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To: Goldberg, David M. - Director Customer & Community Engagement; Kyle, Gina A. - Manager Media Relations; Banks Willis; Stewart, Kerri - VP & Chief Customer Officer
Subject: DRAFT for review: JEA tough questions buckets
Attachments: JEA tough Q&A buckets_DRAFT_8.14.19.docx

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All—

Based on yesterday's meeting, please see attached for the tough Q&A bucketed by theme. We added the approved path forward FAQ from the website to this document as well to create a comprehensive document. I know we want to get this to Herschel sooner rather than later in time for his Friday morning meeting.

Banks and I are off-site tomorrow morning. Since time is of the essence, I would love your edits in tracked changes if possible.

Note: the buckets do not include every basic question i.e. What is going on in the industry? What are the next steps for the ITN?, etc. Instead, we focused the buckets on the toughest, most often received questions/sentiments. Including the entire website FAQ in this document ensures that the basics are also accounted for.

Looking forward to your feedback. Please let us know of questions – or happy to hop on the phone around noon tomorrow.

Thanks!
Maddie

The power of different.

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JEA tough Q&A message buckets
DRAFT: August 14, 2019

1. Government corruption

False statement: Mayor Curry hired Aaron Zahn to sell JEA

Possible questions/statements related to government corruption

- Mayor Curry ensured his buddy Aaron Zahn was hired as CEO to guarantee JEA would be sold.
- Did Aaron know all along that scenario planning would lead to selling JEA?
- Aaron is an under-qualified CEO who's only job is to sell JEA.
- Won't Aaron and the other SLT members greatly profit if JEA is sold?
- Did Mayor Curry pressure Aaron and the SLT to make a case for selling JEA?
- We all know Mayor Curry is pulling the strings to ensure JEA is sold to FP&L and secure his legacy as mayor.

Pivot statement: What I think I'm hearing you say is that you believe there is a conspiracy at play here. Questions and concerns will be raised whenever a city grapples with a challenge of this magnitude. It's important for everyone to understand that no decision has been made about the future of JEA. We underwent a scenario-based strategic planning process to determine how the utility can continue to meet the demands of and stay relevant to its customers in the face of industry-wide challenges. At its core, this process introduced a critical community conversation: Does JEA want to eventually become irrelevant to its customers (shrink), or stay relevant (and even innovative) now and into the future (grow)? Ultimately, the voters of Duval County will decide because a county-wide vote is required to transfer more than 10% of JEA's assets to another entity.

2. JEA is exaggerating its financial situation

False statement: JEA leadership is exaggerating about its financial situation in order to push privatization.

Possible questions/statements related to exaggeration:

- Why is JEA just now having these doom and gloom conversations if it's been happening for the last 10 years?
- If JEA is in such bad financial straits, why do they continue to advertise on TV, make upgrades to the 16th floor of its headquarters building and employ such a large senior management team at top dollar salaries?
- Other government-owned utilities seem to be doing fine – why can't JEA do what they are doing?

Pivot statement: What I think I'm hearing you say is that you believe JEA exaggerated its financial situation to push for privatization? Nobody is saying JEA is going under tomorrow. However, the reality is we continue to experience declining revenues, increased operating costs and new technologies disrupting our industry at a faster pace year after year. JEA, as a municipally-owned (i.e., government-affiliated) utility, is governed by regulations that limit its ability to grow in today's dynamic marketplace. This is why we underwent our strategic

planning process to determine how the utility can continue to meet the demands of and stay relevant to its customers. In the meantime, however, we must continue to best serve our customers.

3. New revenue streams

False statement: Why doesn't JEA get into new businesses? [i.e. rooftop solar, behind-the-meter storage, demand-side management solutions, distributed water systems, or data algorithms]

Possible questions/statements related to [bucket]

- What about joint venture opportunities?
- Why can't you just buy a solar company?
- Why can't you own solar?
- Why doesn't JEA diversify its business?

Pivot statement: What I think I'm hearing you ask is why can't JEA compete with the private sector to bring in new sources of business and grow revenue? As a municipal-owned utility in Florida, JEA has a substantial number of constraints imposed upon it by the Florida Constitution, different state statutes, and the city charter. Collectively, these constraints limit JEA from diversifying into new, profit-generating initiatives and cripples our ability to offer innovative services to our customers.

- **Answer to persistent, business-specific question:** Each of JEA's government-affiliated restrictions are complex in their own right. I'm happy to put you in touch with someone who can best answer your specific questions.

4. Service delivery and costs

False statement: JEA's quality of service will diminish – or even disappear – if an out-of-market utility buys us.

Possible questions/statements

- If JEA is purchased by an out-of-market utility, they won't continue to give us the level of service we are accustomed to.
- If a hurricane hits Jacksonville, another utility won't respond fast enough.
- As soon as JEA is sold, all of our rates are going to increase.

Pivot statement: What I think I'm hearing you say is you are concerned about customer service should JEA transition to another entity? We understand these concerns, but the reality is if JEA **doesn't** explore non-governmental alternatives to its current structure, we will not only have to raise rates, we'll also have to make lay-offs and our quality of service will diminish.

5. Tablestakes

False statement: The tablestakes are essentially buying the community's vote in favor of privatization.

Possible questions/statements

Pivot statement: What I think I'm hearing you say is that you think the minimum requirements are a way to buy the community's vote in favor of privatization? Ultimately, you can call these tablestakes anything you like, but they are a dividend on an investment that this community has made in JEA for the last 125 years. Using JEA's four corporate measures of value (customer, community impact, financial and environmental) as a guide, the SLT recommended – and the Board of Directors approved – a list of “minimum requirements” that any outside entity responding to JEA's ITN would have to meet to even be considered as an option by the Board.

Complete JEA path forward FAQ (posted on [JEA.com/pathforward](https://www.jea.com/pathforward))

Q. What's the outlook for today's electric and water utilities sector?

A. For decades, the electric and water utilities sector has been driven by two values: reliability and affordability. As long as the lights and water were kept on without breaking the bank, utilities were winning. Today, while still focused on reliability and affordability, forces including more engaged homeowners and businesses, connected “smart” technologies, data analytics and distributed energy resources (e.g., solar, battery storage and electric vehicles) are changing and reshaping the sector as we know it. At the same time, the Laws and regulations that govern municipal utilities neither reward innovation nor incentivize the infrastructure or business models needed to create long-term value.

Q. How does that outlook impact JEA and its operations?

A. JEA, as the primary deliverer of electricity in Northeast Florida, is facing many challenges. The number of customers JEA serves is increasing, but revenues are decreasing due to forces shaping the overall electric and water utilities sector.

- JEA has increased its electric customer base by 112,000 since 2000. That's equivalent to the population of West Palm Beach.
- Catalyzed by the Energy Policy Act of 2005, which promoted more widespread adoption of renewable energy and energy efficiency standards, JEA has seen a 10 percent decline in revenue since 2007—and revenue continues to decline.
- Each new customer is projected to add approximately \$2,500 in energy capital costs and \$100-200/year in ongoing operating costs. By 2030, it is estimated that JEA will have 16 percent more electric customers.
- Within about seven years, alternative forms of energy like solar with battery backup may be cheaper than JEA's rates.
- Technology innovation is lowering competitive barriers to entry (e.g., Nest, Google, Amazon), while also giving customers more choice outside of JEA.

JEA, as a municipally-owned (i.e., government-affiliated) utility, is governed by regulations that limit its ability to grow in today's dynamic marketplace.

Q. How is JEA going to address its challenges?

A. In the past, JEA was able to take a traditional approach to strategic planning because the electric and water utilities sector was a predictable, low-uncertainty business environment. A sufficiently precise plan to operate the municipal utility the way it's "always been done" worked. In fact, it has worked for nearly 125 years. Today, the way it's "always been done" will no longer work. Therefore JEA's approach to strategic planning evolved from traditional responses such as employee layoffs and rate increases to "scenario strategic planning" to reflect this new, uncertain business reality.

For the past several months, JEA has been undergoing a scenario-based strategic planning process to determine how the utility can continue to meet the demands of and stay relevant to its customers in the face of industry-wide challenges. At its core, this process introduced a critical community conversation: Does JEA want to eventually become irrelevant to its customers (shrink), or stay relevant (and even innovative) now and into the future (grow)?

Q. What were the scenarios as presented at JEA's Board meetings?

A.

- **Scenario 1, status quo (presented at the May 28, 2019 Board meeting – [agenda and package](#), [meeting video](#))**
 - Assumes JEA will continue to operate as if it is still working within a predictable, low-uncertainty environment. By ignoring market and industry disruptions and opportunities, this scenario leads to steep revenue declines, rate increases and growing insignificance.

- **Scenario 2, traditional utility response (presented at June 25, 2019 Board meeting – [agenda and package](#), [meeting video](#))**
 - Assumes a focus only on stabilizing profitability in order to pay down debt and maintain standard electric, water and wastewater services for customers. Scenario 2 also included significant headcount reductions, along with negative impacts to service quality and rate increases.
 - Although no Board members commented that Scenario 2 is the right path for JEA in the June Board meeting, they asked that JEA produce an implementation plan for the scenario, including a timeline for workforce reductions (Scenario 2a).
 - The Board also requested senior leadership work with McKinsey and other specialized consultants to create a plan that reduces or eliminates JEA's constraints to growth (Scenario 2b). The Board reviewed presentations focused on Scenarios 2a and 2b at the July 23, 2019 Board meeting.

- **Scenario 3, non-traditional utility response (presented at July 23, 2019 Board meeting – [agenda and package](#), [meeting video](#))**
 - Assumes proactive approach to innovation, focusing on growth, new business models and public-private partnerships with extension of core service offerings and removal of government-affiliated constraints. This would require changes to JEA's operating model, which would allow JEA to proactively create the circumstances to enable it to grow and remain relevant today, tomorrow and in the future.

Q. How did JEA's Board of Directors vote in the July Board meeting?

A. At the July 23, 2019 Board meeting, JEA’s Board of Directors unanimously voted to approve a resolution authorizing JEA’s CEO and Managing Director to explore options outlined in Scenario 3—the unconstrained, non-traditional utility response. This approval essentially permits the CEO and Managing Director to explore any and all options, including non-governmental options, to allow JEA to grow and remain relevant to its customers now and in the future. This approval will require JEA to issue an Invitation to Negotiate (ITN) to explain its alternatives, a formal process of bid solicitation and selection guided by JEA.

Transitioning JEA from a government-owned utility to a non-governmental entity could take [one of several different forms](#)—community ownership, initial public offering, private placement, technology conversion, oil and gas conversion or a utility buyout. JEA is calling any such option a “recapitalization event” because it would re-cast JEA’s entire capital structure under the alternatives outlined. If any of the recapitalization events discussed should occur, the Board of Directors also approved a set of minimum requirements to protect employees’ pensions and benefits, customers and the community.

Q. What is recapitalization? Is JEA being sold?

A. “Recapitalization event” means the closing and funding of a transaction or a series of related transactions in accordance with Article 21 of the Charter of the City of Jacksonville and any other applicable law that results in at least 50 percent of the net depreciated property, plant and equipment value of either JEA’s electric system or JEA’s water and wastewater system being transferred, assigned, sold or otherwise disposed of.

JEA’s recapitalization could take one of many forms. The concept of recapitalization doesn’t necessarily mean selling entire assets to an investor-owned entity. Private entities can be sole proprietorships, partnerships, limited liability corporations, non-profits, or any other organized group that is not government-affiliated. The key words are ‘not government-affiliated.’ For instance, the Clay County Cooperative, in the community adjacent to Duval County, is a utility co-op—a private, non-profit business owned and governed by the community and customers it serves.

Q. What are the benefits of recapitalization, and the ITN process, for customers, employees and the community?

A. JEA’s value will only diminish if it relies on the status quo or traditional utility response—Scenarios 1 and 2—to guide its path forward. As the data clearly show, neither of these scenarios are serving or have served JEA favorably. By advancing an ITN process now, JEA can not only start to begin the process of exploring alternative, non-governmental options, but also ensure its employees, the community, its financial health and the environment are taken care of in the best possible way.

Using JEA’s four corporate measures of value (customer, community impact, financial and environmental) as a guide, the Senior Leadership Team recommended – and the Board of Directors approved – a list of “minimum requirements” that any outside entity responding to JEA’s ITN would have to meet to even be considered as an option by the Board:

- Financial

- At least \$3 billion of net cash proceeds provided to the City of Jacksonville.
- Customer
 - At least \$400 million of value distributed to customers (\$350+ paid to each JEA account - \$1,400+ for customers with electric, water, sewer and irrigation accounts).
 - At least three years of contractually guaranteed base rate stability.
- Environmental
 - Commitment to fund and provide City of Jacksonville and Duval County Public Schools with 100 percent renewable electricity by 2030.
 - Commitment to fund and provide 40 million gallons per day of alternative water capacity for Northeast Florida by 2035.
- Community Impact
 - Protection of certain employee retirement benefits.
 - Guarantee of employee compensation and benefits for three (3) years.
 - Retention payments to all full-time employees at 100 percent current base compensation.
 - Commitment to new headquarters and employees in downtown Jacksonville contributing to the economic development of the community.

The overall purpose of exploring recapitalization is to give JEA the strategic flexibility to adapt to an industry-wide transformation and help it achieve its vision to improve service and enhance quality of life in Northeast Florida.

Q. Why the rush to do all of this now? Is this the right time?

A. The utilities industry is changing rapidly and JEA and its peers face new market realities, including more engaged homeowners and businesses, connected “smart” technologies, data analytics and distributed energy resources (e.g. solar, battery storage and electric vehicles). JEA is leading the way to proactively understand and embrace these forces. Its value will only diminish over time if it does not explore opportunities afforded now as a non-governmental entity through a recapitalization event.

Q. What are the next steps and the timeline in the Invitation to Negotiate (ITN) process?

A. Beginning in August 2019, JEA will issue a competitive solicitation to potential suitors, including financial, technology and energy/water companies. An estimated timeline for the process follows:

- Over the next six months, investment banks and advisors will present recommendations for how JEA can achieve the JEA Board’s requirements, and maximum value for employees, customers and other stakeholders. JEA will analyze the recommendations.
- In spring 2020, the JEA Board will discuss and vote whether to approve the final recommendation from the solicitation process. That recommendation will then go to the City Council for review.
- Should City Council approve the recommendation, the public will have the opportunity to vote on the JEA Board and Council-approved recommendation in mid-2020. See slide 190 of the [July 2019 JEA Board meeting package](#) for additional details.

Q. How does the new requirement that voters approve by referendum a sale of at least 10 percent of JEA assets impact a potential recapitalization event?

A. The proposed recapitalization event would first require approval by the JEA Board before going to Jacksonville City Council for consideration. Based on a city charter amendment approved in 2018, Duval County voters would need to approve any recapitalization event through a voter referendum following the Jacksonville City Council approval of such a proposal.

Q. What if there are no entities that come forward through the ITN process or a recapitalization event otherwise falls through?

A. While that would need to be fully considered by the JEA Board at that time, the Board may, at its discretion, determine that if the non-traditional utility response does not achieve its stated minimum requirements to no longer pursue this approach and to possibly select Scenario 2 for implementation.

Q. How would a recapitalization event affect JEA customers? Will there be a need for an increase in utility bills, and if so, how soon will that take effect?

A. One of the minimum requirements for a recapitalization event is a guarantee from the successful bidder that customers will receive more than \$400 million in rebates (\$350 per account, or \$1400 for customers with all four accounts – electric, water, wastewater and reclaimed water). Base rates for customers will remain stable for at least three years after a recapitalization, contrasted with no rebates to customers and base rate increases under a status quo. Above all, customers will continue to receive the same high-quality, reliable utility services they have come to expect from JEA with a recapitalization event.

Q. Is there any truth that JEA may move to the Southside rather than stay Downtown if a recapitalization event does not occur?

A. Construction of JEA's new Downtown Jacksonville Headquarters is included as one of JEA's "minimum requirements" in the Invitation to Negotiate and would proceed with a recapitalization event. Should the JEA Board instead opt for Scenario 2 implementation, its cost-reduction priorities would call for the relocation of existing office space to the Southside and cancelation of the Headquarters construction.