brost also stated that Kerri Stewart said JEA would not pursue a demand rate program because it would cause a rate increase. However, according to Mr. Brost, the only people impacted by demand rate would be affiliated rooftop solar. Mr. Brost believes few rational people would install rooftop solar panels if a viable demand rate program was in place (other than, for example, environmentally conscious customers).

Mr. Brost speculated that the demand rate program was put on hold because of the senior leadership’s privatization efforts.

Attachment 2 (available [here](#)) is the document with the assumptions JEA developed with McKinsey for the scenario 1 (status quo) presentation given to the JEA Board on May 28, 2019.

1. What are your thoughts on these assumptions?

Mr. Brost believes the numbers look fairly reasonable. He does question the post-parity adoption rates because they assume there’s grid parity. Mr. Brost challenges

whether there ever will be parity in JEA's service area. He also stated that pre-parity adoption rates seem a little high.

Attachment 3 (available [here](#)) is the document containing the assumptions underlying JEA's scenario 2 (traditional utility) presentation.

1. Let's turn to page 18. Its title states, "Revenue initiatives developed to date provide \$389M additional revenue by 2030. Do you agree with that assessment?"

Mr. Brost responded that the estimated seemed "way short." Mr. Brost believes the presentation omitted other revenue-generating opportunities:

- a. Natural gas – Take Duval County franchise away from TECO. Being in the gas business specifically added to Charter in 1990s, but it was never exercised.
- b. Owning, maintaining behind the meter solar systems

Mr. Brost described Herschel Vinyard's legal constraints presentation at the July 23, 2019 Board meeting as "half-hearted."

Miscellaneous

1. It has been alleged St. Johns River Power Plant shut down because of technology disruption, including energy efficiency and distributed generation. Do you agree with that claim?

St. John's River Power Plant was a coal plant with lost cost that was very competitive for 20 years. In last decade, however, it became high-cost relative to other energy generation sources because prices of natural gas decreased significant due to fracking and other technology. Those developments favored a natural gas combined cycle plan as an energy generation source. Mr. Brost believes the energy industry is moving away from coal purely for economic reasons.

Additionally, SJRPP was nearing the end of its life, FPL wanted out of the SJRPP contract.

From 2000 to 2010, customer load leveled off. The development was first due to the recession, and then due to energy efficiency and rooftop solar.

JEA found for several years in 2010-2020 that it had more generation than it needed. JEA was long on capacity.

2. I have seen evidence you are familiar with the March 2019 integrated resource plan (“IRP”) presentation by nFront Consulting. Do you recall that document?

Mr. Brost knew in early-2019 that the IRP forecast was favorable and would show positive growth.

Mr. Brost described ten-year site plans mini-IRPs. When JEA’s financial team does financial forecasts, they want to be pessimistic. When JEA’s planning team does generation planning, it is overly-optimistic because they do not want JEA to have a power shortage.

When asked to explain IRP scenarios, Mr. Brost remarked that, normally, you need to do sensitivity analysis on the key variables affecting JEA. The IRP addresses those variables by performing different (scenarios). Mr. Brost believes

- The load erosion IRP scenario is “pretty consistent” the senior leadership’s scenario 1 and 2 presentations.
- The baseline scenario is “where we generally landed.” He agrees that modest sales growth (less than 1%) is a reasonable assumption for JEA’s future electric sales, but Mr. Brost noted a lot can affect that projection. Nevertheless, Mr. Brost believes JEA will have “modest growth” for the next decade or two.

Mr. Brost explained that total net energy requirements (in the IRP) refers to total annual energy requirements (i.e., 12 million MWh per year). It is the forecast of what you have to supply to ratepayers in the future. In other words, it estimates how much fuel JEA should buy to produce sufficient electricity for customers.

Mr. Brost noted that net firm peak demand is also important. It drives how big JEA’s replacement plant should be.