

34th ANNUAL PURC CONFERENCE

**A Century of Utility Regulation
Looking Forward to the Next Hundred Years**

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Meeting Florida's Electric Investment Needs

The ability to efficiently finance Florida's future electric needs relies on our collective ability to enhance Florida's competitive position in the capital markets, insuring the ability to attract sufficient capital at attractive rates.

The risks in the electric utility business have grown dramatically during the last seven to ten years, arguable reaching, at times, an almost infinite level; significant among these risks are market, financial, business and operational risks.

“Cost of Capital” is the market assessment of aggregate enterprise risk, determined by analyzing the variability and uncertainty of cash flow netted by risk mitigation and/or risk management activities. A common, yet simple, proxy for this is a credit rating. To help think about this in practical terms and specifically link the concept of cost of capital to our discussion today, ask yourself: What is the optimum credit rating for my utility?

Discussion ---- JEA's analysis of this issue

Think of this as a framework for further discussion regarding enhancing Florida's competitive position in the context of attracting low cost capital to finance future electric infrastructure needs.

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JEA's Framework for Assessing Enterprise Risk in the Context of Cost of Capital

- Sound Financial Policies
 - Cost of capital
 - Coverage and liquidity
 - Strength and flexibility
 - Competitive rates
- Risk Management
 - Market price and supply
 - Operational
 - Disaster recovery
 - Technology
 - Construction risk
- Debt and Asset Management Program
- Environmental Stewardship
 - Risk management
 - Science based
 - Environmental needs vs. economic realities
 - Sustainability
- Management and Workforce
- Regulatory Harmony
- Scope and scale to be efficient/competitive
- Superior operations and customer service

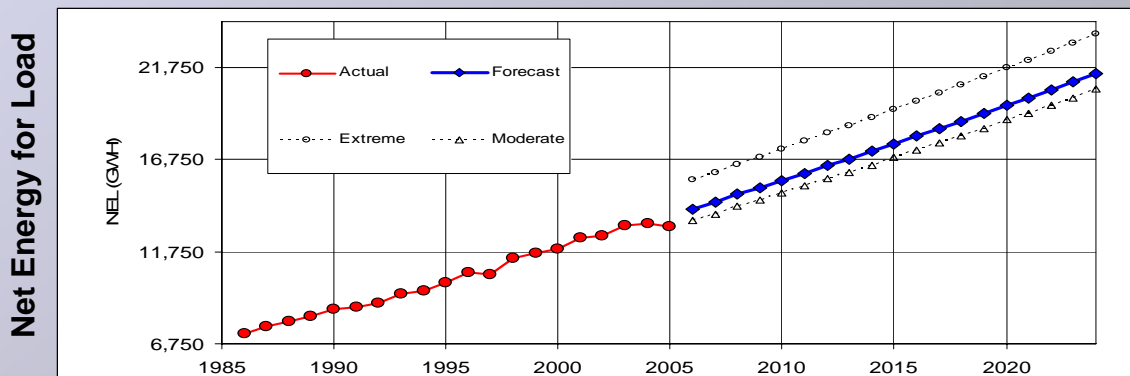
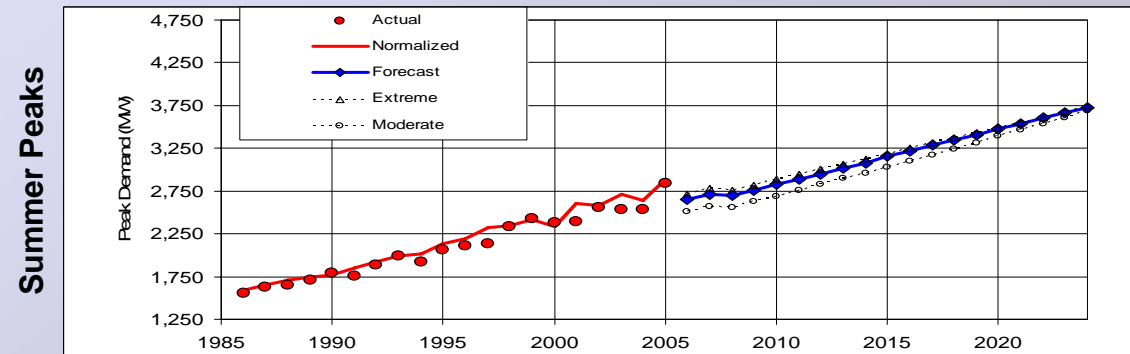
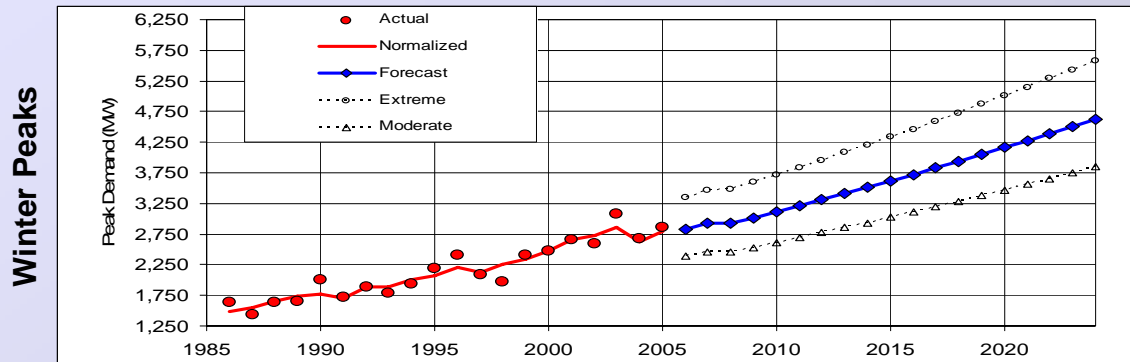
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JEA Sources of Funds

- Cost recovery policy
- Internally generated cash available for capital investment
 - Renewal and replacement
 - Operating capital
 - Investment income
 - Other revenues and reserves
- Financing Alternatives and Other Activities
 - Bond funds – fixed, variable, CREBs
 - Asset lease and service agreement
 - Improving working capital, inventory, receivables, payables
 - Asset substitution
 - Reduced long-term visibility
 - High capital, low fuel vs. low capital, high fuel

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Peak and Load Forecast Accuracy



Forecast accuracy and effective growth management reduces risk, thus positively impacting cost of capital

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Market Price and Supply Risk Management as well as Fuel Diversification

	Capacity	Energy	Transportation
Coal	30%	53%	Marine and rail
Petroleum Coke	16%	26%	Marine
Natural Gas/Fuel Oil – Steam	15%	3%	FTG, LNG, Marine
Combined Cycle	15%	10%	FTG, LNG
Other Alternatives Solar, Landfill, Biomass, Wind	1%	6%	TEA market interface

Multiple fuel sources, fuel switching capability and dual transportation options produce lower costs and mitigate significant risk for rate payers, as well as investors

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Existing System Analysis

Strategy Executions and Operational Excellence

- Generating fleet efficiency and reliability
- Purchase power capabilities
- Demand-side management
- Power sales agreements
- Transmission and interconnections
- Reserve capacity and unit retirements
- Emissions – past, current and future performance
- Disaster recovery planning
- Distribution system metrics
- Customer satisfaction

Have past strategies been effectively and efficiently executed and have they produced the desired results....based upon past performance, will investors trust your organization, or will they require an “execution risk” premium

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JEA's Supply Side Options

Technologies that are proven, commercially available and widely used in the power industry will carry smaller risk premiums

Current – simple cycle combustion turbines, combined cycle configurations (future IGCC), CFB and pulverized coal

Future – Possibly nuclear

Alternatives – generally bearing incentives or attracting tax driven or “green” investors to absorb or reduce risk premiums

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Environmental Regulation

NO₂

SO₂

Hg

Ozone

PM_{2.5}

Big Money

CO₂

No solution, yet

How we address these issues now and in the future will have a significant impact upon individual and collective cost of capital hurdle rates

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Ten Year Site Plan

JEA Plan

- 2009 – Build 1-177 MW CT
- 2010 – Build/Buy 1-177 MW CT
- 2011 – Build/Buy 1-177 MW CT
- 2012 – Build/Buy 1 234 MW PC

Ten Years Ago

Stable, predictable cash flows

- Asset construction costs
- Fuel
- O&M - stable workforce

Today

Volatile, variable cash flows

- Dramatic increase in construction costs
- Volatile fuel markets, supply and price
- O&M - aging workforce
- Capital cost is the question

Tomorrow

- Dynamic plans, quickly adjusting to current and future trends, while maintaining flexibility to address emerging and future unknowns
- Capital availability maybe the question

JEA Financial Planning Implications

- Past twenty years focused on diversifying fuel sources, primarily moving towards solid fuel generation, with resulting high capital investment
- Future Generation Planning, given the current and projected volatile cost environment, will be required to remain more flexible to insure continued access to low cost capital
 - Possible substitution of gas generation for solid fuel
 - Aggressive Demand Side Management - Negawatts
 - Partnerships for scale and spread of risk
 - Advocate collaboration on a variety of state and regional issues
 - Environmental
 - Regulatory
 - Workforce