



OFFICE OF THE CITY COUNCIL

CHERYL L. BROWN

DIRECTOR
OFFICE (904) 630-1452

FAX (904) 630-2906
E-MAIL: CLBROWN@coj.net

117 WEST DUVAL STREET,
SUITE 425
4TH FLOOR, CITY HALL
JACKSONVILLE, FLORIDA
32202

SPECIAL COMMITTEE ON JEA REVIEW MINUTES

October 23, 2012

1:00 p.m.

Location: City Council Conference Room A, Suite 425, City Hall – St. James Building; 117 West Duval Street

In attendance:

Council Members Matt Schellenberg (Chair), Johnny Gaffney, Bill Gulliford and John Crescimbeni (arr. 1:07)

Also: Cindy Laquidara and Peggy Sidman – General Counsel’s office; Jeff Clements – City Council Research Division, Juliette Williams – Legislative Services Division; Kyle Billy and Robert Campbell – Council Auditor’s Office; Donna Barrow, BeLinda Peoples and James Nealis – ECAs; Nancy Kilgo and Bud Para – JEA; Sean Miller and Dave Cobb – Florida Power and Light; Jeff Whitson – TECP Peoples Gas; Joe Andrews – TRUE Commission; Mike Clark – *Florida Times-Union*; Kevin Meerschaert – WJCT; Helen Albee; David Bruderly

Meeting Convened: 1:03 p.m.

Chairman Schellenberg convened the meeting and asked Bud Para of JEA to give an overview of JEA’s operation of the utility and the history of the transfer of the City’s water and sewer utility to the JEA. Mr. Para conveyed the regrets of current and incoming JEA CEOs Jim Dickenson and Jim McElroy, both of whom are in Cincinnati with the Chamber of Commerce leadership trip and were unable to attend the meeting. They are anxious to attend a future meeting of the committee to discuss this matter. Mr. Para stated that it is a worthwhile exercise every so often for the community to evaluate the JEA’s value to the community and to look at its overall operations and contributions. He noted that the city of Vero Beach recently decided to sell its municipal electric utility to FP&L, more for political than economic reasons. He also noted that the city of South Daytona Beach is looking at buying the electric system that serves the city from its private owner and making it a public utility, illustrating that there is some interest in both options. The City transferred its water and sewer operations to JEA in 1997/98, after which JEA invested about \$2 billion in upgrading the water and sewage treatment plants to meet current environmental standards. Since then the JEA has over time purchased most of the private water and sewer utilities in the City and folded them into the JEA system where they can be run more efficiently because of economies of scale and JEA’s operational expertise.

Chairman Schellenberg proposed three “big questions” that need to be considered with regard to JEA’s electric utility and the possibility of selling it to a private operator: 1) financial issues; 2) political issues; and 3) environmental issues. Under financial issues he cited such factors as the amount of JEA’s annual contribution to the City, the fact that JEA’s non-taxability for property taxes deprives the School Board of ad valorem revenue that a private utility would pay, and the appraisal of the value the JEA might have to a potential purchaser. Under political issues he cited the fact that the City has little or no influence over the JEA’s board or operation, that all board appointments are made by the Mayor, and the possibility that a mayor may appoint unqualified board members for political purposes. Under environmental issues he cited increasingly strict environmental regulations and the federal government’s apparent anti-coal bias.

The group discussed comparative retail rates between JEA and FP&L using a table compiled and distributed by Sean Miller of FP&L. The table showed that at present FP&L’s rates are lower than JEA’s for several different customer classes (typical small residential and small, medium and large commercial customers). Mr. Para noted that JEA’s rates were lower than FP&L’s rates for most of the past 25 years until for the last couple of years, and cited the difference in comparative fuel costs between coal and natural gas as a major driver of the rate differential. As fuel prices change in the world market, the rates charged by JEA (more coal-dependent) and FP&L (more natural gas-dependent) will rise and fall at different rates.

Mr. Miller explained that FP&L charges the same base rate (related to operational and fuel costs) to all of its customers in Florida, which is the rate that Jacksonville customers would pay if FP&L were to purchase the JEA electric operation. There are additional costs that vary from city to city for non-standard items, such as the cost of placing all electric lines underground at a city’s request or paying off existing debt in excess of the amount normally allowed by the Florida Public Service Commission (PSC) to be included in the base rate. The PSC would have to approve FP&L rates and surcharges in Jacksonville.

In response to a question, General Counsel Cindy Laquidara stated that the City’s electric franchise fee must be reasonably related to the value of the consideration being provided and is negotiable with a private utility. Council Member Gulliford expressed the feeling that if the net cash flow to the City budget would be less under private ownership than under JEA operation, he would be opposed to making the change given the current budget pressures. Bud Para said that the JEA currently pays the City a \$106 million annual contribution and another \$100 million in franchise fees (which FP&L would also pay). Ms. Laquidara stated that all taxes levied by the City are available by the grace of the Florida Legislature and are subject to change at the legislature’s discretion. Kyle Billy of the Council Auditor’s Office noted that Jacksonville currently levies the maximum 10% utility service tax and levies 3% of the available 6% electric franchise fee.

David Bruderly, a utility engineer with many years of experience in Florida, said that U.S. natural gas producers are actively trying to drive up the currently low price of gas by exporting more of our domestic gas production, so natural gas may not always be the low cost option it is now. He said that large power users are increasingly building their own self-contained generation capacity rather than buying electricity from the local utility. The City of Gainesville bought its private natural gas provider so that the city could run it for the community’s broader benefit, not strictly for the maximum tax/franchise fee benefit to the city budget. He believes that a public utility is more advantageous to the community’s interests than an investor-owned utility. The Gainesville City Commission is the governing body for the Gainesville Regional Utility and tries to do what’s best for the community in terms of lowering customer bills, reducing the utility’s environmental

impacts and carbon footprint, etc. rather than maximizing city revenue. Gainesville and Tallahassee operate their natural gas utility and are experimenting with natural gas vehicles which are more energy-efficient and non-polluting. He recommended the development of an overall community energy plan that takes multiple perspectives into account and isn't focused simply on the cheapest bill possible.

Chairman Schellenberg said that subject of the JEA's potential value for sale comes up from time to time, but the City has never done a full-fledged study or issued an RFP to find out how the private market values the utility and what it might produce for the City as a saleable asset. Cindy Laquidara pointed out that the JEA is a wholly-owned City subsidiary and the City Council can change the JEA's charter with 14 votes to have as much or as little control over the utility's operations as it desires. She recommended that the committee carefully analyze all of the potential costs involved in exploring a sale of the JEA (what would happen to water and sewer operations and the chilled water plants, what is the certainty of the JEA contribution to the city budget worth, etc.) and then hire an independent consultant to determine what the JEA is worth to the City, not what it could be worth to a private investor. Determine its value as a City asset first before issuing an RFP to ask the private sector to suggest a value. Sean Miller of FP&L talked about the factors that the PSC considers in determining whether a proposed utility acquisition and subsequent rate base is "reasonable". The PSC has the authority to disapprove a sale if it finds the net effect would not be good for the purchasing utility's overall customer base.

Meeting adjourned: 1:50 p.m.

Minutes: Jeff Clements, Council Research Division
10.24.12 Posted: 12:00 p.m.

Tape: Special Committee on JEA Review 10.23.12
Legislative Services Division