

The Nature of Our Business



JEA Annual Report 2006

F I N A N C I A L A N D O P E R A T I N G H I G H L I G H T S

	Years Ended September 30					% Change
	2006	2005	2004	2003	2002	2006 - 2005
ELECTRIC FINANCIAL HIGHLIGHTS						
Operating revenues (thousands)	\$1,208,531	\$1,013,433	\$891,471	\$872,312	\$829,433	19.25%
Fuel and purchased power expenses (thousands)	\$599,426	\$494,721	\$409,690	\$371,074	\$345,843	21.16%
Total operating expenses (thousands)	\$1,061,820	\$926,207	\$813,103	\$783,238	\$724,324	14.64%
Debt service coverage:						
Senior and subordinated—Electric	2.28x	2.13x	2.03x	2.33x	2.59x	7.04%
Senior—Electric	4.57x	5.06x	4.53x	5.23x	4.26x	-9.68%
St. Johns River Power Park	1.27x	1.25x	1.25x	1.25x	1.25x	1.60%
WATER & SEWER FINANCIAL HIGHLIGHTS						
Operating revenues (thousands)	\$228,453	\$192,240	\$182,827	\$168,514	\$160,305	18.84%
Operating expenses (thousands)	\$183,587	\$169,884	\$165,181	\$144,099	\$125,006	8.07%
Debt service coverage:						
Senior and subordinated	2.00x	1.66x	1.80x	1.87x	2.04x	-7.78%
Senior	2.42x	2.03x	2.06x	2.02x	2.04x	-1.46%
ELECTRIC OPERATING HIGHLIGHTS						
Sales (megawatt hours)	16,684,077	16,238,003	15,952,629	16,116,982	15,211,918	2.75%
Peak demand—megawatts 60 minute net	2,919	2,860	2,644	3,055	2,607	2.06%
Total accounts—average number	402,142	391,831	383,355	377,377	370,226	2.63%
Sales per residential account (kilowatt hours)	15,819	15,875	15,798	16,191	14,855	-0.35%
Average residential revenue per kilowatt hour	\$8.64	\$7.47	\$6.87	\$6.84	\$6.90	15.66%
Power supply (%):						
Coal	41	46	42	44	41	-10.87%
Petroleum coke	30	27	24	24	17	11.11%
Coal fired purchases	10	10	12	12	13	0.00%
Oil	2	6	9	7	8	-66.67%
Natural gas	11	6	5	7	13	83.33%
Other purchases	6	5	8	6	8	20.00%
WATER & SEWER OPERATING HIGHLIGHTS						
WATER						
Total sales (ccf)	55,731,505	49,711,035	50,256,094	45,113,159	43,440,002	12.11%
Total accounts—average number	293,705	279,622	266,607	249,157	228,635	5.04%
Average sales per residential account (ccf)	111.73	103.93	110.25	102.24	107.31	7.51%
Average residential revenue per ccf	\$1.97	\$1.88	\$1.69	\$1.74	\$1.72	4.94%
SEWER						
Total sales (ccf)	35,762,288	33,345,881	33,038,435	30,381,000	27,911,688	7.25%
Total accounts—average number	219,810	208,143	198,322	185,221	170,127	5.61%
Average sales per residential account (ccf)	103.93	96.07	102.80	90.52	88.62	8.18%
Average residential revenue per ccf	\$3.44	\$3.28	\$3.15	\$3.38	\$3.56	4.88%

Note: 1 ccf = 100 cubic feet

The Nature of Our Business

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Environmental stewardship is part of the JEA mission as we seek to exceed the requirements of targeted environmental laws and regulations.

C H A I R M A N A N D C E O ' S L E T T E R

Over the past year, JEA has remained steadfastly focused on the strategic initiatives which are the foundation of our plan for continued growth and success: operational excellence, reliability, community growth, environmental stewardship and strategic partnerships.

By concentrating on these initiatives, we have made significant strides in moving toward our goals and our mission to be the best electric, water and sewer utility provider in the nation.

During fiscal year 2006, JEA improved debt service coverage, maintained strong credit ratings and continued our favorable comparison with other public utility providers in the state. We also approved a new pricing philosophy; realized a small fuel fund surplus, which will be refunded to our customers in the form of lower electric rates in fiscal year 2007; and successfully expanded our fuel hedging program, helping to reduce the effects of fuel price volatility on our day-to-day business.

Such strides would not be possible without the experience and dedication our team of leaders and employees brings to work each day. JEA's strength emanates from the people who keep the lights on and the water and sewer

running throughout our service area. And while our community and customer base continues to grow, JEA has held our workforce allocations in check for the seventh straight year supporting a 42 percent increase in productivity. At the same time, we have placed a high priority on employee safety and as a result have created a culture of safety among our workforce that has produced a record-low recordable incident rate that is four times better than the industry average and which represents an 80 percent reduction since 1997.

But our people are not only employees of the eighth largest public utility in the nation, they are proud stewards of the community in which we all live. Our JEA family shares a common love for this community and its precious natural resources. That is why JEA established environmental stewardship as one of our primary organizational goals and why we have undertaken specific initiatives that exceed the requirements of targeted environmental laws and regulations. In 2006, JEA became a partner with other local and state agencies in the River Accord to protect the St. Johns River. We are keenly aware of our impact on the river and will spend an additional \$200 million over the next 10 years to continue the improvements already made at our wastewater treatment facilities.

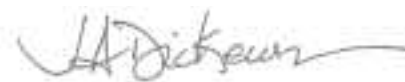


JEA is proud of the commitment and capability of the employees who work daily to improve our processes for the benefit of our customers, our community and the river; ensuring the quality of life our community has come to expect and deserves. We are proud of our record of dependability and our never-ending quest to be the best in the business in order to provide our customers the best service and greatest value for their money.

Though there are always challenges ahead, JEA is poised to meet these opportunities to ensure that we continue to meet the needs of our customers. That is the nature of our business. That is JEA.



ERNIE ISAAC JR.
CHAIRMAN



JIM DICKENSON
CEO AND MANAGING DIRECTOR

J E A B O A R D O F D I R E C T O R S



Jay Fant, Vice Chairman

Cathy B. Whatley



Dr. Leroy Polite

William P. Foley, II



J.D. Collins

Cynthia B. Austin

A close-up photograph of a pond with green lily pads and purple flowers. The lily pads are large, round, and have a prominent vein pattern. Some are bright green, while others are a darker, more muted green. Several purple flowers are in various stages of bloom, with some showing white centers. The water is dark and still, reflecting the light. The overall scene is a natural, serene depiction of a pond ecosystem.

JEA IS COMMITTED TO
IMPROVING THE QUALITY OF THE
LOWER ST. JOHNS RIVER AND TO...

A close-up photograph of a pond filled with large, green lily pads. Several purple water lilies are in various stages of bloom, with some showing vibrant purple petals and others as buds. The water is dark and reflects the surrounding foliage.

...PRESERVING THE FLORIDAN AQUIFER
AS A FRESH WATER RESOURCE FOR
GENERATIONS TO COME.



Everyone at JEA has a vested interest in protecting and preserving the environment.

The Nature of Electricity

JEA delivers electricity to nearly 400,000 customers within a 1,000-square mile service area, which includes Jacksonville, and portions of Clay, St. Johns and Nassau counties. Providing dependable service to these customers at a good value is essential to JEA's success.

In spring 2006, JEA made upgrades to the Northside Generating Station, which improved plant efficiency. During the planned eight-week outage, new high-efficiency components were added to Unit 1, increasing the total unit output from 297 to 308 megawatts, a 3 percent improvement, without the need for increased heat input. As a result, Northside Unit 1 is now capable of producing more power without the cost of additional fuel and without the subsequent emissions that would occur as a result of increased fuel usage.

At the St. Johns River Power Park (SJRPP), a 9 percent increase in the use of a more cost-effective fuel source led to savings of approximately \$7 million. An additional \$6 million in savings was realized due to modifications to the plant's pulverizer. And an all-time record volume 320-thousand tons of synthetic gypsum by-product was sold creating \$3.1 million in revenue and avoiding the need to landfill this by-product.

Environmental stewardship is an underpinning of JEA's business. At SJRPP, sulphur dioxide emissions were reduced by 10 percent and nitrogen oxide has been reduced by 12.5 percent over the past two years.

Innovation is often the result of methodical consideration. JEA employees instituted new processes in 2006 for identifying, inspecting and repairing electric circuits that fall below JEA dependability standards.

By tracking repeated faults then making pole-by-pole inspections based upon this data, fused laterals are more effectively located, identified and resolved. Additionally, a system-wide upgrade will automatically restore power to customers after momentary faults resulting in better reliability. As a result, JEA reduced electric outages by 5 percent over the previous year and reduced the average length of an outage by 38 percent.

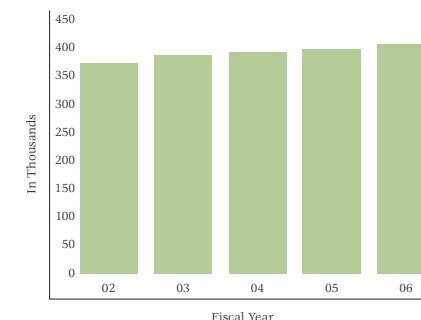
Meanwhile, JEA continues looking toward the energy needs of the next generation. It is the responsibility of a public utility provider to ensure the demands of future growth will be met with an adequate, cost-effective and environmentally sound supply of electricity. This year, JEA moved forward, through its strategic partnership with other Florida public utility providers, in the approval process for the Taylor Energy Center to be located near Perry, Florida.

The Nature of Water

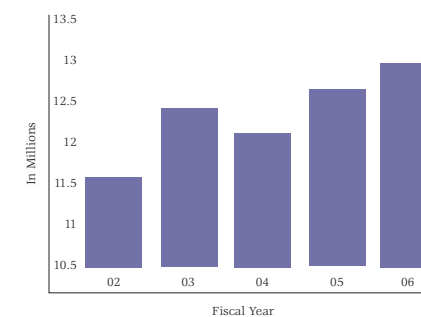
JEA delivers water and sewer services to more than 80 percent of our service area. JEA's water system operates approximately 150 artesian wells that draw water from the Floridan aquifer, an underground source of clean drinking water, and then delivers it to more than 300,000 customers through nearly 3,500 miles of water lines. The sewer system serves more than 225,000 customers using more than 3,200 miles of sewer collection lines and six regional sewer treatment plants to meet this demand.

Consistent with JEA's commitment to environmental stewardship, the Ridenour Water Treatment Plant sought and successfully attained certification from the International

AVERAGE NUMBER OF ELECTRIC RETAIL ACCOUNTS



RETAIL MEGAWATT HOUR SALES

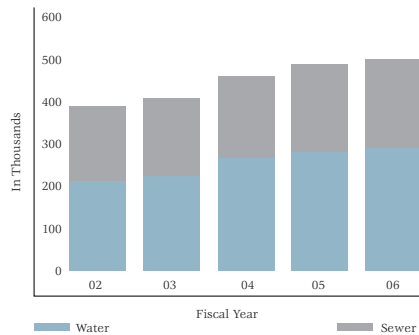


Organization for Standardization — ISO 14001:2004 — for its Environmental Management System. The Ridenour Plant is the first water treatment facility in Florida to receive this designation. ISO certification is an internationally recognized designation given to organizations that set a very high standard to control and minimize environmental impacts.

In 2006, JEA began a system-wide rehabilitation of less-efficient water production wells. Rehabilitation improves water quality and reduces the opportunity for salt water intrusion into JEA wells. Rehabilitating existing wells also reduces the need to drill as many new wells at considerably greater expense and avoids the need for development of new well fields, allowing JEA to continue utilizing existing infrastructure rather than creating the need for new infrastructure and the costs associated with such construction. Further, rehabilitation is a sound environmental practice that works to minimize aquifer drawdown and supports protection of the aquifer itself from salt water intrusion.

To meet the accelerating growth of our community, JEA put the new Nassau Wastewater Treatment Plant into service in 2006. This plant utilizes the latest technology and filters the treated wastewater effectively to produce effluent that meets the stricter limits for reuse. Based on testing of the plant effluent, discharge from this new facility has shown it exceeds standards and will be available for reuse in the designated reclaimed water service area. Use of reclaimed water on lawns and golf courses, including the effluent from the Nassau Wastewater Treatment Plant, means lower withdrawals and potential for adverse impact on the Floridan aquifer. Additionally, plants using this new technology require smaller facilities than older technology demands.

AVERAGE NUMBER OF WATER & SEWER ACCOUNTS



JEA's portfolio also includes District Energy Systems, our centralized chilled water service, which replaces central air conditioning in individual buildings. In FY 2006, JEA became a leader in efficiency at the Springfield Plant by consistently producing chilled water at less than .85 kilowatts per ton delivered to the customer; that's 15–20 percent better than the industry and 20–60 percent better than non-district systems. Increasing efficiency helps JEA meet our commitment to reduce emissions to the environment. Additionally, District Energy Systems nearly doubled contracted load from 5,545 tons to 10,800 tons and implemented full, world-class automation for all plants, including tracking and performance response. This advance means JEA's chilled water plants can be remotely monitored and controlled, thereby reducing response time dramatically.

The Nature of Stewardship

Because we all live in this community and enjoy all that it has to offer, JEA has a vested interest in protecting and preserving it. This is reflected in the mission of JEA's environmental stewardship program: to demonstrate environmental leadership by promoting conservation and pollution prevention programs and by undertaking specific initiatives that exceed the requirements of targeted environmental laws and regulations.

JEA adopts and promotes conservation and pollution prevention practices that benefit the community, the environment and our organization. This has been a year of great strides and advancements for JEA's environmental program.

This summer JEA joined the City of Jacksonville in an historical partnership, The River Accord, to improve water quality and monitor and reduce nitrogen discharge to the St. Johns River. Included in this partnership are the St. Johns River Water Management District, the city's Water and Sewer Expansion Authority, the City of Jacksonville and the Florida Department of Environmental Protection. JEA is dedicated to further improving the quality of the Lower St. Johns River Basin and has made a commitment to invest an additional \$200 million over the next 10 years to find and deploy the most cost- and process-effective methods of protecting this valuable resource. This will include phasing out seven wastewater treatment plants, upgrading remaining plants and increasing availability of reclaimed water for irrigation.

Another unprecedented partnership this year was the launch of Green Built Homes of Florida. JEA initiated and partnered with the Northeast Florida Builders Association (NEFBA) in this conservation effort, which focuses on residential conservation where it can be most fully incorporated into the home — during the blueprint and building phase. By working proactively with area builders and building collaboratively with area lenders, JEA and NEFBA are working together toward making the Green Built Homes of Florida the standard of home-building practices in Northeast Florida.

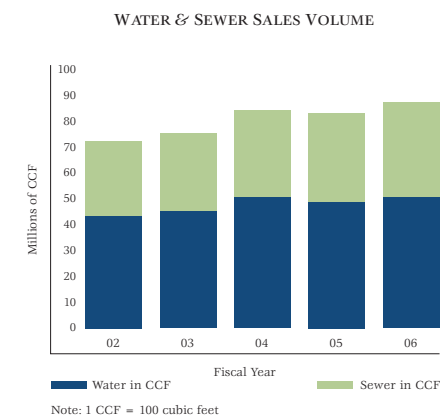
Working with residential and commercial customers through JEA's Fats, Oils and Grease Program, JEA is educating the community about the highly detrimental effects of improperly disposing of these waste products. Properly disposing of these by-products will reduce or eliminate buildup that can lead to sewage backups in homes, yards, streets and our waterways; increased plumbing costs to

resolve such issues and higher energy bills that result from the expense of costly cleanups.

Partnering with and educating our customers about environmental issues is important. Making sure that JEA follows the same philosophy is essential. JEA Fleet Services has a fleet of alternative fuel vehicles that can be fueled with biodiesel, ethanol, propane or electricity. JEA uses 250,000 gallons of B-20 diesel fuel each year in our fleet. This is a bio-diesel blend created out of organic oils and represents about 20 percent of our annual fuel consumption. Additionally, JEA has the only E-85 fuel pump in northeast Florida. Alternative fuels are safe, produced domestically and reduce air pollutants.

JEA is continuously improving the environmental performance of our facilities by pursuing certification with the Leadership in Energy and Environmental Design (LEED) Green Building Rating System. LEED certification establishes how well a commercial building meets criteria in the ratings systems of sustainable sites, water efficiency, energy and atmosphere, materials and resources, and indoor environmental quality. During 2006, JEA earned points toward our goal of achieving LEED Silver Level certification for the downtown Plaza Complex.

JEA's recycling program has grown substantially during 2006. In addition to saving money, the program also saves resources and landfill space. The program includes: recycling paper and cardboard; plastic and aluminum; light bulbs; batteries; toner cartridges; computer equipment; transformer oil; wood pools and reels; and phones. This year JEA recycled 106 tons of paper, cardboard, plastic, and aluminum, saving almost \$9,000 in disposal costs. JEA's aggressive recycling program allows us to not waste materials we can re-use,



which makes us more sustainable and preserves our natural resources in the process.

The Nature of Our Business

The unprecedented growth of JEA's service area affects our business on many levels. In just one year, JEA will serve an additional 12,500 new electric accounts, 14,000 water accounts and 12,500 new sewer accounts. Along with continued community growth, close to 25 percent of JEA employees will be eligible to retire in about five years. Nationwide, approximately 40 percent of today's utility industry workforce will be eligible to retire by 2012. In place for several years, JEA's workforce planning program focuses on the areas that are essential to the continued delivery of exceptional services. JEA's apprenticeship programs currently include four skilled craft apprentice programs. Planning and recruitment strategies are yielding a steady stream of interested and eligible applicants for positions that are forecast for higher retirement rates within the JEA workforce — line maintainers and maintenance mechanics-utility installer services.

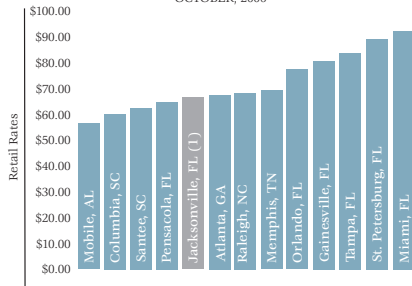
With more new employees, it is critically important to maintain our organizational focus on safety. JEA experienced an outstanding safety record in 2006. JEA's culture of safe work practices is reflected in the year-end results: a cumulative recordable incident rate (RIR) of 1.11, the lowest rate in JEA history. During the year, 25 incidents were recorded, compared to 43 and a RIR of 1.92 in FY05. JEA's safety record is four times better than the utility industry average and 80 percent lower than it was in 1997.

In 2006, JEA began implementing a comprehensive Enterprise Risk Management (ERM) program. JEA's Internal Audit and Enterprise Risk Management staff conducted workshops in all areas of the company that directly impact financial reporting. The workshops educated management about risks, controls and ERM methodology, and produced a documented inventory of risks, controls, and control gaps in each area, including risks and gaps that cross organizational lines. Mitigation plans were then developed to address the gaps and reduce JEA's overall risk level. The ERM program has substantially raised management's awareness of risks and controls, and has successfully begun to incorporate risk/control thinking into all corporate decision-making processes.

JEA continues to follow the pricing philosophy that was formally adopted at the beginning of this fiscal year. This includes establishing revenue assumptions to fully recover all costs and expenditures necessary to operate and maintain JEA's systems while assuring financial performance and flexibility to meet JEA's operational challenges. JEA's electric system experienced a 2.7 percent MWH sales growth, with water sales up 11 percent and sewer up seven percent. At the beginning of this fiscal year, JEA began implementation of a three-year plan to raise water and sewer revenue by 7 to 8 percent per year.

Whether implementing cutting edge technologies, going the distance to ensure sound environmental practices or forming strategic partnerships, JEA strives to approach every business decision with the same high standard of integrity and commitment to providing value to the communities we serve. Working every day to be the best in order to best serve JEA's customers; that is the nature of our business.

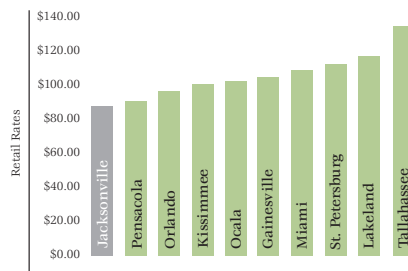
SOUTHEASTERN ELECTRIC RATE COMPARISON
For a typical General Service Large Demand Customer*
OCTOBER, 2006



(1) Five year contract rate

* Representative rate for a customer load of 1,200,000 kWh at 2,600 kWh

FLORIDA RESIDENTIAL RATE COMPARISON
OCTOBER, 2006



Representative rate for a customer load of 1,000 kWh.



JEA initiated an unprecedented partnership with area builders to launch Green Built Homes of Florida, a new standard for residential conservation and energy-efficiency.



STRIKING A BALANCE BETWEEN
PROVIDING RELIABLE ELECTRIC,
WATER AND SEWER SERVICES AND...

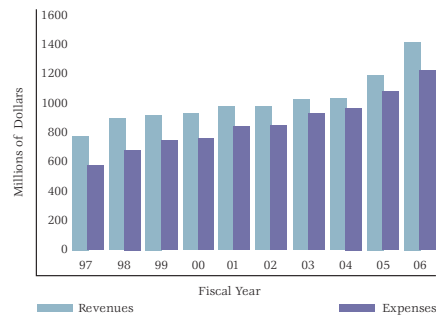


...ENSURING THAT OUR ENVIRONMENT
IS PROTECTED IS AT THE HEART OF
OUR BUSINESS HERE AT JEA.

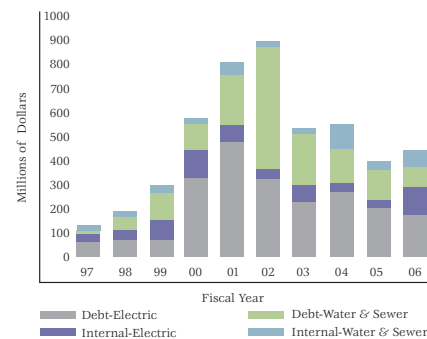
FINANCIAL SUMMARY

ELECTRIC, WATER, SEWER AND DISTRICT ENERGY

TOTAL OPERATING REVENUES & EXPENSES



SOURCES OF CAPITAL PROJECT FUNDING



Note: Water and Sewer included beginning June 1, 1997, the date of transfer to JEA from the City of Jacksonville, Florida

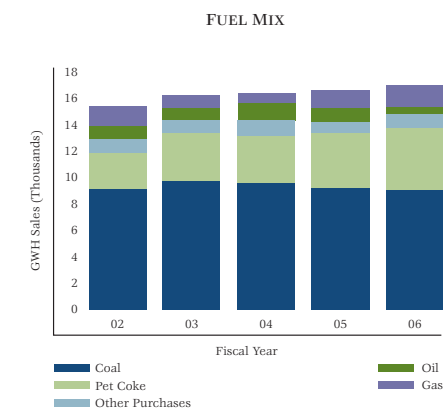
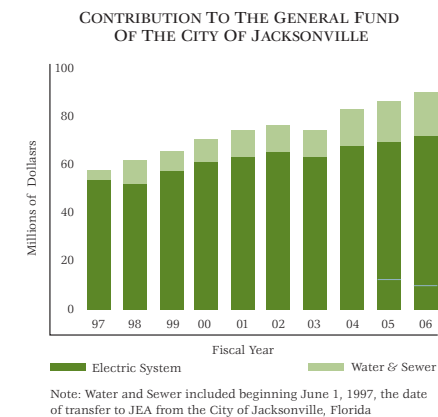
Combined Electric System, Bulk Power Supply System, St. Johns River Power Park System, Water and Sewer and District Energy System (1) (in thousands of dollars)

	2006-05	2005-04
Operating revenues:		
Electric	\$1,160,463	\$973,326
Water and Sewer	214,906	182,961
District Energy System	3,054	1,297
Other, net	49,454	42,388
Total operating revenues	1,427,877	1,199,972
Operating expenses:		
Fuel and purchased power	599,426	494,721
Operations and maintenance	272,383	251,099
Depreciation	297,614	278,531
State utility and franchise taxes	26,807	21,791
Recognition of deferred costs/revenues	40,428	44,141
Total operating expenses	1,236,658	1,090,283
Operating income	191,219	109,689
Nonoperating revenues (expenses):		
Earnings from The Energy Authority	21,910	17,382
Investment income	23,088	14,460
Interest on debt	(232,370)	(238,454)
Other interest	(1,600)	(1,246)
Allowance for funds used during construction	32,044	34,637
Water & Sewer Expansion Authority	(762)	(302)
Total nonoperating revenues (expenses)	(157,690)	(173,523)
Income (loss) before contributions	33,529	(63,834)
Contributions (to) from:		
General fund, City of Jacksonville	(88,688)	(85,938)
Capital Contributions:		
Developers and other	97,775	58,406
City of Jacksonville Better Jacksonville Plan	14,546	385
Water & Sewer Expansion Authority	-	(254)
Transfer of water and sewer assets from the City of Jacksonville	-	-
Total other revenues (expenses)	23,633	(27,401)
Change in net assets before extraordinary items and cumulative effect of an accounting change	57,162	(91,235)
Extraordinary item-gain (loss) debt extinguishments	-	-
Cumulative effect of change in accounting principle (2)	-	-
Change in net assets	57,162	(91,235)
Net assets—beginning of period	1,383,079	1,474,314
Net assets—end of period	\$1,440,241	\$1,383,079

(1) Water and Sewer included from date of transfer (6-1-97) to JEA from the City of Jacksonville, Florida.

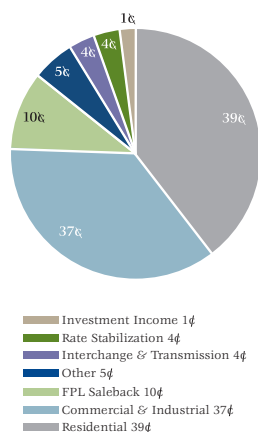
(2) Accounting change for recording revenue as earned for Water and Sewer acquisition on June 1, 1997.

2004-03	2003-02	2002-01	2001-00	2000-99	1999-98	1998-97	1997-96
\$840,210	\$830,519	\$793,685	\$800,445	\$766,482	\$754,478	\$754,799	\$711,252
173,579	161,053	151,515	132,758	131,112	127,448	115,700	38,013
-	-	-	-	-	-	-	-
54,803	44,147	38,485	43,828	30,378	29,543	24,857	37,612
1,068,592	1,035,719	983,685	977,031	927,972	911,469	895,356	786,877
409,690	371,074	345,843	404,487	368,171	299,400	302,956	290,731
248,269	249,945	237,046	206,858	210,550	208,830	209,310	163,215
251,493	252,778	188,725	157,715	137,657	126,553	101,378	86,918
18,941	19,323	18,120	17,654	16,671	16,561	16,488	15,497
44,184	29,110	52,417	35,758	28,960	93,085	59,491	25,550
972,577	922,230	842,151	822,472	762,009	744,429	689,623	581,911
96,015	113,489	141,534	154,559	165,963	167,040	205,733	204,966
15,924	14,593	9,156	10,008	11,323	19,243	10,732	(1,520)
13,832	19,466	38,841	52,467	39,322	32,020	55,776	59,158
(203,100)	(197,148)	(187,838)	(166,302)	(165,296)	(156,103)	(147,971)	(146,645)
(1,167)	(1,178)	(1,154)	(1,604)	(1,942)	(1,134)	(1,058)	(985)
32,010	42,577	63,211	62,709	29,097	14,443	12,143	3,320
-	-	-	-	-	-	-	-
(142,501)	(121,690)	(77,784)	(42,722)	(87,496)	(91,531)	(70,378)	(86,672)
(46,486)	(8,201)	63,750	111,837	78,467	75,509	135,355	118,294
(83,187)	(74,253)	(76,607)	(73,638)	(71,434)	(66,494)	(61,568)	(55,836)
56,578	47,381	29,991	19,433	13,262	13,797	18,391	2,619
9,118	7,548	7,922	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	580,144
(17,491)	(19,324)	(38,694)	(54,205)	(58,172)	(52,697)	(43,177)	526,927
(63,977)	(27,525)	25,056	57,632	20,295	22,812	92,178	645,221
-	-	-	-	(33)	(2,124)	(2,353)	200
-	-	-	-	-	-	-	6,211
(63,977)	(27,525)	25,056	57,632	20,262	20,688	89,825	651,632
1,538,291	1,565,816	1,540,760	1,483,128	1,462,866	1,442,178	1,352,353	700,721
\$1,474,314	\$1,538,291	\$1,565,816	\$1,540,760	\$1,483,128	\$1,462,866	\$1,442,178	\$1,352,353



OPERATING SUMMARY ELECTRIC

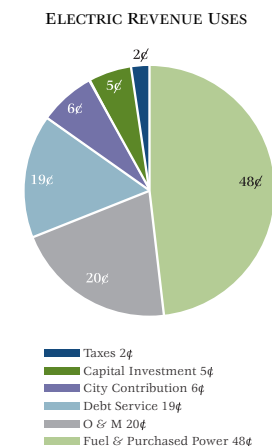
ELECTRIC REVENUE SOURCES



Electric System, Bulk Power System and St. Johns River Power Park		2006-05	2005-04
Electric revenues (000's omitted):	Residential	\$488,358	\$414,166
	Commercial and industrial	464,685	372,348
	Public street lighting	9,597	8,364
	Sales for resale	43,799	40,189
	Florida Power & Light saleback	117,816	122,256
	Total	\$1,124,255	\$957,323
Sales (megawatt hours):	Residential	5,650,986	5,542,498
	Commercial and industrial	7,157,602	6,948,730
	Public street lighting	110,178	107,757
	Sales for resale		
	Territorial	522,134	492,716
	Off-system	593,750	568,442
	Florida Power & Light saleback	2,649,427	2,577,860
	Total	16,684,077	16,238,003
Average number of accounts:	Residential	357,232	349,139
	Commercial and industrial	41,342	39,151
	Public street lighting	3,561	3,539
	Sales for resale (1)	7	2
	Total	402,142	391,831
System installed capacity – MW (2)		3,213	3,049
Peak demand—MW (60 minute net)		2,919	2,860
System load factor —%		55%	55%
Residential averages – annual:	Revenue per account—\$	1,367.06	1,186.25
	kWh per account	15,819	15,875
	Revenue per kWh—¢	8.64	7.47
All other retail—annual:	Revenue per account—\$	10,562.37	8,918.06
	kWh per account	161,855	165,296
	Revenue per kWh—¢	6.53	5.40
Heating-cooling degree days		4,053	4,035

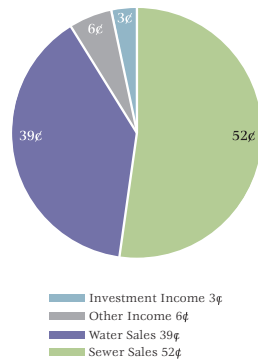
- (1) Includes Florida Power and Light, but does not include the average number of off-system non-firm sales customers.
- (2) Includes JEA's 50% share of the SJRPP's two coal-fired generating units (638 net megawatts each) and JEA's 23.64% share of Scherer's 846 net megawatt coal-fired generating Unit 4. System installed capacity is reported based on winter capacity.

2004-03	2003-02	2002-01	2001-00	2000-99	1999-98	1998-97	1997-96
\$370,323	\$372,247	\$337,656	\$336,495	\$318,854	\$311,071	\$319,499	\$287,516
319,659	321,196	314,275	308,727	300,982	292,756	285,834	278,588
7,919	7,880	7,650	7,688	7,037	6,227	5,721	6,017
38,358	30,061	25,731	32,235	27,145	34,038	30,279	25,059
112,938	105,483	115,345	118,136	116,724	112,330	115,382	116,628
\$849,197	\$836,867	\$800,657	\$803,281	\$770,742	\$756,422	\$756,715	\$713,808
5,389,616	5,438,697	4,896,009	4,895,532	4,621,869	4,513,203	4,631,187	4,155,366
6,696,646	6,840,708	6,558,145	6,416,130	6,258,555	6,113,617	5,779,540	5,423,328
111,483	114,840	111,053	114,427	109,345	83,944	74,832	70,540
468,324	435,934	433,343	472,855	470,255	459,129	419,121	374,566
630,007	374,728	229,554	316,875	176,094	532,274	398,461	193,236
2,656,556	2,912,075	2,983,814	3,006,655	2,939,923	2,818,502	2,996,855	3,010,508
15,952,632	16,116,982	15,211,918	15,222,474	14,576,041	14,520,669	14,299,996	13,227,544
341,162	335,915	329,589	323,537	316,002	310,358	306,601	299,260
38,610	37,917	37,236	36,335	35,580	34,895	34,246	33,571
3,581	3,543	3,399	3,179	3,989	2,816	2,710	2,629
2	2	2	2	2	3	3	3
383,355	377,377	370,226	363,053	355,573	348,072	343,560	335,463
3,095	3,095	2,545	2,825	2,481	2,342	2,342	2,337
2,644	3,055	2,607	2,666	2,478	2,427	2,338	2,084
57%	49%	56%	53%	55%	55%	56%	57%
1,085.48	1,108.16	1,024.48	1,040.05	1,009.03	1,002.30	1,042.07	960.76
15,798	16,191	14,855	15,131	14,626	14,542	15,105	13,885
6.87	6.84	6.90	6.87	6.90	6.89	6.90	6.92
7,764.17	7,937.19	7,922.36	8,007.67	7,784.35	7,928.27	7,889.25	7,862.02
161,364	167,765	164,124	165,272	160,932	164,344	158,415	151,764
4.81	4.73	4.83	4.85	4.84	4.82	4.98	5.18
4,217	4,167	3,888	4,035	3,783	3,722	4,175	3,670



OPERATING SUMMARY WATER AND SEWER

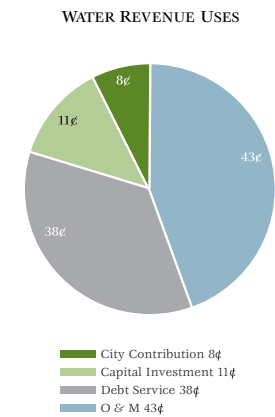
WATER REVENUE SOURCES



Water and Sewer System		2006-05	2005-04
Water revenues (000's omitted):	Residential	\$52,299	\$44,337
	Commercial and Industrial	22,404	17,546
	Irrigation	18,105	13,782
	Reuse Water	196	33
	Total	\$93,004	\$75,698
Water Sales (ccf*):	Residential	26,590,973	23,618,038
	Commercial and Industrial	17,092,460	16,859,024
	Irrigation	11,444,640	9,112,755
	Reuse Water	603,432	121,218
	Total	55,731,505	49,711,035
Average Number of Accounts:	Residential	237,990	227,253
	Commercial and Industrial	22,577	21,775
	Irrigation	33,122	30,581
	Reuse Water	16	13
	Total	293,705	279,622
Residential averages — annual:	Revenue per account—\$	219.75	195.10
	ccf per account	111.73	103.93
	Revenue per ccf—\$	1.97	1.88
Rainfall (inches)		47.89	56.22
Sewer revenues (000's omitted):	Residential	\$72,433	\$60,502
	Commercial and Industrial	50,183	47,629
	Total	\$122,616	\$108,131
Volume (ccf*):	Residential	21,086,520	18,428,267
	Commercial and Industrial	14,675,768	14,917,614
	Total	35,762,288	33,345,881
Average Number of Accounts:	Residential	202,892	191,812
	Commercial and Industrial	16,918	16,331
	Total	219,810	208,143
Residential averages — annual:	Revenue per account - \$	357.00	315.42
	ccf per account	103.93	96.07
	Revenue per ccf - \$	3.44	3.28

*Note: 1ccf represents 100 cubic feet

2004-03	2003-02	2002-01	2001-00	2000-99	1999-98	1998-97	1997-96
\$40,661	\$36,552	\$34,891	\$29,227	\$29,692	\$28,689	\$26,606	\$25,672
17,182	16,545	15,504	14,754	14,777	14,735	14,048	14,058
12,088	10,326	10,188	8,951	7,620	7,219	5,628	4,908
49	37	28	29	26	-	-	-
\$69,980	\$63,460	\$60,611	\$52,961	\$52,115	\$50,643	\$46,282	\$44,638
24,025,764	20,940,645	20,233,970	16,881,882	17,490,728	17,162,504	15,372,926	14,397,380
16,474,020	16,017,280	14,874,166	14,404,939	14,809,222	15,163,005	14,680,402	14,231,485
9,446,243	7,989,273	8,219,798	6,719,297	6,843,984	6,032,750	4,416,586	3,678,337
310,067	165,961	112,068	123,613	95,235	-	-	-
50,256,094	45,113,159	43,440,002	38,129,731	39,239,169	38,358,259	34,469,914	32,307,202
217,927	204,826	188,559	164,669	159,893	154,020	147,814	143,441
21,322	20,618	19,597	18,023	17,529	16,999	16,496	16,508
27,346	23,702	20,468	17,572	14,817	12,797	11,456	10,632
12	11	11	12	11	-	-	-
266,607	249,157	228,635	200,276	192,250	183,816	175,766	170,581
186.58	178.45	185.04	177.49	185.70	186.27	180.00	178.97
110.25	102.24	107.31	102.52	109.39	111.43	104.00	100.37
1.69	1.74	1.72	1.73	1.70	1.67	1.73	1.78
67.56	50.24	49.50	46.90	41.59	43.23	67.87	56.33
\$59,058	\$51,963	\$49,128	\$41,363	\$41,771	\$40,259	\$36,599	\$34,661
46,153	46,345	43,130	39,095	38,213	36,928	33,942	33,544
\$105,211	\$98,308	\$92,258	\$80,458	\$79,984	\$77,187	\$70,541	\$68,205
18,753,476	15,380,541	13,815,914	11,660,445	11,825,883	11,481,884	10,325,943	9,826,038
14,284,959	15,000,459	14,095,774	12,979,274	12,596,060	12,407,438	11,665,103	11,334,414
33,038,435	30,381,000	27,911,688	24,639,719	24,421,943	23,889,322	21,991,046	21,160,452
182,418	169,921	155,905	135,660	131,281	125,658	119,823	115,450
15,904	15,300	14,222	12,678	12,323	11,929	11,531	11,478
198,322	185,221	170,127	148,338	143,604	137,587	131,354	126,928
323.75	305.81	315.11	304.90	318.18	320.39	305.44	300.23
102.80	90.52	88.62	85.95	90.08	91.37	86.18	85.11
3.15	3.38	3.56	3.55	3.53	3.51	3.54	3.53



FINANCIAL STATEMENTS, SUPPLEMENTARY
INFORMATION, AND BOND COMPLIANCE INFORMATION

JEA
Years Ended September 30, 2006 and 2005

JEA

Financial Statements, Supplementary Information,
And Bond Compliance Information

Years Ended September 30, 2006 and 2005

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Report of Independent Certified Public Accountants

The Governing Board of JEA
Jacksonville, Florida

We have audited the accompanying balance sheets of JEA, a component unit of the City of Jacksonville, Florida, as of September 30, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of JEA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of JEA's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of JEA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JEA as of September 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2006 on our consideration of JEA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary combining financial statements as of and for the years ended September 30, 2006 and 2005 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

November 17, 2006

Management's Discussion and Analysis

JEA is a municipal utility operating in Jacksonville, Florida (Duval County), and parts of three adjacent counties. The operation is composed of three enterprise funds - the Electric Enterprise Fund, the Water and Sewer Enterprise Fund and the District Energy System (Chilled Water System). The Electric Enterprise Fund is composed of the JEA Electric System, Bulk Power Supply System (Scherer), and St. Johns River Power Park System (SJRPP). The Electric System, Water and Sewer System and District Energy System are presented on a combined basis in the Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows.

This section of JEA's annual financial report presents management's discussion and analysis of JEA's financial performance for the years ended September 30, 2006 and 2005. Please read it in conjunction with the audited Financial Statements and Notes to the Financial Statements, which follows this section.

The following tables summarize the financial condition and operations of JEA for the 2006, 2005, and 2004 fiscal years:

Condensed Balance Sheets

	2006	2005	2004
	<i>(In Millions)</i>		
Assets			
Current assets	\$ 470	\$ 373	\$ 344
Other noncurrent assets	965	1,065	1,088
Capital assets, net	5,984	5,818	5,645
	\$ 7,419	\$ 7,256	\$ 7,077
Liabilities and Net Assets			
Current liabilities	\$ 166	\$ 114	\$ 95
Liabilities payable from restricted assets	338	331	363
Noncurrent liabilities	130	132	132
Long-term debt	5,345	5,296	5,013
Net assets invested in capital assets, net of related debt	881	885	948
Net assets, restricted	290	268	296
Net assets, unrestricted	269	230	230
	\$ 7,419	\$ 7,256	\$ 7,077

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	2006	2005	2004
	<i>(In Millions)</i>		
Operating revenues	\$ 1,428	\$ 1,200	\$ 1,069
Operating expenses	(1,237)	(1,090)	(973)
Operating income	191	110	96
Nonoperating revenue (expenses)	(158)	(174)	(143)
Contributions	24	(27)	(17)
Increase (decrease) in net assets	\$ 57	\$ (91)	\$ (64)

Financial Analysis of JEA for fiscal years 2006 and 2005

Operating Revenues

2006 compared to 2005:

Total Electric Enterprise Fund operating revenues for the fiscal year 2006 increased \$195.0 million, an increase of 19.3%, primarily due to an increase in the fuel rate. JEA's fuel rate increased by 11.5% on April 1, 2005 and 10.3% on October 1, 2005. In addition, an increase in territorial and off-system sales contributed to the increase in revenues. Territorial GWh sales increased by 2.7% to 13,440.9 GWh for the current year from 13,091.7 GWh in fiscal year 2005. The increase in territorial sales was mainly attributable to a 2.6 % increase in the electric system customer base. Off-system sales increased to 593.8 GWh for the fiscal year 2006 from 568.4 GWh for the fiscal year 2005, an increase of 4.5 %. Other operating revenues increased \$4.6 million, a 12.8% increase, due primarily to the recognition of revenues from work performed on a maintenance service contract from the Navy.

Total Water and Sewer revenues increased \$36.2 million, an 18.8% increase, due primarily to an increase in water and sewer rates and increased volumes of water and sewer sales. The members of JEA Board approved various rates and fees related to water and sewer services and water and sewer capacity fees which became effective October 1, 2005. The volume of water and sewer sales increased 10.2%. The increase was primarily driven by lack of rainfall and customer growth. The number of water and sewer customers increased approximately 5.3%. Other operating revenues increased \$4.4 million, a 48.9% increase. The increase was mainly due to an increase of PreService fees and increased work performed on a maintenance service contract from the Navy.

Revenues for District Energy System (DES) totaled \$3.1 million and \$1.3 million for the fiscal years 2006 and 2005. The increase in revenues was due to an increase in growth and the change in the consumption rate for DES approved by the Board in June 2005 and became effective, October 1, 2005.

2005 compared to 2004:

Total Electric Enterprise Fund operating revenues for fiscal year 2005 were 13.7% higher than revenues in fiscal year 2004. The increase was mainly attributable to two fuel rate increases that became effective on November 1, 2004 and on April 1, 2005. JEA increased the fuel rate by 5.5% on November 1, 2005 and 10.3 % on April 1, 2005. Territorial GWh sales increased by 3.4 % to 13,091.7 GWh for fiscal 2005 from 12,666.1 GWh in fiscal year 2004. The increase in territorial sales was mainly attributable to a 2.2 % increase in the average number of customer accounts. Off-system sales decreased to 568.4 GWh for the fiscal year 2005 from 630.0 GWh for the fiscal year 2004, a decrease of 9.8 %. Other operating revenues declined 25.3%, primarily due to a \$14.3 million sale of sulfur dioxide emission allowances recognized in fiscal year 2004. No such sales occurred during fiscal year 2005.

Total Water and Sewer revenues increased 5.1% for the fiscal year ended 2005 compared to fiscal year 2004. Water revenues increased 8.6% which was mainly attributable to the implementation of new water conservation rates and reclaimed water rates which became effective on October 1, 2004 and a 4.9% increase in customer accounts. Sewer revenues increased 3.2% which was mainly due to a 5.0% increase in customer accounts.

Operating Expenses

2006 compared to 2005:

Total Electric System operating expenses for fiscal year 2006, excluding depreciation and recognition of deferred costs, increased \$127.5 million or 18.4%. Fuel and purchased power accounted for the majority of the increase. Total fuel and purchased power costs increased \$104.7 million. Fuel expense increased \$72.4 million and purchased power increased \$32.3 million. The increases were mainly driven by fluctuating fuel prices, increased consumption of natural gas, and a 2.1% increase in megawatts produced and purchased to meet increased demands from customers. During fiscal year 2006, JEA's power supply mix for fiscal year 2006 was 41% coal (from JEA units), 30% petroleum coke, 10% coal-fired purchases, 11% natural gas, 6% other power purchases, and 2% oil.

Total other Electric System operating and maintenance expenses were \$17.7 million higher, a 9.9% increase, in fiscal year 2006 compared to the same period in 2005. The increased expenses included planned outages for Northside and Plant Scherer of \$12.8 million and increased renewal and replacement expenses of \$2.5 million for SJRPP and \$1.8 million for Plant Scherer.

Utility and franchise taxes increased \$5.0 million for the fiscal year 2006 as compared to fiscal year 2005 due to the increase in the electric revenues as discussed above. Depreciation expense increased \$18.8 million due to more capital assets being placed in service.

Total operating expenses for the water and sewer system increased \$13.7 million, an increase of 8.1%. The increase was due to an increase in depreciation expense of \$6.4 million and an increase in intercompany billing of \$5.3 million and a reduction in capitalized overhead of \$1.9 million.

2005 compared to 2004:

Total operating expenses for fiscal year 2005, excluding depreciation and recognition of deferred costs, increased \$90.7 million or 13.4%. Fuel and purchased power accounted for the majority of the increase. Total fuel and purchased power costs increased \$85.0 million. The increase was mainly due the rising prices of oil and gas. The price of oil, gas, solid fuels and purchased power have fluctuated over the period and the components of fuel and purchased power expenses have shifted as JEA has taken advantage of the most economical sources of power. During fiscal year 2005, JEA increased its generation 11.7 % while the purchased power decreased 5.2 %. JEA's power supply mix for fiscal year 2005 was 46% coal (from JEA units), 27% petroleum coke, 10% coal-fired purchases, 6% natural gas, 6% oil, and 5% other power purchases.

Total other operating and maintenance expenses were \$2.8 million higher, a 1.1% increase, in fiscal year 2005 compared to the same period in 2004. The slight increase in other operating and maintenance expense was mainly due to an increase in the environmental liability reserve provision. The remaining other operating and maintenance expenses were well controlled. Utility and franchise taxes increased \$2.8 million, an increase of 15.1%, for the fiscal year 2005 as compared to fiscal year 2004 due to the increase in the electric revenues as described above.

Depreciation expense for fiscal year 2005 increased \$27 million compared to fiscal year 2004. Depreciation expense increased during fiscal year 2005 as more of the capital assets were placed in service including the commencement of depreciation for the Brandy Branch Combined Cycle Project in January 2005.

Nonoperating Revenues and Expenses

2006 compared to 2005:

The net change in nonoperating revenues and expenses was \$15.8 million in fiscal year 2006. Ownership in The Energy Authority (TEA), a municipal power marketing joint venture in which JEA is a member, continues to prove beneficial for JEA and its customers. TEA net revenue increased \$4.5 million for the current year. This was a 26% increase over fiscal year 2005. Investment income increased \$8.6 million in fiscal 2006 due to an increase in the fair value of investments of \$3.8 million and a \$4.8 million increase in investment income due to additional availability of funds for investment and increased return on the investments. Interest expense decreased \$6.1 million as a result a non-cash fair market value adjustment relating to the debt management strategy in the amount of \$20.1 million offset by an increase in interest expense due to the issuance of bonds and the impact of increasing interest rates on variable rate debt. Allowance for funds used during construction (AFUDC) decreased \$2.6 million due to more capital assets placed in service during the current year.

2005 compared to 2004:

The net change in nonoperating revenues and expenses was \$31 million in fiscal year 2005. TEA net revenue increased \$1.5 million, a 9.1% increase over fiscal year 2004. Investment income increased slightly in fiscal 2005 compared to fiscal 2004. The increase was due to an increase in the fair value of investments of \$4.1 million offset by a \$3.5 million decrease in investment income due to less funds being available for investment. Interest expense increased \$35.4 million as a result of the issuance of bonds, the impact of increasing interest rates on variable rate debt and changes in debt management strategy. Allowance for funds used during construction (AFUDC) increased \$2.6 million due to an increase in interest rates in fiscal year 2005.

Capital Assets and Debt Administration for fiscal years 2006 and 2005

Capital Assets

During fiscal year 2006 capital assets (excluding accumulated depreciation) increased \$416.4 million, a 5.1% increase. This included \$183.6 million, a 3.6% increase, in electric plant; \$230.0 million increase in water and sewer plant, an increase of 7.5%; and \$2.8 million investment in District Energy plant, an increase of 5.9%. In fiscal 2005, capital assets (excluding accumulated depreciation) increased \$439.7 million, a 5.6% increase. This included \$158 million, a 3.2% increase, in electric plant; \$234.3 million increase in water and sewer plant, an increase of 8.3%, and \$47.4 million investment in District Energy plant, of which \$29.6 million was transferred from the electric plant. More detailed information about JEA's capital assets is presented in note 4 to the financial statements.

JEA has ongoing capital improvement programs for the Electric System and the Water and Sewer System. The capital programs consist of: (a) the Electric System capital requirements for additional generating facilities, as well as improvements to existing generating facilities, that are determined to be necessary as a result of JEA's annual resource planning process, (b) the Electric System's remaining capital requirements for transmission and distribution facilities and other capital items, and (c) the Water and Sewer System capital requirements necessary to accommodate system growth. The cost of the capital improvement program will be provided from revenues generated from operations, issuance of revenue bonds, Commercial Paper notes and other short-term obligations as determined by JEA.

JEA's projected total capital expenditures for fiscal year 2007 are as follows:

	<u>In Millions</u>
Electric System — Generation, Transmission, Distribution, and Other	\$ 229,375
Water and Sewer System	211,035
District Energy System	9,163

SJRPP and Plant Scherer are subject to joint ownership agreements. The estimated capital expenditures relating to these plants, including costs to comply with certain environmental regulations are described in note 12, *Commitment and Contingencies – Clean Air Act*.

Debt Administration

Debt outstanding at September 30, 2006, including Water and Sewer Crossover Bonds, was \$5.6 billion, an increase of \$63 million from the prior fiscal year. The amount was used in conjunction with capital investment programs. More detailed information about JEA's long-term debt is presented in note 7 to the financial statements.

Debt outstanding at September 30, 2005, including Water and Sewer Crossover Bonds, was \$5.5 billion, an increase of \$432 million from the fiscal year 2004. The amount was used in conjunction with capital investment programs. JEA's debt ratings on its long-term debt as of September 2006 and 2005 were as follows:

	2006			2005		
	Electric System	SJRPP	Water and Sewer System	Electric System	SJRPP	Water and Sewer System
Senior Debt:						
Fitch	AA-	AA-	AA	AA-	AA-	AA
Standard & Poor's	AA-	AA-	AA-	AA-	AA-	AA-
Moody's Investors Service	Aa2	Aa2	Aa3	Aa2	Aa2	Aa3
Subordinated Debt:						
Fitch	AA-	-	AA	AA-	-	AA
Standard & Poor's	A+	-	AA-	A+	-	AA-
Moody's Investors Service	Aa3	-	Aa3	Aa3	-	Aa3

Also, at September 30, 2006, the ratings on JEA's District Energy System bonds were AA- from Fitch Ratings and Aa2 from Moody's Investors Service. These ratings reflect the direct pay letter of credit provided by State Street Bank and Trust Company.

Economic Factors and Rates

In order to meet the challenge of volatile fuel prices, the members of JEA Board approved a Variable Fuel Rate. The variable fuel rate treats fuel expenses as a pass through to customers and established a fuel stabilization fund of \$.97 per 1,000 kWh to absorb short-term fuel cost fluctuations. In addition, the Board approved a \$2.90 per 1,000 kWh Fuel Recovery Charge to recover the cumulative fuel fund deficit. The Fuel Rate will be set annually during the budget process to be effective October 1 of the upcoming fiscal year. If such fuel costs during the course of a fiscal year vary by more than 10 percent from JEA's budget, an adjustment in the fuel and purchase power rate will occur, subject to approval of the JEA Board. These new rates became effective April 2005.

The members of JEA Board approved various rates and fees related to the water and sewer service, increasing water and sewer capacity fees, changing the rate and policy governing line extension fees, and increasing the consumption rate for District Energy services. Service availability charges for both water and sewer was approximately 8.5% of average water rates in fiscal year 2006. The average water rates increase in fiscal years 2007 and 2008 and will be approximately 7%. A new line extension fee will be implemented to recover costs associated with extending water and sewer lines to new customers. The consumption rate for chilled water related to the District Energy System increased from 7.4 cents per ton hour to 8.2 cents per ton hour. The consumption rate is variable and will be modified similarly to the electric fuel charge. The rate schedules became effective beginning October 1, 2005.

At this time, no additional rate increases are planned for fiscal year 2007. During fiscal year 2007, JEA will perform a detailed cost-of-service study for its Electric business with possible base rate adjustments to be effective on October 1, 2008.

JEA expects customer and unit sales growth in all its segments to remain consistent with the prior two years.

Requests for Information

The financial report is designed to provide a general overview of JEA's finances for all those with an interest in JEA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Accounting Services, JEA, 21 West Church Street, Jacksonville, Florida, 32202.

Financial Statements

JEA

Balance Sheets

	September 30	
	2006	2005
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 130,719	\$ 56,313
Investments	-	4,075
Accounts and interest receivable, less allowance for doubtful accounts of \$3,337 for 2006 and \$3,354 for 2005	202,256	186,347
Inventories:		
Fuel	60,962	51,274
Materials and supplies	75,782	75,026
Total current assets	469,719	373,035
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	319,536	371,934
Investments	313,741	312,623
Accounts and interest receivable	6,873	9,322
Total restricted assets	640,150	693,879
Debt issue costs and other	48,845	50,352
Investment in The Energy Authority	7,235	7,958
Costs to be recovered from future revenues	268,844	313,150
Total noncurrent assets	965,074	1,065,339
Capital assets:		
Land and easements	83,908	68,375
Plant in service	7,747,282	7,323,713
Less accumulated depreciation	(2,656,734)	(2,406,780)
Plant in service, net	5,174,456	4,985,308
Construction in progress	809,768	832,491
Net capital assets	5,984,224	5,817,799
Total assets	\$ 7,419,017	\$ 7,256,173

See accompanying notes.

Liabilities and net assets

Current liabilities:		
Accounts and accrued expenses payable	\$ 136,656	\$ 88,713
Customer deposits	29,615	24,767
Total current liabilities	166,271	113,480
Current liabilities payable from restricted assets:		
Debt due within one year	119,820	104,880
Interest payable	93,863	90,271
Construction contracts and accounts payable	45,730	45,994
Renewal and replacement reserve	78,651	90,000
Total current liabilities payable from restricted assets	338,064	331,145
Noncurrent liabilities:		
Deferred credits and other liabilities	45,771	43,862
Revenues to be used for future costs	84,095	87,973
Total noncurrent liabilities	129,866	131,835
Long-term debt:		
Bonds and commercial paper payable, less current portion	5,448,522	5,400,165
Unamortized premium (discount), net	23,179	17,913
Unamortized deferred losses on refundings	(136,590)	(138,182)
Fair value of debt management strategy instruments	9,464	16,738
Total long-term debt	5,344,575	5,296,634
Net assets:		
Invested in capital assets, net of related debt	881,398	884,796
Restricted	289,675	267,820
Unrestricted	269,168	230,463
Total net assets	1,440,241	1,383,079
Total liabilities	5,978,776	5,873,094
Total liabilities and net assets	\$ 7,419,017	\$ 7,256,173

JEA

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended September 30	
	2006	2005
	<i>(In Thousands)</i>	
Operating revenues:		
Electric	\$ 1,160,463	\$ 973,326
Water and sewer	214,906	182,961
District Energy System	3,054	1,297
Other	49,454	42,388
Total operating revenues	<u>1,427,877</u>	<u>1,199,972</u>
Operating expenses:		
Operations:		
Fuel	456,123	383,705
Purchased power	143,303	111,016
Other	186,723	176,956
Maintenance	85,660	74,143
Depreciation	297,614	278,531
State utility and franchise taxes	26,807	21,791
Recognition of deferred costs and revenues, net	40,428	44,141
Total operating expenses	<u>1,236,658</u>	<u>1,090,283</u>
Operating income	<u>191,219</u>	<u>109,689</u>
Nonoperating revenues (expenses):		
Earnings from The Energy Authority	21,910	17,382
Investment income	23,088	14,460
Interest on debt	(232,370)	(238,454)
Other interest	(1,600)	(1,246)
Allowance for funds used during construction	32,044	34,637
Water and Sewer Expansion Authority	(762)	(302)
Total nonoperating revenues (expenses)	<u>(157,690)</u>	<u>(173,523)</u>
Income (loss) before contributions	<u>33,529</u>	<u>(63,834)</u>

Continued on next page.

JEA

Statements of Revenues, Expenses, and Changes in Net Assets (continued)

	Year Ended September 30	
	2006	2005
	<i>(In Thousands)</i>	
Contributions (to) from:		
General fund, City of Jacksonville	\$ (88,688)	\$ (85,938)
Developers and other	97,775	58,406
City of Jacksonville Better Jacksonville Plan	14,546	385
Water and Sewer Expansion Authority - capital	-	(254)
Total contributions	<u>23,633</u>	<u>(27,401)</u>
Change in net assets	57,162	(91,235)
Net assets, beginning of year	<u>1,383,079</u>	<u>1,474,314</u>
Net assets, end of year	<u><u>\$ 1,440,241</u></u>	<u><u>\$ 1,383,079</u></u>

JEA

Statements of Cash Flows

	Year Ended September 30	
	2006	2005
	<i>(In Thousands)</i>	
Operating activities		
Receipts from customers	\$ 1,385,753	\$ 1,135,523
Other receipts	50,648	43,547
Payments to suppliers	(712,024)	(633,671)
Payments to employees	(158,927)	(126,837)
Net cash provided by operating activities	565,450	418,562
Noncapital and related financing activities		
Contribution to General Fund, City of Jacksonville, Florida	(81,068)	(85,708)
Contribution to Water & Sewer Expansion Authority - operating	(762)	(302)
Net cash used in noncapital financing activities	(81,830)	(86,010)
Capital and related financing activities		
Acquisition and construction of capital assets	(380,762)	(423,838)
Proceeds from issuance of debt, net	487,844	929,188
Defeasance of debt	(325,113)	(145,589)
Repayment of debt principal	(104,880)	(505,585)
Interest paid on debt	(222,984)	(226,346)
Developer and other contributions	34,796	20,580
City of Jacksonville Better Jacksonville Plan contributions	14,546	385
Contribution to Water and Sewer Expansion Authority - capital	-	(254)
Proceeds from sale of property	6,169	1,802
Net cash used in capital and related financing activities	(490,384)	(349,657)
Investing activities		
Purchases of investments	(299,691)	(592,864)
Proceeds from sales and maturities of investments	301,252	561,258
Distributions from The Energy Authority	1,102	1,915
Investment income	26,111	18,474
Net cash provided by (used in) investing activities	28,774	(11,217)
Net change in cash and cash equivalents	22,010	(28,322)
Cash and cash equivalents at beginning of year	428,245	456,567
Cash and cash equivalents at end of year	\$ 450,255	\$ 428,245

Continued on next page.

JEA

Statements of Cash Flows (continued)

	Year Ended September 30	
	2006	2005
	<i>(In Thousands)</i>	
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 191,219	\$ 109,689
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	298,109	277,863
Recognition of deferred costs and revenues, net	40,428	44,141
Changes in noncash assets and noncash liabilities:		
Accounts and interest receivable, restricted	1,195	1,158
Accounts and interest receivable	8,759	(21,257)
Inventories	(10,443)	(28,224)
Other	2,063	8,337
Accounts and accrued expenses payable	41,370	16,981
Liabilities payable from restricted assets	(9,158)	5,657
Deferred credits and other liabilities	1,908	4,217
Net cash provided by operating activities	\$ 565,450	\$ 418,562
Noncash activity:		
Contribution of capital assets from developers	\$ 61,161	\$ 37,826

See accompanying notes.

JEA

Notes to Financial Statements

September 30, 2006
(Dollars In Thousands)

1. Summary of Significant Accounting Policies and Practices

(a) Reporting Entity

JEA (formerly known as the Jacksonville Electric Authority) is currently organized into three enterprise funds – the Electric Enterprise Fund, the Water Sewer Enterprise Fund and District Energy System. The Electric Enterprise Fund is composed of the JEA Electric System; the Bulk Power Supply System, which consists of Scherer Unit 4, a coal-fired, 846-megawatt generating unit operated by Georgia Power Company and owned by JEA (23.64% ownership interest) and Florida Power & Light Company (FPL) (76.36% ownership interest); St. Johns River Power Park System (SJRPP), which has two coal-fired generating units (638 net megawatts each) jointly owned and operated by JEA (80% ownership interest) and FPL (20% ownership interest); Water and Sewer System and the District Energy System (DES). The District Energy System consists of chilled water activities. These financial statements include JEA's ownership interests in the Bulk Power Supply System and SJRPP. Separate accounting records are currently maintained for each system. The following information relates to JEA's ownership of the respective plants as of September 30, 2006 and 2005:

	2006	2005
Bulk Power Supply System:		
Capital assets, net	\$ 84,095	\$ 87,973
Inventory	5,471	4,574
Revenues to be used for future costs	84,095	87,973
SJRPP:		
Capital assets, net	625,473	654,401
Current assets	69,961	73,249
Restricted assets	359,287	369,154
Other noncurrent assets	276,264	320,506
Long-term debt	1,095,714	1,174,447
Other liabilities	232,496	239,981

The Electric System, Water and Sewer System and the District Energy System are governed by the Board Members of JEA (Board). The Board is responsible for setting rates based on operating and maintenance expenses and debt service of the respective operations. The operations of the Bulk Power Supply System and SJRPP are subject to joint ownership agreements and rates are established on a cost of service basis, including operating and maintenance expenses and debt service. See note 1. (q) for additional information.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

1. Summary of Significant Accounting Policies and Practices (continued)

(b) Basis of Accounting

JEA consists of the Electric System, the Water and Sewer System and the District Energy System. The Electric System includes the operations of the Electric System and Bulk Power Supply System, and SJRPP. JEA is presenting financial statements combined for the three systems. JEA uses the accrual basis of accounting for its operations and has adopted the uniform system of accounts prescribed by the Federal Energy Regulatory Commission for the Electric System and the National Association of Regulatory Utility Commissioners for the Water and Sewer System. The investments in The Energy Authority (TEA) and Colelectric Partners, Inc. are recorded on the equity method.

The financial statements have been prepared in conformity with the pronouncements of the Governmental Accounting Standards Board (GASB), including GASB Statement No. 14, *The Financial Reporting Entity*, which defines JEA as a component unit of the City of Jacksonville, Florida (the City). Accordingly, the financial statements of JEA are included in the Comprehensive Annual Financial Report of the City. JEA has elected to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations except for those that conflict with GASB pronouncements in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Both SJRPP and the Bulk Power Supply System follow SFAS No. 71, *Accounting For the Effects of Certain Types of Regulation as amended*. This standard allows utilities to capitalize or defer certain costs or revenues based on management's ongoing assessment that it is probable these items will be recovered through the rate making process.

If JEA no longer applied SFAS No. 71 due to competition, regulatory changes, or other reasons, JEA would make certain adjustments that would include the write-off of all or a portion of its regulatory assets and liabilities, the evaluation of utility plant and the recognition of losses, if necessary, to reflect market conditions. Management believes that JEA currently meets the criteria for continued application of SFAS No. 71 with respect to SJRPP and the Bulk Power Supply System, but will continue to evaluate significant changes in the regulatory and competitive environment to assess the ability to apply SFAS No. 71.

JEA presents its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended. GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets or balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt, restricted, and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets and increased/reduced by costs to be recovered from future revenues or revenues to be used for future costs.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

1. Summary of Significant Accounting Policies and Practices (continued)

- Restricted – consists of assets that have constraints placed upon their use through external constraints imposed either by creditors (such as through debt covenants) or through laws, regulations or constraints imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets.
- Unrestricted – consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

JEA's bond resolutions specify the flow of funds from revenues and specify the requirements for the use of certain restricted and unrestricted assets.

(c) Revenues

Operating revenues are defined as revenues generated from the sale of primary products or services through normal business operations. Non-operating revenues include investment income and earnings from investments recorded on the equity method. Operating revenues reported in the statements of revenues, expenses and changes in net assets are shown net of discounts and estimated allowances for bad debts. Discounts and allowances totaled \$33,539 in fiscal year 2006 and \$34,377 in fiscal year 2005. Electric and Water and Sewer revenues are recorded as earned. JEA earned 10.1% of its electric revenue from electricity sold to FPL in fiscal year 2006 and 12.5% in fiscal year 2005. Operating revenues include amounts estimated for unbilled services provided during the reporting period of \$58,019 in 2006 and \$50,083 in 2005.

(d) Capital Assets

Utility plant represents four classes of capital assets – real property, tangible property, tangible personal property equal to or greater than \$750 each, and intangible property. All capital assets are recorded at historical cost and must have a useful life greater than one year. The costs of capital asset additions and replacements are capitalized. The costs of capital projects include direct labor and benefits of JEA employees working on capital projects and an allocation of overhead from certain JEA departments. Maintenance and replacements of minor items are charged to operating expenses. The cost of depreciable plant retired is removed from the capital asset accounts, and such cost plus removal expense less salvage value is charged to accumulated depreciation.

SJRPP is required by its bond resolution to deposit certain amounts in a renewal and replacement fund. These amounts are then required to be expended on capital expenditures to maintain and improve the system. The Electric System records the amounts deposited in the fund as a purchased power expense when deposited. The purchase of capital assets funded from the renewal and replacement fund are not capitalized by SJRPP.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

1. Summary of Significant Accounting Policies and Practices (continued)

(e) Allowance for Funds Used During Construction

An allowance for funds used during construction (AFUDC) is included in construction work in progress and as a reduction of interest expense. JEA capitalizes interest on construction projects financed with revenue bonds, commercial paper and renewal and replacement funds in accordance with SFAS No. 34 and SFAS No. 62. The average AFUDC rate for the Electric System fixed and variable rate debt was 3.6% for fiscal year 2006 and 3.1% for fiscal year 2005. The average AFUDC rate for the Water and Sewer System fixed and variable rate debt was 4.2% for fiscal year 2006 and 4.4% for fiscal year 2005. The average AFUDC rate for the District Energy System variable rate debt was 3.2% for fiscal year 2006 and 1.4% for fiscal year 2005. The amount capitalized is the interest cost of the debt less any interest earned on investment of debt proceeds from the date of the borrowing until the assets are placed in service. Total interest incurred was \$233,970 for fiscal year 2006 and \$239,700 for fiscal year 2005. Interest expense of \$32,044 and investment income on bond proceeds of \$6,559 was capitalized in accordance with SFAS No. 34 and SFAS No. 62 during fiscal year 2006. Interest expense of \$34,637 and investment income on bond proceeds of \$3,716 was capitalized in accordance with SFAS No. 34 and SFAS No. 62 during fiscal year 2005.

(f) Depreciation

Depreciation of capital assets, all of which is charged to operations, is computed on a straight-line basis at rates based upon the estimated service lives of the various property classes. A depreciation study commissioned by JEA was completed in fiscal year 2005 and depreciation rates were adjusted to reflect the findings of the study. The effective rate of depreciation based upon average depreciable plant in service balance is 4.0% for fiscal year 2006 and 2005. The average depreciable life of the depreciable capital assets for the Electric Systems is 21.8 years as of September 30, 2006 and 22.5 years as of September 30, 2005. The average depreciable life of the depreciable capital assets for the Water and Sewer System is 27 years as of September 30, 2006 and 26.9 years as of September 30, 2005. The average depreciable life of the depreciable capital assets for the District Energy System is 25 years as of September 30, 2006 and 2005.

(g) Amortization

Amortization of debt issue costs and bond discounts and premiums is computed on a straight-line basis, which approximates the effective interest method over the remaining term of the outstanding bonds.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

1. Summary of Significant Accounting Policies and Practices (continued)

h) Losses on Refundings

Losses on refundings of JEA revenue bonds are deferred and amortized as a component of interest on debt using the straight-line method over the remaining life of the old debt or the new debt, whichever is shorter. Unamortized deferred losses on refundings are reported as a reduction of long-term debt on the balance sheets. Whereas JEA has incurred accounting losses on refundings, calculated as the difference between the net carrying value of the refunded and the refunding bonds, JEA has over time realized economic gains calculated as the present value difference in the future debt service on the refunded and refunding bonds.

(i) Investments

Investments in U.S. treasury, government agency, and state and local government securities are recorded at fair value, as determined by quoted market prices. Investments in overnight repurchase agreements and commercial paper are recorded at cost, which approximates fair value.

(j) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, bank demand accounts, overnight repurchase agreements, and short-term liquid investments purchased with an original maturity of 90 days or less.

(k) Interest Rate Swap Agreements

JEA's risk management policies allow for the use of interest rate swaps and caps to manage financial exposures, but prohibit the use of these instruments for speculative or trading purposes. JEA utilizes interest rate swaps, caps and related hedging instruments to manage the interest rate risk associated with various assets and liabilities. Interest rate swaps are used in the area of investment management to increase the yield on revolving short-term investments. Interest rate swaps are also used in the area of debt management to take advantage of favorable market interest rates, while caps are used to limit interest rate risk associated with variable rate debt exposure. JEA's current instruments do not qualify for hedge accounting in accordance with SFAS No. 133. Thus, all changes in the fair value of the instruments are recorded in the statements of revenues, expenses and changes in net assets as investment income (asset management) or interest on debt (debt management). Under the interest rate swap programs, JEA pays a variable rate of interest, which is based on various indices, and receives a fixed rate of interest for a specified period of time (unless earlier terminated), or JEA pays a fixed rate of interest and receives a variable rate of interest, which is based on various indices for a specified period of time (unless earlier terminated). These indices are affected by changes in the market. The net amounts received or paid under the swap or cap agreements are recorded either as an adjustment to investment income (asset management) or interest on debt (debt management) in the statements of revenues, expenses and changes in net assets.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

1. Summary of Significant Accounting Policies and Practices (continued)

(l) Inventory

Inventories are maintained for fuel and materials and supplies. Fuel inventories are maintained at levels sufficient to meet customer demands. Inventories are valued at average cost, net of an estimated allowance for obsolescence for the materials and supplies inventories.

(m) Fuel Management Program

In connection with the purchase of oil and natural gas, JEA has developed and implemented a fuel management program intended to manage the risk of changes in the market prices of oil and natural gas. Pursuant to this program, JEA may execute futures and options contracts from time to time to help manage fluctuations in the market prices of oil and natural gas. In addition, JEA has executed an Operating Agreement with The Energy Authority (TEA) whereby TEA may be tasked with developing and implementing a Fuel Price Insurance program on behalf of JEA. The fair value of such contracts, executed either by JEA or TEA, on behalf of JEA are recorded in fuel under operating expenses and the fair value is recorded as an asset or liability. Any associated margin deposits are recorded in other noncurrent assets. The net amounts received or paid under the expired or closed fuel contracts are recorded as an adjustment to fuel expense. See note 10 – Fuel Management Program.

(n) Capital Contributions

Capital contributions for the Water and Sewer System represent contributions of cash and capital assets from the City, developers, customers and other third parties. Capital contributions are recorded in the statement of revenues, expenses, and changes in net assets at fair value at the time of receipt. Depreciation is recorded on contributed capital assets on a straight-line basis.

(o) Deferred Credits and Other Liabilities

Deferred credits and other liabilities include long-term compensated absences, accrued environmental liabilities, and the long-term obligation to the City of Jacksonville for its Excise Tax Revenue Bonds. See note 8 – Transactions with City of Jacksonville.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

1. Summary of Significant Accounting Policies and Practices (continued)

(p) Environmental Costs

JEA expenses, on a current basis, certain known costs incurred in complying with environmental regulations and conducting remediation activities. JEA also accrues liabilities in accordance with SFAS No. 5 for certain potential future costs required for site restoration for which JEA may be liable whenever, by diligent legal and technical investigation, the scope or extent of damage has been determined, remedial measures have been specifically identified as practical and viable, and the cost of remediation and JEA's proportionate share can be reasonably estimated. Generally, the timing of these accruals coincides with completion of a remedial investigation and feasibility study or JEA's commitment to a formal plan of action.

(q) Costs to be Recovered from Future Revenues / Revenues to be Used for Future Costs

Cost-based regulation — Due to the application of SFAS No. 71, the Bulk Power Supply System and SJRPP record certain assets and liabilities that result from the effects of the ratemaking process that would not be recorded under generally accepted accounting principles for nonregulated entities. Currently, the electric utility industry is predominantly regulated on a basis designed to recover the cost of providing electric power to its customers. If cost-based regulation were to be discontinued in the electric industry for any reason, market prices for electricity could be reduced or increased and utilities might be required to reduce their balance sheet amounts to reflect market conditions. Discontinuance of cost-based regulation could also require affected utilities to write off their associated regulatory assets and liabilities. Management cannot predict the potential impact, if any, of the change in the regulatory environment on JEA's future financial position and results of operations.

The rates for SJRPP and the Bulk Power Supply System are established on a cost of service basis, which is based upon debt service, if any, and operating fund requirements. Straight-line depreciation is not considered in the cost of service calculation used to design rates.

Costs to be Recovered from Future Revenues — The deferred debt related costs of \$268,844 at September 30, 2006 and \$313,150 at September 30, 2005, are the result of differences between expenses in determining rates and those used in financial reporting and are shown under other noncurrent assets on the balance sheet. SJRPP has a contract with the JEA Electric System and FPL to recover these costs from future revenue that will coincide with retirement of long-term debt of SJRPP. The amount recovered each year will be the difference between debt principal maturities (adjusted for the effects of premiums, discounts, and amortization of gains and losses) and straight-line depreciation and results in recognition of deferred costs on the statement of revenues, expenses, and changes in net assets. SJRPP recognized \$44,306 in fiscal year 2006 and \$48,019 in fiscal year 2005, in deferred costs. The costs to be recovered from future revenues will be recovered over a period extending through 2020.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

1. Summary of Significant Accounting Policies and Practices (continued)

Revenues to be Used for Future Costs — Early debt principal retirements of the Bulk Power Supply System in excess of straight-line depreciation of \$84,095 at September 30, 2006 and \$87,973 at September 30, 2005, are included in deferred credits and other liabilities on the balance sheets. As no Bulk Power Supply System bonds remain outstanding, recognition of deferred revenues on the statement of revenues, expenses, and changes in net assets in the future will coincide with future costs for straight-line depreciation. The Bulk Power Supply System recognized revenue of \$3,878 for both fiscal years 2006 and 2005. The revenues to be used for future costs will be amortized until the capital assets are fully depreciated in 2028.

	2006	2005
Summary:		
Recognition of deferred costs from SJRPP	\$44,306	\$48,019
Recognized revenues from Bulk Power Supply System	(3,878)	(3,878)
Recognition of deferred costs and revenues, net	\$40,428	\$44,141

(r) Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) Reclassifications

Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

1. Summary of Significant Accounting Policies and Practices (continued)

(t) Recent Accounting Pronouncements

The GASB has recently issued the following statements:

- Statement of Governmental Accounting Standards (GASB) No.45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for financial statements for periods beginning after December 15, 2006.
- Statement of Governmental Accounting Standards (GASB) No.48, *Sales and Pledges of Receivables and Future Revenues*, effective for financial statements for periods beginning after December 15, 2006.

JEA has not performed the required analysis as to the financial impacts of the new accounting pronouncements that will be adopted in the ensuing year or 2008 for GASB 45.

2. Restricted Assets

Restricted assets were held in the following funds at September 30, 2006 and 2005:

	2006	2005
Electric System:		
Sinking Fund	\$ 48,858	\$ 39,472
Construction Fund	5,896	31,473
Renewal and Replacement Fund	16,926	9,861
Adjustment to fair value of investments	(848)	(960)
Total Electric System	70,832	79,846

Continued on next page.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

2. Restricted Assets (continued)

	2006	2005
SJRPP System:		
Sinking Fund	\$113,213	\$112,680
Debt Service Reserve Fund	146,867	153,961
Renewal and Replacement Fund	81,087	90,000
Revenue Fund	20,065	14,031
Adjustment to fair value of investments	(1,945)	(1,518)
Total SJRPP System	359,287	369,154
Water and Sewer System:		
Sinking Fund	48,169	40,139
Debt Service Reserve Fund	—	39
Construction Fund	22,561	68,064
Debt Refunding Escrow	134,028	134,153
Renewal and Replacement Fund	7,144	2,688
Adjustment to fair value of investments	(2,515)	(1,412)
Total Water and Sewer System	209,387	243,671
District Energy System:		
Sinking Fund	149	—
Construction Fund	488	1,006
Renewal and Replacement Fund	7	202
Total District Energy System	644	1,208
Total restricted assets	\$640,150	\$693,879

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

2. Restricted Assets (continued)

The Electric System, SJRPP System, Water and Sewer System and the District Energy System are permitted to invest restricted funds in specified types of investments in accordance with their bond resolutions and the investment policy.

The requirements of the respective bond resolutions for contributions to the respective systems' renewal and replacement funds are as follows:

Electric System:	An amount equal to the greater of 10% of the prior year defined net revenues or 5% of the prior year defined gross revenues.
SJRPP System:	An amount equal to 12.5% of aggregate debt service, as defined.
Water and Sewer System:	An amount equal to the greater of 10% of the prior year defined annual net revenues or 5% of the prior year defined gross revenues.
District Energy System:	An amount equal to the greater of 10% of the prior year defined annual net revenues or 5% of the prior year defined revenues.

3. Cash and Investments

JEA maintains cash and investment pools that are utilized by all funds except for the bond funds. Included in the JEA cash balances are amounts on deposit with JEA's commercial bank as well as amounts deposited with the Florida State Board of Administration's Local Government Investment Pool. The commercial bank balances are covered by federal depository insurance or collateralized subject to the Florida Security for Public Deposits Act of Chapter 280, Florida Statutes. Amounts subject to Chapter 280, Florida Statutes, are collateralized by securities deposited by JEA's commercial bank under certain pledging formulas with the State Treasurer or other qualified custodians.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

3. Cash and Investments (continued)

JEA follows GASB No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, which requires the adjustments of the carrying value of investments to fair value to be presented as a component of investment income. Investments are presented at fair value, which is based on available or equivalent market values. The Local Government Surplus Funds Trust Fund Investment Pool, created by Section 218.405, Florida Statutes, is operated by the Florida State Board of Administration and is a “2a-7 like” pool in accordance with GASB No. 31; therefore, it is not presented at fair value but at its actual pooled share price, which approximates fair value. A 2a-7 like pool is not registered with the SEC as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. The Local Government Surplus Funds Trust Fund is administered by the State Board of Administration, under the regulatory oversight of the State of Florida, Chapter 19-7 of the Florida Administrative Code.

At September 30, 2006 and 2005, the fair value of all securities, regardless of balance sheet classification as cash equivalent or investment, was as follows:

	2006	2005
Securities:		
U.S. government agency securities	\$ 275,172	\$ 340,418
State and local government securities	42,802	23,861
Repurchase agreements	46,309	55,707
Commercial paper	45,191	2,619
Local government investment pool	146,731	2,178
Investment in money market mutual fund	42,863	72,641
	599,068	497,424
Fair value of interest rate swaps	(848)	(960)
Total securities, at fair value	\$ 598,220	\$ 496,464

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

3. Cash and Investments (continued)

These securities are held in the following accounts:

	2006	2005
Restricted assets:		
Cash and cash equivalents	\$ 319,536	\$ 371,934
Investments	313,741	312,623
Current assets:		
Cash and cash equivalents	130,719	56,313
Investments	—	4,075
Total cash and investments	763,996	744,945
Plus interest due on securities	4,565	4,837
Less cash on deposit	(170,341)	(253,318)
Total securities, at fair value	\$ 598,220	\$ 496,464

JEA is authorized to invest in securities as described in its investment policy and in each bond resolution. As of September 30, 2006, JEA's investments in securities and their maturities are categorized below in accordance with GASB No. 40, Deposit and Investment Risk Disclosures. It is assumed that callable investments will not be called.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

3. Cash and Investments (continued)

Investment Maturity Distribution

Type of Investments	Less than One Year	One to Five Years	Five to Ten Years	Ten to Fifteen Years	Total
U.S. government agency securities	\$186,282	\$15,680	\$11,898	\$61,312	\$275,172
State and local government securities			7,351	35,451	42,802
Repurchase agreement	46,309	—	—	—	46,309
Commercial paper	45,191	—	—	—	45,191
Local government investment pool	146,731	—	—	—	146,731
Investment in money market mutual fund	42,863	—	—	—	42,863
Subtotal	<u>\$467,376</u>	<u>\$15,680</u>	<u>\$19,249</u>	<u>\$96,763</u>	599,068
Fair value of interest rate swaps					<u>(848)</u>
Total securities, at fair value					<u>\$598,220</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, JEA's investment policy requires the investment portfolio to be structured in such a manner as to provide sufficient liquidity to pay obligations as they come due. To the extent possible, investment maturities are matched with known cash needs and anticipated cash flow requirements. Additionally, maturity limitations for investments related to the issuance of debt are outlined in the Bond Resolution relating to those bond issues. JEA's investment policy also limits investments in commercial paper to maturities of less than nine months.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

3. Cash and Investments (continued)

Credit Risk. JEA's investment policy is consistent with the requirements for investments of state and local governments contained in the Florida Statutes and its objectives are to seek reasonable income, preserve capital, and avoid speculative investments. Consistent with JEA's investment policy and bond resolutions: (1) all of the U.S. government agency securities held in the portfolio are issued or guaranteed by agencies created pursuant to an Act of Congress as an agency of the United States of America and at the time of their purchase were rated AAA by Standard & Poor's and Aaa by Moody's Investors Services; and (2) the state and local government securities are general obligations of the State of Florida backed by the full faith and credit of the State for the payment of principal and interest. At the time of purchase, the state and local government securities were rated at least AA+ by Standard & Poor's and Aa1 by Moody's Investors Services. The money market mutual fund is rated AAA by Standard & Poor's Investors Services and the Local Government Surplus Funds Trust Fund is unrated. JEA's investment policy limits investments in commercial paper to the highest whole rating category issued by at least two nationally recognized rating agencies and the issuer must be a Fortune 500 company or Fortune Global 500 company and the ratings outlook must be positive or stable at the time of the investment. As of September 30, 2006, JEA's investments in commercial paper were rated at least A-1 by Standard & Poor's and P-1 by Moody's Investors Services. Also, JEA's investment policy limits the commercial paper investment in any one issuer to \$12,500. Additionally, JEA's investment policy limits investments in commercial paper to 25% of the investment portfolio. As of September 30, 2006, JEA had 7.5% of its investments in commercial paper.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, JEA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of JEA's investments are held by JEA or by an agent in JEA's name. Repurchase agreements must be collateralized by U.S. Treasury or U.S. government agency securities, or cash, and the market value of the securities must be at least 103% of the agreement amount in the case of SJRPP and 102% for the Electric System or Water and Sewer System.

Concentration of Credit Risk. As of September 30, 2006, investments in any one issuer representing 5% or more of JEA's total investments were as follows: \$172,000 (28.8%) invested in issues of the Federal Home Loan Bank, \$103,000 (17.2%) invested in issues of the Federal National Mortgage Association, and \$33,000 (5.6%) invested in general obligation issues of the Florida State Board of Education. JEA's investment policy limits the maximum holding of any one U.S. government agency issuer to 50% of total investments.

For asset management purposes, JEA has entered into various interest rate swap agreements with total notional amounts of \$25,000 for the Electric System that expire over the next two years (unless earlier terminated). The notional amounts of the interest rate swaps are not reflected in the financial statements; however, the fair values of the asset management interest rate swaps are included in investments on the balance sheets. Asset management interest rate swap earnings, losses, and related fair market value adjustments are recorded as an adjustment to investment income in the statements of revenues, expenses, and changes in net assets.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

3. Cash and Investments (continued)

There were no asset management interest rate swap agreements outstanding for Water and Sewer System at September 30, 2006 and 2005. The below table includes information related to the Electric System asset management swaps agreements for the years ending September 30, 2006 and 2005:

	2006	2005
LIBOR Index:		
Notional amount outstanding	\$ 25,000	\$ 25,000
Variable rate paid (weighted average)	4.8%	2.8%
Fixed rate received (weighted average)	3.1%	3.1%
Net swap earnings/(loss) ⁽¹⁾	\$ (326)	\$ (535)
Fair value ⁽²⁾	\$ (848)	\$ (960)

(1) Includes related fair market value adjustments.

(2) Fair value amounts were calculated using market rates as of September 30, 2006 and 2005, and standard cash flow present valuing techniques.

The Electric System and the Water and Sewer System are exposed to a potential nonpayment in the event of nonperformance by the counterparty of its interest rate swap agreements. JEA believes that the risk of nonpayment in the event of nonperformance by the counterparty under these agreements is not significant. JEA does not anticipate nonperformance by any counterparty.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

4. Capital Assets

Capital asset activity for the year ended September 30, 2006, is as follows:

	Balance September 30, 2005	Additions	Retirements	Transfers / Adjustments	Balance September 30, 2006
Electric System:					
Generation Assets	\$ 2,888,166	\$ 50,143	\$ (17,189)	\$ —	\$ 2,921,120
Transmission Assets	329,037	34,460	(1,585)	—	361,912
Distribution Assets	1,122,795	81,807	(14,057)	—	1,190,545
Other Assets	348,191	21,055	(1,695)	—	367,551
Total Capital Assets	4,688,189	187,465	(34,526)	—	4,841,128
Less: Accumulated Depreciation and Amortization	(1,755,633)	(189,404)	29,020	—	(1,916,017)
Land	44,333	14,402	—	—	58,735
Construction Work-in-Process	391,651	16,225	—	—	407,876
Net Capital Assets	3,368,540	28,688	(5,506)	—	3,391,722

Continued on next page.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

4. Capital Assets (continued)

	Balance September 30, 2005	Additions	Retirements	Transfers / Adjustments	Balance September 30, 2006
Water and Sewer System:					
Water and Sewer Pumping Assets	\$ 302,208	\$ 16,875	\$ (25)	\$ 306	\$ 319,364
Water and Sewer Treatment Assets	397,358	31,642	—	7	429,007
Water Transmission & Distribution Assets	612,122	112,770	(1,435)	634	724,091
Sewer Collection Assets	970,497	63,265	(6,660)	383	1,027,485
Sewer Reclaimed Water Assets	21,085	13,379	—	—	34,464
Water and Sewer General and Other Assets	302,635	40,969	(1,923)	360	342,041
Total Capital Assets	2,605,905	278,900	(10,043)	1,690	2,876,452
Less: Accumulated Depreciation	(650,624)	(96,343)	10,043	(1,690)	(738,614)
Land	24,042	1,131	—	—	25,173
Construction Work-in-Process	423,127	(41,639)	—	—	381,488
Net Capital Assets	2,402,450	142,049	—	—	2,544,499

Continued on next page.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

4. Capital Assets (continued)

	Balance September 30, 2005	Additions	Retirements	Transfers / Adjustments	Balance September 30, 2006
District Energy System:					
Unclassified Plant	\$ 29,618	\$ 84	\$ —	\$ —	\$ 29,702
Construction Work-in-Process	17,714	2,691	—	—	20,405
Total Capital Assets	47,332	2,775	—	—	50,107
Less: Accumulated Depreciation	(523)	(1,581)	—	—	(2,104)
Net Capital Assets	46,809	1,194	—	—	48,003
 Total Electric System, Water and Sewer System, and District Energy System	 \$ 5,817,799	 \$ 171,931	 \$ (5,506)	 \$ —	 \$ 5,984,224

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

4. Capital Assets (continued)

Capital Asset activity for the year ended September 30, 2005 is as follows:

	Balance September 30, 2004	Additions	Retirements	Transfers / Adjustments	Balance September 30, 2005
Electric System:					
Generation Assets	\$ 2,664,321	\$ 227,093	\$ (3,248)	\$ —	\$ 2,888,166
Transmission Assets	365,996	(36,959)	—	—	329,037
Distribution Assets	992,207	138,573	(7,985)	—	1,122,795
Other Assets	323,330	26,184	(415)	(908)	348,191
Total Capital Assets	4,345,854	354,891	(11,648)	(908)	4,688,189
Less: Accumulated Depreciation and Amortization	(1,578,219)	(190,898)	13,217	267	(1,755,633)
Land	36,779	7,554	—	—	44,333
Construction Work-in-Process	583,498	(191,847)	—	—	391,651
Net Capital Assets	3,387,912	(20,300)	1,569	(641)	3,368,540

Continued on next page.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

4. Capital Assets (continued)

	Balance September 30, 2004	Additions	Retirements	Transfers / Adjustments	Balance September 30, 2005
Water and Sewer System:					
Water and Sewer Pumping Assets	\$ 273,866	\$ 28,124	\$ (399)	\$ 617	\$ 302,208
Water and Sewer Treatment Assets	364,325	32,520	(281)	794	397,358
Water Transmission and Distribution Assets	570,148	41,933	(1,691)	1,732	612,122
Sewer Collection Assets	871,159	99,938	(2,663)	2,063	970,497
Sewer Reclaimed Water Assets	21,120	(35)	—	—	21,085
Water and Sewer General and Other Assets	277,831	25,046	(356)	114	302,635
Total Capital Assets	2,378,449	227,526	(5,390)	5,320	2,605,905
Less: Accumulated Depreciation	(561,319)	(89,224)	5,390	(5,471)	(650,624)
Land	20,423	3,582	—	37	24,042
Construction Work-in-Process	419,873	3,508	—	(254)	423,127
Net Capital Assets	2,257,426	145,392	—	(368)	2,402,450

Continued on next page.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

4. Capital Assets (continued)

	Balance September 30, 2004	Additions	Retirements	Transfers / Adjustments	Balance September 30, 2005
District Energy System:					
Unclassified Plant	\$ —	\$ 28,710	\$ —	\$ 908	\$ 29,618
Construction Work-in-Process	—	46,424	(28,710)	—	17,714
Total Capital Assets	—	75,134	(28,710)	908	47,332
Less: Accumulated Depreciation	—	(370)	—	(153)	(523)
Net Capital Assets	—	74,764	(28,710)	755	46,809
 Total Electric System, Water and Sewer System, and District Energy System	 \$ 5,645,338	 \$ 199,856	 \$ (27,141)	 \$ (254)	 \$ 5,817,799

5. Investment in The Energy Authority

JEA is a member of The Energy Authority, Inc. (TEA), a municipal power marketing and risk management joint venture, headquartered in Jacksonville, Florida. TEA currently has six members and JEA's ownership in TEA is 21.4%. TEA provides wholesale power marketing and resource management services to members and non-members and allocates transaction savings and operating expenses pursuant to a settlement agreement. TEA also assists JEA with natural gas procurement and related gas hedging activities. JEA's earnings from TEA were \$21,910 in fiscal year 2006 and \$17,382 in fiscal year 2005 for all power marketing activities. The investment in TEA of \$7,235 at September 30, 2006 and \$7,562 at September 30, 2005, is reflected under other noncurrent assets on the balance sheets.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

5. Investment in The Energy Authority (continued)

The following is a summary of the unaudited financial information of TEA for the nine months ended September 30, 2006.

	Unaudited	
	2006	2005
Condensed balance sheet:		
Current assets	\$ 147,225	\$ 287,510
Noncurrent assets	7,015	7,574
Total assets	<u>\$ 154,240</u>	<u>\$ 295,084</u>
Current liabilities	\$ 120,812	\$ 262,584
Noncurrent liabilities	249	2,572
Members' capital	33,179	29,928
Total liabilities and members' capital	<u>\$ 154,240</u>	<u>\$ 295,084</u>
Condensed statement of operations:		
Operating revenues	\$ 1,258,149	\$ 1,086,226
Operating expenses	1,155,682	982,390
Operating income	<u>\$ 102,467</u>	<u>\$ 103,836</u>
Net income	<u>\$ 104,107</u>	<u>\$ 104,764</u>

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

5. Investment in The Energy Authority (continued)

As of September 30, 2006, JEA is obligated to guaranty, directly or indirectly, TEA's electric trading activities in an amount up to \$28,929 and TEA's natural gas procurement and trading activities up to \$35,600, in either case, plus attorney's fees which any party claiming and prevailing under the guaranty might incur and be entitled to recover under its contract with TEA. JEA has approved up to \$50,000 (plus attorney fees) for TEA's natural gas procurement and trading activities. Generally, JEA's guaranty obligations for electric trading would arise if TEA did not make the contractually required payment for energy, capacity or transmission which was delivered or made available or if TEA failed to deliver or provide energy, capacity, or transmission as required under a contract. Generally, JEA's guaranty obligations for natural gas procurement and trading would arise if TEA did not make the contractually required payment for natural gas or transportation which was delivered or purchased or if TEA failed to deliver natural gas or transportation as required under a contract.

Upon JEA's making any payments under its electric guaranty, it has certain contribution rights with the other members of TEA in order that payments made under the TEA member guaranties would be equalized ratably, based upon each member's equity ownership interest in TEA. Upon JEA's making any payments under its natural gas guaranty, it has certain contribution rights with the other members of TEA in order that payments under the TEA member guaranties would be equalized ratably in proportion to their respective amounts of guaranties, as adjusted by the actual natural gas member volumes and prices for the calendar year. After such contributions have been effected, JEA would only have recourse against TEA to recover amounts paid under the guaranty.

JEA has elected to provide a guaranty for the use by TEA solely for the purpose of facilitating trading (including financial transactions) or transportation activities involving electricity, natural gas, or any other commodity for, and as approved by, JEA. The amount of this guaranty is \$50,000 plus reasonable attorney fees which any party claiming and prevailing under such guaranty might incur. This guaranty is intended to be used by TEA for long-term transactions or hedging transactions, solely for the account of JEA. JEA's guaranty obligations thereunder would generally arise if TEA did not make the contractually required payment or failed to deliver the commodity as required under the contract. JEA has no contribution rights with other members of TEA under this guaranty. JEA only has recourse against TEA to recover amounts paid under this guaranty.

The term of these guaranties is generally indefinite, but JEA has the ability to terminate its guaranty obligations by causing to be provided advance notice to the beneficiaries thereof. Such termination of its guaranty obligations only applies to TEA transactions not yet entered into at the time the termination takes effect.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

6. Investment in Coelectric Partners, Inc.

JEA, along with three other public power utilities, is a member of Coelectric Partners, Inc. (Coelectric), a Georgia nonprofit corporation. JEA's ownership interest is 25%. The purpose of Coelectric is to secure cost savings through the implementation of standardized practices in the development, engineering, procurement, construction, and start-up of generation facilities. Cost savings are also envisioned by joint measures for training and spare parts. The long-term goal of Coelectric is to provide its members with services in other aspects of the energy supply chain. At September 30, 2006 and 2005, \$132 and \$136, respectively, are reflected in prepayments and other under other noncurrent assets in the balance sheets.

The following is a summary of the unaudited information of Coelectric for the eight months ended August 31, 2006:

	Unaudited	
	2006	2005
Condensed balance sheet:		
Current assets	\$ 1,352	\$ 1,244
Noncurrent assets	23	33
Total assets	<u>\$ 1,375</u>	<u>\$ 1,277</u>
Current liabilities	\$ 849	\$ 734
Members' capital	526	543
Total liabilities and members' capital	<u>\$ 1,375</u>	<u>\$ 1,277</u>
Condensed statement of operations:		
Operating revenues	\$ 1,536	\$ 1,311
Operating expenses	1,595	1,097
Operating income	<u>\$ (59)</u>	<u>\$ 214</u>
Net income	<u>\$ (35)</u>	<u>\$ 229</u>

Coelectric issues separate audited financial statements on a calendar-year basis.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

7. Long-Term Debt

The Electric System, SJRPP, Water and Sewer System and District Energy System revenue bonds (JEA Revenue Bonds) are each governed by one or more bond resolutions. The Electric System bonds are governed by both a senior and a subordinated bond resolution; the Water and Sewer System bonds are governed by both a senior and a subordinated bond resolution; and the SJRPP and District Energy System bonds are each governed by a single bond resolution. In accordance with the bond resolutions of each system, principal and interest on the bonds are payable from and secured by a pledge of the Net Revenues of the respective system. In general, the bond resolutions require JEA to make monthly deposits into the separate debt service sinking funds for each System in an amount equal to approximately one-twelfth of the aggregate amount of principal and interest due and payable on the bonds within the bond year. Interest on the fixed rate bonds, other than the SJRPP capital appreciation bonds, is payable semi-annually on April 1 and October 1 and principal is payable on October 1. In accordance with the requirements of the SJRPP bond resolution and the Agreement for Joint Ownership and Construction and Operation of St. Johns River Power Park Coal Units #1 and #2 between JEA and FPL, FPL is responsible for paying its share of the debt service on the SJRPP bonds. The various bond resolutions provide for certain other covenants, the most significant of which (1) requires JEA to establish rates for each system such that net revenues with respect to that system is sufficient to exceed (by a certain percentage) the debt service for that system during the fiscal year and any additional amount required to make all reserve or other payments required to be made in such fiscal year by the resolution of that system and (2) restricts JEA from issuing additional parity bonds unless certain conditions are met.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

JEA

Schedule of Outstanding Indebtedness As of September 30, 2006 and September 30, 2005

<u>Long-term Debt</u>	<u>Interest Rates ⁽¹⁾</u>	<u>Payment Dates</u>	<u>September 30, 2005</u>	<u>September 30, 2006</u>
Electric System Senior Revenue Bonds:				
Series Three, 1998A	4.500 - 5.100 %	2006-2032	\$ 95,750	\$ 95,750
Series Three, 2001C	5.000%	2027-2031	28,055	28,055
Series Three, 2002A	4.875 %	2016	2,480	2,480
Series Three, 2002B	3.250 - 4.700 %	2008-2018	105,395	105,395
Series Three, 2003A	2.500 - 4.625%	2006-2039	94,445	94,445
Series Three, 2003B-1 ⁽⁴⁾	Variable	2006-2033	87,000	86,600
Series Three, 2003B-2 ⁽⁴⁾	Variable	2006-2033	87,000	86,600
Series Three, 2003C-1 ⁽⁴⁾	Variable	2006-2038	49,400	49,400
Series Three, 2003C-2 ⁽⁴⁾	Variable	2006-2038	49,400	49,400
Series Three, 2004A	2.375 - 5.000%	2007-2039	101,890	101,890
Series Three, 2005A	3.450 - 4.750%	2012-2039	90,000	90,000
Series Three, 2005B	3.000 - 5.000%	2007-2033	92,905	92,905
Series Three, 2005C-1 ⁽⁴⁾	Variable	2006-2039	72,950	72,950
Series Three, 2005C-2 ⁽⁴⁾	Variable	2006-2039	72,275	72,275
Series Three, 2005C-3 ⁽⁴⁾	Variable	2006-2035	58,325	58,325
Series Three, 2005C-4 ⁽⁴⁾	Variable	2006-2035	58,100	58,100
Series Three, 2005D	3.000 - 4.500%	2007-2035	36,440	36,440
Series Three, 2006A	3.250 - 5.000%	2007-2041	-	94,000
Total Electric System Senior Revenue Bonds			<u>1,181,810</u>	<u>1,275,010</u>

Continued on next page

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

JEA

Schedule of Outstanding Indebtedness (continued)

Long-term Debt	Interest Rates ⁽¹⁾	Payment Dates	September 30, 2005	September 30, 2006
Electric System Subordinated Revenue Bonds:				
Series B Commercial Paper Notes	Variable	n/a	\$ 9,247	\$ 8,370
Series C Commercial Paper Notes	Variable	n/a	111,824	109,208
2000 Series A ⁽³⁾	Variable	2006-2035	81,800	81,800
2000 Series B ⁽³⁾	Variable	2006-2035	81,800	81,800
2000 Series E	4.625 %	2008	3,015	3,015
2000 Series F ⁽³⁾	Variable	2017-2030	125,000	125,000
2001 Series A	3.800 - 4.500 %	2007-2012	22,405	22,405
2001 Series B ⁽³⁾	Variable	2017-2030	66,000	66,000
2001 Series C ⁽³⁾	Variable	2017-2030	66,000	66,000
2001 Series D ⁽⁴⁾	Variable	2010-2031	175,100	175,100
2001 Series E	3.000 - 4.200 %	2006-2013	27,760	25,075
2002 Series A	3.850 - 4.750 %	2008-2015	10,740	10,740
2002 Series B	3.000 - 5.000 %	2006-2008	33,485	20,650
2002 Series C	3.250 - 3.875 %	2008-2011	72,710	72,710
2002 Series D	4.000 - 4.875 %	2014-2035	116,275	116,275
2003 Series A	4.500 - 4.625 %	2023-2033	30,755	30,755
2004 Series A	4.200 - 5.000 %	2014-2024	25,000	25,000
2005 Series A	3.000 - 4.750 %	2008-2029	24,450	24,450
2005 Series B ⁽⁴⁾	Variable	2006-2037	70,775	70,775
2005 Series C	3.000 - 4.375 %	2007-2035	25,040	25,040
2006 Series A	3.750 - 4.300 %	2015-2024	-	25,000
Total Electric System Subordinated Revenue Bonds			1,179,181	1,185,168

Continued on next page

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

JEA

Schedule of Outstanding Indebtedness (continued)

<u>Long-term Debt</u>	<u>Interest Rates ⁽¹⁾</u>	<u>Payment Dates</u>	<u>September 30, 2005</u>	<u>September 30, 2006</u>
SJIRPP System Revenue Bonds:				
Issue 2 Series 7	6.200%	2010-2011	\$ 14,994	\$ 14,994
Issue 2, Series 9			58,420	-
Issue 2, Series 10	5.500%	2013	50	50
Issue 2, Series 11	5.000%	2006	154,480	1,570
Issue 2, Series 12	5.000%	2006	141,755	27,970
Issue 2, Series 13	4.700 - 5.375 %	2006-2016	77,045	69,055
Issue 2, Series 14	4.700 - 5.300 %	2006-2014	39,545	38,985
Issue 2, Series 15	4.700 - 5.500 %	2006-2007	64,890	50,675
Issue 2, Series 16			6,565	-
Issue 2, Series 17	4.700 - 5.250 %	2006-2019	486,180	459,450
Issue 2, Series 18	2.625 - 5.000 %	2006-2018	182,405	159,625
Issue 2, Series 19	3.080 - 4.600 %	2006-2017	61,340	60,740
Issue 2, Series 20	3.625 - 4.500 %	2011-2021	-	96,500
Issue 2, Series 21	4.000 - 5.000 %	2007-2021	-	225,180
Total SJIRPP System Revenue Bonds:			<u>1,287,669</u>	<u>1,204,794</u>

Continued on next page

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

JEA

Schedule of Outstanding Indebtedness (continued)

<u>Long-term Debt</u>	<u>Interest Rates ⁽¹⁾</u>	<u>Payment Dates</u>	<u>September 30, 2005</u>	<u>September 30, 2006</u>
Water and Sewer System Senior Revenue Bonds:				
1997 Series B	4.750 - 5.400%	2006-2020	\$ 52,855	\$ 52,855
1999 Series A	4.500 - 5.000%	2009-2014	11,125	11,125
2001 Series A			235	-
2001 Series B	3.800 - 5.300%	2006-2039	81,990	81,990
2001 Series C	3.500 - 4.375%	2008-2013	33,375	33,375
2002 Series A ⁽²⁾	5.375 - 5.500%	2024-2041	125,000	125,000
2002 Series B	3.000 - 5.250%	2006-2017	69,720	65,690
2002 Series C	4.625 - 5.000%	2018-2041	160,000	160,000
2003 Series A	3.125 - 4.750%	2011-2043	50,720	50,720
2003 Series B	4.375 - 4.750%	2021-2037	56,640	56,640
2004 Series A	2.000 - 5.250%	2006-2039	207,640	207,640
2004 Series B	2.500 - 4.500%	2008-2039	124,030	124,030
2004 Series C	2.250 - 5.000%	2007-2039	85,650	85,650
2005 Series A	3.000 - 5.000%	2007-2041	147,575	147,575
2005 Series C	3.500 - 5.000%	2014-2037	116,830	116,830
2006 Series A	4.500 - 4.750%	2019-2041	-	35,000
Total Water and Sewer System Senior Revenue Bonds:			<u>1,323,385</u>	<u>1,354,120</u>

Continued on next page

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

JEA

Schedule of Outstanding Indebtedness (continued)

<u>Long-term Debt</u>	<u>Interest Rates ⁽¹⁾</u>	<u>Payment Dates</u>	<u>September 30, 2005</u>	<u>September 30, 2006</u>
Water and Sewer System Subordinated Revenue Bonds:				
Second Crossover Series ⁽²⁾	3.250 - 5.000%	2008-2041	\$ 129,955	\$ 129,955
Subordinated 2003 Series A - 1 ⁽⁴⁾	Variable	2006-2036	64,175	63,100
Subordinated 2003 Series A - 2 ⁽⁴⁾	Variable	2006-2036	63,800	62,725
Subordinated 2003 Series B ⁽³⁾	Variable	2006-2036	96,165	95,165
Subordinated 2003 Series C	3.125 - 5.000%	2011-2043	51,255	50,400
Subordinated 2004 Series A	2.000 - 4.375%	2007-2034	40,545	39,695
Subordinated 2004 Series B	4.000 - 4.750%	2015-2025	20,000	20,000
Subordinated 2005 Series A	3.500%	2009-2013	865	865
Subordinated 2006 Series A	4.000 - 4.750%	2008-2036	-	15,000
Total Water and Sewer System Subordinated Revenue Bonds			466,760	476,905

Continued on next page

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

JEA

Schedule of Outstanding Indebtedness (continued)

<u>Long-term Debt</u>	<u>Interest Rates ⁽¹⁾</u>	<u>Payment Dates</u>	<u>September 30, 2005</u>	<u>September 30, 2006</u>
District Energy System:				
2004 Series A	Variable	2010-2034	\$ 47,800	\$ 47,800
Line of Credit Draws	4.250 - 4.420%	2008	-	4,000
Total District Energy System			47,800	51,800
Total Debt Principal Outstanding			5,490,615	5,551,809
Plus Accretion of SJRPP Issue 2 Series 7				
Capital Appreciation Bonds			18,440	20,545
Sub-total			\$ 5,509,055	\$ 5,572,354
Less: Debt Due Within One Year			104,880	119,820
Total Long-term Debt			\$ 5,404,175	\$ 5,452,534

⁽¹⁾ The interest rates on the variable rate debt outstanding at September 30, 2006 ranged from 3.29% to 5.29%. Interest on the variable rate debt is based on various methods including daily mode, auction-mode and commercial paper mode and the interest rates are re-set in time increments ranging from one day to 270 days. For the Series Three 2003B-1, Series Three 2003B-2, Series Three 2005C-1, Series Three 2005C-2, Series Three 2005C-3, Series Three 2005C-4, and Subordinated 2005 B (the "fixed-payer bonds"), JEA executed fixed-payer interest rate swaps to effectively fix its net payments relative to the fixed-payer bonds. The terms of the interest rate swaps are approximately equal to that of the fixed-payer bonds.

⁽²⁾ On March 24, 2005, JEA issued its Water and Sewer System Subordinated Revenue Bonds Second Crossover Series. Upon the April 1, 2007 crossover date, unless certain conditions are not satisfied, \$125,000 of Water and Sewer System 2002 Series A Bonds will be redeemed and the Second Crossover Series will be exchangeable for \$129,995 of Water and Sewer System 2005 Series B bonds. The Second Crossover Series and the Water and Sewer System Series 2002 A bonds will both remain on JEA's balance sheet until April 1, 2007. A corresponding escrow has been recorded which will pay the debt service on the Second Crossover Series until April 1, 2007.

⁽³⁾ Variable rate demand obligations.

⁽⁴⁾ Auction rate bonds.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

7. Long-Term Debt (continued)

For the variable rate demand obligations appearing in the above Schedule of Outstanding Indebtedness (such obligations are either in the daily, weekly or commercial paper mode), liquidity support is provided in connection with tenders for purchase with separate liquidity providers pursuant to standby bond purchase agreements (the "SBPA") relating to that series of obligation. The purchase price of the obligations tendered or deemed tendered for purchase is payable from the proceeds of the remarketing thereof and moneys drawn under the applicable SBPA. The current termination dates of the SBPA ranged from May 21, 2007 to April 1, 2011. Each of the SBPA termination dates may be extended.

For the commercial paper notes appearing in the above Schedule of Outstanding Indebtedness (to provide liquidity support for each series of commercial paper notes), JEA has entered into two separate revolving credit agreements with a single commercial bank. If moneys are not available to pay the principal of any maturing commercial paper notes during the term of the credit agreements, JEA is entitled to make a borrowing under the applicable credit agreement. Each of the credit agreements termination dates may be extended. The current termination dates of the credit agreements are December 7, 2007, which may be extended.

For the variable rate District Energy System 2004 Series A bonds appearing in the above Schedule of Outstanding Indebtedness, in connection with the issuance thereof, JEA entered into a letter of agreement with a bank to provide credit and liquidity enhancement for the bonds. The letter of credit will permit the bank to draw under the agreement for the payment when due of the principal on the 2004 Series A bonds and will permit the tender agent, to draw under the agreement for the purchase price of the 2004 Series A bonds tendered or deemed tendered for purchase pursuant to the tender provisions of the 2004 Series A bonds. To evidence its obligation to reimburse the bank for amounts advanced under the letter of credit, the District Energy System Revenue Bond 2004 Series Reimbursement Obligation was issued. As long as JEA is obligated to make deposits to the Series 2004 Reimbursement Obligation Sub-account in the Debt Service Reserve Fund, Section 710 (Rates, Fees and Charges) and Section 203(1)(1) (Issuance of Bonds Other than Refunding Bonds and Reimbursement Obligations) of the District Energy System Bond Resolution shall not apply to the 2004 Series A bonds or the 2004 Series Reimbursement Obligation. The current expiration date of the letter of credit is October 7, 2011, which may be extended.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

7. Long-Term Debt (continued)

Long-term debt activity for the year ended September 30, 2006 was as follows:

	Bonds Payable September 30, 2005	Par Amount of Bonds Issued	Par Amount of Bonds Refunded or Defeased	Principal Payments	Accretion of SJRPP Issue 2 Series 7 Capital Appreciation Bonds	Bonds Payable September 30, 2006	Current Portion September 30, 2006
Electric System	\$ 2,360,991	\$ 119,000	\$ -	\$ (19,813)	\$ -	\$ 2,460,178	\$ 22,440
SJRPP System	1,306,109	321,680	(325,115)	(79,440)	2,105	1,225,339	83,560
Water and Sewer System	1,790,145	50,000	-	(9,120)	-	1,831,025	13,820
District Energy System	47,800	7,000	(3,000)	-	-	51,800	-
Total	<u>\$ 5,505,045</u>	<u>\$ 497,680</u>	<u>\$ (328,115)</u>	<u>\$ (108,373)</u>	<u>\$ 2,105</u>	<u>\$ 5,568,342</u>	<u>\$ 119,820</u>

Long-term debt activity for the year ended September 30, 2005, was as follows:

	Bonds Payable September 30, 2004	Par Amount of Bonds Issued	Par Amount of Bonds Refunded or Defeased	Principal Payments	Accretion of SJRPP Issue 2 Series 7 Capital Appreciation Bonds	Bonds Payable September 30, 2005	Current Portion September 30, 2005
Electric System	\$ 2,181,966	\$ 601,810	\$ (416,330)	\$ (6,455)	\$ -	\$ 2,360,991	\$ 16,320
SJRPP System	1,382,738	-	-	(78,610)	1,981	1,306,109	79,440
Water and Sewer System	1,634,895	477,215	(228,090)	(93,875)	-	1,790,145	9,120
District Energy System	-	47,800	-	-	-	47,800	-
Total	<u>\$ 5,199,599</u>	<u>\$ 1,126,825</u>	<u>\$ (644,420)</u>	<u>\$ (178,940)</u>	<u>\$ 1,981</u>	<u>\$ 5,505,045</u>	<u>\$ 104,880</u>

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

7. Long-Term Debt (continued)

The debt service to maturity on the outstanding bonds, exclusive of the Second Crossover Series bonds, as of September 30, 2006 is summarized in the table below

Bond Year Ending October 1,	Electric System		Power Park		Water and Sewer		District Energy		Total
	Principal	Interest (1)	Principal	Interest	Principal	Interest	Principal	Interest	Debt Service (2)
2006	\$ 22,440	\$ 27,050	\$ 83,560	\$ 28,960	\$ 13,820	\$ 34,350	\$ -	\$ 150	\$ 210,330
2007	37,949	94,590	85,400	53,880	53,880	75,870	-	1,850	403,419
2008	71,593	93,270	95,580	49,740	27,445	73,510	4,000	1,850	416,988
2009	97,668	90,760	100,310	45,010	32,145	72,570	-	1,670	440,133
2010	104,071	87,420	94,558	54,250	33,935	71,360	1,310	1,670	448,574
2011-2015	380,692	385,930	506,766	146,930	192,120	334,540	7,170	7,650	1,961,798
2016-2020	356,516	318,730	224,885	36,840	236,700	289,910	8,315	6,320	1,478,216
2021-2025	409,288	245,610	13,735	620	269,970	232,050	9,630	4,770	1,185,673
2026-2030	422,221	168,600	-	-	248,885	173,050	11,165	2,980	1,026,901
2031-2035	327,730	89,560	-	-	257,335	117,990	10,210	910	803,735
2036-2040	221,375	25,680	-	-	274,430	56,550	-	-	578,035
2041-2045	8,635	430	-	-	60,405	3,900	-	-	73,370
Totals	\$ 2,460,178	\$ 1,627,630	\$ 1,204,794	\$ 416,230	\$ 1,701,070	\$ 1,535,650	\$ 51,800	\$ 29,820	\$ 9,027,172

- (1) Includes amortization of commercial paper notes which is based upon JEA's current commercial paper payment plans and excludes payments made during fiscal year 2006.
- (2) Interest requirement for the variable rate debt was determined by using the interest rate that was in effect at the financial statement date of September 30, 2006. The table excludes payments made during fiscal year 2006.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

7. Long-Term Debt (continued)

The estimated fair values of JEA's outstanding fixed rate debt were \$4,130,611 at September 30, 2006 and \$4,073,085 at September 30, 2005. The estimated fair values of the fixed rate debt were determined through a nationally recognized third-party financial information service. The estimated fair values of JEA's outstanding variable rate debt and bank loans were \$1,542,633 at September 30, 2006 and \$1,593,796 at September 30, 2005. The estimated fair values of the variable rate debt and bank loans were determined to be the par amount outstanding.

JEA, at its option, may redeem specific outstanding fixed rate JEA Revenue Bonds prior to maturity, as discussed in the official statements covering their issuance. A summary of the redemption provisions is as follows:

	Electric System	SJRPP System	Water and Sewer System
Earliest year for redemption	2006	2006	2006
Redemption price ranges	101% - 100%	100%	101% - 100%

JEA debt issued in fiscal year 2006 is summarized in the following table:

System	Debt Issued	Purpose	Priority of Lien	Month of Issue	Par Amount Issued	Par Amount Refunded	Acctg Gain (Loss)	Economic Gain
Electric	Series Three 2006A	New Money	Senior	January 2006	\$ 94,000	\$ -	\$ -	\$ -
Electric	2006 Series A	New Money	Subordinated	January 2006	25,000	-	-	-
SJRPP	Issue 2 Series 20,21	Refunding	Senior	November 2005	321,680	325,115	(8,727)	21,888
Water and Sewer	2006 Series A	New Money	Senior	May 2006	35,000	-	-	-
Water and Sewer	2006 Series A	New Money	Subordinated	May 2006	15,000	-	-	-
District Energy	Bank Draw	Refunding	Subordinated	August 2006	3,000	3,000	-	-
District Energy	Bank Draw	New Money	Subordinated	Various	4,000	-	-	-
					\$ 497,680	\$ 328,115	\$ (8,727)	\$ 21,888

The estimated economic gain was calculated as the difference between the present value of the debt service payments on the refunded bonds and the debt service payment on the refunding bonds.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

7. Long-Term Debt (continued)

Short-Term Bank Borrowing

JEA currently has an arrangement with a commercial bank for an unsecured line of credit for \$100,000. The line of credit can be used with respect to the Electric System, the Water and Sewer System or the District Energy System and for operating expenditures or for capital expenditures. During the fiscal year, one draw of \$15,000 was made and repaid for Electric System capital expenditures. Two draws of \$1,500 each were made during the fiscal year for District Energy System capital expenditures. The two draws were consolidated into a single term loan during the year and are scheduled to be re-paid in August 2008. During the last month of the fiscal year a third draw in the amount of \$1,000 was made to fund additional capital expenditures for the District Energy System. It is scheduled to be re-paid in August 2008 as well. Because of the somewhat longer maturity dates of these draws, they are being reported with JEA's long-term debt. The current expiration date of the line of credit agreement is August 31, 2008.

Debt Management Strategy

JEA has entered into various interest rate swap agreements, caps, or related hedging instruments in connection with its debt management strategy that expire over the next two years (unless earlier terminated). In addition, JEA has entered into various integrated interest rate swap agreements executed in conjunction with debt financings for terms up to 35 years (unless earlier terminated). JEA utilizes a combination of fixed to floating interest rate swaps and floating to fixed interest rates swaps as part of its debt management strategy. For purposes of this note, the term fixed to floating interest rate swaps refer to swaps in which JEA receives a fixed rate and pays a variable rate. Floating to fixed interest rate swaps refer to swaps in which JEA receives a floating rate and pays a fixed rate.

The fair value of the interest rate swap agreements, caps, and related hedging instruments are included as an addition or reduction to long-term debt on the balance sheets; however, the notional amounts of the interest rate swaps are not reflected in the financial statements. The earnings from the debt management strategy interest rate swap, cap, and related hedging instruments and the related adjustments to fair value are shown as additions or reductions to interest on debt in the statements of revenues, expenses, and changes in net assets.

There were no fixed to floating interest rate swap agreements open at September 30, 2006 or September 30, 2005.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

7. Long-Term Debt (continued)

For fiscal years ending September 30, 2006 and 2005, the interest rate cap agreements expiring within two years were as follows:

	2006	2005
BMA Index:		
Electric System notional amount outstanding	\$ 145,000	\$ 145,000
Water and Sewer System notional amount outstanding	\$ 110,000	\$ 110,000
Cap rates	4.7% - 5.5%	4.7% - 5.5%
Variable rate (weighted average)	3.3%	2.2%
Electric System fair value ⁽¹⁾	\$ 1	\$ 18
Water and Sewer System fair value ⁽¹⁾	\$ —	\$ 8

(1) Fair value amounts were calculated using market rates as of September 30, 2006 and 2005, and standard cash flow present valuing techniques.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

7. Long-Term Debt (continued)

For fiscal years ending September 30, 2006 and 2005, the floating to fixed interest rate swap agreements expiring within one year are included in the below table. There were no floating to fixed interest rate swap agreements outstanding at September 30, 2006; however, the below table includes information related to interest rate swaps that expired during fiscal year 2006.

	2006	2005
BMA Index:		
Electric System notional amount outstanding	\$ —	\$ 800,000
Water and Sewer System notional amount outstanding	\$ —	\$ 200,000
Variable rate received (weighted average)	2.6%	2.2%
Fixed rate paid (weighted average)	2.0%	2.0%
Electric System net swap earnings/(loss)(1)	\$ (137)	\$ 1,744
Water and Sewer System net swap earnings/(loss)(1)	\$ (46)	\$ 367
Electric System fair value(2)	\$ —	\$ 659
Water and Sewer System fair value(2)	\$ —	\$ 174

(1) Includes related fair market value adjustments.

(2) Fair value amounts were calculated using market rates as of September 30, 2005, and standard cash flow present valuing techniques.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

7. Long-Term Debt (continued)

During fiscal year 2005, JEA entered into various integrated (October 1, 2039 maximum expiration – unless earlier terminated) floating to fixed interest rate swap agreements with a total notional amount of \$332,425 along with the issuance of \$261,650 of Electric System Variable Rate Bonds and \$70,775 of Electric System Subordinated Variable Rate Bonds issued on January 27, 2005.

During fiscal year 2004, JEA entered into an integrated (September 18, 2033 expiration – unless earlier terminated) floating to fixed interest rate swap agreement with a notional amount of \$174,000 along with the issuance of \$174,000 par amount of Electric System Variable Rate Revenue Bonds issued on September 18, 2003.

There were no integrated floating to fixed interest rate swap agreements outstanding for Water and Sewer System at September 30, 2006 and 2005. For fiscal years ending September 30, 2006 and 2005, the Electric System integrated floating to fixed interest rate swap agreements were as follows:

	2006	2005
68 Percent of LIBOR Index:		
Notional amount outstanding	\$ 330,500	\$ 174,000
Variable rate received (weighted average)	3.3%	1.9%
Fixed rate paid (weighted average)	3.7%	3.7%
BMA Index:		
Notional amount outstanding	\$ 175,125	\$ 332,425
Variable rate received (weighted average)	3.2%	2.4%
Fixed rate paid (weighted average)	4.0%	3.9%
Net swap earnings/(loss) ⁽¹⁾	\$ 5,245	\$ (17,105)
Fair value ⁽²⁾	\$ (9,465)	\$ (17,595)

(1) Includes related fair market value adjustments.

(2) Fair value amounts were calculated using market rates as of September 30, 2006 and 2005, and standard cash flow present valuing techniques.

The Electric System and the Water and Sewer System are exposed to a potential nonpayment in the event of nonperformance by the counterparty to its interest rate swap agreements and interest rate cap agreements. JEA believes that the risk of nonpayment in the event of nonperformance by the counterparty under the agreements is not significant and furthermore, JEA does not anticipate nonperformance by any counterparty.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

8. Transactions with City of Jacksonville

Utility and Administrative Services

JEA is a separately governed authority and is also considered to be a discretely presented component unit of the City of Jacksonville (City). JEA provides electric, water, and sewer service to the City and its agencies and bills for such service using established rate schedules. JEA utilizes various services provided by departments of the City, including insurance, legal, and motor pool. JEA is billed on a proportionate cost basis with other user departments and agencies. The revenues for services provided and expenses for services received by JEA for these related party transactions with the City were as follows:

	Revenues	Expenses
Fiscal year 2006	\$ 24,443	\$ 6,878
Fiscal year 2005	\$ 19,866	\$ 11,064

City Contribution

The calculation of the City contribution is based on approximately 9.8% of the revenues, as defined, of the Electric System and Water and Sewer System. This calculation is subject to a minimum average annual increase of \$2,750 per year using 2004 as the base year for the combined assessment for the Electric System and Water and Sewer System. There is also a maximum annual assessment for the combined Electric System and Water and Sewer System.

The JEA Electric System is required to contribute annually to the General Fund of the City an amount not to exceed 5.5 mills per kilowatt hour delivered by JEA to retail users in JEA's service area, and to wholesale customers under firm contracts having an original term of more than one year, other than sales of energy to FPL from JEA's St. Johns River Power Park System. The contribution for fiscal years 2006 and 2005 amounted to \$71,031 and \$68,677.

The JEA Water and Sewer System is required to contribute annually to the General Fund of the City an amount not to exceed 2.1 mills per cubic foot of potable water and sewer service provided, excluding reclaimed water service. The contribution amounts for fiscal year 2006 and 2005 were \$17,657 and \$17,261.

Although the calculation for the annual transfer of available revenue from JEA to the City is based upon formulas that are applied specifically to each utility system operated by JEA, JEA may, in its sole discretion, utilize any of its available revenues regardless of source to satisfy its total annual obligation to the City.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

8. Transactions with City of Jacksonville (continued)

In addition to the contributions described above, JEA is also obligated to make semi-annual payments with respect to a portion of the debt service for the City's Excise Tax Revenue Bonds, Series 1999A and 1995A through fiscal year 2009. In fiscal years 2006 and 2005, JEA made principal and interest payments to the City of \$2,533 and \$3,156. The total remaining principal amount due the City as of September 30, 2006 and 2005 was \$4,677 and \$7,077, and is reflected in deferred credits and other liabilities on the balance sheets.

Risk Management

JEA insures its risks related to general liability, automobile liability, and workers' compensation through the City's self insurance program. The City's Director of Administration and Finance manages the self-insurance program, estimates the liabilities through actuarial and other methods, and assesses the user departments and agencies. JEA purchases property insurance separate from the City for its insurable assets. In addition, JEA purchases property, liability and workers' compensation insurance for its St. Johns River Power Park facility including ownership interest of Florida Power and Light Company, as an additional insured.

Better Jacksonville Plan

The City is providing funding for sewer improvements as a part of the Better Jacksonville Plan. The City receives sales tax revenues, a portion of which are used for capital contributions to JEA for sewer improvements. These contributions amounted to \$15,546 and \$385 in fiscal years 2006 and 2005.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

9. Fuel Purchase and Purchased Power Commitments

JEA has commitments to purchase approximately 70% of the coal and petcoke for the Electric System, SJRPP, and Scherer Unit 4 under long-term contracts through 2008. JEA also has commitments for the transportation of coal purchases under a long-term contract for SJRPP expiring in 2007. SJRPP is currently in the process of negotiating a contract extension with its rail provider; however, no agreement has been reached at this time. Commitments for transportation of coal purchases for Scherer Unit 4 were renegotiated during fiscal year 2003 for the next ten years, subject to related purchase commitments. Contract terms for coal and petcoke specify minimum annual purchase commitments at certain prices subject to adjustments for price level changes according to the contract. In addition, JEA has remarketing rights under these contracts.

JEA has commitments to purchase natural gas delivered to Jacksonville under a long-term contract with BG Energy Merchants, LLC which expires in 2021. Contract terms for the natural gas specify minimum annual purchase commitments at market prices. JEA has the option to remarket any excess natural gas purchases. In addition, JEA has long-term contracts with Florida Gas Transmission Company for firm gas transportation capacity to allow delivery of additional gas volumes.

JEA has a commitment to purchase residual fuel oil from BP Products North America, Inc. (BP) through August 2009. BP owns the residual fuel oil stored at JEA's Northside Generating Station and has committed to maintain a minimum amount for JEA use. JEA pays for actual oil consumed within 45 days after each billing period. The agreement allows for both fixed and floating pricing options with a minimum purchase of 1,800 barrels of oil over the three-year contract period. BP will compensate JEA for terminaling services beginning in 2007. The agreement allows JEA to access BP oil in emergency conditions.

JEA also has contracts with certain operating subsidiaries of Southern Company (Southern) for the purchase of 200 MW of coal-fired capacity and energy through May 2010. These capacity obligations of Southern are firm, subject to the availability of the units involved (Miller Units 1-4 and Scherer Unit 3). Upon three years notice to Southern, JEA may elect to reduce its capacity obligations by as much as 150 MW.

Under these contracts with Southern, JEA is committed to purchase for the Electric System certain energy output associated with the purchased generating capacity entitlement. The total cost to be incurred by JEA depends upon future costs incurred by Southern in connection with its ownership and operation of coal-fired generating facilities to which the agreements relate and upon the amount of energy actually purchased by JEA. A portion of such future costs is related to the electric generating capacity entitlement and is payable by JEA, subject to certain contingencies, whether or not any energy is actually produced by such units or purchased by JEA.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

9. Fuel Purchase and Purchased Power Commitments (continued)

In the unlikely event that JEA would not be in a position to fulfill its obligations to receive fuel and purchased power under the terms of its existing fuel and purchased power contracts, JEA would nonetheless be obligated to make certain future payments. If the conditions necessitating the future payments occurred, JEA would mitigate the financial impact of those conditions by re-marketing the fuel and purchased power at then-current market prices. The aggregate amount of future payments that JEA does not expect to be able to mitigate, including the projected effects of inflation for coal purchase commitments of SJRPP (at JEA's 80% ownership interest) and the Bulk Power Supply System and future estimated fixed charges for electric generating capacity entitlement and transmission, including the projected effects of inflation for JEA, appear in the table below. The electric generating capacity and transmission charges do not reflect JEA's option to reduce its capacity obligations with three years notice.

Year Ending Sept. 30	Coal and Pet Coke		Natural Gas		Oil	Electric Generating Capacity/ Energy	Transmission	Total
	Fuel	Transportation	Fuel	Transportation				
2007	\$ (13,259)	\$ 10,393	\$ 7,954	\$ 15,094	\$ —	\$ 22,471	\$ 9,077	\$ 51,730
2008	(2,160)	7,277	16,745	21,130	—	23,448	9,384	75,824
2009	—	6,177	16,699	21,099	—	24,408	9,612	77,995
2010	—	1,544	16,699	15,478	1,620	11,500	6,232	53,073
2011	—	—	16,699	15,478	—	—	3,852	36,029
2012-2025	—	—	167,125	158,884	—	—	20,268	346,277

10. Fuel Management Program

The fuel management program is intended to help manage the risk of changes in the market prices of oil and natural gas. During fiscal years 2006 and 2005, JEA entered into various fuel management contracts. It is possible that the market price before or at the specified time to purchase fuel oil or natural gas may be lower than the price at which JEA is committed to buy. This would reduce the value of the contract. JEA is also exposed to the failure of the counterparty to fulfill the contract. JEA believes the risk of nonperformance by the counterparty under these contracts is not significant. JEA does not anticipate nonperformance by any counterparty.

During fiscal years 2006 and 2005, JEA utilized TEA to execute trades, but managed the risks internally. See note 5 — Investment in The Energy Authority.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

10. Fuel Management Program (continued)

Fuel Management of Natural Gas

At September 30, 2006 and 2005, the fuel management program had no open NYMEX natural gas futures contracts. The fuel management program related to NYMEX natural gas futures contracts had margin deposits of \$10 at September 30, 2006 and 2005, which is included in other noncurrent assets on the balance sheets.

During fiscal 2006, JEA entered into numerous over-the-counter forward purchase and sale contracts and swaps. These fuel-related transactions were recorded in the balance sheets at fair value. At September 30, 2006, a \$6,300 liability was included in deferred credits and other liabilities on the balance sheet. At September 30, 2005, the fuel-related transactions had a fair value of \$3,011 and was included in the balance sheet in other non-current assets on the balance sheet. The related gains and losses from these transactions are recognized as fuel expenses on the Statement of Revenues, Expenses and Changes in Net Assets. For the year ending September 30, 2006, an \$8,700 realized and a \$17,600 unrealized loss (due to the change in the fair market value) was included in fuel expense. For the year ending September 30, 2005, a \$3,130 realized gain and a \$436 unrealized loss was included in fuel expense. Any losses were off-set by decreased prices in the purchase of natural gas.

11. Pension Plans

JEA Plan Description and Contributions

Substantially all of the employees of the Electric System and Water and Sewer System participate in and contribute to the City of Jacksonville General Employees Pension Plan (Plan), as amended. The Plan is a cost-sharing, multiple-employer contributory defined benefit pension plan.

All full-time employees who successfully complete a physical examination and meet the medical requirements for membership are eligible to participate in the Plan. The Plan, based on laws outlined in the City of Jacksonville Ordinance Code and applicable Florida Statutes, provides for retirement, survivor, death and disability benefits. The Plan's latest financial statements and required supplementary information are included in the 2005 Comprehensive Annual Financial Report of the City of Jacksonville, Florida. This report may be obtained by writing to the City of Jacksonville, Florida, Department of Administration and Finance, Room 300, City Hall, 117 West Duval Street, Jacksonville, Florida, 32202-3418 or by calling (904) 630-1298.

In fiscal year 2006, plan members were required to contribute 8% of their annual covered salary and JEA's contribution for the plan members was 3.1 % during fiscal year 2006. Plan members were required to contribute 8.0% of their current-year annual covered salary in fiscal 2005 and JEA was required to contribute 5.1% annual covered payrolls to the plan.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

11. Pension Plans (continued)

St. Johns River Power Park Plan Description

Plan Description — The JEA St. Johns River Power Park System Employees' Retirement Plan (SJRPP Plan) is a single employer contributory defined benefit plan covering employees of SJRPP. The Plan provides for pension, death and disability benefits. Participation in the SJRPP Plan is required as a condition of employment. The SJRPP Plan is subject to provisions of Chapter 112 of the State of Florida Statutes and the oversight of the Florida Division of Retirement. The SJRPP Plan is governed by a seven member pension board (Pension Board). The SJRPP Plan issues a publicly available financial report that includes financial statements and required supplementary information which may be obtained by writing to JEA, Employee Services, Tower 6, and 21 West Church Street, Jacksonville, Florida, 32202-3139 or by calling (904) 665- 6198.

Funding Policy — The SJRPP Plan's funding policy provides for at least quarterly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. The SJRPP employer's contribution to the SJRPP Plan for the year ending September 30, 2006, was 21.1% of annual covered payroll.

Annual Pension Cost — The annual pension for the years ended September 30, 2006, 2005 and 2004 were \$ 4,678, \$4,699, and \$4,406 which was equal to the required employee and employer contributions for each year.

The following information relates to the three most recent actuarial valuations:

	October 1, 2005	October 1, 2004	October 1, 2003
Actuarial valuation date			
Actuarial value of plan assets	\$ 44,234	\$ 36,981	\$ 30,645
Actuarial accrued liability	72,196	64,656	57,704
Total unfunded actuarial liability	27,962	27,675	27,059
The actuarial value of assets as % of the actuarial accrued liabilities	61.27%	57.20%	53.11%
The annual covered payroll	\$ 21,958	\$ 20,416	\$ 20,091
The ratio of the unfunded actuarial liability to annual covered payroll	127.34%	136.56%	134.68%

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

11. Pension Plans (continued)

Assumptions:

SJRPP Plan members are required to contribute currently 4.0% of their current-year annual covered salary since October 1, 2005. The annual required contribution was determined as part of the October 1, 2005 actuarial valuation using the Individual Entry Age Actuarial Cost Method. The actuarial assumptions included (a) life expectancy was calculated using the RP-2000 Mortality Table; (b) 8.75% investment rate of return (net of administrative expenses); and (c) projected salary increases from 4.0% to 6.5%, depending on years of service per year, including an inflation component of 3.75%. The actuarial value of the assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. As of October 1, 2000, all unfunded actuarial accrued liability (UAAL) bases were consolidated into one, with amortization of the new base over a 25-year period (with one-year delay in effect or 24 years from October 1, 2001). The UAAL bases for future Plan provision changes will be amortized over 30-year periods from their inception date as level dollar amount, in the form of level percentages of payroll but with a payroll growth rate of 0% per year, and the UAAL bases for future assumption changes and gains or losses will be amortized over a 15-year period.

Certain plan provisions have been changed effective October 1, 2003. The benefit formula was changed to 2.0% of final average earnings for the first 15 years of benefit service instead of 25 years, plus 2.4% for the next 15 years; eligibility for normal retirement was changed to the earlier of (i) age 65 with 5 years of vesting service, (ii) age 55 with 20 years of vesting service, and (iii) 30 years if vesting service; and commencing 5 years after retirement. A 1.0% cost-of-living increase has been added. Also, the employee contribution rate was increased from 2.0% to 4.0%.

In addition, certain actuarial assumptions were changed. The mortality rate basis was updated from the 1983 Group Annuity Mortality Table to the RP-2000 Mortality Table; and rates of retirement were extended below age 55 for participants with 30 or more years of service at 20% a year. Actuarial cost method was changed from the Aggregate Entry Age to the Individual Entry Age due to IRS ruling. This change has no impact on plan liabilities but does increase the current allocations of those liabilities to current normal cost amounts.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

12. Commitments and Contingent Liabilities

Financing Commitment

The City has issued fixed rate bonds to finance and refinance various marine facilities for the Jacksonville Seaport Authority. JEA, through a financing agreement, has committed to guaranteeing the growth of certain revenue streams dedicated to paying the debt service for these bonds. The principal amount of the bonds outstanding is \$28,585 at September 30, 2006 with a final maturity of October 1, 2009. The coupon rate for the bonds is 5.0%. The City and JEA have agreed that JEA's contribution to the City's General Fund would be adjusted to offset any shortfall in the dedicated revenue streams to pay the actual debt service. Although JEA's management believes it is highly unlikely, the guaranty states that if the revenue streams dedicated to pay the debt service fell to zero through October 1, 2009, the maximum amount of undiscounted payments JEA would make to the City is \$31,647. No amount has been accrued for this guaranty under the financing agreement.

Grants and Contracts

JEA participates in various federal and state assisted grant programs that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability of JEA. It is management's opinion that the results of these audits will have no material adverse effect on JEA's financial position or results of operations.

Clean Power Initiatives

JEA has signed a Power Purchase Agreement with Landfill Energy Systems to purchase energy from a 9.6 MW landfill gas to energy facility at the Trail Ridge Landfill in Jacksonville. Once the facility is completed, it will be one of the largest landfill gas-to-energy facilities in the southeast. The projected date of completion for the facility is September 2007.

JEA is also negotiating with Evergreen Paper and Energy to convert a former paper mill into a biomass-fueled electric generation plant. The plant's boiler is expected to burn yard and tree trimming debris received from Jacksonville's yard waste collection program. The plant is expected to generate 20 MW of renewable energy. The projected date of completion for the project is 2008.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

12. Commitments and Contingent Liabilities (continued)

Clean Air Act

In May 2005 the EPA published two final rules affecting power plants. The Clean Air Interstate Rule (CAIR) requires annual sulfur dioxide emissions reductions in two phases (beginning in 2010 and 2015), and annual nitrogen oxides emissions reduction in two phases (beginning 2009 and 2015). CAIR affects 28 states, in the eastern United States whose emissions affect attainment and maintenance of ambient air quality standards for ozone and fine particulate matter. The Clean Air Mercury Rule (CAMR) requires annual mercury emissions reductions by coal-fired units in all states in two phases (beginning in 2010 and 2018). States must develop CAIR and CAMR regulations and have the option to achieve the required emissions reductions by implementing cap and trade programs.

JEA anticipates that over the next five years, its share of the capital improvements at SJRPP will involve total expenditures of approximately \$300,000 consisting of (1) the equipment required to meet new environmental regulations (2) continued improvements to the fuel system, and (3) replacement of obsolete equipment to maintain the plant's historically high performance levels. Of the \$300,000 capital expenditures, approximately \$184,000 is to comply with environmental regulations. A portion of the cost of SJRPP's capital programs corresponding to JEA's ownership interest will be funded from amounts on deposit in the Renewal and Replacement Fund established under the SJRPP Resolution. It is anticipated that the amounts in the Renewal and Replacement Fund will not be sufficient to fully fund the five year capital program; and JEA is currently evaluating means of funding the balance of the capital program through additional charges to the Electric System, the issuance of additional SJRPP debt or other means.

In addition, JEA anticipates that over the next five years its share of the capital improvements at Plant Scherer will be approximately \$148,500 of which \$137,000 is to comply with environmental regulations.

Additional improvements will be necessary to meet the phase two limit. Such costs of additional improvements cannot be determined at this time.

Taylor Energy Center

To meet projected needs for energy in and around the City of Jacksonville after 2012, JEA is working with other Florida municipal utilities to plan and construct a \$1,400,000, 800-megawatt power plant in Taylor County, Florida. The partner utilities are negotiating for a 3,200-acre site for the project. Construction of the power plant will begin once the site is acquired and permits issued. Once the plant is fully constructed, JEA expects to receive 236 megawatts of the plant's output. The project is in the preliminary stages of development, with design and permitting to be completed before construction commences.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

12. Commitments and Contingent Liabilities (continued)

Northside Generating Station By-Product

JEA Northside Generating Station (NSGS) Units 1 and 2 produce a by-product that consists of fly ash and bed ash. JEA has obtained a permit from the Florida Department of Environmental Protection (FDEP) to beneficially use the processed by-product material in the State of Florida, subject to certain restrictions. These ash products are combined and processed into a road base material presently being marketed as EZBase.

A market currently exists for EZBase as a replacement for limerock. However, the market is proving to be hard to enter without Florida Department of Transportation (FDOT) approval, especially as a base application (directly supporting the asphalt). FDOT approval can take up to six years to obtain. Through extensive testing and FDOT confidence, JEA has been able to reduce the time frame for approval by approximately two years. JEA has received FDOT agreement that EZBase meets the state specification as a sub-grade stabilizer (under the limerock). JEA has also obtained civil engineering approvals for EZBase from the City of Jacksonville and several surrounding counties in North Florida and South Georgia. These approvals allow JEA, through its marketer, to sell its by-product material in local North Florida and South Georgia roadway construction projects. EZBase is being used in these markets as both a sub-grade and base. In addition JEA has sold EZBase in other Southeast U.S. markets.

JEA is facilitating the continued increase in the local use of EZBase. We are working with the University of North Florida Construction Engineering Department, the FDOT and local respected contractors to increase awareness, training and acceptance of EZBase in the road construction industry. In the next two to three years, JEA expects strong utilization of EZBase within the local Northeast Florida and Southeast Georgia markets. In addition, JEA is negotiating contracts, through its contract marketer, for beneficial use of the excess unprocessed bed ash, which currently forms the majority of product stored in the BSA.

The by-product material that has not yet been sold as we work to develop acceptance and use of our byproducts is presently stored in the Byproducts Storage Area (BSA), which is actually a permitted, lined landfill at the NSGS facility. To date, the inventory in the landfill is approximately 90 percent of landfill capacity. JEA is currently reducing the amount of material stored in the BSA by placing the product in offsite landfills and in other various beneficial use projects. The additional space gained by reducing the BSA inventory will become a secondary processing facility for EZBase.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

12. Commitments and Contingent Liabilities (continued)

General Litigation

JEA has ad valorem tax appeals pending in the State of Georgia, three in Monroe County against the County Board of Assessors (tax years 2003, 2004 and 2005) and two in Fulton County against revenue commissioner and State Board of Equalization (tax years 2004 and 2005), relating to JEA's fractional ownership of a unit of Plant Scherer that is located in Monroe County, Georgia. JEA is appealing valuation and equalization issues and has made good faith payments of taxes for each tax year. Currently, no assessment can be made on the likelihood of a particular outcome.

In addition, JEA is party to various other pending or threatened legal actions arising in connection with its normal operations. In the opinion of management, any ultimate liability, which may arise from these actions are not expected to materially impact JEA's financial position or results of operations.

Environmental Matters

JEA is subject to numerous federal, state, and local environmental regulations resulting in environmental liabilities due to compliance costs associated with new regulatory initiatives, enforcement actions, legal actions, and contaminated site assessment and remediation. Based on analysis of the cost of remediation and other identified environmental contingencies, JEA has accrued a liability of \$13,200 as of September 30, 2006 related to the following environmental matters: Kennedy Generating Station RCRA Corrective Action for former wood preserving site; Sans Souci Substation remedial activities; Pearl Street Electric Shop remedial activities; Tri-State Recycling Site; studies related to the impact of the Northside Generating Station Byproduct Storage Area and EZBase Production Facility; penalties related to several Sanitary Sewer Overflow (SSO) incidents and in kind penalties related to operations at the Southwest Wastewater Treatment Plant facility. Of the \$13,200 that JEA has accrued as environmental liabilities, approximately \$10,800 is associated with the expected cost of remediating the former wood preserving facility at the Kennedy Generating Facility. Following are other environmental matters that could have an impact on JEA; however, the resolution of these matters is uncertain and no accurate prediction of range of loss is possible at this time: Northside Generating Station RCRA Corrective Action program, Southside Generating Station Brownfield Site rehabilitation, Bill Johns Waste Oil site assessment and remediation, Pickettville Road Landfill CERCLA site post-closure activities, Jacksonville Baseball Exhibition claim, potential modifications to the Northside Generating Station Chemical Waste Treatment System to mitigate groundwater impacts, and various claims related to mercury emissions from its power generation facilities that burn coal. Although uncertainties associated with these recognized environmental liabilities remain, JEA believes that the current provision for such costs is adequate and additional costs, if any, will not have a material adverse effect upon its financial position, results of operations, or liquidity.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

12. Commitments and Contingent Liabilities (continued)

Southside Generating Station

JEA decommissioned the Southside Generating System on October 31, 2001. JEA has spent approximately \$26,400 for demolition, disposal and environmental remediation associated with the site. Bids were solicited to sell the property in early 2005. The bid specifications required a buyer to assume responsibility for the site under the Brownfield Site Rehabilitation Agreement between JEA and the Florida Department of Environmental Protection along with all environmental liability related to the site, except any portion to be retained by JEA. The property is under contract to the highest bidder from early 2006 for a purchase price of \$40,600. The prospective buyers continue to perform due diligence to review environmental conditions, obtain zoning and land use changes and secure development rights. Consummation of the purchase and sale of the Southside Generating Station is subject to the satisfaction of certain terms and conditions. Accordingly, JEA cannot assure the successful consummation of this transaction.

Total Maximum Daily Load (TMDL)

The Florida Department of Environmental Protection (FDEP) is completing promulgation of a Total Maximum Daily Load regulation defining the mass of nitrogen that can be assimilated by the St. Johns River to which 11 of JEA's 18 wastewater treatment plants discharge. This new state rule will limit the amount of nitrogen that these 11 wastewater treatment facilities are allowed to discharge by permit. JEA, in partnership with other public agencies under an agreement called the River Accord, has undertaken a voluntary initiative to far exceed the regulatory requirements of the TMDL. As it is part of the Accord, JEA has pledged to spend \$200,000 over a 10-year period to decommission 6 of the 11 facilities, and upgrade the remaining facilities to advanced nutrient removal capability, far exceeding the requirements of the proposed rules. This work is being planned and funded as part of JEA's ongoing capital improvements program.

13. Segment Information

The financial statements of JEA contain four segments, as the Electric System and Bulk Power Supply System, the SJRPP System, the Water and Sewer System, and District Energy System represent separate identifiable activities. These systems have debt outstanding with a revenue stream pledged in support of the debt. In addition, the activities are required to be accounted for separately. JEA's Electric System and Bulk Power Supply System segment consists of an electric utility engaged in the generation, purchase, transmission, distribution, and sale of electricity primarily in Northeast Florida. JEA's SJRPP System segment consists of a generation facility which is 80% owned by JEA. JEA's Water and Sewer System segment consists of water collection, distribution, and wastewater treatment in Northeast Florida. The District Energy System consists of chilled water activities.

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

13. Segment Information (continued)

Intercompany billing is employed between the Electric System and the Water and Sewer System and includes purchases of electricity, water, and sewer services and the rental of inventory and buildings. The utility charges between entities are based on a commercial customer rate. All intercompany billings are eliminated in the monthly and annual financial statements. Electricity charges to the Water and Sewer entity was \$7,744 for fiscal 2006 and \$4,343 for fiscal 2005. Water and Sewer charges to the Electric System were \$34 for fiscal 2006 and \$205 for fiscal 2005.

The Electric System shares certain administrative functions with Water and Sewer System. Generally, these costs are charged to the Electric System and the costs of these functions are allocated to the Water and Sewer System based on the benefits provided. Operating expense allocated to Water and Sewer System were \$39,500 for fiscal year 2006 and \$37,200 for fiscal year 2005.

In September 1999, the Water and Sewer System purchased the inventory owned by the Electric System in the amount of \$32,929. This was initiated to increase the utilization of its assets among the Electric System and the Water and Sewer System. A monthly inventory carrying charge is paid by the Electric System based on the value of the inventory multiplied by one-twelfth of the yield on the one-year U.S. Treasury bill as of September 1 of each year. Inventory carrying charges were \$1,918 for fiscal 2006 and \$1,038 for fiscal 2005.

In July 1999 and July 2004, the Electric System transferred several buildings to the Water and Sewer System in the amounts of \$22,940 and \$6,278, an amount equal to the net book value of the assets. Monthly the Electric System reimburses the Water and Sewer System for their equitable allocation. Annual rent paid by the Electric System to the Water and Sewer System for use of these buildings was \$1,412 for 2006 and 2005.

As part of JEA's ongoing customer service program, JEA has historically provided certain long term financing for Energy Services Company (ESCO) programs and has used utilized working capital to fund these programs. The Water and Sewer System purchased from the Electric System in June 2004 the receivables in the amount of \$8,234. During fiscal year 2005, these receivables were sold to third parties.

In June 2003, JEA installed the Customer Account Information Resource (CAIR) billing system. To utilize the efficiencies of the new system, and reduce the administrative efforts in recording deposits, customer deposits are recorded to one Service Agreement (SA) per Account. All deposits are recorded to the Electric System since the Electric System represented 88% of the total deposits at the time of the conversion.

Segment information for these activities for the fiscal years ended September 30, 2006 and 2005 was as follows:

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

13. Segment Information (continued)

	Electric System and Bulk Power Supply System		SJRPP System		Water and Sewer System		DES	
	2006	2005	2006	2005	2006	2005	2006	2005
Condensed Balance Sheet Information:								
Total current assets	\$ 319,617	\$ 233,948	\$ 69,961	\$ 73,249	\$ 100,382	\$ 90,525	\$ 812	\$ 275
Total other noncurrent assets	95,840	106,661	635,551	689,660	232,728	267,489	955	1,529
Capital assets, net	2,766,249	2,714,139	625,473	654,401	2,544,499	2,402,450	48,003	46,809
Total assets	<u>\$ 3,181,706</u>	<u>\$ 3,054,748</u>	<u>\$ 1,330,985</u>	<u>\$ 1,417,310</u>	<u>\$ 2,877,609</u>	<u>\$ 2,760,464</u>	<u>\$ 49,770</u>	<u>\$ 48,613</u>
Total current liabilities	\$ 153,525	\$ 105,330	\$ 3,575	\$ 2,888	\$ 10,071	\$ 8,397	\$ 29	\$ –
Total current liabilities payable from restricted assets	64,596	50,899	226,285	234,526	67,096	66,283	211	1,264
Total other noncurrent liabilities	119,246	117,118	2,636	2,573	7,984	12,144	–	–
Total long-term debt	2,405,595	2,317,796	1,095,714	1,174,447	1,791,466	1,756,591	51,800	47,800
Total liabilities	<u>\$ 2,742,962</u>	<u>\$ 2,591,143</u>	<u>\$ 1,328,210</u>	<u>\$ 1,414,434</u>	<u>\$ 1,876,617</u>	<u>\$ 1,843,415</u>	<u>\$ 52,040</u>	<u>\$ 49,064</u>
Net assets invested in capital assets, net of related debt	262,963	329,548	(277,537)	(278,980)	899,033	835,059	(3,061)	(831)
Restricted net assets	37,623	24,594	216,562	214,068	15,359	7,226	7	105
Unrestricted net assets	138,158	109,463	63,750	67,788	86,600	74,764	784	275
Total net assets	<u>438,744</u>	<u>463,605</u>	<u>2,775</u>	<u>2,876</u>	<u>1,000,992</u>	<u>917,049</u>	<u>(2,270)</u>	<u>(451)</u>
Total liabilities and net assets	<u>\$ 3,181,706</u>	<u>\$ 3,054,748</u>	<u>\$ 1,330,985</u>	<u>\$ 1,417,310</u>	<u>\$ 2,877,609</u>	<u>\$ 2,760,464</u>	<u>\$ 49,770</u>	<u>\$ 48,613</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets Information:								
Operating revenues	\$ 1,090,715	\$ 891,177	\$ 314,592	\$ 317,211	\$ 228,453	\$ 192,240	\$ 3,054	\$ 1,297
Operating expenses	989,478	859,363	269,118	261,799	183,587	169,884	3,412	1,190
Operating income	101,237	31,814	45,474	55,412	44,866	22,356	(358)	107
Nonoperating revenues (expenses)	(54,067)	(63,821)	(45,575)	(57,579)	(56,587)	(51,565)	(1,461)	(558)
Contributions	(72,031)	(68,677)	–	–	95,664	41,276	–	–
Change in net assets	(24,861)	(100,684)	(101)	(2,167)	83,943	12,067	(1,819)	(451)
Beginning net assets	463,605	564,289	2,876	5,043	917,049	904,982	(451)	–
Ending net assets	<u>\$ 438,744</u>	<u>\$ 463,605</u>	<u>\$ 2,775</u>	<u>\$ 2,876</u>	<u>\$ 1,000,992</u>	<u>\$ 917,049</u>	<u>\$ (2,270)</u>	<u>\$ (451)</u>
Condensed Statement of Cash Flow Information:								
Net cash provided by (used in):								
Operating activities	\$ 316,388	\$ 184,757	\$ 113,553	\$ 124,577	\$ 134,910	\$ 108,925	\$ 599	\$ 302
Noncapital financing activities	(64,916)	(68,569)	–	–	(16,914)	(17,441)	–	–
Capital and related financing activities	(201,100)	(108,304)	(136,869)	(144,662)	(151,491)	(97,518)	(924)	828
Investing activities	4,683	5,830	15,575	13,642	8,435	(30,867)	79	178
Net change in cash and cash equivalents	55,055	13,714	(7,741)	(6,443)	(25,060)	(36,901)	(246)	1,308
Cash and cash equivalents at beginning of year	106,081	92,367	201,398	207,841	119,458	156,359	1,308	–
Cash and cash equivalents at end of year	<u>\$ 161,136</u>	<u>\$ 106,081</u>	<u>\$ 193,657</u>	<u>\$ 201,398</u>	<u>\$ 94,398</u>	<u>\$ 119,458</u>	<u>\$ 1,062</u>	<u>\$ 1,308</u>

JEA

Notes to Financial Statements (continued)

(Dollars In Thousands)

14. Subsequent Events

On October 31, 2006, JEA issued \$76,490 of its Water and Sewer System Revenue Bonds, 2006 Series B to current refund \$74,185 of its existing Water and Sewer System bonds. JEA realized \$6,593 of net present value debt service savings from the refunding. In October and November 2006, JEA made draws of \$15,000 and \$20,000 under the line of credit to fund capital expenditures for the Electric System. The \$35,000 will be replaced with permanent financing scheduled to take place in January 2007.

Supplementary Information

JEA

Combining Balance Sheet

September 30, 2006

(In Thousands)

	Electric System and Bulk Power Supply System	SJRPP System	Elimination of Inter- company Transactions	Total Electric Enterprise Fund	Water and Sewer Enterprise Fund	District Energy System	Eliminations	Total JEA
Assets								
Current assets:								
Cash and cash equivalents	\$ 90,114	\$ 22,006	\$ -	\$ 112,120	\$ 18,181	\$ 418	\$ -	\$ 130,719
Investments	-	-	-	-	-	-	-	-
Accounts and interest receivable, less allowance for doubtful accounts of \$3,337	188,624	4,928	(21,053)	172,499	29,363	394	-	202,256
Inventories:								
Fuel	39,222	21,740	-	60,962	-	-	-	60,962
Materials and supplies	1,657	21,287	-	22,944	52,838	-	-	75,782
Total current assets	319,617	69,961	(21,053)	368,525	100,382	812	-	469,719
Noncurrent assets:								
Restricted assets:								
Cash and cash equivalents	71,025	171,650	-	242,675	76,217	644	-	319,536
Investments	(848)	186,158	-	185,310	128,431	-	-	313,741
Accounts and interest receivable	655	1,479	-	2,134	4,739	-	-	6,873
Total restricted assets	70,832	359,287	-	430,119	209,387	644	-	640,150
Debt issuance costs and other	17,773	7,420	-	25,193	23,341	311	-	48,845
Investment in The Energy Authority	7,235	-	-	7,235	-	-	-	7,235
Costs to be recovered from future revenues	-	268,844	-	268,844	-	-	-	268,844
Total noncurrent assets	95,840	635,551	-	731,391	232,728	955	-	965,074
Capital assets:								
Land and easements	52,075	6,660	-	58,735	25,173	-	-	83,908
Plant in service	3,695,610	1,145,518	-	4,841,128	2,876,452	29,702	-	7,747,282
Less accumulated depreciation	(1,347,927)	(568,089)	-	(1,916,016)	(738,614)	(2,104)	-	(2,656,734)
Plant in service, net	2,399,758	584,089	-	2,983,847	2,163,011	27,598	-	5,174,456
Construction work in progress	366,491	41,384	-	407,875	381,488	20,405	-	809,768
Net capital assets	2,766,249	625,473	-	3,391,722	2,544,499	48,003	-	5,984,224
Total assets	\$ 3,181,706	\$ 1,330,985	\$ (21,053)	\$ 4,491,638	\$ 2,877,609	\$ 49,770	\$ -	\$ 7,419,017

JEA

Combining Balance Sheet (continued)

September 30, 2006

(In Thousands)

	Electric System and Bulk Power Supply System	SJRPP System	Elimination of Inter- company Transactions	Total Electric Enterprise Fund	Water and Sewer Enterprise Fund	District Energy System	Eliminations	Total JEA
Liabilities and net assets								
Current liabilities:								
Accounts and accrued expenses payable	\$ 123,911	\$ 3,575	\$ (929)	\$ 126,557	\$ 10,070	\$ 29	\$ -	\$ 136,656
Customer deposits	29,614	-	-	29,614	1	-	-	29,615
Total current liabilities	153,525	3,575	(929)	156,171	10,071	29	-	166,271
Current liabilities payable from restricted assets:								
Debt due within one year	22,440	83,560	-	106,000	13,820	-	-	119,820
Interest payable	27,313	28,963	-	56,276	37,438	149	-	93,863
Construction contracts and accounts payable	14,843	35,111	(20,124)	29,830	15,838	62	-	45,730
Renewal and replacement reserve	-	78,651	-	78,651	-	-	-	78,651
Total current liabilities payable from restricted assets	64,596	226,285	(20,124)	270,757	67,096	211	-	338,064
Noncurrent liabilities:								
Deferred credits and other liabilities	35,151	2,636	-	37,787	7,984	-	-	45,771
Revenues to be used for future costs	84,095	-	-	84,095	-	-	-	84,095
Total noncurrent liabilities	119,246	2,636	-	121,882	7,984	-	-	129,866
Long-term debt:								
Bonds payable and commercial paper payable, less current portion	2,437,738	1,141,779	-	3,579,517	1,817,205	51,800	-	5,448,522
Unamortized original issue premium (discount), net	(5,376)	31,047	-	25,671	(2,492)	-	-	23,179
Unamortized deferred losses on refundings	(36,231)	(77,112)	-	(113,343)	(23,247)	-	-	(136,590)
Fair value of debt management strategy instruments	9,464	-	-	9,464	-	-	-	9,464
Total long-term debt	2,405,595	1,095,714	-	3,501,309	1,791,466	51,800	-	5,344,575
Net assets:								
Invested in capital assets, net of related debt	262,963	(277,537)	-	(14,574)	899,033	(3,061)	-	881,398
Restricted	37,623	216,562	20,124	274,309	15,359	7	-	289,675
Unrestricted	138,158	63,750	(20,124)	181,784	86,600	784	-	269,168
Total net assets	438,744	2,775	-	441,519	1,000,992	(2,270)	-	1,440,241
Total liabilities	2,742,962	1,328,210	(21,053)	4,050,119	1,876,617	52,040	-	5,978,776
Total liabilities and net assets	\$ 3,181,706	\$ 1,330,985	\$ (21,053)	\$ 4,491,638	\$ 2,877,609	\$ 49,770	\$ -	\$ 7,419,017

JEA

Combining Balance Sheet

September 30, 2005

(In Thousands)

	Electric System and Bulk Power Supply System	SJRPP System	Elimination of Inter- company Transactions	Total Electric Enterprise Fund	Water and Sewer Enterprise Fund	District Energy System	Eliminations	Total JEA
Assets								
Current assets:								
Cash and cash equivalents	\$ 27,058	\$ 17,955	\$ -	\$ 45,013	\$ 11,200	\$ 100	\$ -	\$ 56,313
Investments	-	4,075	-	4,075	-	-	-	4,075
Accounts and interest receivable, less allowance for doubtful accounts of \$3,354	177,880	6,373	(24,962)	159,291	26,881	175	-	186,347
Inventories:								
Fuel	27,472	23,802	-	51,274	-	-	-	51,274
Materials and supplies	1,538	21,044	-	22,582	52,444	-	-	75,026
Total current assets	233,948	73,249	(24,962)	282,235	90,525	275	-	373,035
Noncurrent assets:								
Restricted assets:								
Cash and cash equivalents	79,024	183,443	-	262,467	108,259	1,208	-	371,934
Investments	(955)	184,044	-	183,089	129,534	-	-	312,623
Accounts and interest receivable	1,777	1,667	-	3,444	5,878	-	-	9,322
Total restricted assets	79,846	369,154	-	449,000	243,671	1,208	-	693,879
Debt issuance costs and other	18,857	7,356	-	26,213	23,818	321	-	50,352
Investment in The Energy Authority and No Florida Power Plant	7,958	-	-	7,958	-	-	-	7,958
Costs to be recovered from future revenues	-	313,150	-	313,150	-	-	-	313,150
Total noncurrent assets	106,661	689,660	-	796,321	267,489	1,529	-	1,065,339
Capital assets:								
Land and easements	37,673	6,660	-	44,333	24,042	-	-	68,375
Plant in service	3,516,552	1,171,638	-	4,688,190	2,605,905	29,618	-	7,323,713
Less accumulated depreciation	(1,200,801)	(554,832)	-	(1,755,633)	(650,624)	(523)	-	(2,406,780)
Plant in service, net	2,353,424	623,466	-	2,976,890	1,979,323	29,095	-	4,985,308
Construction work in progress	360,715	30,935	-	391,650	423,127	17,714	-	832,491
Net capital assets	2,714,139	654,401	-	3,368,540	2,402,450	46,809	-	5,817,799
Total assets	\$ 3,054,748	\$ 1,417,310	\$ (24,962)	\$ 4,447,096	\$ 2,760,464	\$ 48,613	\$ -	\$ 7,256,173

JEA

Combining Balance Sheet (continued)

September 30, 2005

(In Thousands)

	Electric System and Bulk Power Supply System	SJRPP System	Elimination of Inter- company Transactions	Total Electric Enterprise Fund	Water and Sewer Enterprise Fund	District Energy System	Eliminations	Total JEA
Liabilities and net assets								
Current liabilities:								
Accounts and accrued expenses payable	\$ 80,563	\$ 2,888	\$ (3,135)	\$ 80,316	\$ 8,397	\$ -	\$ -	\$ 88,713
Customer deposits	24,767	-	-	24,767	-	-	-	24,767
Total current liabilities	105,330	2,888	(3,135)	105,083	8,397	-	-	113,480
Current liabilities payable from restricted assets:								
Debt due within one year	16,320	79,440	-	95,760	9,120	-	-	104,880
Interest payable	23,779	32,166	-	55,945	34,228	98	-	90,271
Construction contracts and accounts payable	10,800	32,920	(21,827)	21,893	22,935	1,166	-	45,994
Renewal and replacement reserve	-	90,000	-	90,000	-	-	-	90,000
Total current liabilities payable from restricted assets	50,899	234,526	(21,827)	263,598	66,283	1,264	-	331,145
Noncurrent liabilities:								
Deferred credits and other liabilities	29,145	2,573	-	31,718	12,144	-	-	43,862
Revenues to be used for future costs	87,973	-	-	87,973	-	-	-	87,973
Total noncurrent liabilities	117,118	2,573	-	119,691	12,144	-	-	131,835
Long-term debt:								
Bonds payable and commercial paper payable, less current portion	2,344,671	1,226,669	-	3,571,340	1,781,025	47,800	-	5,400,165
Unamortized original issue premium (discount), net	(5,603)	23,542	-	17,939	(26)	-	-	17,913
Unamortized deferred losses on refundings	(38,189)	(75,764)	-	(113,953)	(24,229)	-	-	(138,182)
Fair value of debt management strategy instruments	16,917	-	-	16,917	(179)	-	-	16,738
Total long-term debt	2,317,796	1,174,447	-	3,492,243	1,756,591	47,800	-	5,296,634
Net assets:								
Invested in capital assets, net of related debt	329,548	(278,980)	-	50,568	835,059	(831)	-	884,796
Restricted	24,594	214,068	21,827	260,489	7,226	105	-	267,820
Unrestricted	109,463	67,788	(21,827)	155,424	74,764	275	-	230,463
Total net assets	463,605	2,876	-	466,481	917,049	(451)	-	1,383,079
Total liabilities	2,591,143	1,414,434	(24,962)	3,980,615	1,843,415	49,064	-	5,873,094
Total liabilities and net assets	\$ 3,054,748	\$ 1,417,310	\$ (24,962)	\$ 4,447,096	\$ 2,760,464	\$ 48,613	\$ -	\$ 7,256,173

JEA

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended September 30, 2006

(In Thousands)

	Electric System and Bulk Power Supply System	SJRPP System	Elimination of Inter- company Transactions	Total Electric Enterprise Fund	Water and Sewer Enterprise Fund	District Energy System	Elimination	Total JEA
Operating revenues :								
Electric	\$ 1,050,391	\$ 314,592	\$ (196,776)	\$ 1,168,207	\$ -	\$ -	\$ (7,744)	\$ 1,160,463
Water and sewer	-	-	-	-	214,940	-	(34)	214,906
District Energy	-	-	-	-	-	3,054	-	3,054
Other, net of allowances	40,324	-	-	40,324	13,513	-	(4,383)	49,454
Total operating revenues	1,090,715	314,592	(196,776)	1,208,531	228,453	3,054	(12,161)	1,427,877
Operating expenses:								
Operations:								
Fuel	309,781	146,342	-	456,123	-	-	-	456,123
Purchased power	340,079	-	(196,776)	143,303	-	-	-	143,303
Other	97,031	30,033	-	127,064	70,294	1,526	(12,161)	186,723
Maintenance	47,782	19,509	-	67,291	17,633	736	-	85,660
Depreciation	171,876	28,928	-	200,804	95,660	1,150	-	297,614
State utility and franchise taxes	26,807	-	-	26,807	-	-	-	26,807
Recognition of deferred costs and revenues, net	(3,878)	44,306	-	40,428	-	-	-	40,428
Total operating expenses	989,478	269,118	(196,776)	1,061,820	183,587	3,412	(12,161)	1,236,658
Operating income	101,237	45,474	-	146,711	44,866	(358)	-	191,219
Nonoperating revenues (expenses):								
Earnings from The Energy Authority	21,910	-	-	21,910	-	-	-	21,910
Investment income	2,661	13,412	-	16,073	6,936	79	-	23,088
Interest on debt	(90,229)	(58,987)	-	(149,216)	(81,275)	(1,879)	-	(232,370)
Other interest, net	(1,600)	-	-	(1,600)	-	-	-	(1,600)
Allowance for funds used during construction	13,191	-	-	13,191	18,514	339	-	32,044
Water and Sewer Expansion Authority - operating	-	-	-	-	(762)	-	-	(762)
Total nonoperating revenues (expenses)	(54,067)	(45,575)	-	(99,642)	(56,587)	(1,461)	-	(157,690)
Income (loss) before contributions	47,170	(101)	-	47,069	(11,721)	(1,819)	-	33,529
Contributions (to) from:								
General fund, City of Jacksonville	(71,031)	-	-	(71,031)	(17,657)	-	-	(88,688)
Water and Sewer Expansion Authority - capital	-	-	-	-	-	-	-	-
Developers and other	-	-	-	-	97,775	-	-	97,775
City of Jacksonville	(1,000)	-	-	(1,000)	15,546	-	-	14,546
Total contributions	(72,031)	-	-	(72,031)	95,664	-	-	23,633
Change in net assets	(24,861)	(101)	-	(24,962)	83,943	(1,819)	-	57,162
Net assets, beginning of year	463,605	2,876	-	466,481	917,049	(451)	-	1,383,079
Net assets, end of year	\$ 438,744	\$ 2,775	\$ -	\$ 441,519	\$ 1,000,992	\$ (2,270)	\$ -	\$ 1,440,241

JEA

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended September 30, 2005

(In Thousands)

	Electric System and Bulk Power Supply System	SJPPP System	Elimination of Inter- company Transactions	Total Electric Enterprise Fund	Water and Sewer Enterprise Fund	District Energy System	Elimination	Total JEA
Operating revenues :								
Electric	\$ 855,413	\$ 317,211	\$ (194,955)	\$ 977,669	\$ -	\$ -	\$ (4,343)	\$ 973,326
Water and sewer	-	-	-	-	183,166	-	(205)	182,961
District Energy	-	-	-	-	-	1,297	-	1,297
Other, net of allowances	35,764	-	-	35,764	9,074	-	(2,450)	42,388
Total operating revenues	891,177	317,211	(194,955)	1,013,433	192,240	1,297	(6,998)	1,199,972
Operating expenses:								
Operations:								
Fuel	250,401	133,304	-	383,705	-	-	-	383,705
Purchased power	305,971	-	(194,955)	111,016	-	-	-	111,016
Other	91,490	30,797	-	122,287	61,534	133	(6,998)	176,956
Maintenance	33,754	20,576	-	54,330	19,126	687	-	74,143
Depreciation	159,834	29,103	-	188,937	89,224	370	-	278,531
State utility and franchise taxes	21,791	-	-	21,791	-	-	-	21,791
Recognition of deferred costs and revenues, net	(3,878)	48,019	-	44,141	-	-	-	44,141
Total operating expenses	859,363	261,799	(194,955)	926,207	169,884	1,190	(6,998)	1,090,283
Operating income	31,814	55,412	-	87,226	22,356	107	-	109,689
Nonoperating revenues (expenses):								
Earnings from The Energy Authority	17,382	-	-	17,382	-	-	-	17,382
Investment income	884	9,069	-	9,953	4,329	178	-	14,460
Interest on debt	(93,686)	(66,648)	-	(160,334)	(77,031)	(1,089)	-	(238,454)
Other interest, net	(1,246)	-	-	(1,246)	-	-	-	(1,246)
Allowance for funds used during construction	12,845	-	-	12,845	21,439	353	-	34,637
Water and Sewer Expansion Authority - operating	-	-	-	-	(302)	-	-	(302)
Total nonoperating revenues (expenses)	(63,821)	(57,579)	-	(121,400)	(51,565)	(558)	-	(173,523)
Income (loss) before contributions	(32,007)	(2,167)	-	(34,174)	(29,209)	(451)	-	(63,834)
Contributions (to) from:								
General fund, City of Jacksonville	(68,677)	-	-	(68,677)	(17,261)	-	-	(85,938)
Water and Sewer Expansion Authority - capital	-	-	-	-	(254)	-	-	(254)
Developers and other	-	-	-	-	58,406	-	-	58,406
City of Jacksonville	-	-	-	-	385	-	-	385
Total contributions	(68,677)	-	-	(68,677)	41,276	-	-	(27,401)
Change in net assets	(100,684)	(2,167)	-	(102,851)	12,067	(451)	-	(91,235)
Net assets, beginning of year	564,289	5,043	-	569,332	904,982	-	-	1,474,314
Net assets, end of year	\$ 463,605	\$ 2,876	\$ -	\$ 466,481	\$ 917,049	\$ (451)	\$ -	\$ 1,383,079

JEA

Combining Statement of Cash Flows

Year Ended September 30, 2006

(In Thousands)

	Electric System and Bulk Power Supply System	SJRPP System	Elimination of Inter- company Transactions	Total Electric Enterprise Fund	Water and Sewer Enterprise Fund	District Energy System	Elimination	Total JEA
Operations								
Receipts from customers	\$ 1,060,822	\$ 314,592	\$ (196,776)	\$ 1,178,638	\$ 212,060	\$ 2,833	\$ (7,778)	\$ 1,385,753
Other receipts	40,379	-	-	40,379	14,652	-	(4,383)	50,648
Payments to suppliers	(677,719)	(174,639)	196,776	(655,582)	(66,369)	(2,234)	12,161	(712,024)
Payments to employees	(107,094)	(26,400)	-	(133,494)	(25,433)	-	-	(158,927)
Net cash provided by operating activities	316,388	113,553	-	429,941	134,910	599	-	565,450
Noncapital and related financing activities								
Contribution to General Fund, City of Jacksonville, Florida	(64,916)	-	-	(64,916)	(16,152)	-	-	(81,068)
Contribution to Water and Sewer Expansion Authority - operating	-	-	-	-	(762)	-	-	(762)
Net cash used in noncapital financing activities	(64,916)	-	-	(64,916)	(16,914)	-	-	(81,830)
Capital and related financing activities								
Acquisition and construction of capital assets	(212,047)	-	-	(212,047)	(165,178)	(3,537)	-	(380,762)
Proceeds from issuance of debt	114,401	320,537	-	434,938	48,907	3,999	-	487,844
Defeasance of debt	-	(325,113)	-	(325,113)	-	-	-	(325,113)
Repayment of debt principal	(16,320)	(79,440)	-	(95,760)	(9,120)	-	-	(104,880)
Interest paid on debt	(91,823)	(52,853)	-	(144,676)	(78,308)	-	-	(222,984)
Developer and other contributions	-	-	-	-	36,613	(1,817)	-	34,796
City of Jacksonville contributions	(1,000)	-	-	(1,000)	15,546	-	-	14,546
Contribution to Water and Sewer Expansion Authority - capital	-	-	-	-	-	-	-	-
Proceeds from sales of property	5,689	-	-	5,689	49	431	-	6,169
Net cash used in capital and related financing activities	(201,100)	(136,869)	-	(337,969)	(151,491)	(924)	-	(490,384)
Investing activities								
Purchase of investments	-	(299,686)	-	(299,686)	(5)	-	-	(299,691)
Proceeds from sale and maturities of investments	3	301,244	-	301,247	5	-	-	301,252
Distributions from The Energy Authority	1,102	-	-	1,102	-	-	-	1,102
Investment income	3,578	14,017	-	17,595	8,437	79	-	26,111
Net cash provided by (used in) investing activities	4,683	15,575	-	20,258	8,437	79	-	28,774
Net increase (decrease) in cash and cash equivalents	55,055	(7,741)	-	47,314	(25,060)	(246)	-	22,010
Cash and cash equivalents at October 1, 2005	106,081	201,398	-	307,479	119,458	1,308	-	428,245
Cash and cash equivalents at September 30, 2006	\$ 161,136	\$ 193,657	\$ -	\$ 354,793	\$ 94,398	\$ 1,062	\$ -	\$ 450,255

Continued on next page.

JEA

Combining Statement of Cash Flows (continued)

(In Thousands)

	Electric System and Bulk Power Supply System	SJRPP System	Elimination of Inter- company Transactions	Total Electric Enterprise Fund	Water and Sewer Enterprise Fund	District Energy System	Elimination	Total JEA
Reconciliation of operating income to net cash provided by operating activities:								
Operating income	\$ 101,237	\$ 45,474	\$ -	\$ 146,711	\$ 44,868	\$ (360)	\$ -	\$ 191,219
Adjustments to reconcile operating income to net cash provided by operating activities:								
Depreciation and amortization	171,876	28,928	-	200,804	96,155	1,150	-	298,109
Recognition of deferred costs and revenues, net	(3,878)	44,306	-	40,428	-	-	-	40,428
Changes in noncash assets and noncash liabilities:								
Accounts receivable and interest receivable, restricted	55	-	-	55	1,140	-	-	1,195
Accounts receivable and interest receivable	10,431	1,430	-	11,861	(2,881)	(221)	-	8,759
Inventories	(11,869)	1,819	-	(10,050)	(393)	-	-	(10,443)
Other	2,050	-	-	2,050	13	-	-	2,063
Accounts and expenses payable	40,480	691	-	41,171	169	30	-	41,370
Liabilities payable from restricted assets	-	(9,158)	-	(9,158)	-	-	-	(9,158)
Deferred credits and other liabilities	6,006	63	-	6,069	(4,161)	-	-	1,908
Net cash provided by operating activities	\$ 316,388	\$ 113,553	\$ -	\$ 429,941	\$ 134,910	\$ 599	\$ -	\$ 565,450
Noncash activity:								
Contribution of capital assets from developers	\$ -	\$ -	\$ -	\$ -	\$ 61,161	\$ -	\$ -	\$ 61,161

JEA

Combining Statement of Cash Flows

Year Ended September 30, 2005

(In Thousands)

	Electric System and Bulk Power Supply System	SJRPP System	Elimination of Inter- company Transactions	Total Electric Enterprise Fund	Water and Sewer Enterprise Fund	District Energy System	Elimination	Total JEA
Operations								
Receipts from customers	\$ 835,716	\$ 317,211	\$ (194,955)	\$ 957,972	\$ 180,977	\$ 1,122	\$ (4,548)	\$ 1,135,523
Other receipts	35,765	-	-	35,765	10,232	-	(2,450)	43,547
Payments to suppliers	(588,874)	(190,492)	194,955	(584,411)	(55,438)	(820)	6,998	(633,671)
Payments to employees	(97,849)	(2,142)	-	(99,991)	(26,846)	-	-	(126,837)
Net cash provided by operating activities	184,758	124,577	-	309,335	108,925	302	-	418,562
Noncapital and related financing activities								
Contribution to General Fund, City of Jacksonville, Florida	(68,569)	-	-	(68,569)	(17,139)	-	-	(85,708)
Contribution to Water and Sewer Expansion Authority - operating	-	-	-	-	(302)	-	-	(302)
Net cash used in noncapital financing activities	(68,569)	-	-	(68,569)	(17,441)	-	-	(86,010)
Capital and related financing activities								
Acquisition and construction of capital assets	(185,738)	-	-	(185,738)	(192,441)	(45,659)	-	(423,838)
Proceeds from issuance of debt	607,698	858	-	608,556	273,163	47,469	-	929,188
Defeasance of debt	(30,744)	-	-	(30,744)	(114,845)	-	-	(145,589)
Repayment of debt principal	(415,090)	(78,610)	-	(493,700)	(11,885)	-	-	(505,585)
Interest paid on debt	(86,233)	(66,910)	-	(153,143)	(72,221)	(982)	-	(226,346)
Developer and other contributions	-	-	-	-	20,580	-	-	20,580
City of Jacksonville contributions	-	-	-	-	385	-	-	385
Contribution to Water and Sewer Expansion Authority - capital	-	-	-	-	(254)	-	-	(254)
Proceeds from sales of property	1,802	-	-	1,802	-	-	-	1,802
Net cash used in capital and related financing activities	(108,305)	(144,662)	-	(252,967)	(97,518)	828	-	(349,657)
Investing activities								
Purchase of investments	(37,671)	(398,925)	-	(436,596)	(156,268)	-	-	(592,864)
Proceeds from sale and maturities of investments	41,374	401,501	-	442,875	118,383	-	-	561,258
Distributions from The Energy Authority	1,915	-	-	1,915	-	-	-	1,915
Investment income	212	11,066	-	11,278	7,018	178	-	18,474
Net cash provided by (used in) investing activities	5,830	13,642	-	19,472	(30,867)	178	-	(11,217)
Net change in cash and cash equivalents	13,714	(6,443)	-	7,271	(36,901)	1,308	-	(28,322)
Cash and cash equivalents at October 1, 2004	92,367	207,841	-	300,208	156,359	-	-	456,567
Cash and cash equivalents at September 30, 2005	\$ 106,081	\$ 201,398	\$ -	\$ 307,479	\$ 119,458	\$ 1,308	\$ -	\$ 428,245

Continued on next page.

JEA

Combining Statement of Cash Flows (continued)

(In Thousands)

	Electric System and Bulk Power Supply System	SJRPP System	Elimination of Inter- company Transactions	Total Electric Enterprise Fund	Water and Sewer Enterprise Fund	District Energy System	Elimination	Total JEA
Reconciliation of operating income to net cash provided by operating activities:								
Operating income	\$ 31,815	\$ 55,412	\$ -	\$ 87,227	\$ 22,355	\$ 107	\$ -	\$ 109,689
Adjustments to reconcile operating income to net cash provided by operating activities:								
Depreciation and amortization	159,834	29,103	-	188,937	88,556	370	-	277,863
Recognition of deferred costs and revenues, net	(3,878)	48,019	-	44,141	-	-	-	44,141
Changes in noncash assets and noncash liabilities:								
Accounts receivable and interest receivable, restricted	-	-	-	-	1,158	-	-	1,158
Accounts receivable and interest receivable	(19,697)	804	-	(18,893)	(2,189)	(175)	-	(21,257)
Inventories	(16,210)	(8,184)	-	(24,394)	(3,830)	-	-	(28,224)
Other	1,070	-	-	1,070	7,267	-	-	8,337
Accounts and expenses payable	27,275	(6,240)	-	21,035	(4,054)	-	-	16,981
Liabilities payable from restricted assets	-	5,657	-	5,657	-	-	-	5,657
Deferred credits and other liabilities	4,549	6	-	4,555	(338)	-	-	4,217
Net cash provided by operating activities	\$ 184,758	\$ 124,577	\$ -	\$ 309,335	\$ 108,925	\$ 302	\$ -	\$ 418,562
Noncash activity:								
Contribution of capital assets from developers	\$ -	\$ -	\$ -	\$ -	\$ 37,826	\$ -	\$ -	\$ 37,826

Bond Compliance Information

Independent Certified Public Accountants' Report on Schedules of Debt Service Coverage

The Governing Board of JEA

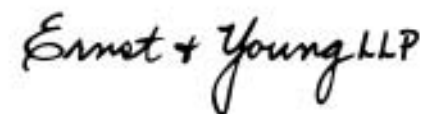
We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of JEA for the years ended September 30, 2006 and 2005 and have issued our report thereon dated November 17, 2006. We have also audited the accompanying schedules of debt service coverage (as specified in the respective JEA Bond Resolutions) of the JEA Electric System, the JEA St. Johns River Power Park System, and the JEA Water and Sewer System for the years ended September 30, 2006 and 2005, based on the financial statements referred to above. These schedules are the responsibility of JEA's management. Our responsibility is to express an opinion on these schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules of debt service coverage are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules of debt service coverage. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedules' presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying schedules of debt service coverage were prepared for the purpose of demonstrating compliance with the requirements of certain JEA bond resolutions, which require the maintenance of certain minimum debt service coverage ratios, and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the schedules of debt service coverage referred to above present fairly, in all material respects, the debt service coverage of the JEA Electric System, the JEA St. Johns River Power Park System, and the JEA Water and Sewer System for the years ended September 30, 2006 and 2005, respectively, in conformity with the basis specified in the respective JEA Bond Resolutions.

This report is intended solely for the information and use of the Members and management of JEA, and the bond trustees, and is not intended to be and should not be used by anyone other than these specified parties.



November 17, 2006

JEA Electric System

Schedules of Debt Service Coverage

Years Ended September 30, 2006 and 2005

(In Thousands)

	2006	2005
Revenues:		
Electric	\$ 1,050,391	\$ 855,413
Investment income (1)	1,894	1,034
Earnings from The Energy Authority	21,910	17,382
Other, net	40,863	37,401
Plus: amount paid from the Rate Stabilization Fund into the Revenue Fund	28,198	26,009
Less: amount paid from the Revenue Fund into the Stabilization Fund	(54,631)	(26,009)
Total revenues	<u>1,088,625</u>	<u>911,230</u>
Operating expenses (2):		
Fuel	286,764	227,776
Purchased power (3)	378,011	337,243
Other operation and maintenance	130,880	117,416
Utility and franchise taxes	25,824	20,971
Total operating expenses	<u>821,479</u>	<u>703,406</u>
Net revenues	<u>\$ 267,146</u>	<u>\$ 207,824</u>
Debt service	\$ 59,084	\$ 41,504
Less: investment income on sinking fund	(656)	(425)
Debt service requirement	<u>\$ 58,428</u>	<u>\$ 41,079</u>
Senior debt service coverage (4)	<u>4.57x</u>	<u>5.06x</u>
Net revenues (from above)	\$ 267,146	\$ 207,824
Less: amount paid from the revenue fund into the subordinated bond rate stabilization fund	-	-
Adjusted net revenues	<u>\$ 267,146</u>	<u>\$ 207,824</u>
Debt service requirement (from above)	\$ 58,428	\$ 41,079
Plus: aggregate subordinated debt service on outstanding subordinated bonds	58,621	56,420
Adjusted debt service requirement	<u>\$ 117,049</u>	<u>\$ 97,499</u>
Senior and subordinated debt service coverage (5)	<u>2.28x</u>	<u>2.13x</u>

(1) Excludes investment income on sinking funds.

(2) Excludes depreciation.

(3) In accordance with the requirements of the Electric System Resolution, all the Contract Debt payments from the Electric System to the SJRPP and Bulk Power Supply System with respect to the use by the Electric System of the capacity and output of the SJRPP and Bulk Power Supply System are reflected as a purchased power expense on these schedules. These schedules do not include revenues of the SJRPP and Bulk Power Supply System, except that the purchased power expense is net of interest income on funds maintained under the SJRPP and Bulk Power Supply System Resolutions.

(4) Net revenues divided by debt service requirement. Minimum annual coverage is 1.20x.

(5) Adjusted net revenues divided by adjusted debt service requirement. Minimum annual coverage is 1.15x

JEA St. Johns River Power Park System

Schedules of Debt Service Coverage

Years Ended September 30, 2006 and 2005

(In Thousands)

	2006	2005
Revenues:		
JEA	\$ 207,952	\$ 213,148
FPL	124,616	122,256
Investment income	13,815	10,782
Total revenues	<u>346,383</u>	<u>346,186</u>
Operating expenses (1):		
Fuel	146,343	133,304
Other operation and maintenance	32,403	33,167
Total operating expenses	<u>178,746</u>	<u>166,471</u>
Net revenues	<u>\$ 167,637</u>	<u>\$ 179,715</u>
Debt service requirement	<u>\$ 132,216</u>	<u>\$ 143,771</u>
Debt service coverage (2)	<u>1.27x</u>	<u>1.25x</u>

(1) Excludes depreciation.

(2) Net revenues divided by debt service requirement. Semiannual minimum coverage is 1.25x.

JEA Water and Sewer System

Schedules of Debt Service Coverage

Years Ended September 30, 2006 and 2005

(In Thousands)

	2006	2005
Revenues:		
Water	\$ 92,732	\$ 75,432
Water capacity fees (1)	10,201	2,649
Sewer	122,207	107,734
Sewer capacity fees (1)	23,915	14,523
Investment Income	1,865	1,701
Other	13,644	9,459
Total revenues	264,564	211,498
Operating expenses (2):		
Operations and maintenance	87,925	80,660
Net revenues	\$ 176,639	\$ 130,838
Debt service requirement	\$ 72,851	\$ 64,348
Senior debt service coverage (3)	2.42x	2.03x
Net revenues (from above)	\$ 176,639	\$ 130,838
Debt service requirement (from above)	\$ 72,851	\$ 64,348
Plus: aggregate subordinated debt service on outstanding subordinated debt	15,675	14,599
Adjusted debt service requirement	\$ 88,526	\$ 78,947
Senior and subordinated debt service coverage (4)	2.00x	1.66x

(1) Effective October 01, 2001, the Water and Sewer Bond Resolution was amended to include capacity fees in the calculation of debt service coverage. Had such capacity fees not been included in the calculation for the year-to-date periods ending September 2005 and 2004, then the debt service coverage would have been 1.61x and 1.44x.

(2) Excludes depreciation.

(3) Net revenues divided by debt service requirement. Annual minimum coverage is 1.25X

(4) Net revenues must be greater than or equal to the sum of 100% of the senior debt service and 120% of the subordinated debt service. The sum of such debt service amounts for the year ending September 2006 is \$91,662.

A large, ancient tree with a thick trunk and dense green foliage stands on a riverbank. Spanish moss hangs from the branches on the right side. The tree and the surrounding greenery are reflected in the calm, dark water of the river. The scene is peaceful and natural.

JEA EMPLOYEES SHARE A
COMMON LOVE FOR THIS
COMMUNITY AND WORK DAILY...



...TO ENSURE THE QUALITY OF
LIFE OUR COMMUNITY HAS COME
TO EXPECT AND DESERVES.

EXECUTIVE MANAGEMENT TEAM

Jim Dickenson
*Chief Executive Officer
and Managing Director*

James Chansler
Chief Operating Officer

Susan Hughes
Chief Human Resources Officer

Wanyonyi Kendrick
Chief Information Officer

Paul McElroy
Chief Financial Officer

Teala Milton
Chief Public Affairs Officer

Randy Boswell
*Vice President,
Corporate Data Integration*

Mike Brost
Vice President, Electric Systems

Jon Eckenbach
*Vice President, Engineering and
Construction Services*

Ted Hobson
*Vice President, Fuels,
Purchased Power and Compliance*

Scott Kelly
*Vice President,
Water and Wastewater Systems*

Athena Mann
*Vice President,
Environmental Services*

Marlene Murphy-Roach
*Vice President,
Customer Relationships*

Greg Perrine
*Vice President,
Facilities and Logistics Services*

JE A T A G L A N C E

ELECTRIC SYSTEM

- 408,239 customers
- 900 square miles of service area
- 6,000 miles of distribution
- 728 miles of transmission

ELECTRIC GENERATION

- St. Johns River Power Park (SJRPP)
- Northside Generating Station (NGS)
- Plant Scherer
- Brandy Branch (BB)
- Kennedy (KS)

GENERATION TECHNOLOGIES

- Three Pulverized Coal (PC) units – SJRPP 1 & 2, Scherer 4
- Two Circulating Fluidized Bed (CFB) units – NS 1 & 2
- One Oil/Gas-fired unit – NS 3
- Seven Combustion Turbines (CT) – NS 4, KS 2, BB 1
- One Combined Cycle Unit (CC) – BB
- Green/Clean Energy – solar, landfill gas

ELECTRIC MIX

- Gas/Oil – 54%
- Solid Fuel – 46%

POWER SUPPLY MIX

- Gas/Oil – 15%
- Solid Fuel – 79%
- Other – 6%

WATER AND SEWER SYSTEM

- 300,340 water customers
- 225,628 sewer customers
- 865 square miles of service
- 3,560 miles of distribution
- 3,335 miles of collection

WATER AND SEWER TREATMENT PLANTS

- 36 major water plants (282 MGD maximum daily capacity)
- 18 regional sewer plants (238 MGD daily capacity)
- 1,110 pump stations
- 150 wells

DISTRICT ENERGY SYSTEM

- Four chilled water plants (16,560 tons capacity)

ELECTRIC SYSTEM

Senior and Subordinate Bonds
Registrar/Paying Agent
U.S. Bank National Association
Miami, Florida

Commercial Paper Issuing and Paying Agent
U.S. Bank National Association
New York, New York

Bond Registrar, Paying Agent and Tender Agent
The Bank of New York,
Trust Company of Florida N.A.
Jacksonville, Florida

Subordinated Bond Registrar,
Paying Agent and Tender Agent
The Bank of New York,
Trust Company of Florida N.A.
Jacksonville, Florida

Independent Auditors
Ernst & Young LLP
Jacksonville, Florida

ST. JOHNS RIVER POWER PARK SYSTEM

Trustee/Registrar/Paying Agent
U.S. Bank National Association
Miami, Florida

Independent Auditors
Ernst & Young LLP
Jacksonville, Florida

WATER AND SEWER SYSTEM

Senior and Subordinate Bonds
Bond Registrar, Paying Agent and Tender Agent
U.S. Bank National Association
Miami, Florida

Bond Registrar, Paying Agent and Tender Agent
The Bank of New York,
Trust Company of Florida N.A.
Jacksonville, Florida

Independent Auditors
Ernst & Young LLP
Jacksonville, Florida

DISTRICT ENERGY SYSTEM

Bond Registrar, Paying Agent and Tender Agent
The Bank of New York,
Trust Company of Florida N.A.
Jacksonville, Florida

Independent Auditors
Ernst & Young LLP
Jacksonville, Florida

Upon request to the office of the treasurer, quarterly
and annual financial statements will be provided.

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