The Future of JEA: Opportunities and Considerations

Michael Mace
PUBLIC FINANCIAL MANAGEMENT
FEBRUARY 14, 2018

EXHIBIT 24

Contents

Table #4: Approximate Debt Retirement Components and Costs as of 10/1/2019

System	Electric and SJRPP	Water/Sewer	District Energy
Debt Outstanding	$2.16 Billion	$1.42 Billion	$33 Million
Total defeasance cost	$2.31 Billion	$1.55 Billion	$35 Million

Other JEA liabilities

Certain other liabilities may also be settled from the gross proceeds of a JEA asset sale. Under an asset sale JEA would likely be required to terminate and settle the interest rate swap contracts. These contracts are in place to hedge a portion of JEA's outstanding variable-rate debt. PFM has estimated that the termination cost of these contracts will be roughly $100 million in late 2019. The actual figures will vary from these estimates and be dependent upon market conditions at the time.

If JEA remains in place as an asset of the City, JEA expects to utilize the energy purchased under the roughly 20-year Vogtle power purchase contract to provide a substantial amount of carbon free energy to its ratepayers. JEA expects to pass the cost of this energy to its ratepayers pursuant to its fuel billing line item. In the context of an asset sale to a private entity, it may be necessary to remediate a portion of the Vogtle debt in order to achieve tax compliance related to tax-exempt bonds and Build America Bonds issued for the project. The net present value of the estimated debt service included in the Vogtle contract is assumed to range from $1.1 to $1.3 billion. The mid-point of this range, of $1.2 billion, is used as a very rough estimate of the potential net impact of the Vogtle contract on JEA. This range does not take into account possible legal claims or settlements related to the project, nor does it reflect assumptions related to final completion costs or in-service dates. We use this figure as a rough estimate for discussion purposes of what it could require for JEA to offset the cost of the Vogtle contract.

Liability	Description	Estimated Amount
Interest Rate Swaps	Mark to market estimate of certain interest rate hedge agreements	~$80 million electric ~$20 million water/sewer
Purchased Power Agreement	Long Term Vogtle Purchase	~$1.1 - 1.3 Billion NPV of Debt Service

Remaining Cash and Investment

Based on the JEA's projected financial metrics, it is expected that JEA will have well over $1.0 billion of cash and investments on its balance sheet in 2019. A review of the various accounts and projected balances supports PFM's estimate that roughly $600 million of cash and investments would be available to supplement the gross sale proceeds, and could be used to retire JEA's liabilities.

Based upon: (1) the indicative JEA value ranges of $7.5 billion to $11.0 billion provided in the prior section, (2) a projected 2019 debt retirement cost of roughly $3.9 billion, (3) an estimate of $600 million for the cash and investments that could be available to offset debt retirement costs, and (4) roughly $100 million of interest rate swap termination costs; the sale of JEA could produce roughly $4.1 billion to $7.6 billion net proceeds to the City. If JEA and the City elected to use a portion of the proceeds to remediate the Vogtle contract for an assumed cost of $1.2 billion, then the net proceeds to the City could range from $2.9 billion to $6.4 billion. Again, it is important to note that this range of net proceeds is based upon a number of assumptions related to: market conditions, valuation methodology, transaction timing and potential use of proceeds. The actual results of a sale would depend on a several variables that cannot be determined at this time.

Likely Buyer Profiles

The potential buyers of JEA's assets can be divided into two general categories – Strategic Buyers and Financial Buyers. Strategic Buyers include those that already participate in some way in the utility business. They include regulated utilities, independent energy companies, and investment companies with existing utility assets. For the most part, these would be entities that have experience with many of the components of JEA's business, including: running a retail utility and managing a fleet of utility assets. Many of these Strategic Buyers will also have experience providing service in a territory that is overseen by a state level public utility regulator. Some of these potential buyers may already provide service that is subject to regulation by the FPSC. These Strategic Buyers would look to integrate JEA's assets into their existing asset base, and likely derive cost synergies based on their existing operations. These buyers would view JEA as a very long term investment.

Financial Buyers would be those whose primary focus in acquiring JEA would be as a financial investment, perhaps one that might be sold after some period of time. The Financial Buyers would include: large investment funds, pension funds, private equity firms, infrastructure funds, etc. These buyers would likely keep JEA as a stand-alone entity, seeking to maximize earnings but not necessarily through synergies with their other investments. Minimum holding periods may be negotiated to prevent a buyer from selling the assets prior to the expiration of any conditions or protections negotiated by the City.

Other Considerations and Impacts on the City and Customers

Estimates of JEA's market value, gross sale proceeds and the City's net proceeds provide important input for any decision to pursue a new path for JEA and the City. However, the potential up-front net proceeds available to the City represent only one of many outcomes and impacts from a sale of JEA. There are several other far-reaching impacts in addition to the up-front price and net proceeds.

Customer Impacts – Rates and Service Levels

The discussion of future utility rates under an asset sale scenario is not simply a comparison of JEA's current rates to potential future rates if JEA is sold. In order to assess the customer rate impact of a sale, it is necessary to develop long-term projections of customer rates under both (1) continued City ownership of JEA, and (2) if the assets are sold to a private, for-profit utility. A thorough analysis of the customer impact requires comprehensive rate projections under a sale and a non-sale scenario. The sale scenario requires analysis of (1) potential rate conditions that the City may decide to impose on potential buyers, and (2) on the rate structure once ratemaking governance transitions from the JEA Board to a FPSC regulatory environment. While it is impossible to predict the industry, economic, technological and demographic conditions that will prevail over the long run, an effort should made to develop the best possible pro forma projections for both a sale scenario and a non-sale scenario. Over the next five to ten years, the cash flow dynamics and capital needs of the electric system would suggest