



INTER-OFFICE MEMORANDUM

November 5, 2020

SUBJECT: FIVE-YEAR FINANCIAL ASSUMPTIONS AND PLAN

FROM: Paul McElroy, Interim Managing Director/CEO

TO: JEA Board of Directors

BACKGROUND:

Each year, JEA presents the Five-Year Financial Assumptions and Plan to the Board of Directors to establish revenue and expense expectations and the resulting metrics used to evaluate financial health. Members of the Board and Executive Management then meet with Rating Agencies to review newly released audited financial statements, and JEA's operating and financial future.

DISCUSSION:

JEA's Five-Year Financial Assumptions and Plan are centered on the following:

- Stable electric unit sales and growth in the water/wastewater system
- Lower fuel costs associated with adding Vogtle and planned 250 MWs of solar in the generating fleet, additional operating efficiencies with the 200 MW Purchase Power Agreement in conjunction with Plant Scherer Unit 4 closure, as well as favorable commodity markets
- Additional net revenue requirements in FY2023 – FY2025
- Early debt retirement in the Electric System centered on reducing variable rate debt scheduled to mature in the last half of this decade
- New debt in the Water/Wastewater system to support a robust capital program
- Stable with slight variances in O&M, Debt Service and City Contribution expenditures
- Stable financial metrics to support JEA's current Credit Ratings.

The Five-Year Financial Assumptions and Plan with moderate additional revenue requirements illustrates a strong financial outlook with favorable debt service coverage metrics, debt to asset ratios that achieve peer median, and liquidity metrics that surpass targets and support strong credit ratings. The plan upholds the objectives to maintain long-term Competitive Rates, Operational Excellence, and Environmental Stewardship, while improving overall Customer Experience.

FINANCIAL IMPACT:

The Five-Year Financial Assumptions and Plan is an essential component of the Rating Agency presentations that influences the bond ratings, efficient access to capital markets, and customer rates.

RECOMMENDATION:

The Board receive the presentation for consideration and provide Staff feedback and direction regarding the Five-Year Financial Assumptions and Plan.

Paul McElroy, Interim Managing Director/CEO

PEM/BJR/JEC



Building Communitysm Five-Year Financial Assumptions and Plan

JEA Board Meeting

November 17, 2020

1. Assumptions / Results
2. Unit Sales Growth
3. Residential Rates
4. Capital Expenditures and Internal Funding
5. Total Debt and Variable Debt
6. Key Financial Metrics
7. Financial Schedules
8. Summary



Five-Year Financial Assumptions and Plan FY2021 - FY2025

Assumptions

1. Unit Sales Growth
2. Rates
3. Capital Expenditures
4. Total Debt
5. Variable Debt
6. O&M, Debt Service, and City Contribution
7. Coverage, Liquidity and Debt

Results

- Stable electric sales, 1.5% water sales growth
- Additional revenue requirements in FY23-FY25
- \$2.5B five-year capital program
- \$425M new debt to support capital program
- \$341M unhedged at 0.15% + 55 basis points
- Stable with slight variances
- Financial Metrics within target range

Principles of Public Utility Rates

1. **Effectiveness & Revenue Stability:** Rates should be designed to yield revenues sufficient to recover utility costs
2. **Fairness & Avoidance:** Rates should be designed so that cost are fairly allocated amongst different customer classes and cross-subsidies are avoided
3. **Efficiency:** Rates should provide efficient price signals and discourage inefficient usage
4. **Rate Attributes:** Rates should be relatively stable, predictable, simple, and easy to understand

**Source: Principles of Public Utility Rates by Professor James BonBright*



Unit Sales Growth

FY2021 – FY2025 Financial Assumptions and Plan

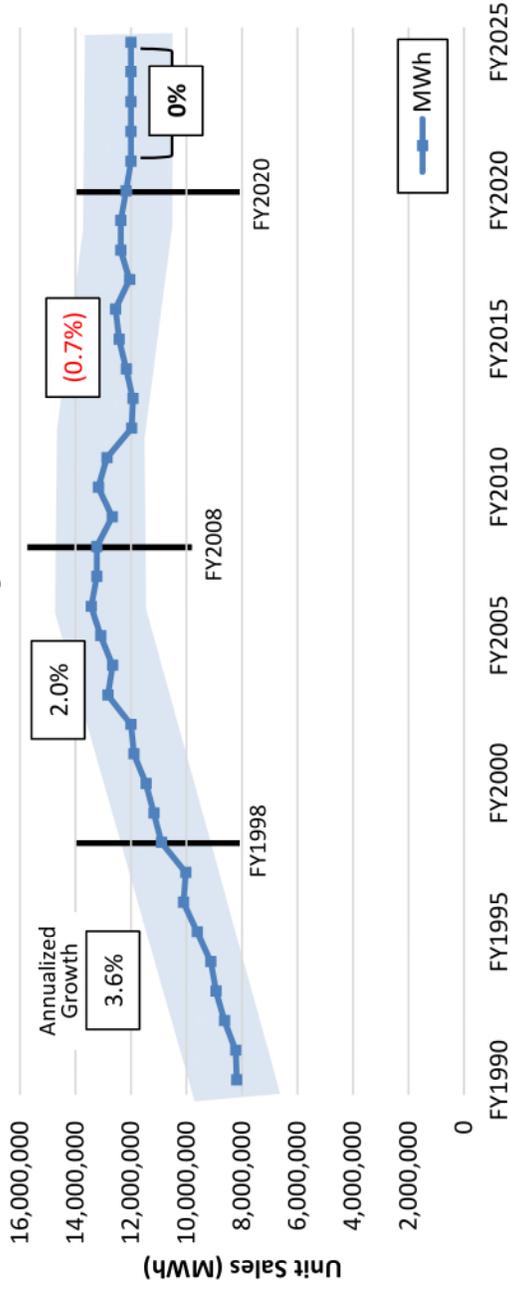
Electric System

- Trends: 3.6%, 2.0%, (0.7%)
- FY21-25: 0% annual growth

Unit Sales Drivers:

Years	FY18	FY19	FY20
Growth	2.6%	0.0%	(1.5%)
Deg Days	4,256	4,294	4,015
30-yr Avg			4,014

Electric System



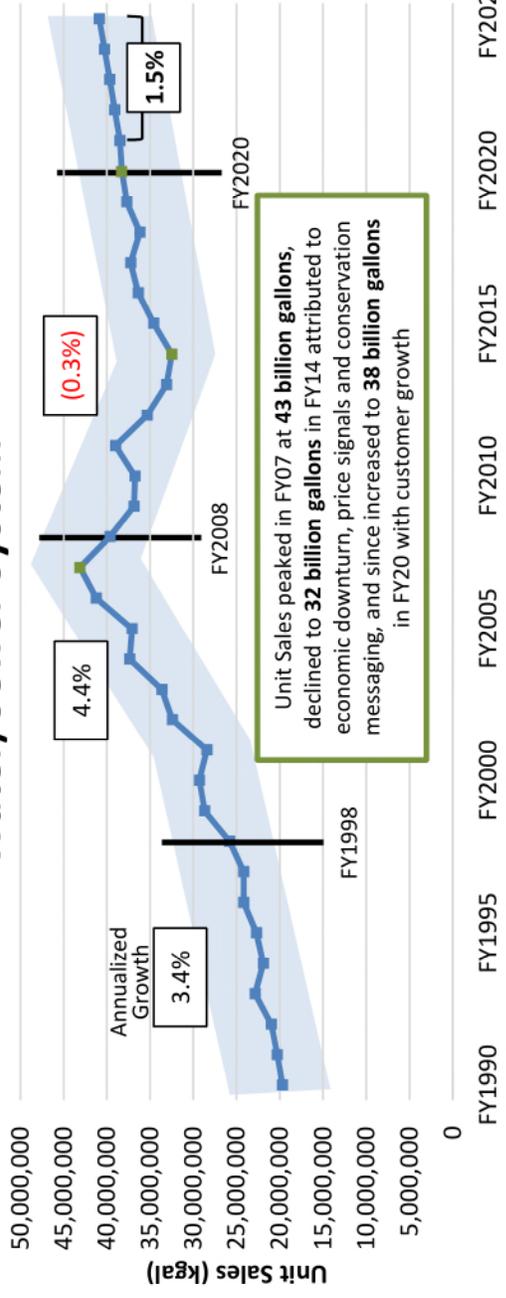
Water/Sewer System

- Trends: 3.4%, 4.4%, (0.3%)
- FY21-25: 1.5% annual growth

Unit Sales Drivers:

Years	FY18	FY19	FY20
Growth	(2.8%)	4.2%	1.5%
Rainfall Days	120	123	122
30-yr Avg			114

Water/Sewer System

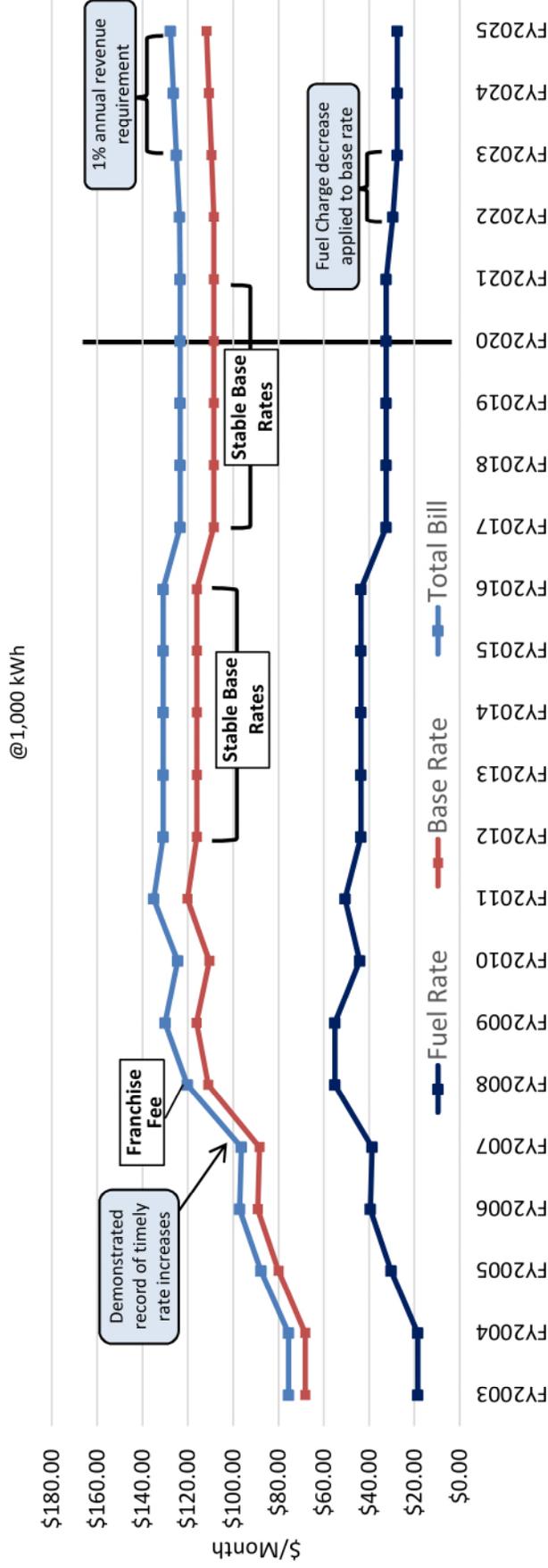




Residential Customer Rates

FY2021 – FY2025 Financial Assumptions and Plan

Electric Residential Rates



Electric System

- Total JEA rate has been stable or lower since Oct 1, 2010
- FY22 - FY23 offsetting Fuel/Base adjustments supported by projected fuel expenses lower than the current \$32.50/MWh rate due to lower commodity costs and incorporating nuclear and planned 250 MW solar Power Purchase Agreements (PPA)
- Annual revenue requirement of approximately 1% in FY23 – FY25

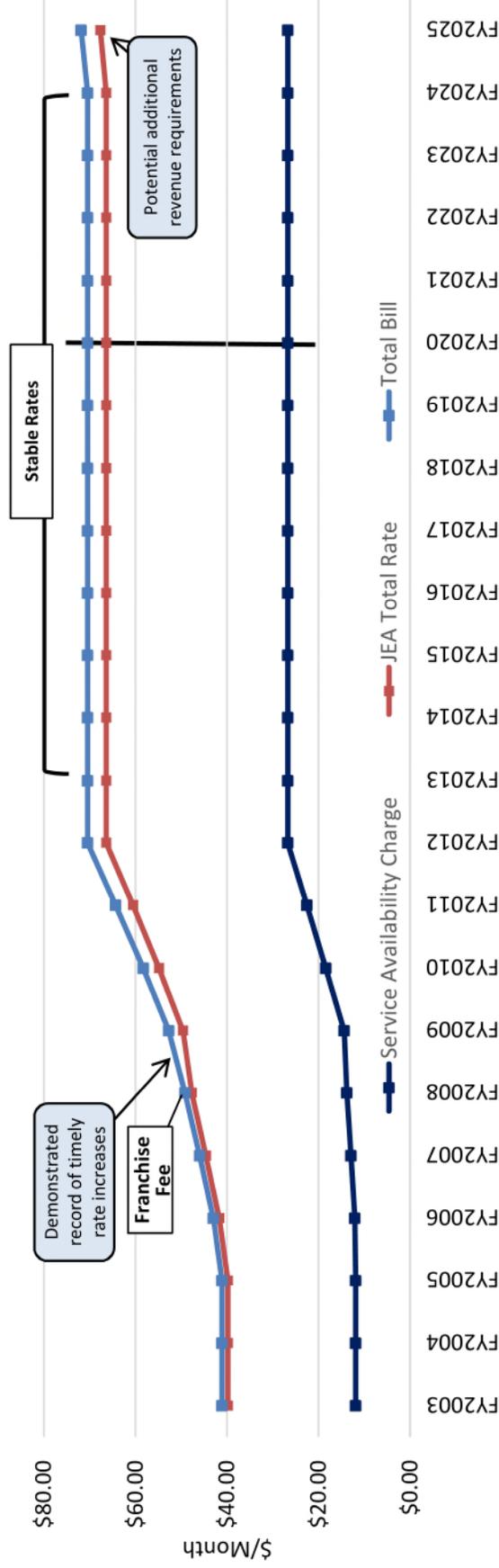


Residential Customer Rates

FY2021 – FY2025 Financial Assumptions and Plan

Water/Sewer Residential Rates

@6,000 gallons, 5/8" Meter



Water/Sewer System

- Total JEA Rates have been stable since Oct 1, 2012
- Revenue Requirements can be met by higher growth of customers or consumption, lower expenditures or customer rate increases
- Revenue Requirements are subject to measurable increases if capital program continues in FY21 - FY23 at elevated projected levels, zero discharge wastewater effluent regulations are enacted, alternative water supply costs are accelerated, or other large environmental programs are undertaken along with ongoing renewal and replacement required in the \$2.7 Billion capital asset system.



Capital Expenditures and Internal Funding

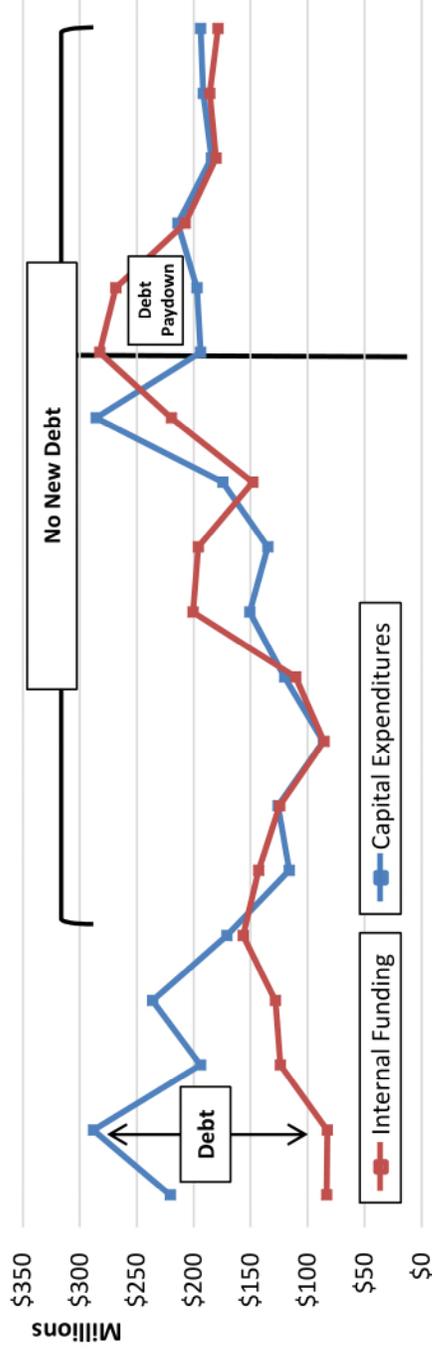
FY2021 – FY2025 Financial Assumptions and Plan

- ### Pricing Policy
- Recurring capital projects funded from current year revenues with debt funding qualified projects centered on expansion of plant, transmission, substation, regional pump stations, and environmental projects

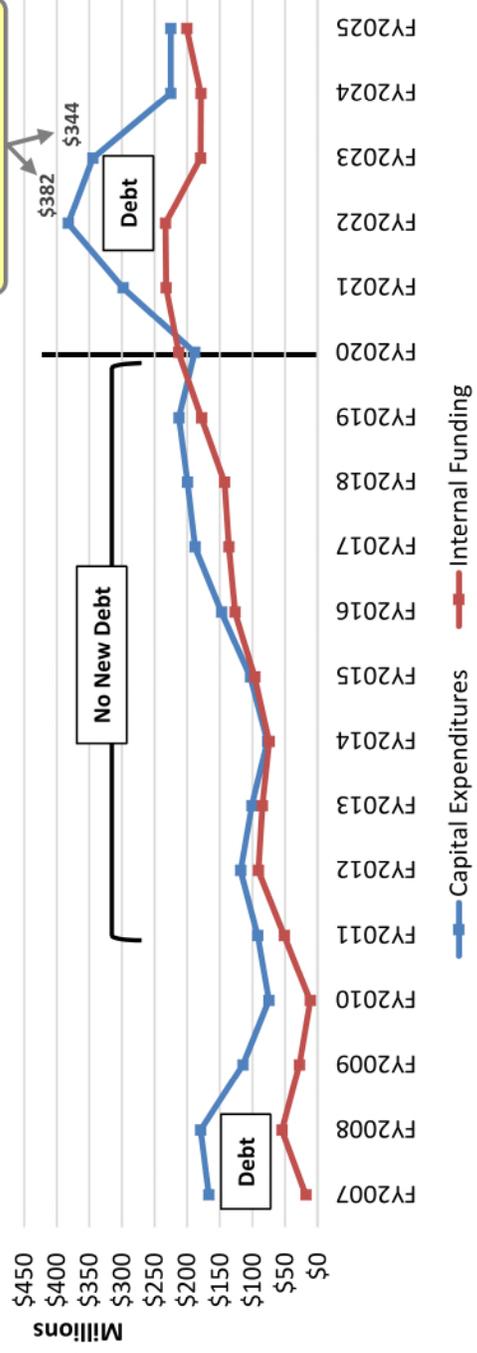
FY2021 – FY2025

- Electric System \$1 billion: Renewal & Replacement (R&R) with \$100 million of transmission and substation expansion
- Water/Sewer System \$1.5 billion: \$375 million of wastewater treatment expansion, \$250 million of water/sewer transmission expansion, \$50 million of water supply

Electric System



Water/Sewer System





Total Debt and Variable Debt

FY2021 – FY2025 Financial Assumptions and Plan

- ### Electric System
- No new debt through FY25
 - \$340M early debt pay down FY21-FY25
 - Variable Debt at \$587M
 - Total Debt reduced to \$1.3B
 - Debt/Asset: FY 2025 projected @ 41%, under 50% JEA target and 46% peer average

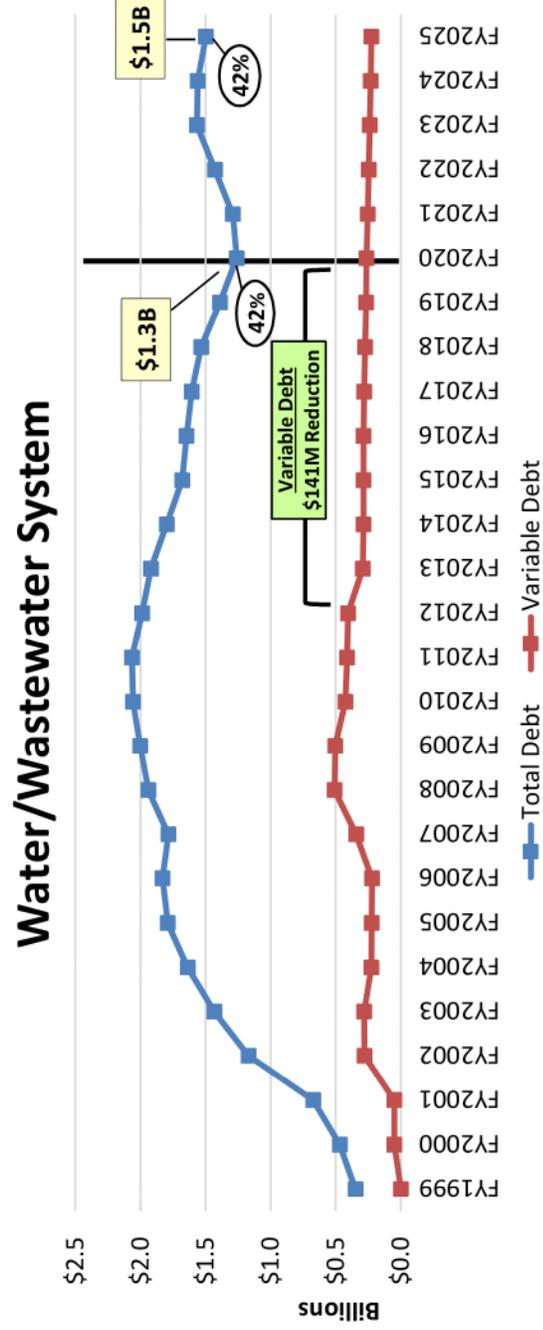
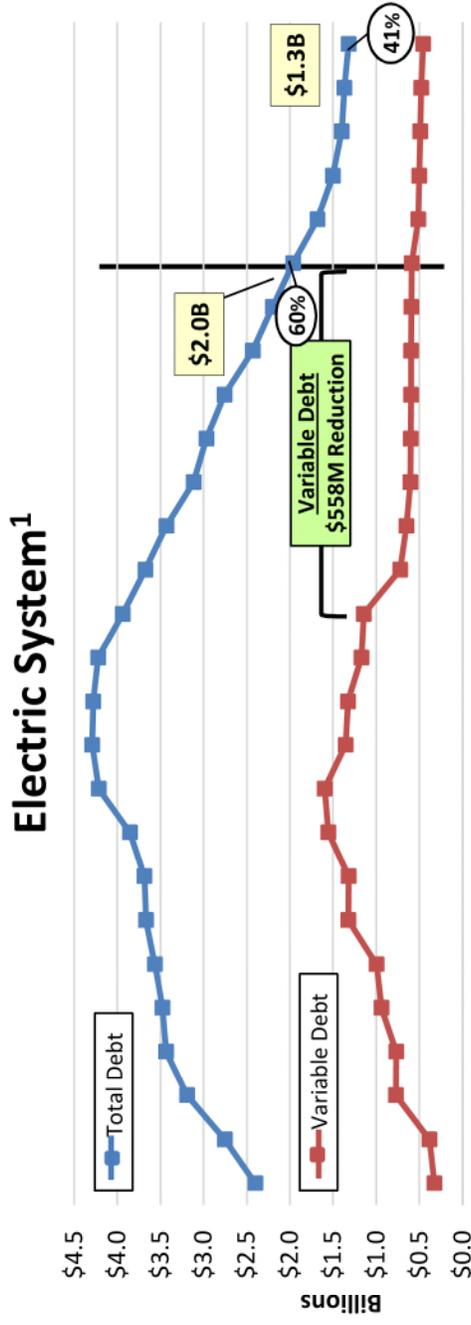
- ### Water/Wastewater
- \$425M new debt by FY25
 - Variable debt at \$264M
 - Total Debt increases to \$1.5B with \$1.5B five-year CAPEX
 - Debt/Asset in low 40%

Variable Interest Rates
All-in interest cost utilized in Financial Model

FY20	FY21	FY22	FY23
1.5%	2.0%	3.0%	3.0%

Current variable rates at 0.70%

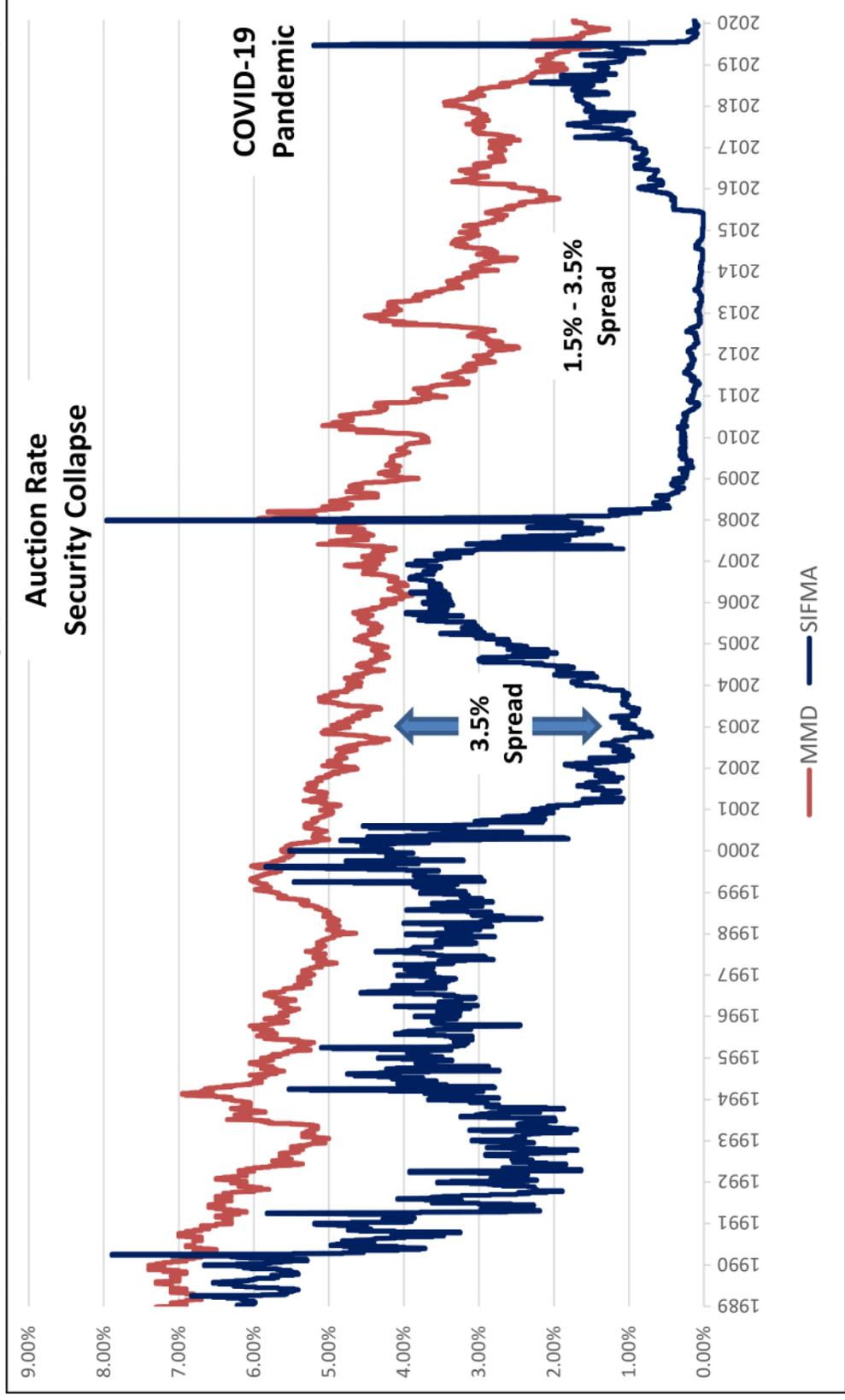
¹ Includes JEA's portion of SIRPP and Plant Scherer Debt





Variable Rate Debt Considerations

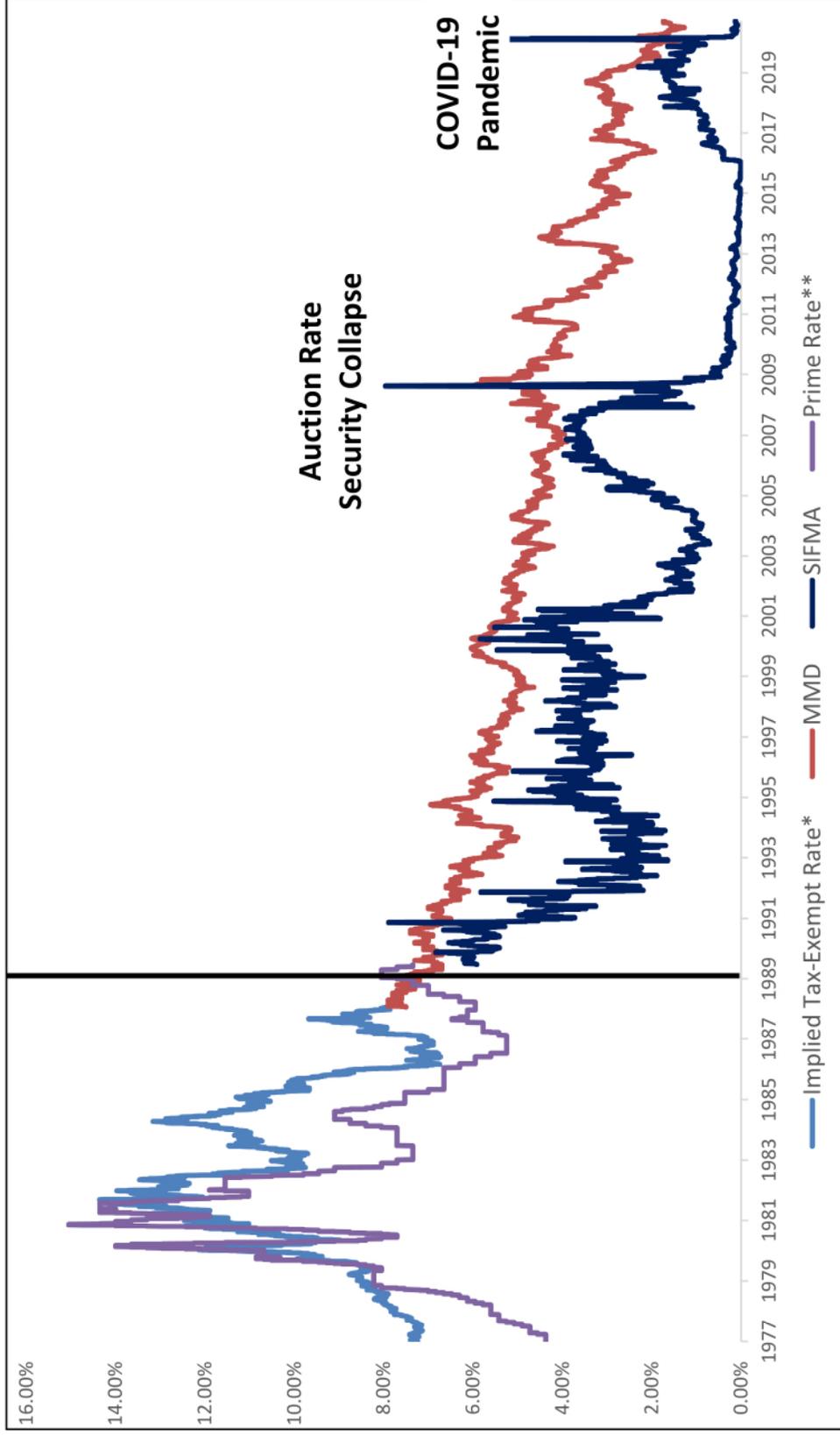
30 Year MMD and SIFMA Rate History (October 1989 – October 2020)





Variable Rate Debt Considerations

30 Year MMD and SIFMA Rate History (February 1977 – October 2020)



*The Implied Tax-Exempt Rate takes the historical 30 Year MMD/Treasury ratio from 1988 to 2020 (0.944004) and multiplies it by the respective time period's 30 Year Treasury Rate
**The Prime Rate shown reflects 70% of the original Prime Rate.



Early Debt Retirement Reduction of Variable Rate Debt

JEA Unhedged Variable Rate Debt Portfolio

(\$ in millions) <u>September 30, 2020</u>	Electric System		Water System		Total
Total variable rate debt	\$587	\$264			\$851
Unhedged amount	\$181	\$160			\$341
Weighted average life (years)	10	15			
Final maturity	2040	2042			
Current all-in interest rate	0.75%	0.70%			
Current fixed rates	2.00%	2.50%			
Earnings credit rate	0.10%	0.10%			

- JEA's variable rate bonds are remarketed at rates approximating the SIFMA index; SIFMA has averaged 0.52% and 1.23% for the past 10 and 20 years, respectively
- Based on the current fixed rates, the breakeven all-in variable interest rate is 2.25%
- Cost to fix unhedged variable rate debt with fixed rate debt would be \$5 million per year
- Savings to early retire \$69 million of unhedged variable rate debt is **\$450K per year**

Impact of a \$100 Million Electric System Debt Retirement in FY2021

- Annual Debt Service reduced primarily in FY26 – FY30
- Unhedged Variable Rate Debt Exposure will be reduced by \$69 million from \$181 to \$112 million
- Fixed Rate Debt will be reduced by approximately \$30 million
- Fixed Charge Coverage Metric in FY2026 – FY2033 will be impacted favorably

Consider reducing additional unhedged Variable Rate Debt in the Electric System and in the Water System through the issuance of additional fixed rate debt above the \$425 million planned new debt issuance in FY21-FY24



Key Financial Metrics

FY2021 – FY2025 Financial Assumptions and Plan

Electric System

(\$ in millions)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	JEA Target
DS Coverage	2.8x	4.8x	4.5x	4.4x	5.6x	5.0x	4.6x	2.2x - 2.5x
Fixed Charge Coverage	2.0x	3.0x	2.7x	2.1x	1.9x	1.9x	1.8x	1.6x min
Days Liquidity	308	359	309	290	264	258	250	150 to 250 days
Debt / Asset %	65%	60%	52%	46%	44%	43%	41%	60% max
CAPEX	\$286	\$194	\$197	\$214	\$185	\$192	\$194	
Depreciation ¹	\$199	\$194	\$196	\$197	\$201	\$202	\$204	

Electric System

- FY21-FY25 favorable coverage from prior targeted bond buyback
- Debt / Asset % makes significant reduction with projected ~\$340M early debt pay down FY21-FY25, exceeding median peer benchmark of 46% in FY23- FY25

Water/Wastewater System

(\$ in millions)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	JEA Target
DS Coverage	3.0x	5.0 x	5.4 x	4.9 x	2.7 x	2.6 x	2.7 x	1.8x to 2.0x
Fixed Charge Coverage	2.7x	4.6 x	5.0 x	4.4 x	2.5 x	2.4 x	2.5 x	N/A
Days Liquidity	334	327	300	331	312	341	268	100 days
Debt / Asset %	45%	41%	41%	43%	44%	44%	42%	50% max
CAPEX	\$213	\$189	\$298	\$382	\$344	\$225	\$225	
Depreciation	\$152	\$160	\$165	\$170	\$176	\$185	\$193	

Water/Wastewater

- FY21-FY25 favorable coverage
- Debt/Asset % maintained below 49% peer median benchmark, including \$425M new debt
- \$1.5B CAPEX is a major variable in the plan

¹ Excludes Scherer



Building Community

Electric System

FY2021 – FY2025 Financial Assumptions and Plan

	Actual			Projected				
	2018	2019	2020	2021	2022	2023	2024	2025
Unit Sales - Territorial (1,000 MWh)	12,364	12,366	12,185	12,000	12,000	12,000	12,000	12,000
Total System Rate Revenues % Change				0%	0%	1%	1%	1%
Fuel Rate in Model \$/MWh	\$32.50	\$32.50	\$32.50	\$32.50	\$29.50	\$27.50	\$27.50	\$27.50
Fuel Rate Revenues	\$398	\$399	\$369	\$387	\$351	\$327	\$327	\$327
Fuel Rate Revenue Change				\$0	(\$36)	(\$24)	\$0	\$0
System Sales Base Rate and Other Revenues	\$809	\$816	\$799	\$790	\$788	\$823	\$858	\$867
Additional Base Revenue Requirements/Expense Reduction				\$0	\$36	\$35	\$11	\$12
Total Revenues	\$1,208	\$1,214	\$1,169	\$1,177	\$1,175	\$1,186	\$1,197	\$1,206
Fuel & Purchased Power Expense	\$456	\$426	\$343	\$372	\$351	\$337	\$333	\$332
Transfer to/<from> Fuel Stabilization Fund	(\$57)	(\$27)	\$26	\$15	\$0	(\$10)	(\$6)	(\$5)
O&M (Includes DSM, Environmental)	\$208	\$218	\$218	\$231	\$238	\$249	\$256	\$264
Transfer to/<from> Debt Management Rate Stabilization	\$0	\$0	(\$30)	\$0	\$0	\$27	\$0	\$0
Transfer to/<from> Environmental and DSM Rate Stabilization	\$6	(\$16)	(\$3)	(\$8)	\$1	\$1	\$6	\$6
Non-Fuel Purchased Power (NFPP) – Other	\$101	\$83	\$72	\$68	\$62	\$62	\$63	\$63
Non-Fuel Purchased Power (NFPP) - Nuclear	\$40	\$18	\$0	\$1	\$106	\$161	\$169	\$171
Net Revenues	\$456	\$513	\$542	\$498	\$417	\$358	\$376	\$375
Total Debt Service	\$215	\$199	\$133	\$129	\$107	\$75	\$86	\$91
R&R and Other Capital Outlay (5-yr average depreciation is \$200M)	\$148	\$219	\$282	\$268	\$207	\$180	\$186	\$179
City Contribution	\$92	\$93	\$94	\$94	\$96	\$97	\$98	\$99
Early Debt Retirement paid from Stabilization Funds	\$0	\$0	\$30	\$0	\$0	\$0	\$0	\$0
Other Expenses (Emergency Reserves and Uncollectible)	\$1	\$1	\$3	\$7	\$7	\$7	\$7	\$7
Balance	\$0							
Financial Metrics								
Total Debt Service Coverage (Target 2.2x-2.5x)	2.3x	2.8x	4.8x	4.5x	4.4x	5.6x	5.0x	4.6x
Fixed Charge Coverage (Target > 1.6x)	1.7x	2.0x	3.0x	2.7x	2.1x	1.9x	1.9x	1.8x
Liquidity - Days Liquidity (Target 150-250 days)	319	308	359	309	290	264	258	250
Debt to Asset Ratio ¹ (Target 50%)	71%	65%	60%	52%	46%	44%	43%	41%
Total Debt ¹ (in billions)	\$2.43	\$2.20	\$1.96	\$1.68	\$1.50	\$1.40	\$1.37	\$1.32
Beginning Capital Balance	\$201	\$190	\$82	\$138	\$112	\$107	\$62	\$57
Pay Go Current Year Internal Funding	\$148	\$219	\$282	\$268	\$207	\$180	\$186	\$179
Debt Issuance Proceeds / <Early Debt Retirement>	\$0	(\$70)	(\$19)	\$100	\$0	(\$41)	\$0	\$0
<Annual CAPEX>	(\$171)	(\$286)	(\$194)	(\$197)	(\$214)	(\$185)	(\$192)	(\$194)
Other (Capital A/P accruals, sale of property, FEMA reimbursements)	\$12	\$28	(\$14)	\$3	\$1	\$1	\$1	\$1
Ending Capital Balance	\$190	\$82	\$138	\$112	\$107	\$62	\$57	\$42

¹ \$202M additional are funds available and planned to be utilized to retire SJRPP and Plant Scherer debt in FY21/FY22



Water/Wastewater System

FY2021 – FY2025 Financial Assumptions and Plan

	Actual				Projected			
	2018	2019	2020	2021	2022	2023	2024	2025
(\$ in millions)								
Unit Sales – Water (mgals)	36,187	37,696	38,272	38,500	39,078	39,664	40,259	40,862
Unit Sales – Sewer (mgals)	26,341	27,727	28,160	28,500	28,928	29,361	29,802	30,249
System Rate Revenue % Change	0%	0%	0%	0%	0%	0%	0%	2%
System Sales Revenues	\$398	\$418	\$428	\$426	\$443	\$452	\$461	\$480
Environmental Charge Revenue	\$24	\$25	\$26	\$26	\$26	\$27	\$27	\$28
Plant and Line Extension Growth Capacity Charges	\$28	\$29	\$33	\$29	\$30	\$30	\$30	\$30
Other Income ¹	\$43	\$153	\$51	\$18	\$15	\$15	\$15	\$16
Additional Revenue Requirements/Expense Reduction \$	\$0	\$10						
Total Revenues	\$493	\$625	\$538	\$499	\$515	\$524	\$534	\$553
O&M (Includes DSM, Environmental)	\$147	\$158	\$171	\$178	\$186	\$193	\$201	\$206
Transfer to/<from> Debt Management Rate Stabilization	\$0	\$0	(\$14)	\$0	\$0	\$0	\$0	\$0
Transfer to/<from> Environmental and DSM Rate Stabilization	\$8	\$3	\$8	(\$5)	(\$14)	(\$6)	(\$7)	(\$18)
Net Revenues	\$338	\$465	\$374	\$325	\$342	\$337	\$340	\$365
Total Debt Service	\$118	\$116	\$74	\$64	\$72	\$124	\$131	\$135
R&R and Other Capital Outlay (OCO) [5-yr avg. depreciation \$178M]	\$188	\$198	\$207	\$212	\$204	\$158	\$153	\$162
Environmental OCO	\$6	\$11	\$7	\$20	\$29	\$22	\$23	\$35
City Contribution	\$25	\$25	\$25	\$26	\$28	\$29	\$29	\$30
Early Debt Retirement	\$0	\$99	\$48	\$0	\$0	\$0	\$0	\$0
Interlocal Agreements	\$0	\$16	\$3	\$1	\$9	\$5	\$3	\$3
Other Expenses	\$0	\$1	\$1	\$2	\$2	\$1	\$1	\$1
Balance	\$0	\$0	\$9	\$0	\$0	\$0	\$0	\$0
Financial Metrics								
Total Debt Service Coverage (Target 1.8x - 2.0x)	2.8x	3.0x	5.0x	5.4x	4.9x	2.7x	2.6x	2.7x
Fixed Charge Coverage (Target > 1.55x)	2.6x	2.7x	4.6x	5.0x	4.4x	2.5x	2.4x	2.5x
Liquidity - Days Liquidity (Target > 100 days)	527	334	327	300	331	312	341	268
Debt to Asset Ratio (Target 50%)	49%	45%	41%	41%	43%	44%	44%	42%
Total Debt (in billions)	\$1.53	\$1.39	\$1.26	\$1.29	\$1.43	\$1.57	\$1.58	\$1.52
Beginning Capital Fund Balance	\$156	\$154	\$64	\$62	\$50	\$66	\$57	\$82
Pay Go Current Year Internal Funding	\$202	\$211	\$221	\$229	\$242	\$173	\$169	\$179
Debt Issuance Proceeds / <Early Debt Retirement>	\$0	(\$99)	(\$34)	\$50	\$150	\$150	\$75	\$0
<Annual CAPEX>	(\$199)	(\$213)	(\$189)	(\$298)	(\$382)	(\$344)	(\$225)	(\$225)
Other	(\$4)	\$11	(\$1)	\$7	\$7	\$12	\$5	\$3
Ending Capital Fund Balance	\$154	\$64	\$62	\$50	\$66	\$57	\$82	\$38

¹Other Income on budget basis on this schedule includes prior year balances, stabilization funds utilized for early debt retirement



Summary

FY2021 – FY2025 Financial Assumptions and Plan

Assumptions

- | | |
|---|--|
| 1. Unit Sales Growth | Stable electric sales, 1.5% water sales growth |
| 2. Residential Rates | Additional revenue required FY23-25 |
| 3. Capital Expenditures and Internal Funding | \$2.5B five year capital program |
| 4. Total Debt and Variable Debt | \$425M new debt to support capital program |
| 5. O&M, Debt Service, and City Contribution | Stable with Slight Variance |
| 6. Financial Metrics – Coverage, Liquidity and Debt | Stable metrics through FY2025 |

Results

- | | |
|---|--|
| 1. Unit Sales Growth | Stable electric sales, 1.5% water sales growth |
| 2. Residential Rates | Additional revenue required FY23-25 |
| 3. Capital Expenditures and Internal Funding | \$2.5B five year capital program |
| 4. Total Debt and Variable Debt | \$425M new debt to support capital program |
| 5. O&M, Debt Service, and City Contribution | Stable with Slight Variance |
| 6. Financial Metrics – Coverage, Liquidity and Debt | Stable metrics through FY2025 |

- JEA's Five-Year Financial Plan is centered on stable electric unit sales and growth in the water/wastewater system, lower fuel costs associated with commodity markets and efficient generation, additional net revenue requirements in FY2023 – FY2025, new debt to support a robust capital program, stable with slight variances in O&M, Debt Service and City Contribution expenditures, and stable financial metrics to support JEA's current Credit Ratings
- The Five-Year Financial Plan upholds the objectives to maintain long-term Competitive Rates, Operational Excellence, and Environmental Stewardship, while improving the overall Customer Experience