

Status Quo 2 Baseline – Assumptions review



DRAFT

JEA®



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

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)

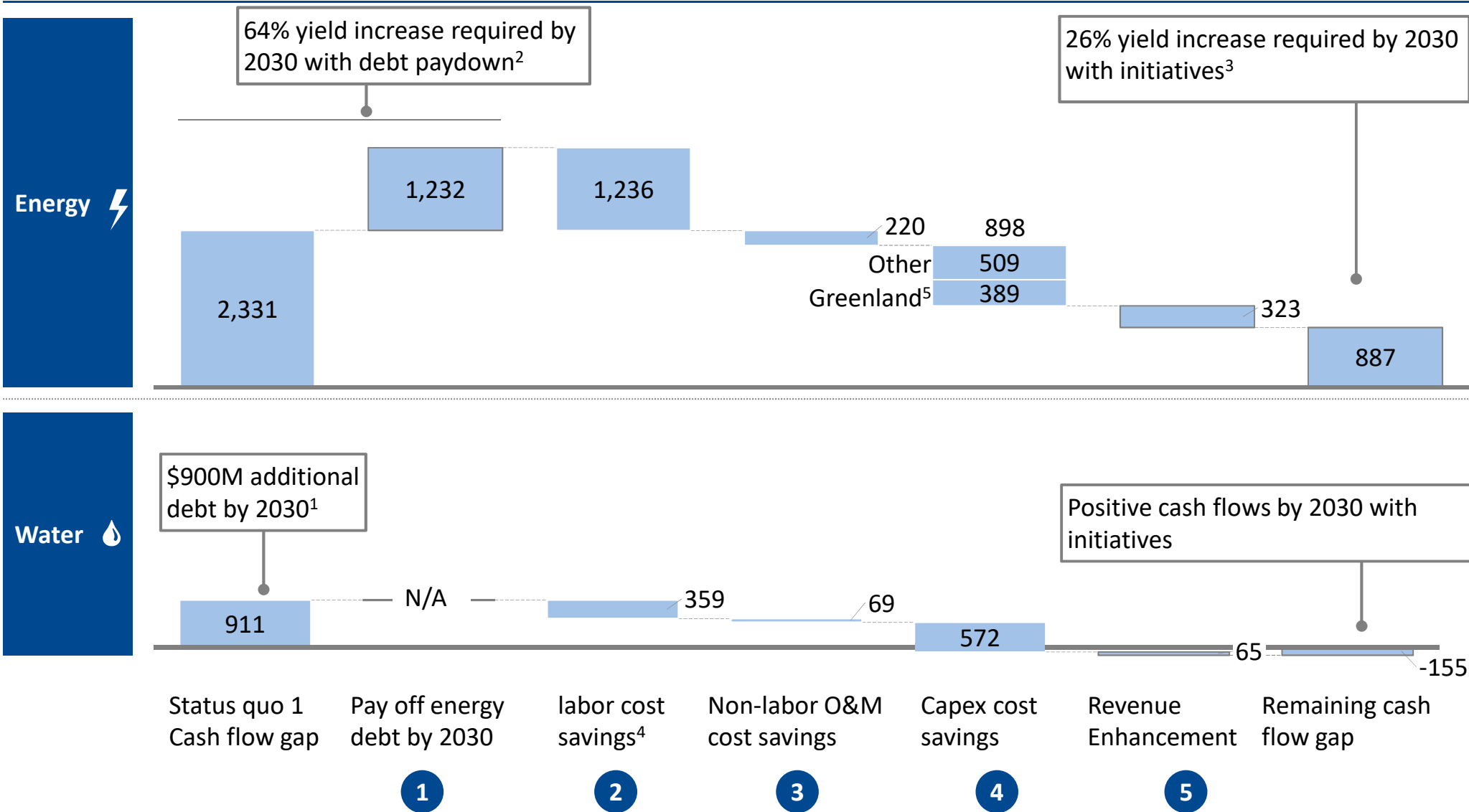


Executive summary

- 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 to under \$1B** (\$732M by 2030) and eliminates the cash gap in the water business, and still requires a 26% 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

Potential to reduce cash flow gap by \$2.5B through levers within JEA constraints

Cumulative cash flows 2019 – 2030, \$M



- Status quo 2 cost reductions now exceed benchmark cost reduction from achieving lowest-quartile utility performance
- **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

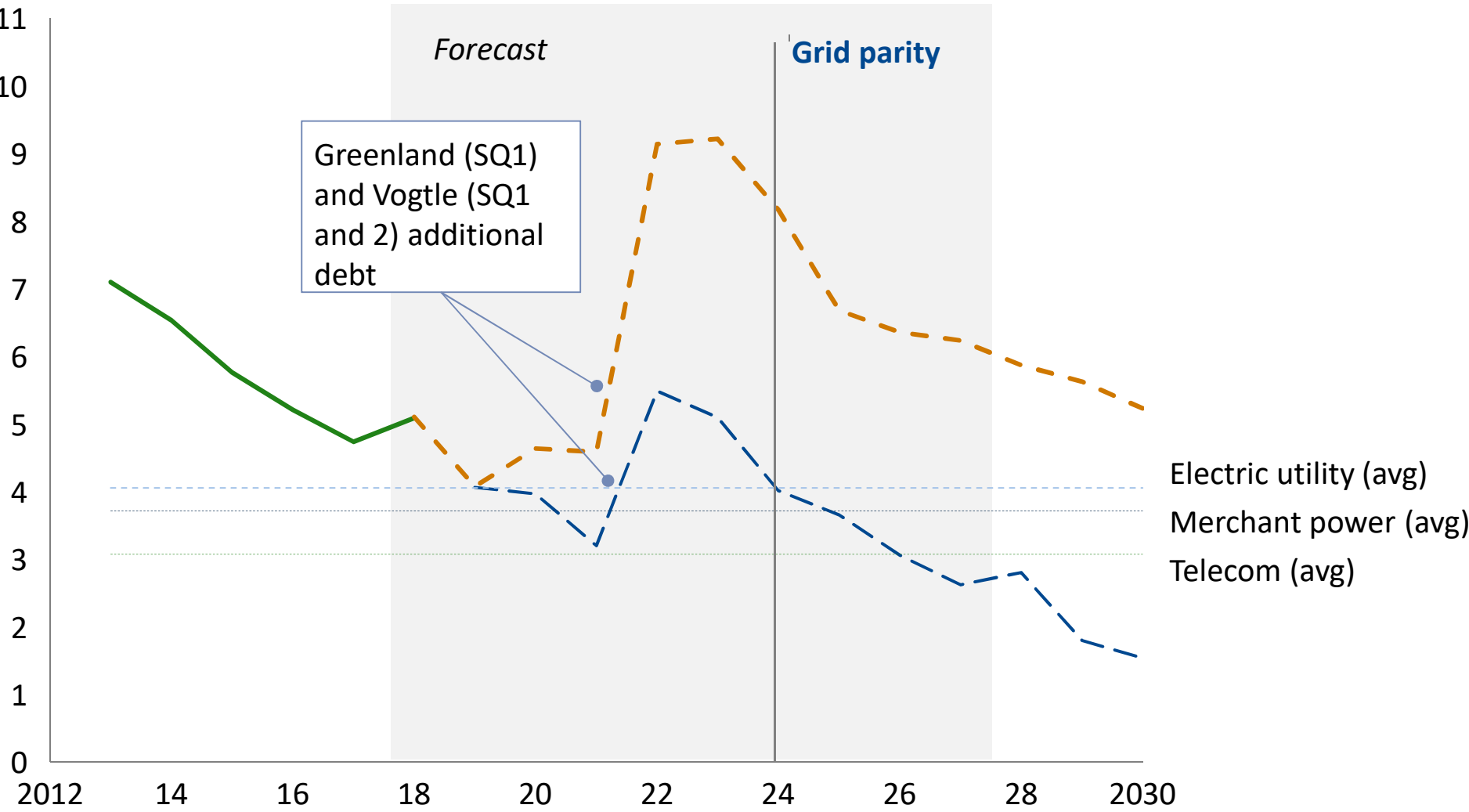
1 Relative to "all rates case" debt level in 2030 2 42% increase in monthly customer bill 3 17% increase in monthly customer bill 4 Includes capitalized labor 5 Net of \$144M increase in purchased power from Greenland PPA (capex savings total \$533M)

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

INCLUDES ON AND OFF-BALANCE SHEET DEBT

Status Quo 1
Status Quo 2

Historic and projected debt to EBITDA - Energy, multiple



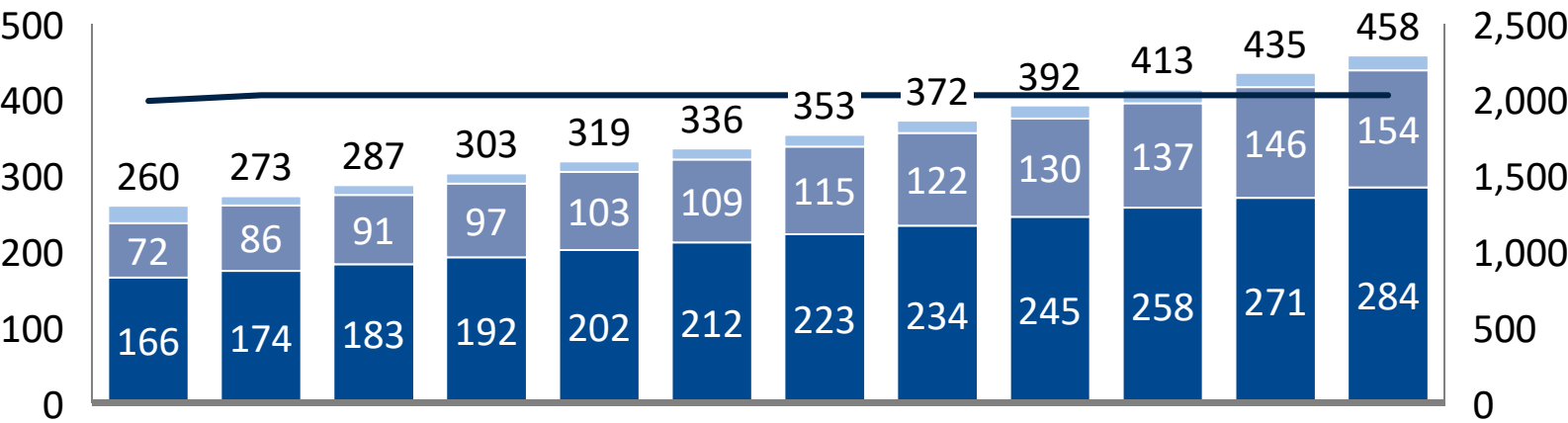
- In Status Quo 1, reduced EBITDA (assuming no rate increases) plus financing for Greenland Power Plant lead to debt levels increasing to unsustainable levels, especially when JEA enters a competitive environment
- In Status Quo 2, JEA pays off all debt and does not incur new debt, leading to Debt: EBITDA 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

2 Status Quo 2 reduces headcount by 29%, but maintains the salary increases projected in Status Quo 1

Status Quo 1

Cost, \$M



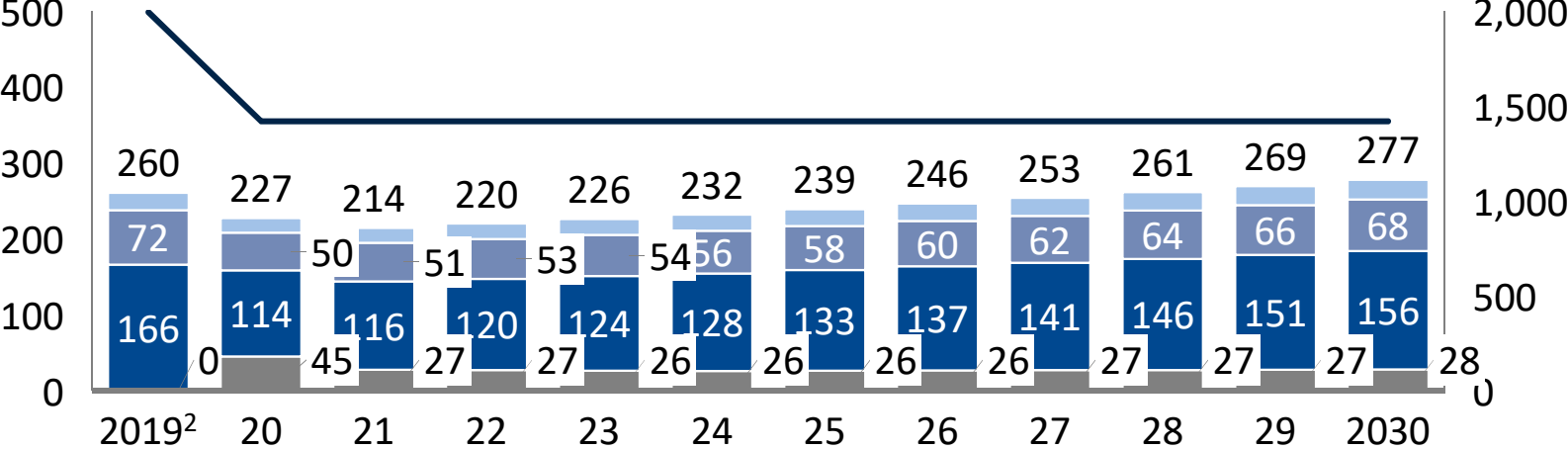
FTE OT Benefits¹ Salary Contract

Assumptions

- In status quo 1, labor costs increase by 5% from FY19 to 20 (using actuals for FY19 and current budget estimate for FY20), and headcount increases slightly assuming vacancies are filled
- Labor costs increase 5-6% thereafter in SQ1, based on historical increases, including introduction of long-term compensation program and assumptions around increased medical benefits funding needs
- In status quo 2, a headcount reduction of 29%, or 574 FTE, conducted in FY19 is realized in FY20, given severance and leave
- Status Quo 2 removes the long-term compensation increase and slows salary and benefits growth to 3% annually after FY20

Status Quo 2

Cost, \$M



¹ 2020 SQ1 benefits include estimated \$15M increase due to long-term compensation program; FY19 using 6-month actuals x 2

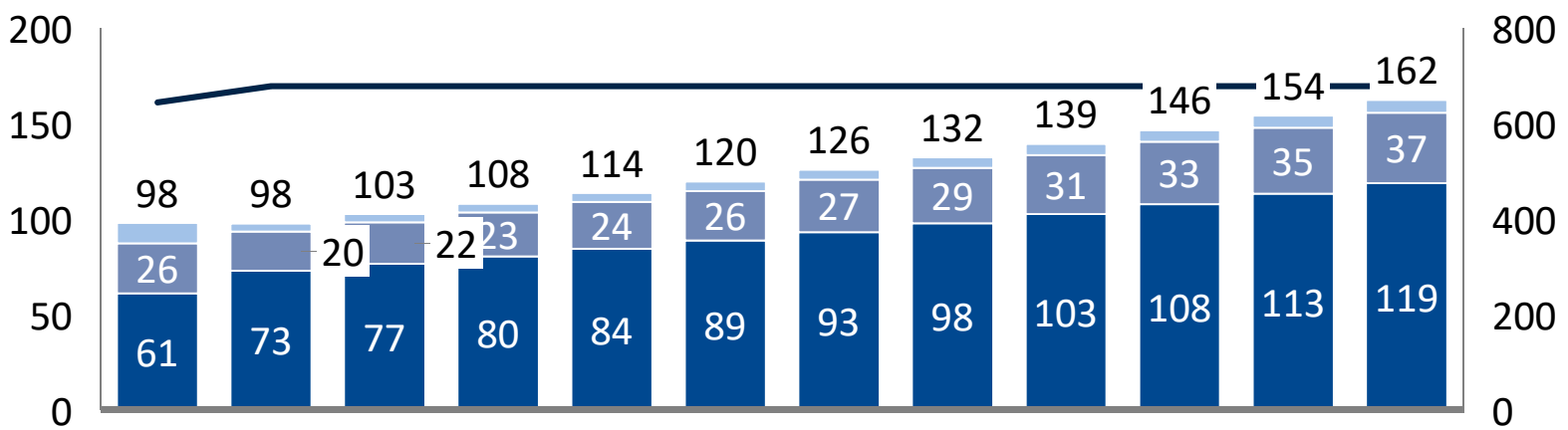
2 Labor details - energy

— FTE ■ OT ■ Benefits ■ Salary ■ Contract

Status Quo 1

Cost, \$M

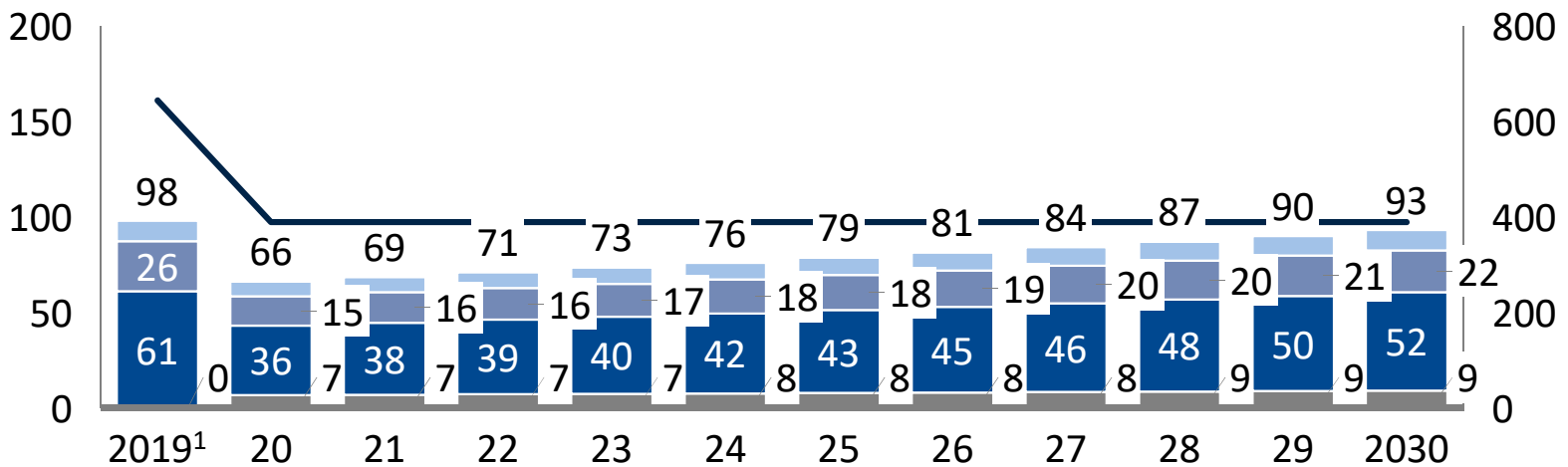
Headcount, #



Status Quo 2

Cost, \$M

Headcount, #



Major assumptions:

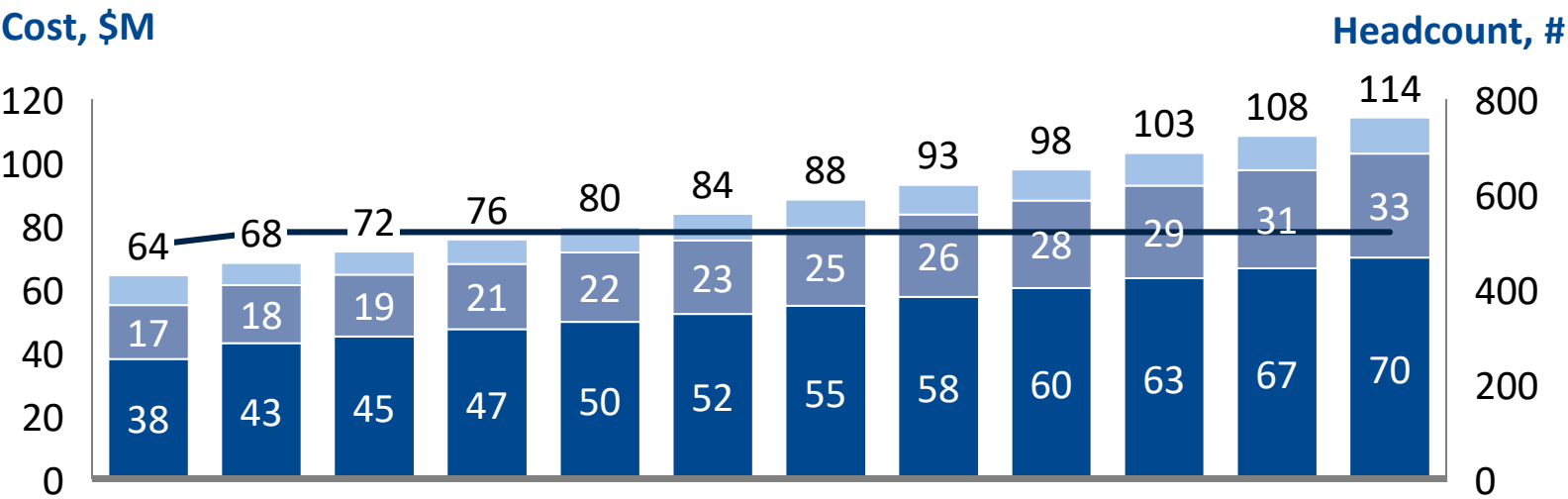
- 26% (168 FTE) headcount reduction in all electric system areas (generation, substation and transmission, distribution)
- Outsourcing of select functions in generation with additional 14% (87 FTE) reduction)

Implications:

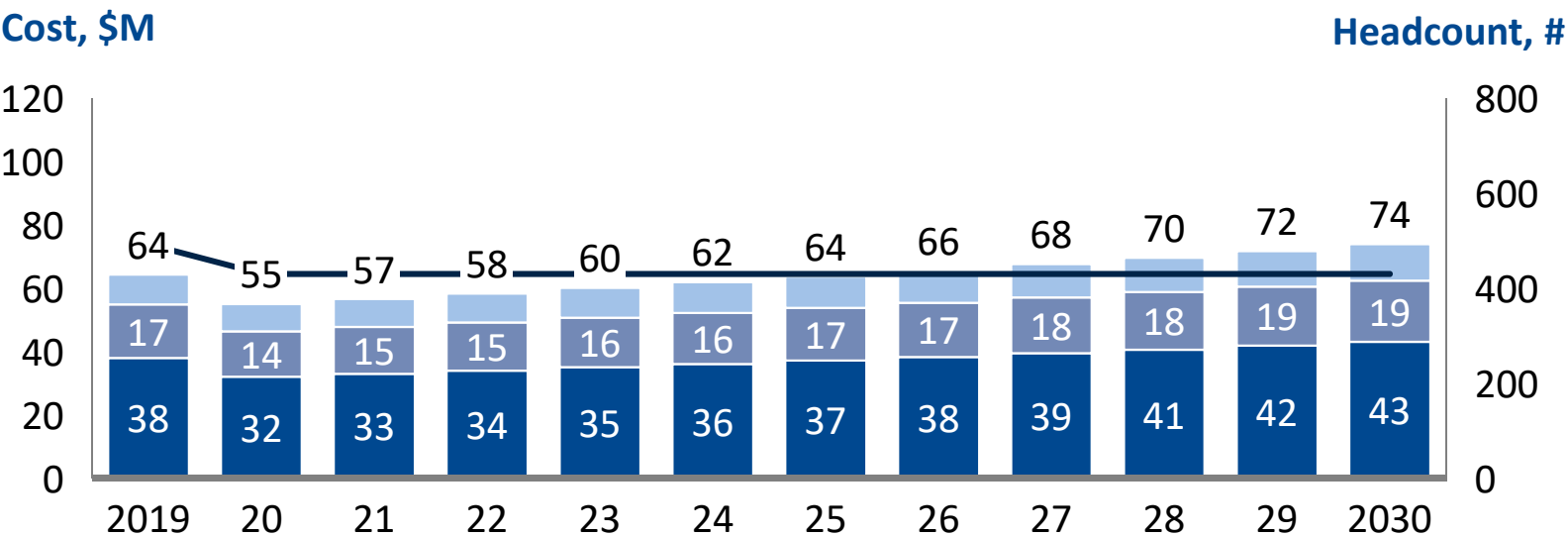
- Customer:** Decrease in reliability with fewer employees available for regular maintenance and outage response (potential reversal of recent gains in SAIDI / SAIFI / CEMI5 to among best in state)
- Community:** Reliability impact and delays to connecting new developments and repairing public lighting; reduced ability to provide mutual aid during storm events
- Financial:** Will likely increase corrective maintenance and replacement power purchase; limited opportunity to grow the business when customers are dissatisfied with core product
- Employee:** decreased leadership oversight, training opportunities, morale

2 Labor details – water and wastewater

Status Quo 1



Status Quo 2



Series Benefits

Major assumptions:

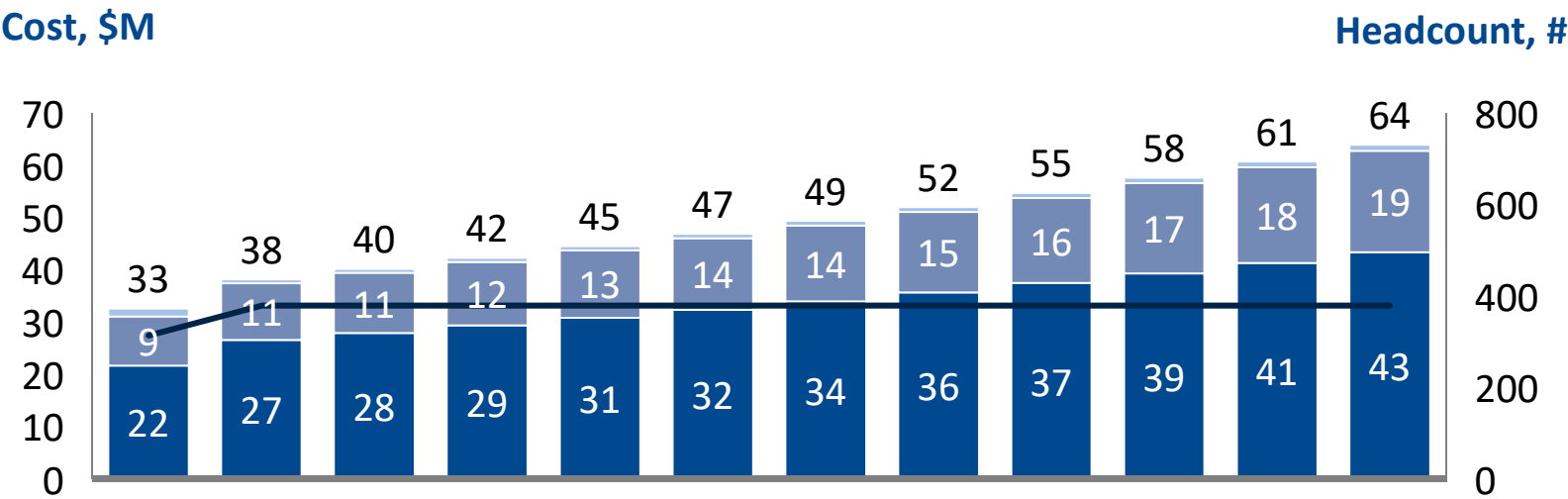
- 13% (62 FTE) headcount reduction overall
- Reductions come from reduction in night and weekend crew capabilities, reduced maintenance schedules, reduced support function capabilities within business area

Implications:

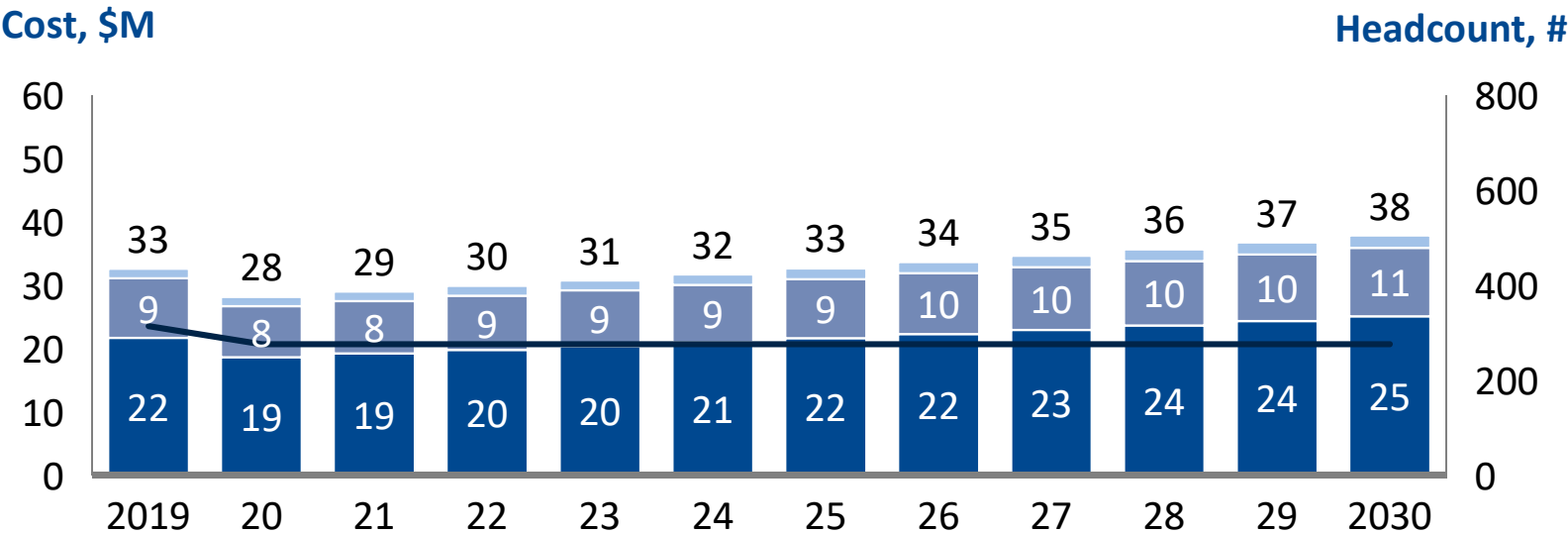
- Customer and community:** Decrease in reliability with reduced regular maintenance, increased risk of extended water safety issues during storms
- Financial:** Will likely increase corrective maintenance spend; potential need to rely on additional contractors
- Environmental:** increased risk of pump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

2 Labor details - customer

Status Quo 1



Status Quo 2



Major assumptions:

- 12% (38 FTE) 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

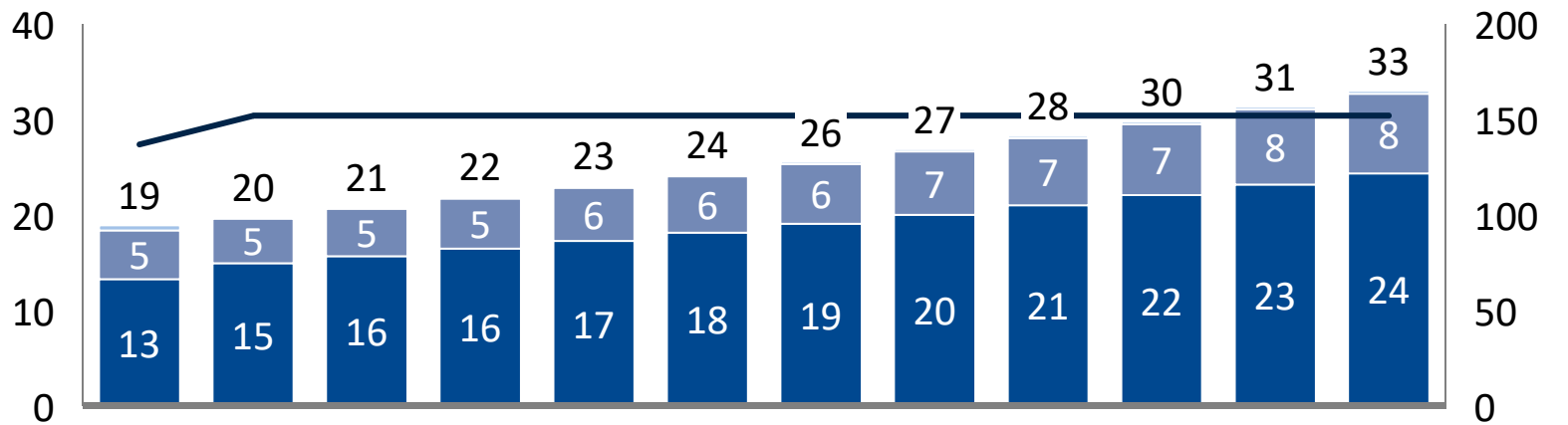
Implications:

- 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

2 Labor details - TS

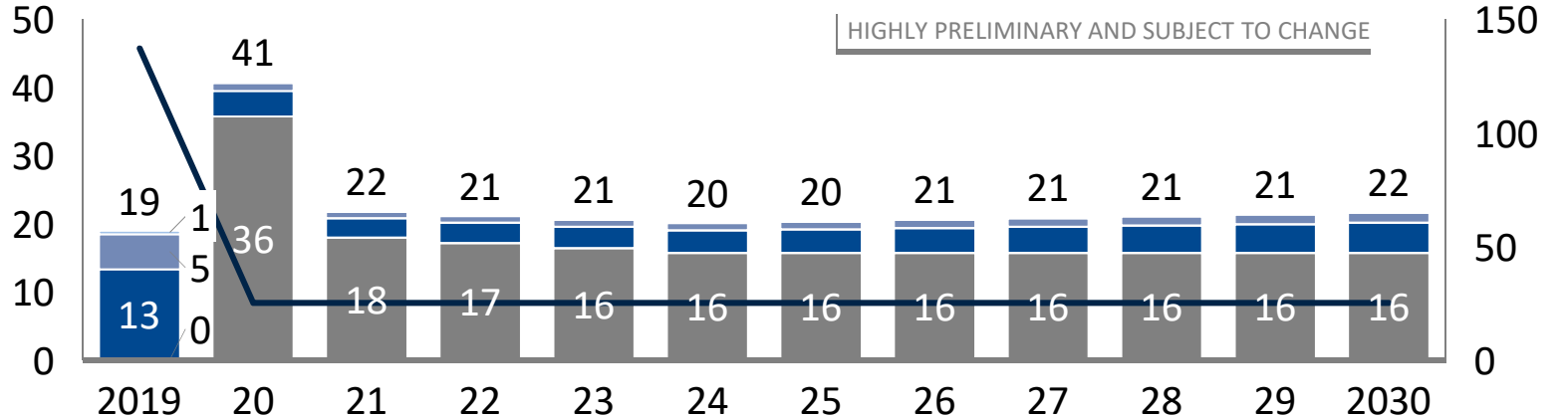
Status Quo 1

Cost, \$M



Status Quo 2

Cost, \$M



Major assumptions:

- Outsource ~80% of JEA TS staff to 3rd party provider (112 FTE)
- 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 \$35M 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

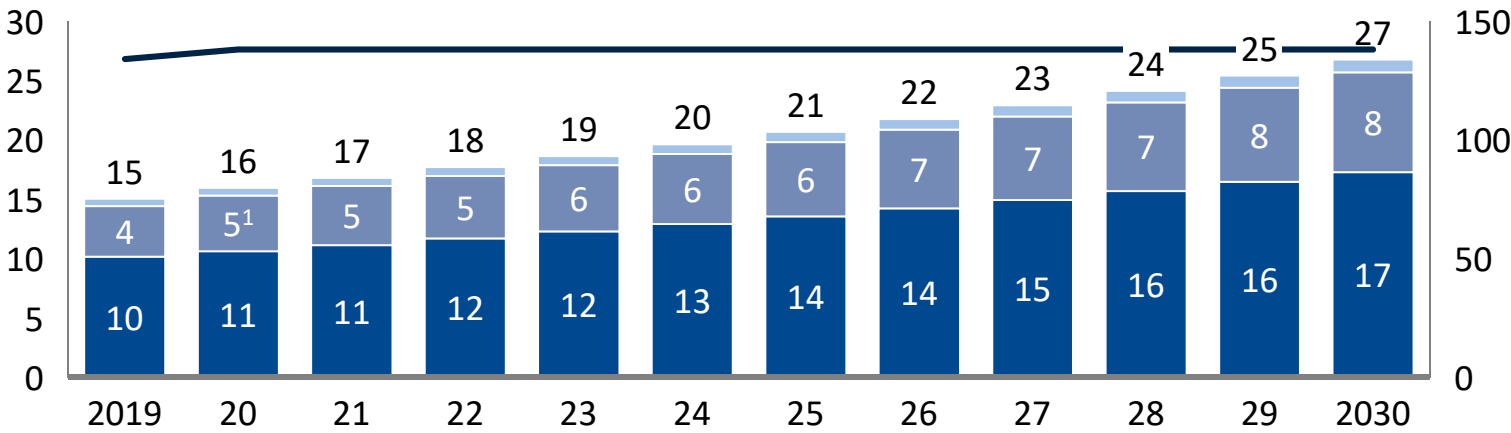
2 Labor details – supply chain

Status Quo 1

Cost, \$M

FTE OT Benefits Salary Contract

Headcount, #



Major assumptions:

- Assumes 21% (29 FTE) reduction in headcount, with additional 26% of headcount (36 FTE) outsourced in select functions
- Assumes cuts to all areas within supply chain (ops support, procurement, emergency preparedness)

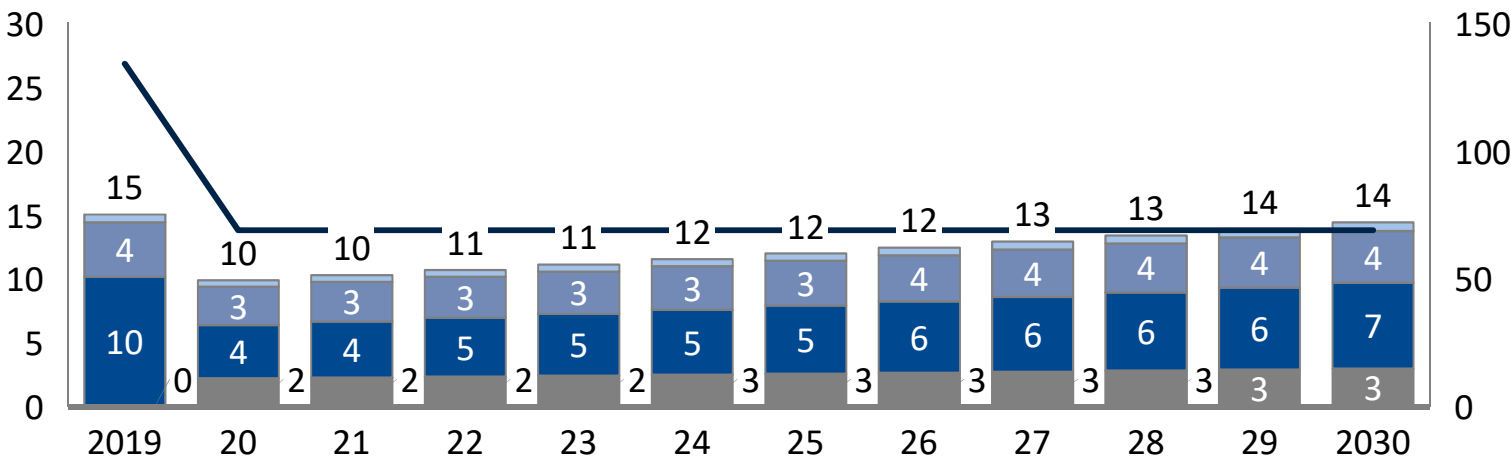
Implications:

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

Status Quo 2

Cost, \$M

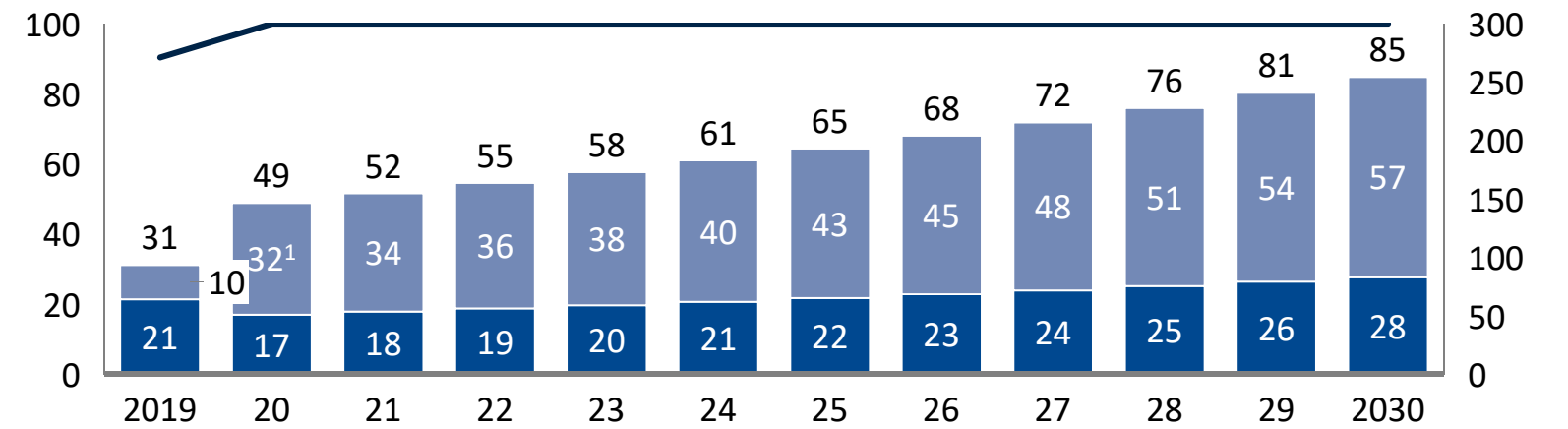
Headcount, #



2 Labor details – corporate, administrative, SLT

Status Quo 1

Cost, \$M



Headcount, #

FTE OT Benefits¹ Salary

Major assumptions:

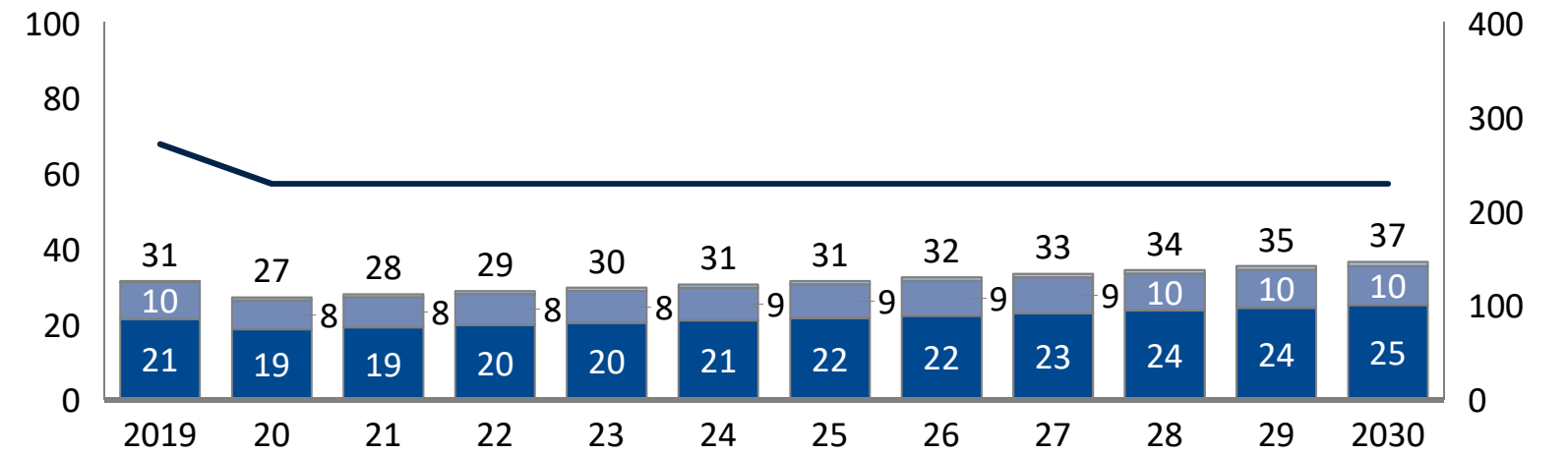
- 15% (42 FTE) reduction in headcount overall
- Reductions vary by area across environmental, compliance, government affairs, finance, HR, planning
- Positions reduced or eliminated include technicians, clerks, security staff, and analysts
- Includes reduction of SLT by 40% (from 15 positions to 9), including:
 - Consolidating CEO / MD and COO / president into single position
 - Replacing CFO position with comptroller
 - Moving Energy and Water Planning within Energy and Water VP/GMs
 - Eliminating CITO, CAO, CGAO

Implications:

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

Status Quo 2

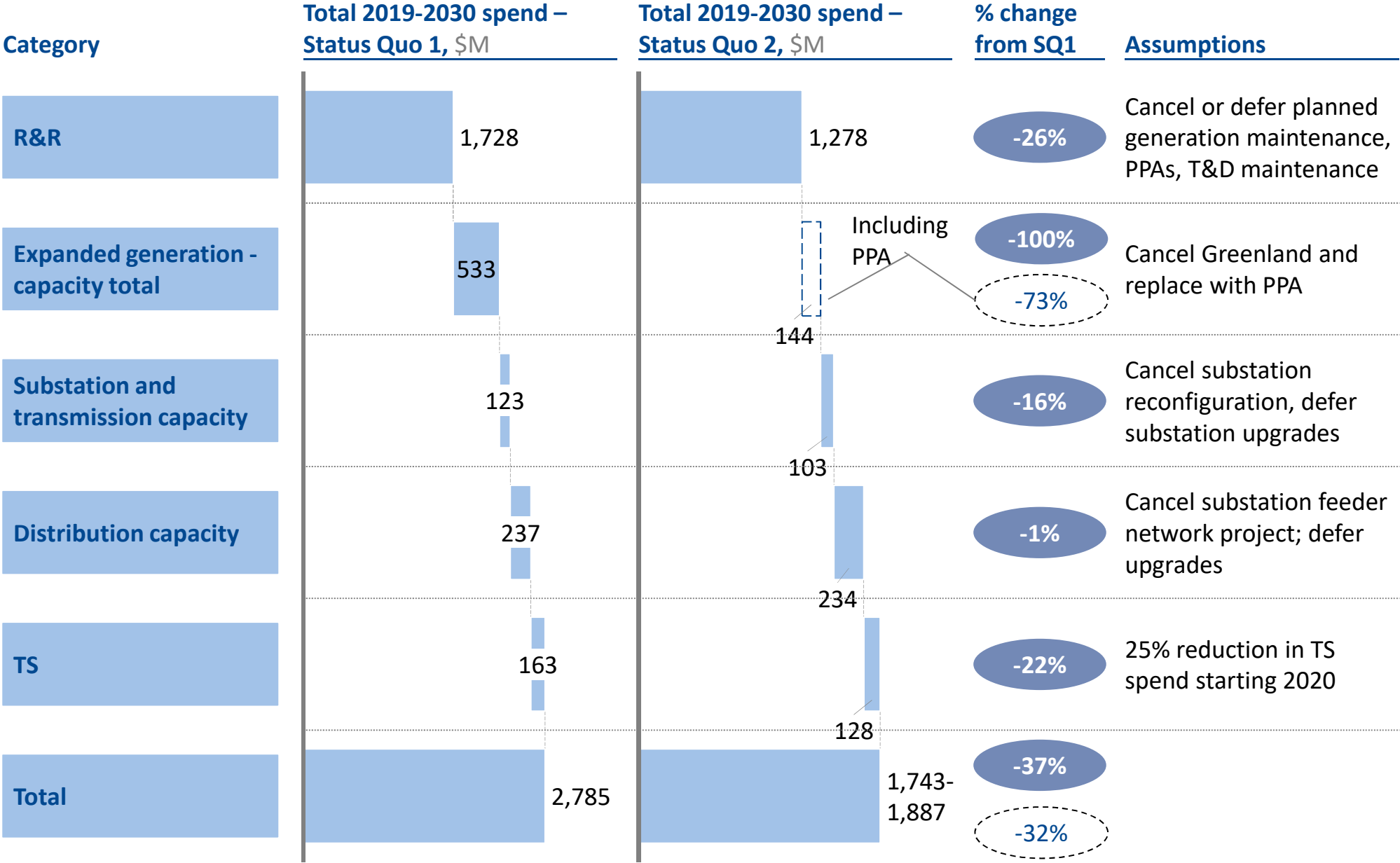
Cost, \$M



Headcount, #

¹ 2020 includes estimated \$15M increase due to long-term compensation change in SQ1 only

3 Status Quo 2 reduces total 2019-30 energy capex by 37% (32% when PPA costs are included)



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

3 Status Quo 2 reduces total 2019-30 water and wastewater capex by 22%

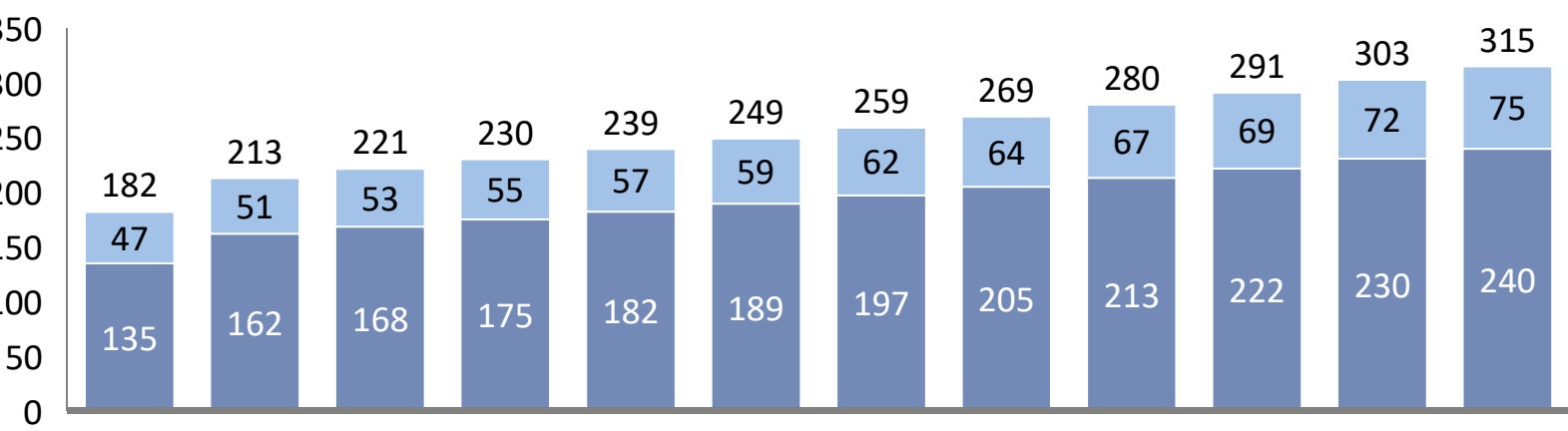
Category	Total 2019-2030 spend – Status Quo 1, \$M	Total 2019-2030 spend – Status Quo 2, \$M	% change from SQ1	Assumptions
Renewal and replacement	1,293	985	-17%	Defer and reduced rehabilitation, improvement, replacement; reduce TS
Growth / new connections: collections, transmission, pump	279	261	-6%	Reduce well rehab and replacement
Growth / new connections: wastewater treatment	199	199	0%	No change
new supply - reclaim	205	176	-14%	Defer and reduce reclaim capacity and storage projects
New supply - purification, pipelines, wells	327	129	-61%	Removed water purification phases 2 and 3 and 3 rd river crossing
Reliability and resiliency	325	201	-38%	Remove planned spend on facility generators, reduce future resiliency spend
Enironmental quality / water quality	32	32	0%	No change
Biosolids / other	53	53	0%	No change
TOTAL	2,713	2,036	-22%	

- Risks**
- **Customer and community:** Decrease in reliability with reduction in R&R; potential for moratorium on new development in South Grid
 - **Financial:** Reduced revenue from expanded reclaim system; increase maintenance costs; potential costs in emergency repair and replacement
 - **Environmental:** Delay in addressing supply challenges

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

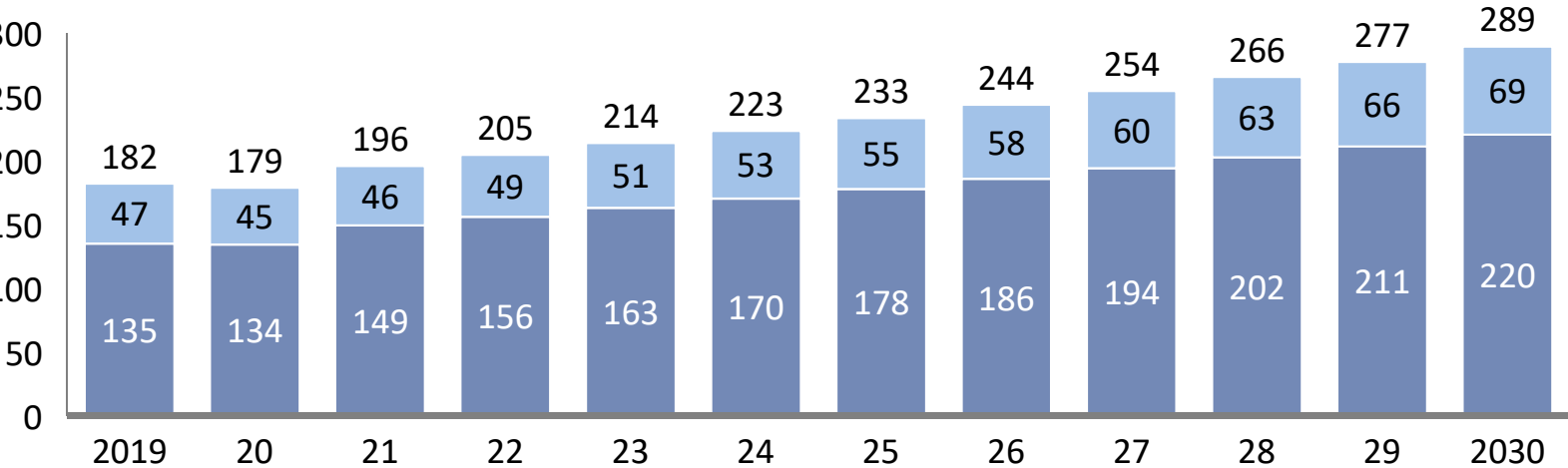
Status Quo 1 non-labor O&M, \$M

Cost, \$M



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

Cost, \$M

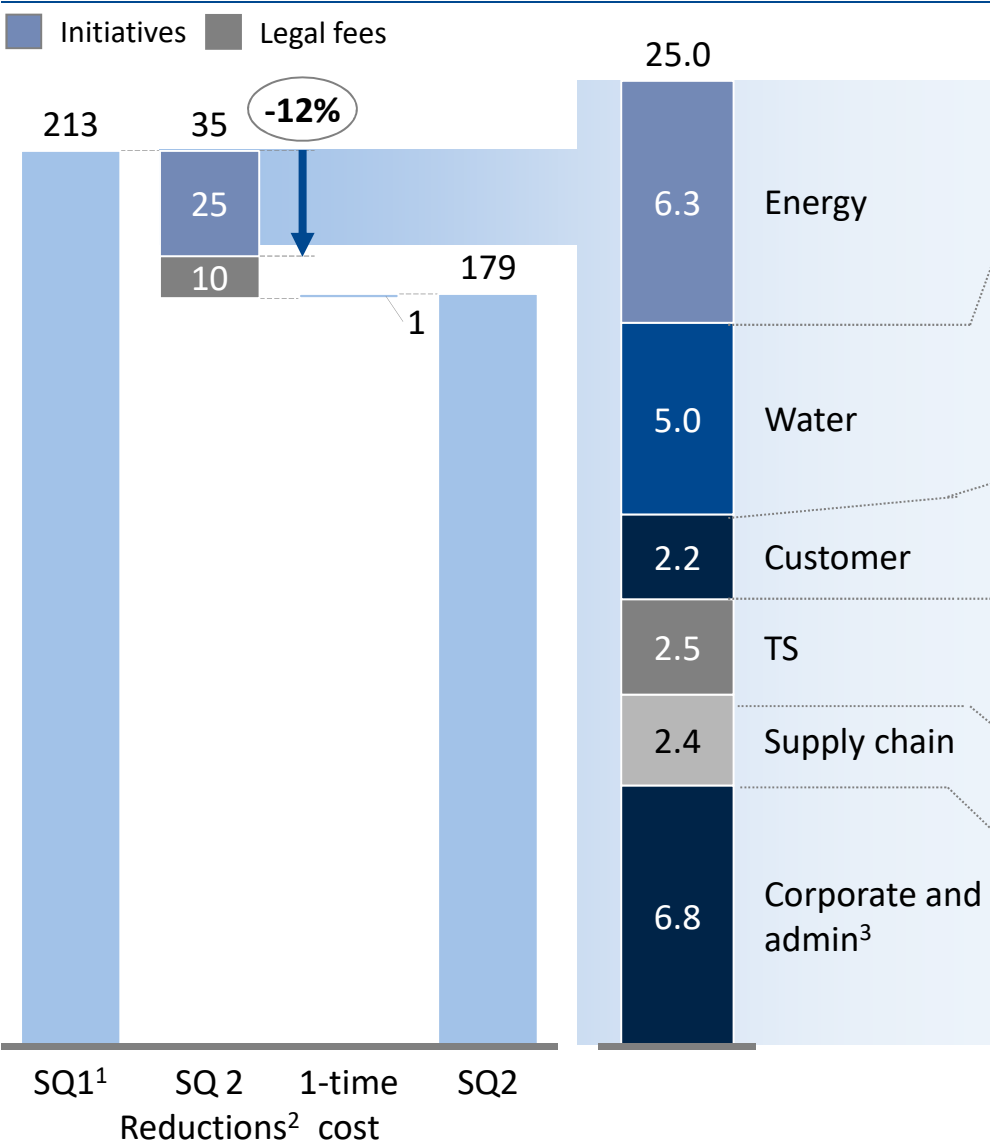


Assumptions

- 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 within each business area in 2020 totaling \$25M, less \$1M in 1-time costs to implement measures
- Status quo 2 also includes \$10M in one-time cost-savings in 2020 from reduced legal fees and \$.5M annual savings starting 2021 by renting a less expensive new headquarters building
- The projected SQ1 cost increase in FY20 means non-labor costs decrease by 2% in FY20
- While \$22 of \$25m cost reduction measures are ongoing each year, reductions are applied to the same 4% growth of O&M as in SQ1

4 Non-labor O&M – key initiatives

FY20 SQ1 vs SQ2 comparison, \$M



Key initiatives

- Change from time-based to operating hours-based maintenance
- Increase vegetation management cycle
- Improve contractor management
- Cancel STPO alternatives and resiliency planning studies
- Reduce emergency generator availability
- Reduce chemical usage
- Reduce marketing and public awareness campaigns
- Move Oracle support to 3rd party provider
- Reduce support for legacy applications
- Reduce building maintenance, upkeep, security
- Cancel STPO engineering
- Reduce professional services related to environmental permitting, planning, monitoring

Risks

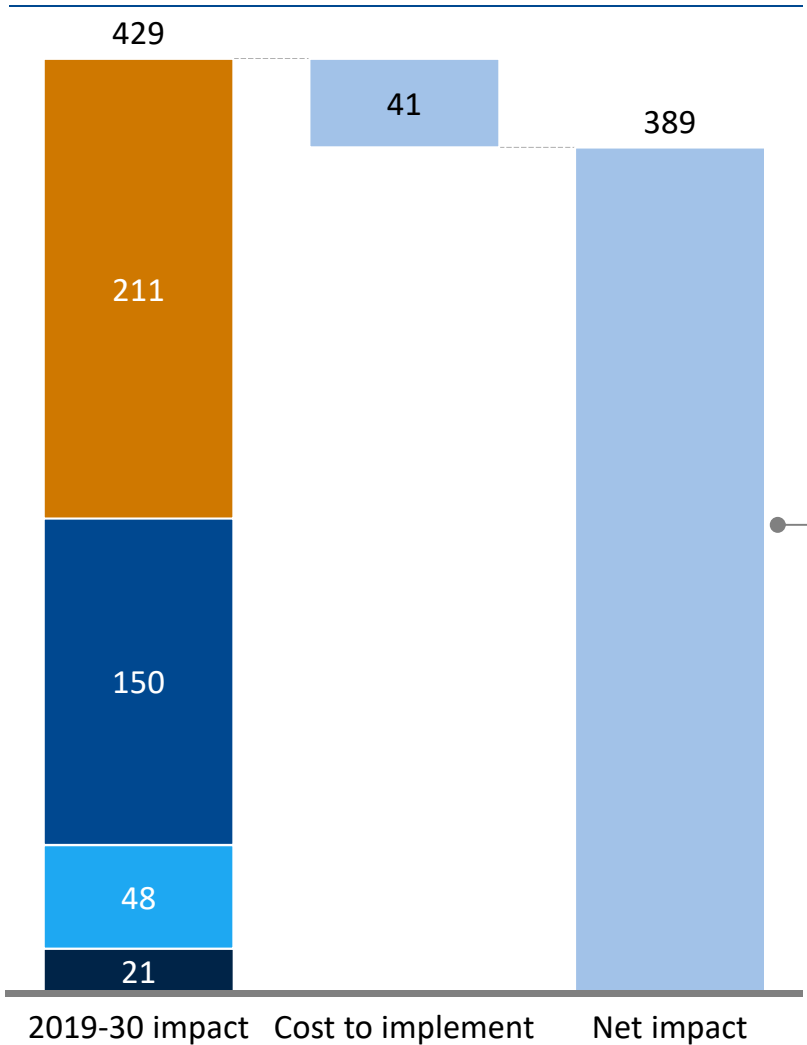
- Customer:** reliability risk from vegetation cycles
- Minimal impact from operating hours maintenance, contractor management
- Community:** delay in STPO program; potential increased water issues during major storm events
- Environmental:** potential TMDL risk from chemical usage
- Community:** Reduced awareness of JEA activities and changes
- Minimal external impact; potential reduced employee satisfaction
- Community:** Reduced quality of JEA buildings
- Environmental:** Reduced ability to control JEA environmental impact
- Community:** Reduced security; delay in septic tank phase out

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

5 Revenue initiatives developed to date provide \$389M additional revenue by 2030

Expand electrification Real estate optimization Retail marketplace Residential Solar Application Fee

2019-2030 potential, \$M

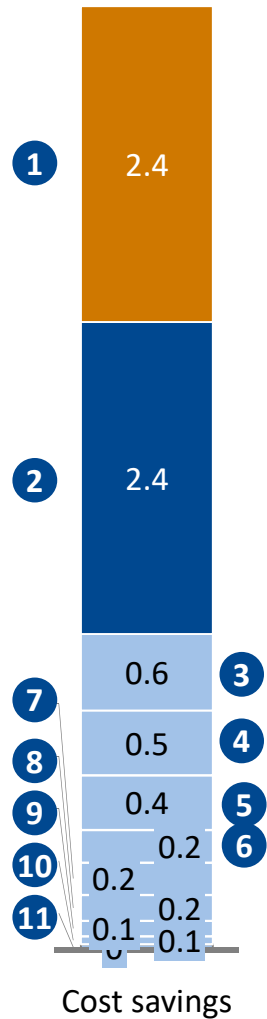


Initiative	Overview	Risks & considerations
Expand electrification	Convert more commercial and industrial customer to electric (e.g., vehicles)	No regrets
Real estate optimization	Sell/lease surplus properties	Trade-offs; less flexibility
Retail marketplace	Online marketplace to sell energy-related appliances and services. Use to collect data, create engagement and awareness, and generate modest income.	No regrets
Residential Solar Application Fee	Charge an application/inspection fee to cover the cost of solar PV interconnection reviews and inspections	Trade-offs; publicity and customer pushback

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

Corporate cost (1/2)

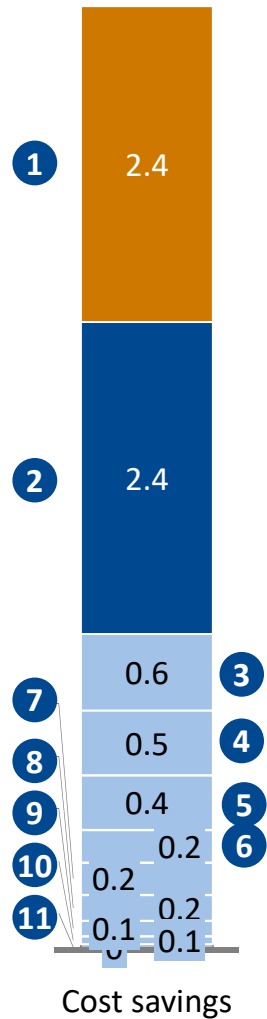
Annual potential, \$M



Initiative	Overview	Risks & considerations	Annual opportunity, \$M
1 Facilities O&M Other Services and Charges (OSC) reduction	40% reduction in maintenance, landscaping, paintaing, planned rehab work; eliminate PM on generators	Trade-offs	2.4
2 Eliminate septic tank phase out engineering	Eliminate the septic tank phase out program	Trade-offs	2.4
3 Reduce professional services, training, travel, misc	Reduce professional services related to resource planning	Trade-offs	0.6
4 Reduce security patrol	Reduce number of security patrol personnel	Difficult; increased security risk across affected areas	0.5
5 Professional services reduction	Reduce professional services and supplemental staff for permitting, compliance	Trade-offs	0.412
6 Reduce profess-ional services	Reduce professional services for QA, other activities	Trade-offs; increased regulatory risk	0.246
7 Reduce profess-ional services	Reduce professional services	Trade-offs	0.243

Corporate cost (2/2)

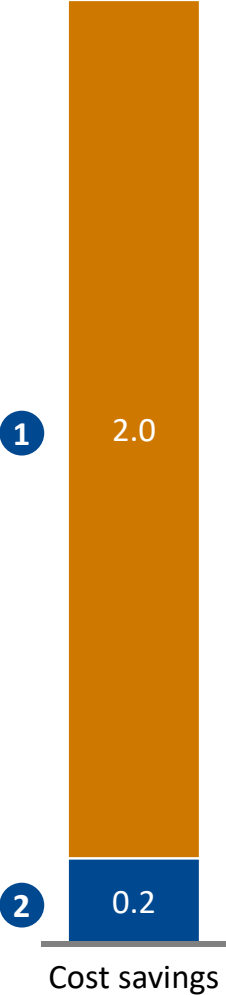
Annual potential, \$M



Initiative	Overview	Risks & considerations	Annual opportunity, \$M
8 Reduce spend on civil service position assessment	<ul style="list-style-type: none">We currently budget \$932K for civil service position assessment development with PSI. To date, approximately 60% of our position assessments have been developed, including many of the repetitive hire positions. We can halt that and bring it back in house if necessary. Also, if we freeze or greatly reduce hiring there should be a lesser need for assessment development.	<ul style="list-style-type: none">Trade-offs	<ul style="list-style-type: none">0.2
9 Miscellaneous supplies and tools reduction	<ul style="list-style-type: none">Reduce professional services and supplemental staff for labs, remediation	<ul style="list-style-type: none">Trade-offs	<ul style="list-style-type: none">0.195
10 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	<ul style="list-style-type: none">0.1
11 Reduce tools, training, travel	<ul style="list-style-type: none">Reduce tools, training, travel	<ul style="list-style-type: none">Trade-offs; increased regulatory risk	<ul style="list-style-type: none">0.06

Customer cost

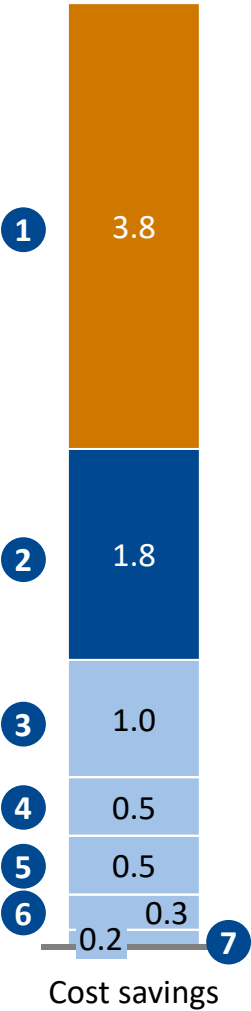
Annual potential, \$M



Initiative	Overview	Risks & considerations	Annual opportunity, \$M
1 Reduce marketing budget	<ul style="list-style-type: none">Reduce marketing budget	<ul style="list-style-type: none">Trade-offs; customer engagement	<ul style="list-style-type: none">2
2 Reduce paper bills	<ul style="list-style-type: none">Reduce paper bills sent out. Initiative underway to implement "opt-out" program for new customers	<ul style="list-style-type: none">Trade-offs; some customers may not have computers	<ul style="list-style-type: none">0.2

Energy cost (1/2)

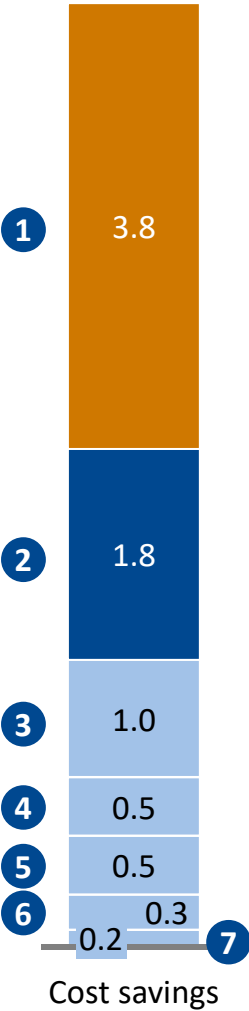
Annual potential, \$M



Initiative	Overview	Risks & considerations	Annual opportunity, \$M
1 Change to an “operating hours” overhaul scheduling strategy	▪ Change from a “time frequency” based decision making process for major outage requirements, to an “operating hours” based approach as currently accepted by the OEM’s (savings currently based on deferred maintenance (not eliminated))	▪ 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	▪ 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	▪ Trade-offs; labor issues with IBEW	▪ 1.8
▪ Contractor management	▪ Develop and implement a contractor management program (currently sized based on NGS)	▪ Trade-offs; monitoring and additional cost reduction burdens on current contractors could create discontent	▪ 1.0
▪ Inventory optimization	▪ 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

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	<ul style="list-style-type: none">▪ 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	<ul style="list-style-type: none">▪ 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	<ul style="list-style-type: none">▪ 0.2

IT cost

Annual potential, \$M



Initiative	Overview	Risks & considerations	Annual opportunity, \$M
1 ERP cost optimization	<ul style="list-style-type: none">3rd party support provider for Oracle and other support	<ul style="list-style-type: none">Trade-offs	<ul style="list-style-type: none">1.8
2 Reconcile vendor use of duct bank to existing project agreements	<ul style="list-style-type: none">Recover revenue according to original contracts with Comcast for use of space	<ul style="list-style-type: none">Trade-offs	<ul style="list-style-type: none">0.4
3 Telecom audit	<ul style="list-style-type: none">Identify over-billing opportunities to address	<ul style="list-style-type: none">Trade-offs	<ul style="list-style-type: none">0.2
4 Rental and lease	<ul style="list-style-type: none">Negotiate cost of rented and leased equipment	<ul style="list-style-type: none">Trade-offs	<ul style="list-style-type: none">0.2

Water cost (1/2)

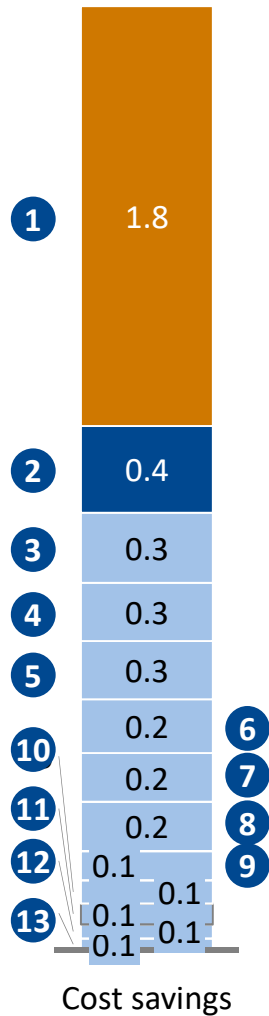
Annual potential, \$M



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
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
3 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
4 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
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 Hydrogen Peroxide Use Reduction	<ul style="list-style-type: none">Optimize hydrogen peroxide feed rate while maintaining odor control (estimate 10% reduction in usage possible)	<ul style="list-style-type: none">Trade-offs; potential customer dis-satisfaction	<ul style="list-style-type: none">0.2

Water cost (2/2)

Annual potential, \$M



Initiative	Overview	Risks & considerations	Annual opportunity, \$M
7 Remove GIS position for outage mapping	▪ Reduce GIS position for outage mapping	▪ Trade-offs; community	▪ 0.2
8 Reduce potable pump reservation	▪ Reduce portable pump reservation	▪ Trade-offs; resiliency	▪ 0.2
9 Glycerin Use Reduction	▪ JEA can reduce glycerin usage and still meet compliance limits (28% under compliance limit now)	▪ Trade-offs; environmental risk	▪ 0.1
10 Reduce standards studies	▪ Make do with in-house investigation of proposed standards changes	▪ Trade-offs; efficiency	▪ 0.1
11 Perform Crane Inspections Utilizing JEA Personnel	▪ Bring crane inspections in-house if certifications can be obtained	▪ Trade-offs; effort involved to certify	▪ 0.1
12 Perform CCTV inspections in-house	▪ Perform CCTV inspections in-house	▪ Trade-offs; efficiency	▪ 0.1
13 Reduce cleaning of pumps and wells	▪ Reduce cleaning of pumps and wells	▪ Trade-offs; risk of clogging	▪ 0.1

Status Quo 1-2 summary

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			↑	956		
	Expenses (O&M + capex, \$M)	379 ¹	527	↑	623			↓	380		
	Net income ²	(135)	53	↑	89			↑	321		
	Years to pay off debt	32	25	↑	>100			↓	0		
	Rates (\$ yield per MWh)	37	62	↑	94	↑	86	↑	78	↑	70
Value to customer	Rates (monthly residential bill)	104	123	↑	168	↑	159	↑	144	↑	134
	Quality of service	Good	better					/ ↓			
Value to community	# employees	TBD	1460					↓	948		
	City contribution	73	93	↑	104	↓	0	↑	104	↓	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

Status quo 1 and 2 summary - water

				2030 - Status Quo	2030 - Status Quo 2
		2007	2019	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	521	522
	Expenses (O&M + capex, \$M)	266	357	510	370
	Net income ²	(115)	1.2	(-122)	44
	Years to pay off debt ³	34	25	N/A	24
	Rates (\$ yield per kgal)	2.4	4.3	4.6	4.6
Value to customer	Rates (monthly residential bill)	50	70	70	70
	Quality of service	Good	better		
Value to community	# employees	TBD	495	495	433
	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 EBTDA minus capex – additional debt is issued to cover capital expenditures 3 Using last scheduled payment for 2007 and 2019, Currently not solved in SQ1 given that additional debt is issued to cover capex