

From: Sarah Brody <Sarah_Brody@mckinsey.com>
Subject: April 4 presentation subset of slides
Sent: Tue, 26 Mar 2019 14:19:31 -0500
To: "Romero Aguero, Julio E. (Chief Inno. and Transformation Officer)" <romeje@jea.com>, "Mike Barg" <Mike_Barg@mckinsey.com>
[20190404 Status quo 2 working session 2019-03-26.pptx](#)

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Julio –

See attached for the subset of April 4 presentation draft slides I quickly showed you. Putting time on the calendar for a quick review today at 4:30 and then a longer block tomorrow at 11.

Sarah

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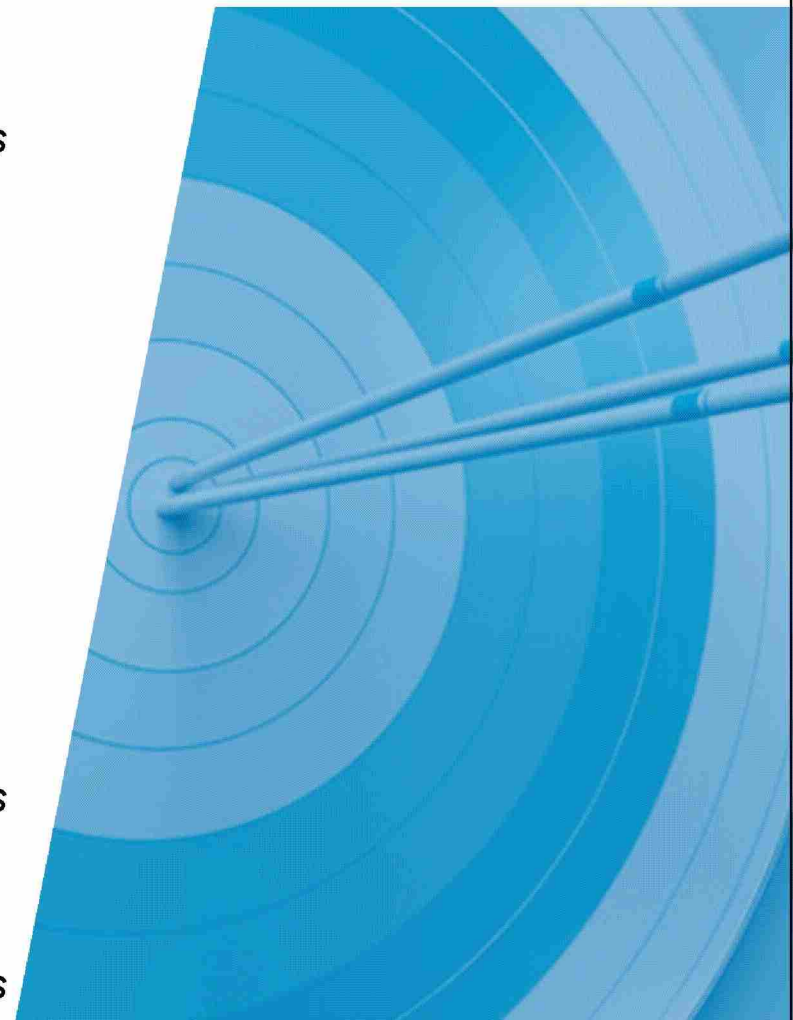
Status quo 2:
opportunity sizing

JEA®



Goals for today

- Review high-level results of status quo 2:
remaining cash flow cap after taking all action
within JEA constraints ■ 45 minutes
- Review results of initiative development and
opportunity sizing by business area ■ 3 hours
 - Decide whether to include / exclude initiatives
as part of status quo 2
 - Decide whether to develop additional initiatives
by business area, given top-down opportunity
sizing
- Review cross-cutting and parking lot initiatives,
decide whether to include any as part of status
quo 2 ■ 45 minutes
- Present path forward (status quo 2 and beyond) ■ 30 minutes

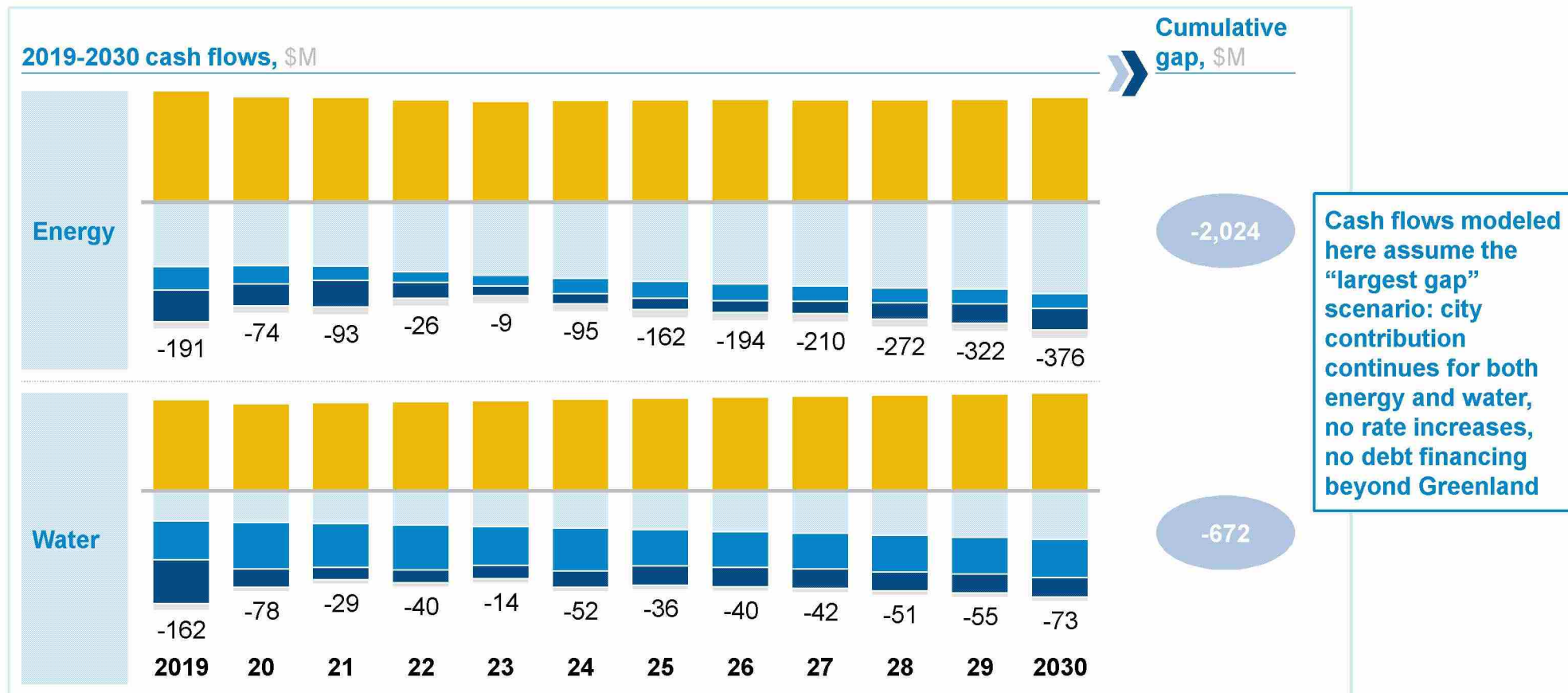


The following "Baseline Conversation" financial projections are presented solely for JEA Board of Directors planning and action. They are not a projection of future financial performance and, as such, should not be relied upon by present or prospective JEA bond investors to purchase or sell any security 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

Reminder: the status quo exercise identified an **-\$2.0B 12-year cash flow gap for energy and -\$0.7B for water**

Revenue¹ Opex Capex Debt service² City contribution



¹ Includes both operating revenue and non-operating income

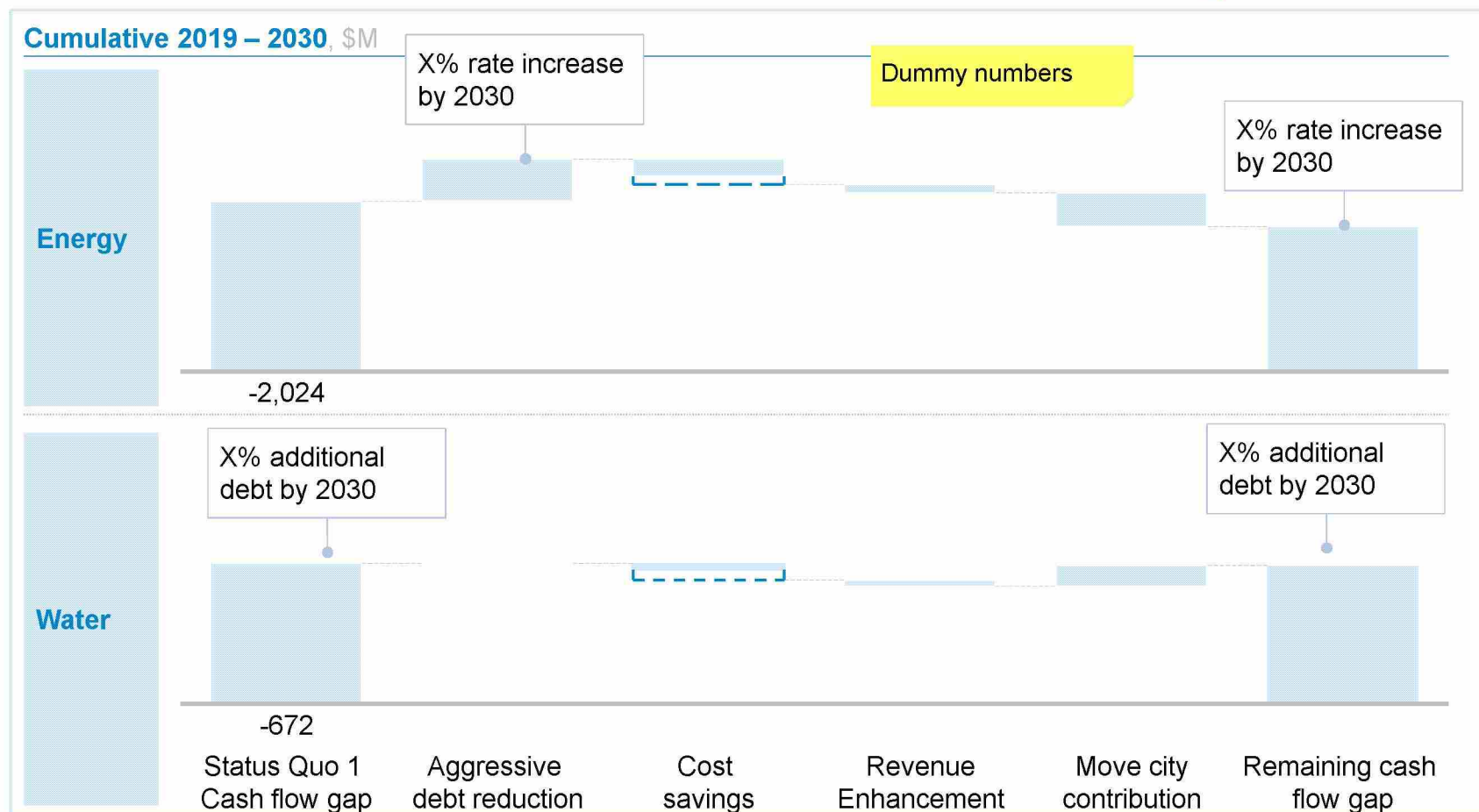
² Includes interest expense, principal payments, and early debt retirement

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PRELIMINARY

Potential to reduce cash flow gap by \$XM in energy and \$XM in water through all levers within JEA constraints

■ Bottom up initiative development □ Top down opportunity sizing



- Includes initiatives currently classified as "no regrets" or "trade-offs"
- Yearly saving from initiatives calculated using % savings in first year, applied to growing O&M / capex base

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Initiatives developed across JEA business areas represent savings of \$XM / year currently, or X% of annual O&M and capital spend

Figures in \$M/year	Annual Savings opportunity ¹	From initiatives	Incremental from top-down sizing ²	% savings from baseline	Baseline used	Key initiatives
Energy	Generation	0	5	0% - 6% ⁵	2018 Fuel costs and generation O&M	x
	Transmission	16	28	38% - 66%	x	x
	Distribution	14	41	14% - 40%	x	x
	Revenue	5		N/A	x	x
Water	Water	15	19	25% - 32%	x	x
	Wastewater	24	45	14% - 26%	x	x
	Revenue	5		N/A	x	x
Customer ³		0	1	1% - 3%	x	x
Corporate ³		4	7	3% - 5%	x	x
Cross-cutting		5		11% - 22%	x	x
Total savings potential		89	162	11% - 22%		

¹ Savings based annual savings with 2018 as starting point for comparison

² Using high estimate of savings potential; top-down potential included if incremental to both business area-specific and cross-cutting opportunities

³ Costs are allocated to energy and water balance sheets, but are assessed in aggregate for opportunity sizing

⁴ Meter services included in "distribution;" community engagement included in "corporate"

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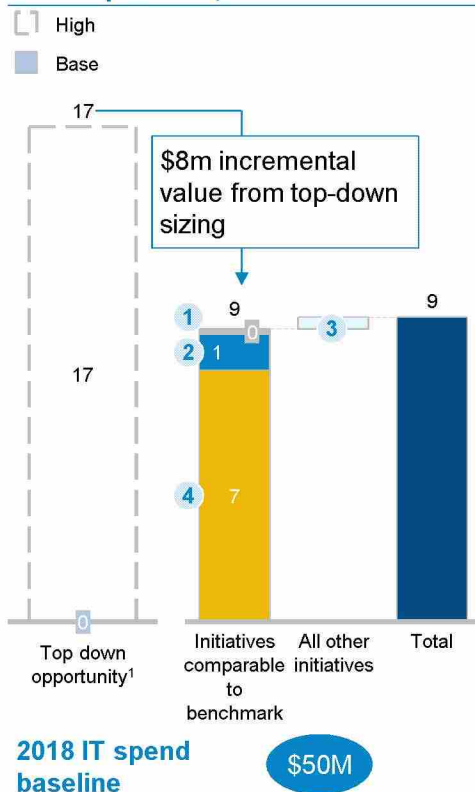
Contents

- **Business area opportunities**
 - Cross-cutting opportunities and parking lot initiatives
 - Appendix: Top-down opportunity sizing backup

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IT opportunity driven by cost optimizations

Annual potential, \$M



Initiative	Overview	Risks & considerations	Category	Include in SQ2?
1 Telecom audit	Identify over-billing opportunities to address	<ul style="list-style-type: none"> No regrets Cost of audit 	O&M	✓
2 ERP cost optimization	3 rd party support provider for Oracle and other support	<ul style="list-style-type: none"> Trade-offs; JEA would no longer receive Oracle upgrades for ERP or database 	O&M	▪
3 Reconcile vendor use of duct bank to existing project agreements	Recover revenue according to original contracts with Comcast for use of space	<ul style="list-style-type: none"> Trade-offs; potential legal/political risks \$250k upfront cost 	Revenue	▪
4 Cost optimization roadmap	Broad cost optimization	<ul style="list-style-type: none"> Trade-offs; Effective business change management and acceptance \$120k upfront cost 	O&M & capex	▪
5 Application rationalization to reduce/consolidate IT footprint	Application rationalization effort would shrink the IT footprint at JEA, in turn shrinking the resource footprint required to support it	<ul style="list-style-type: none"> Trade-offs in familiar applications \$540k net savings 	One-time savings	▪

Are there any other initiatives which should be included?

¹ Benchmark savings vs. \$50M of total spend; calculated using median and lowest quartile IT spend as a proportion of revenue; benchmarked against 6 North American utilities with revenues ranging from \$1-10B.

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