

## Pricing Policy

### I. Scope

This Pricing Policy is intended to provide broad guidance and to facilitate the management, control and oversight of JEA's pricing structure. Its primary goal is to establish revenue requirements to fully recover the costs necessary to operate and maintain the utility, consistent with its mission, through fair and equitable pricing. This includes sufficient revenue for required transfers to the City, depreciation expense, and balance sheet liquidity. The total revenue requirement of each system must be sufficient to ensure the financial integrity of the utility using depreciation expense and rate of return to maintain key financial metrics. It recognizes the operational challenges of managing dynamic businesses with major cost drivers such as significant regulatory reform as well as fuel which are dependent on global market conditions. The Pricing Policy contains the guiding parameters that JEA utilizes to develop its financial reporting, ratemaking, budget, and financial projections.

The Board is JEA's independent body responsible for setting rates. As part of this responsibility, the Board acknowledges that the rate setting policy and practices utilized will govern JEA's accounting under current generally accepted accounting principles, meaning that rate actions by the Board is impacted by certain costs and revenues recognized for financial statement purposes. This policy formalizes the rate philosophy utilized in prior years and codifies policy changes required for the implementation of regulatory accounting beginning with FY2015, including the change in rate setting methodology from Cash Basis to Utility Basis.

### II. Goal and Objectives

JEA's pricing shall be managed with an overall philosophy to provide advantages of a community-owned utility by delivering high quality, reliable and exceptional service at fair and competitive rates. JEA will exhaust all other net revenue improvement opportunities before recommending any price increases. JEA will develop a price structure that is based on cost of service and allocates costs to appropriate customer classes based on the cost to serve each class. Pricing shall be sufficient, predictable, consistent, understandable, fair, equitable, non-discriminatory and relatively easy to administer. A comprehensive cost of service study will be performed at a minimum of every five years to support that the rates charged by class are based on cost.

### III. Responsibility for Pricing Policy

The overall Pricing Policy is approved by the JEA Board of Directors and implemented by the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and staff. Annually, the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and staff will meet to develop strategy and review pricing and financial performance. JEA's Financial Planning and Rates departments will develop and manage processes to implement and administer this Policy. Based on this review, any changes to pricing such that JEA continues to have rates based on cost of service and sufficient to maintain each System's financial integrity will be recommended to the Board for approval.

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#### **IV. Authorization**

The JEA Board of Directors is independent from JEA management and has the power to fix, pledge to establish or establish, levy, regulate, impose and collect rates, assessments, fees and charges for the use or benefit of the utilities system and to alter and amend the same from time to time.

Although JEA is a non-jurisdictional entity, Tariffs approved by the Board of Directors are filed with the Public Service Commission for information and review. The Florida Public Service Commission (FPSC) does not regulate the revenue requirement of municipal utilities, yet pursuant to Section 366.04 (2), Florida Statutes, the FPSC has jurisdiction to review a rate structure for municipal utilities.

#### **V. Electric System**

Revenue requirements and rate design for the Electric System shall be constructed in two major categories: Base Rate and Fuel Charge.

##### **Base Rate**

###### Structure

The Base Rate will be structured with two major components: a fixed monthly charge and consumption charges. The fixed charge is billed as a "Basic Monthly Charge" and the consumption charges are billed as "Energy Charge," "*Demand Charge*," and "*Excess kVar Charge*." (Italicized charges apply to commercial or industrial customers only, and do not appear on typical residential bills.) Revenue requirements and rates will be set using a rate of return as well as using depreciation expense as the capital recovery estimate to ensure the financial integrity of the Electric System by achieving the following objectives:

- A minimum annual total debt service coverage ratio of 2.2x with a long-term goal of consistently achieving a minimum annual total debt service coverage ratio of 2.5x.
- A minimum annual fixed charge coverage ratio of 1.6x
- A minimum of 150 to 250 days of liquidity
- A long term objective debt to asset ratio of 50%
- Maintain stabilization funds as detailed in the "Stabilization Funds" section

Staff plans to phase in higher fixed components of base rates over time, utilizing widely accepted principles and practices to better reflect the fixed components of JEA's electric system cost structure.

###### Pricing

The Base Rate will recover expenditures necessary to operate and maintain the system, depreciation expense, and rate of return to maintain the system, the necessary contribution to the City, any special charges for programs adopted by JEA and approved by the Board, and additional revenues required to maintain the financial integrity of the System.

Staff will review with the Board of Directors the Base revenue and capital funding plans during both the annual budget cycle and the discussions of long term financial planning. Recurring capital will be recovered from revenues each year.

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Non-recurring or unanticipated (i.e., storm damage or major equipment failure) costs will be evaluated by management to determine the best source of capital funding. This can include absorbing the cost in the current year budget or the inclusion of cost in future rates over a period of time with funding of the cost from debt or reserves. Authorization from the Board to recover non-recurring capital over a future period of time may constitute an asset on JEA's balance sheet.

Gains realized from coordinated dispatch agreements will be allocated to fuel revenue, unless otherwise directed by the Board.

## **Fuel Charge**

### Structure

The Fuel Charge will be structured for full recovery of actual energy expenditures including direct fuel expenses, fuel procurement, fuel handling, residual disposal expense, less any proceeds from the sale of residuals, byproduct expenses directly utilized in managing the facilities used to prepare the byproduct for its final disposition, fuel hedging activities including gains and losses on settlement of fuel hedges, power purchase energy charges such as fuel, and renewable energy that is not considered generation available for JEA's current capacity plans.

The Fuel Charge structure shall also include recovery of prior positive or negative variances.

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The Fuel Charge will be set monthly. The Charge is based on the energy cost projection for the billing month to fully recover all expected fuel-related costs. Typically, any variance will be trued-up in the subsequent billing month. Should forecasted energy costs result in a Fuel Charge adjustment of greater than 20% or other certain circumstances should arise as determined by the CEO/Manager Director or designee, recovery of the true-up may be extended over a period of time.

Fuel and energy expenses not recovered by revenue within the month will be paid from unrestricted funds and result in a regulatory asset. Revenues in excess of fuel and energy expenses will result in a regulatory liability. Each month, management shall report the total fuel revenues, expenses and the resulting surplus or deficit. All authorized fuel-related costs shall be recovered through the Fuel Charge and funds collected in excess of authorized fuel-related costs shall be used to fund future fuel expenses or be refunded to customers.

## **VI. Water and Sewer System**

Revenue requirements and rate design for the Water and Sewer System shall be constructed in the Base Rate.

### **Base Rate**

#### Structure

The Base Rate for the Water and Sewer System shall be constructed in two major categories: monthly charges and initial charges, including capacity fees and line

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extension charges. Standard monthly charges will include two primary components: A fixed monthly charge and volume charges based on customer usage. The fixed charge is billed as a "Basic Monthly Charge" and the volume charges are billed as "Water Consumption Charges" and "Sewer Usage Charges".

Revenue requirements and rates will be using a rate of return as well as using depreciation expense as the capital recovery estimate to ensure the financial integrity of the Water and Sewer System by achieving the following objectives:

- A minimum annual total debt service coverage ratio of 1.8x with a long-term goal of consistently achieving a minimum annual total debt service coverage ratio of 2.0x
- A minimum of 100 days of liquidity
- A long-term objective of a maximum debt to asset ratio of 50%
- Maintain stabilization funds in the "Stabilization Funds" section.

#### Pricing

The Base Rate will recover expenditures necessary to operate and maintain the system, depreciation expense, and rate of return to maintain the system, the necessary contribution to the City, any special charges for programs adopted by JEA and approved by the Board, and additional revenues required to maintain the financial integrity of the System.

Staff will review with the Board of Directors the Base revenue and capital funding plans during both the annual budget cycle and the discussions of long term financial planning. Recurring capital will be recovered from revenues each year. Non-recurring or unanticipated (i.e., storm damage or major equipment failure) costs will be evaluated by management to determine the best source of capital funding. This can include absorbing the cost in the current year budget or the inclusion of cost in future rates over a period of time with funding of the cost from debt or reserves. Authorization from the Board to recover non-recurring capital over a future period of time may constitute an asset on JEA's balance sheet.

Capacity fee revenue will be used as an additional source of revenue in determining annual revenue requirements. Capacity fees to recover water, sewer and reclaimed water treatment facilities investments are established to recover 100% of the cost, including materials, of performing these services. These fees will be reviewed and if necessary, adjusted at least every three years. Capacity fees to recover the cost of off-site water and sewer line extensions shall be established to recover:

- 75% master plan main extension attributed to general system growth, assessed on a per connection basis; and

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- 100% main extension attributed to specific development, assessed to the developer in accordance with JEA's development policy.

On-site line extensions are the financial responsibility of the developer, builder, homeowner or business and shall be contributed to JEA at no charge to own, operate and maintain. JEA W/WW Cost Participation policy may provide opportunities for financial assistance.

Tap and meter fees will be established to recover 100% of the cost, including materials, of performing tap and meter services. These fees will be reviewed and, if necessary, adjusted at least every three years.

## **VII. Stabilization Funds**

The Board authorizes the funding and utilization of certain Stabilization Funds within each of the Electric and Water and Sewer Systems. Deposits and withdrawals will be made into each of the funds as specifically described below, and are governed by both this Pricing Policy and JEA's Bond Resolutions. The Stabilization Funds described below have a specific funding source which is approved by the Board, and the uses of funds are also approved by the Board. Any excess amounts remaining after the funding target is met and expenses are paid are returned back to customers.

### **Customer Benefit Stabilization Fund**

#### Funding and Authorization

The Residential Conservation Charge is discontinued, no additional funding will be added.

#### Allowable Uses

Withdrawals from the Customer Benefit Stabilization Fund are limited to amounts representing charges to the applicable "Customer Benefit" cost centers, which represent Customer Benefit programs approved annually by the Board. Once the fund has been depleted, it will be discontinued.

#### Excess Funds

Funds collected in excess of the approved Customer Benefit programs shall be used to fund future program expenses or be refunded to customers.

### **Electric System Environmental Stabilization Fund**

#### Funding and Authorization

Deposits to the Electric System Environmental Stabilization Fund will be made from the Revenue Fund as needed.

#### Allowable Uses

Withdrawals from the Electric System Environmental Stabilization Fund are limited to environmental expenditures approved by the Board prior to fiscal year 2023. If the withdrawals exceed the balance in the fund, deposits will be made from the Revenue Fund to reimburse the Stabilization Fund until those projects are complete.

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Excess Funds

Funds collected in excess shall be used to fund future environmental expenses or be refunded to customers.

**Water and Sewer System Environmental Stabilization Fund**

Funding and Authorization

Deposits to the Water and Sewer System Environmental Stabilization Fund will be made from the Revenue Fund as needed.

Allowable Uses

Withdrawals from the Water and Sewer System Environmental Stabilization Fund are limited to environmental expenditures approved by the Board prior to fiscal year 2023. If the withdrawals exceed the balance in the fund, deposits will be made from the Revenue Fund to reimburse the Stabilization Fund until those projects are complete.

Excess Funds

Funds collected in excess shall be used to fund future environmental expenses or be refunded to customers.

**Non-Fuel Purchased Power (NFPP) Stabilization Fund**

Target Balance

There is no required minimum balance. The objective is to assist in the timing of non-fuel purchased power expenses.

Funding and Authorization

Deposits to the NFPP Stabilization Fund are for amounts associated with any non-fuel purchased power. The Board will determine as part of the Budget approval process or periodically throughout the year the amount to include in rates that will be deposited into the NFPP Stabilization Fund.

Allowable Uses

Withdrawals from the NFPP Stabilization Fund may be made to reimburse any non-fuel purchased power expenses at the discretion of CEO/Managing Director or designee.

Excess Funds

Funds collected in excess shall be used to fund future non-fuel purchased power expenses or be refunded to customers.

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## **Health Self-Insurance Reserve**

### **Target Balance**

The target size of this reserve is based on regulatory requirements, market conditions and risk management experience, along with input from the Florida Office of Insurance Regulation, the regulatory body responsible for oversight of all self-insurance health and medical plans.

The objective is to maintain appropriate reserves and to ensure the long-term viability of the organization and the sustainability of the self-insurance health programs. Rule 69O-149.053, Florida Administrative Code requires that JEA maintain a minimum surplus reserve of 60 days of anticipated claims over and above the amount needed for the Plan's claim liability to cover costs associated with unexpected claims.

### **Funding and Authorization**

JEA has established, from operating revenues, an internally designated "Health Self-Insurance Fund" to cover reserve requirements for its self-insurance health program. The Office of Insurance Regulation for FL State requires 60 days of claims be maintained in reserve per FS Section 112.08 and the related sections of the Florida Administrative Code.

Reserve requirements will be reviewed and approved by CEO/Manager Director or his designee annually.

### **Allowable Uses:**

The amounts approved for recovery from the employees will be used to reduce the annual cost. Any costs in excess of revenues collected will be included in rates at the direction of the Board in a future period.

### **Excess Funds**

Any amount over the required reserve requirement will be used to reduce future costs related to the administration of the plan..

## **VIII. Policy Exceptions**

Any pricing activity determined to be in conflict with this Policy will be brought to the Board of Directors for review and approval prior to adoption and resulting metrics will be reported on an annual basis within the long term financial planning.

## **IX. Effective Date**

This Pricing Policy became effective October 1, 2005 (originally called "Pricing Philosophy"). This revision will become effective on the date on which it is adopted by the full Board effective October 1, 2023.

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