From: Mike Brost <mjbrost61@gmail.com>
Sent: Monday, May 18, 2020 12:25 PM
To: Powell, Stephen <SPowell@coj.net>; Garrett, Christopher <GarrettC@coj.net>
Subject: JEA

Stephen and Chris. I have taken a look at this letter, and am happy to offer the following observations.

Question: wondering if Paul McElroy has seen this--or the new board--or others? Just wondering. It appears to have only been sent to the 6 former board members. No one else copied. Not clear to me what relevance this has today, given the new board, new executive leadership, staffing changes.

The letter appears to be mainly defensive--Melissa to her Board, whose members had heard and apparently believed the false narrative from Aaron Zahn and others throughout 2019. If you look at the totality of what evolved and was pushed out by JEA staff in 2019--coupled with what I thought was actually excellent and thorough work by Nelson-Mullins earlier this year--it appears that this letter was an attempt by Melissa cover her tracks and defend what most believe was a false, biased and misleading narrative. Further, in the end, this letter only addresses a portion of their story, and only part of the questions/issues raised by Nelson-Mullins. Recall: (1) they played excel spreadsheet games with the charting (x-axis, y-axis, landscape vs. portrait, various annotations...); (2) they took the historical data and picked the best two points to give them then worst story regarding a predication of future unit sales contraction; (3) they then ignored the loss of FPU and the conversion to LED street lights. Its never appropriate to just pick the two best/worst points. Always best to do a least-squares best-fit linear projection using all the data. And then show it both ways--with and without FPU and LED street lights.

Page 1, 1st paragraph. Disagree that the presentation by Nelson-Mullins was in any way "flawed" or "misguided." In fact, I had just the opposite impression. Read their entire report/letter. Thought it was excellent. Right on point. Also fairly comprehensive--way more than what Melissa addresses in this February 2020 letter. So, there was no need for Melissa to hand-off to old board "correct information". No "errors" at all, in my opinion.

Page 1, 2nd and 3rd paragraphs. "One critical flaw... was the comparison of the TYSP to the financial forecast". Was not a flaw at all. The comparison was fair and reasonable. And their critical assessment of JEA's grim (-8%) load forecast was actually quite comprehensive. Much more to it than just the TYSP comparison. Further, I believe that Melissa is mistaken when she says that historically, JEA started w/ the TYSP--and used that for the annual financial forecast. How long was she there?? 8 years total? Best to ask Paul (preceding CFO), or Walt Bussells, or others who came before. I don't think that that's an accurate statement. My recollection is that there has always been two forecasts. And while that bothered some folks, and was maybe hard to explain at times, it was really fine and quite common. Both are intended to be "conservative" forecasts--but the two have different intended uses. For the TYSP, you don't want to run short on generation capacity in the future. So conservative here means that you bias the forecast up a bit (and note... its really about the forecasted PEAK DEMAND... not the annual energy (KWHs)). And then for financial planning, conservative means you don't want to run out of revenue (net revenue). So conservative here means you bias the forecast down a bit. So in short, I just question the accuracy of some of Melissa's comments in these two paragraphs. Sort of like Aaron Zahn's mind-set --> everything was messed up until I came along and fixed it!

Page 2, chart top of page. Doesn't really say much. Just shows the history of load projections going back about a decade. Downward trend in forecasts each year. Typical for all utilities. Pre-recession, growth was the norm. Since then, much closer to flat. Per customer consumption down, due to energy efficiency--and a small amount due to private generation (DG, roof-top solar). So growth is all about growth in population/meters, weather, plus new electrification trends (electric vehicles, fork-lifts, cranes...). So yes--looking back the forecasts were high. They have trended down over the past decade, and today are much better--closer to correct. But really--who knows? Many think that we are reaching saturation on the energy efficiency front. The forecasts for private generation--including the notion of "grid parity" are often way overblown. And growth from electrification is often downplayed. So I believe this chart is typical for the industry these days. Not just a JEA issue. Going back before the 2008/2009 recession, all forecasts were high (TYSP, IRPs, financial planning, PSC and wall street filings...).

Page 2, 1st and 2nd paragraphs. OK... so what? The move to more of a flat forecast with no more than modest growth was the correct decision. Pursued by essentially all utilities. But that's much different than the significant contraction that was in JEA's 2019 false narrative sold to the board to support the ITN. In short, I'm not sure why these two paragraphs are significant. They certainly don't support JEA's strategic planning work and outcomes.

Page 3, 1st paragraph. A continuation of a similar narrative. "Between 2006 and 2019 based on TYSP JEA would have expected to grow 40%. So what? Every utility was similarly wrong. 2006 was pre-recession. JEA and all utilities have adjusted forecasts more towards flat, with maybe some modest (less than 1%) annual growth. Again, they played games with the JEA historical data to get their 8% contraction prediction.

Page 3, 2nd paragraph. It is a true statement that leading up to the end of the JEA-FPU power sales agreement (end of 2017), FPU load went down quite a bit each year, in steps. Melissa tries to tie that into their doom and gloom assumption--that JEA also will see significant load reduction moving forward, due to energy efficiency and private generation. The truth is, Fernandina and FPU's customer mix/type/profile is very unique. Nothing like JEA. They are very small--less than 5% in size. And their customer demand is dominated by three very large paper mills. Not sure if its half their load (these three customers)… or more or less--but its a very large percentage. About half of JEA's unit sales come from business and industry, vs. residential customers. But the non-residential customer count (meters) is very large. And the make-up and demand characteristics are very diverse. For JEA, its not dominated by three large paper mills. The rest of the story is that paper mills are ideally suited past, present and future, for co-generation; and the price of natural gas reduced significantly around 2009 due to shale gas and fracking. $15/MMBtu to around $3. So all of a sudden, was better for the paper mills to buy gas and co-generate, as opposed to buying all of there electricity from FPU. Down went the load factor. Down went the annual unit sales. Significantly down. In the end, their load profile had become so lousy, it was not that big a deal to lose the contract to FPL. Point is, FPU is nothing like JEA. Yes--annual unit sales went way down over several years leading up to 2017. But was driven by a significant reduction in natural gas pricing and increased customer co-generations, against a customer base with much of the load attributable to just three large paper mills.

Page 3, 3rd paragraph. The problems and general lack of transparency regarding JEA strategic planning work with McKinsey in 2019 is well documented. What she's saying here ("more sophisticated look", 24 variables...) was never shared in any document that I recall seeing. And I've seen and reviewed the McKinsey report. Very sketchy. Light on details. Then lots of hand-waving and hocus-pocus by Aaron and the team... to come up with the nonsense they shared in 2019 with the board. Recall, they rolled out the false narrative in the summer, but never shared the McKinsey report until December. Note footnote 5: "the 24 variables were distilled into 4 categories". Right. More games. More lack of transparency. And at the end of the day, all are essentially saying "flat" at 12M is a good, reasonable forecast for the future. Not a significant contraction over the next decade--which is the story they tried to sell to the board and others in 2019.

Page 4. No Melissa... unfortunately the year under Zahn's leadership, characterized by significant negative bias in the planning work, fuzzy math, lack of transparency, intentional misleading statement… all worked throughout the community to "exacerbate the problem".

When Aaron Zahn left, she/JEA had an opportunity to start over and begin telling the truth. But much like we say from Zahn and others in 2019, they just dug in instead. The statement that the ITN was begun for good, proper reasons, was a clear indication of the continued problem and gaps in leadership.

Hope this helps. Feel free to call anytime.

Mike Brost

On Tue, May 12, 2020 at 2:59 PM Powell, Stephen <SPowell@coj.net> wrote:

> Hi, Mike—I hope this finds you and your family well.

You might recall talking to me back in January during our investigation of Zahn for cause grounds. Thereafter, most of your contacts were with Chris.

I'm checking in to see if you would be willing to review a "doom and gloom" document and offer comment? We would be most appreciative of your help.

Regards,

Steve

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