



## OFFICE OF THE CITY COUNCIL

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### **SPECIAL COMMITTEE ON JEA REVIEW MINUTES**

**November 13, 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 (arr. 2:15)

**Also:** Cindy Laquidara, Peggy Sidman and Paige Johnston – General Counsel’s office; Jeff Clements – City Council Research Division, Juliette Williams – Legislative Services Division; Kirk Sherman, Kyle Billy and Robert Campbell – Council Auditor’s Office; Stan Johnson – ECA; Paul McElroy, Wayne Young, Bud Para, Brian Roche and Nancy Kilgo – JEA; Mike Hightower and Lisa Weatherby – JEA board; Sean Miller and Dave Cobb – Florida Power and Light; Jeff Whitson – TECO Peoples Gas; Jim Bailey and Joe Wilhelm – *Financial News and Daily Record*; Helen Albee; David Bruderly

**Meeting Convened:** 2:00 p.m.

Chairman Schellenberg convened the meeting and asked Sean Miller of FPL to review his handout comparing JEA with several Florida investor owned utilities (IOUs) on a variety of financial indicators. Mr. Miller indicated that JEA’s debt-to-asset ratio is three times that of FPL and twice that of other IOUs, in large part because JEA uses more tax-free debt and the IOUs use more investor equity for their capital needs. He estimated that approximately \$7.00 of the retail rate difference between JEA and FPL is due to FPL’s lower cost of operations.

Walt Bussells, former CEO of JEA, made a PowerPoint presentation entitled “JEA – Greatest Value for Ratepayers and its Owner, the City” outlining the ways in which JEA contributes to the overall well-being of the City. He noted that JEA is more reliant than IOUs on debt financing because as a public utility it can borrow using lower interest tax-free bonds not available to private utilities. With regard to local tax contribution, 100% of JEA’s annual contribution (roughly equivalent to what an IOU would pay in property taxes) goes to the City; IOUs pay taxes to the federal and state governments that would approximately halve the amount of tax revenue to the City from a private utility. He noted that a major reason for JEA’s more expensive retail rates compared to FPL in the last 4 years has been fuel contracts for coal locked in a

number of years ago that have not been advantageous as the price of natural gas has declined substantially. Those contracts expire in the next year and JEA's fuel costs and rates should go down as the utility uses more natural gas and less coal.

Mr. Bussells stated that JEA and the City have partnered in many ways over the years that have been extremely beneficial to the City, and would not have been possible or feasible for an IOU. He cited the joint agreement among the City, JEA and Jaxport to fund capital improvements for the port, JEA's huge investment in rebuilding the infrastructure of Cecil Field after its abandonment by the Navy, and the JEA's take-over and revitalization of the City's outdated and under-invested water and sewer utility. The JEA has been a funding and operational partner with the City for the benefit of the taxpayers in a way that private utilities would not find profitable. Mr. Bussells also noted that JEA does participate in several joint ventures with private utilities to take advantage of their larger economies of scale and operational efficiencies, including the St. Johns River Power Park generating station, the 500Kv transmission lines on the City's Westside that are a joint venture of JEA, FPL and Georgia Power, and the JEA's part-ownership of a Georgia Power nuclear plant.

Mr. Bussells believes that there are opportunities for more joint partnerships between the City and JEA if there is a willingness to meet and brainstorm about new forms of cooperation and assistance. There is likely also private capital that would be willing to invest in City/JEA joint ventures in the right circumstances. General Counsel Cindy Laquidara noted that Florida law makes some kinds of joint public/private ventures difficult to achieve, but there are opportunities for some kinds of cooperation. She urged the City and JEA to first decide what their objective is and what they want to achieve before seeking out private partners and investors; don't blindly agree to whatever entrepreneur comes along with an idea for a project and a promise of savings. The private sector is about making profits for investors, not catering to the public interest.

Sean Miller of FPL offered the example of a joint dispatch agreement under which a municipal utility and a private utility share their assets to get power generated and distributed most cost-effectively. Each partner retains control of its assets, but operates as a combined entity, possibly with the larger IOU running the operation due to its larger size and economies of scale.

Council Member Gulliford speculated that JEA's operation of the City's water and sewer utility might be a drag on its overall finances, and still there are many areas of the city using wells and septic tanks so problems remain to be addressed. In response to a question, Cindy Laquidara stated that the JEA annual contribution to the City is done by a periodically negotiated contract; the latest contract expires in 2013.

Walt Bussells stated that all of the big initiatives and major projects in which JEA has partnered with the City have been opposed by the internal bureaucracy at JEA, and have only succeeded by being championed by the City and the JEA board and CEO. JEA CEP Paul McElroy cited San Antonio as an example of a municipal utility making a concerted effort to partner with its city and chamber of commerce to be an economic development engine, particularly by pursuing "green energy" in the solar and wind fields and generating jobs in those industries for San Antonio residents.

Council Member Gulliford suggested that the committee should request the Council President to either extend this special committee or appoint a new committee to convene a process by which the City and JEA can meet and brainstorm ideas for cooperative ventures and private sector participation. JEA board member Mike Hightower cautioned that given the fragility of the local and national economies and City budgetary problems, the City and JEA need to be extremely

careful about jumping into speculative deals – every idea needs to be thoroughly analyzed and vetted to ensure that the public’s interest is protected as the foremost priority. The JEA is focused on customer service, not generating profits. He is open to exploring any good idea, and feels that local private business expertise can be put to work to analyze potential deals that may be proposed.

Dave Bruderly, a utility engineer, cited a pilot project in Martin County FL which focuses on small power generation units that produce “green” power and grows small businesses. JEA could partner with local businesses to grow jobs and green power generation capacity. He suggests starting with a charette to collect ideas and proposals and see what might be possible.

Council Member Gulliford suggested that the City and JEA need to redefine their relationship, and the expiration of the annual contribution contract in 2013 offers the opportunity to explore the relationship going forward.

**Meeting adjourned: 2:56 p.m.**

Minutes: Jeff Clements, Council Research Division  
11.14.12 Posted: 11:00 a.m.

Tape: Special Committee on JEA Review 11.14.12  
Legislative Services Division