

JEA FINANCE & AUDIT COMMITTEE MINUTES
March 9, 2015

The Finance & Audit Committee of JEA met on Monday, March 9, 2015, in the 8th Floor Conference Room, JEA Plaza Tower, 21 W. Church Street, Jacksonville, Florida.

Agenda Item I – Opening Considerations

- A. Call to Order – Chair Peter Bower called the meeting to order at 8:00 AM with Members John Hirabayashi, Wyman Winbush, and Husein Cumber in attendance. Others in attendance were Paul McElroy, Mike Brost, Brian Roche, Melissa Dykes, Ted Hobson, Janice Nelson, Doris Champ, Walette Stanford, Angie Hiers, Monica Whiting, Joe Orfano, Steve McInall, Lori Phelan, Jim Myers, David Jolley, Gerri Boyce, and Jane Upton. Jody Brooks, Office of General Counsel, Mike Pattillo and Justin Threet, Ernst & Young, Robert Campbell, Council Auditors Office, and Mike Barrett, MBarrett Consulting, LLC, were also in attendance.
- B. Adoption of Agenda – The agenda was adopted on **motion** by Mr. Cumber and second by Mr. Hirabayashi. The agenda items were addressed out of sequence, but will be recorded in the order originally published on the agenda.
- C. Approval of Minutes – The December 10, 2014 Minutes and February 5, 2015 Special Meeting Minutes were unanimously approved on **motion** by Mr. Cumber and second by Mr. Winbush.

Agenda Item II – New Business

- A. Audit Services
 - 1. Audit Services Quality Assessment Review – Consultant Selection – On **motion** by Mr. Hirabayashi and second by Mr. Cumber, the Committee unanimously approved the selection of Honkamp Krueger to perform the full, external Quality Assessment Review of JEA Audit Services for 2015 and recommends Board approval.
 - 2. The Quarterly ERM/Audit Update, reviewed by Doris Champ, Director Audit Services, was received for information. Ms. Champ provided information on the Enterprise Risk Management (ERM) Trending Report, ERM Board Report, Audit Project Report, Summary of Audits Quality Indicators, Ethics Hotline Reports, and the Action Plan Status.
- B. Ethics Officer Quarterly Report – The Ethics Officer Quarterly Report, reviewed by Walette Stanford, Ethics Officer and Director Workforce Strategies, was received for information. Ms. Stanford stated that March is National Ethics Awareness Month and JEA is rolling out its new Business Ethics Computer Based Training module to employees for 100% completion prior to fiscal year-end 2015.
- C. Pricing Policy Changes and Adoption of Regulatory Accounting – On **motion** by Mr. Cumber and second by Mr. Hirabayashi, the Committee unanimously recommends Board approval of the accounting change to Regulatory Accounting. In tandem with this approval, the Board would also approve changing its rate setting methodology from the Cash Basis to the Utility Basis methodology and changes to the Pricing Policy. Committee action followed a presentation from Melissa Dykes, Chief Financial Officer, and Mike Barrett, MBarrett Consulting, LLC. Their presentation included an introduction to regulatory accounting, a review of Board governance and responsibilities as they relate to this change, an outline of proposed changes to the Pricing Policy, and provided examples of how Regulatory Accounting changes will be reflected in future financial pro-formas.

At 9:25 AM, Mr. Cumber departed the meeting after all action items had been addressed.

- D. Update on Rates Restructuring Initiative – An update on the Rates Restructuring Initiative, presented by Monica Whiting, Chief Customer Officer, and Melissa Dykes, Chief Financial Officer, was received for information. JEA's current electric rate structure does not align with the cost structure. A cross-functional rate restructuring team has been working toward a solution to balance these three goals: revenue stability, customer impact, and system utilization. Staff conducted customer research to determine how customers perceive value when it comes to utility services and to gain input on preferences for electric rate restructuring. Based on those results, the team has identified revenue neutral options for consideration. Next steps include completing tariff change analytics and drafting new language for all changes, submitting changes to Florida's Public Service Commission, proposing the Board call a Public Hearing at a later date to implement changes, engage with community stakeholders, and execute a communications plan prior to implementation.

At 9:30 AM, the Committee took a brief break and reconvened at 9:37 AM.

- E. FY2016 Budget Assumptions – Melissa Dykes, Chief Financial Officer, and staff presented and reviewed the FY2016 Budget Assumptions and process, requesting committee feedback and discussion. Items covered included key strategic issues, risks, challenges and assumptions. Strategic issues focus on continued employee engagement, workforce readiness, financial performance, and flexibility, with risks relating to future environmental constraints on electric generation and water resource management and the health of the St. Johns River. Major challenges relate to fuel and purchased power costs, steady or lower revenue projections, and increased labor costs. This item was received for information.
- F. Plant Vogtle Power Purchase Agreement Update – Steve McNall, Director Electric Production Resource Planning, presented the Plant Vogtle Power Purchase Agreement Update which was received for information. Mr. McNall reported a further delay in the project now scheduled for commercial operation (C.O.) in June 2019 for Unit #3 and June 2020 for Unit #4. As a result of this delay, JEA will be required to pay additional debt service principal prior to C.O. To comply with the pricing policy, non-fuel purchased power rate stabilization fund, staff and the Committee recommended within the above item: II C, Pricing Policy Changes and Adoption of Regulatory Accounting, increasing the fund for Plant Vogtle by \$26 million, bringing the total balance to \$38 million. The additional principal payments during the delay are less than what would be paid for power and having the energy later is beneficial.
- G. Natural Gas Sales to Commercial and Industrial Customers – A presentation by Steve McNall, Director Electric Production Resource Planning, on Natural Gas Sales to Commercial and Industrial Customers was received for information. Key components in the presentation included: JEA will sell natural gas to commercial and industrial customers through TECO/People's Gas System's (TECO/PGS) Natural Choice Program, initially targeting Key Accounts. This will establish JEA as commercial and industrial customers' complete energy provider, keeping dollars at work in the community and supporting economic development. JEA will utilize existing TECO/PGS infrastructure and interstate transportation capacity to supply local commercial and industrial customers. TECO/PGS will continue to focus on and serve residential customers.
- H. Treasury
1. Resolution Determining the Sufficiency of Revenues – SJRPP – On **motion** by Mr. Cumber and second by Mr. Hirabayashi, the Committee unanimously recommends the Board approve Resolution No. 2015-2 determining that the estimated revenues for the Fiscal Year ending September 30, 2106, will be sufficient for their intended purposes.

2. Recap of Recent JEA Electric System Fixed Rate Debt Refunding Delegated Transactions – Joe Orfano, Treasurer, provided a Recap of Recent JEA Electric System Fixed Rate Debt Refunding Delegated Transactions, which was received for information.
3. Electric System and Water and Sewer System Reserve Fund Quarterly Report – Joe Orfano, Treasurer, reviewed the Electric System and Water and Sewer System Reserve Fund Quarterly Report, which was received for information.
- I. JEA Energy Market Risk Management Policy Report – Mike Brost, VP/GM Electric Systems, reviewed the Energy Market Risk Management Policy Report, which was received for information.
- J. Fuel Credit Recommendation – On **motion** by Mr. Winbush and second by Mr. Cumber, the Committee unanimously recommends the Board approve staff's recommendation to refund the approximate \$50 million overfunded portion of the Fuel Reserve to our customers by providing a Fuel Charge credit in April 2015. This credit of approximately \$56 per average residential customer will reduce the projected Fuel Reserve closer to the policy target as of September 2015. Additional Fuel Rate action may be proposed this fiscal year.
- K. Independent Audit Services Contract Renewal – On **motion** by Mr. Cumber and second by Mr. Hirabayashi, the Committee unanimously recommends the Board approve the contract extension with Ernst & Young through June 30, 2016, with the attached negotiated Proposed Fee Schedule.
- L. Announcements
 1. The next Finance and Audit Committee meeting will be held on May 11, 2015, at 8:00 AM.
- M. Committee Discussion Sessions
 1. Director, Audit Services – At 10:30 AM, Mr. Bower dismissed staff and the Committee held a general conversation with Doris Champ, Director Audit Services.
 2. Ernst & Young – At 10:37 AM, the Committee held a general conversation with Mike Pattillo and Justin Threet.
 3. Council Auditor's Office – Mr. Campbell had no concerns requiring discussion with the Committee.

Closing Considerations

With no further business claiming the attention of this Committee, the meeting was declared adjourned at 10:45 AM.

APPROVED BY:



Peter Bower, Committee Chair

Date: May 19, 2015

Submitted by:



Jeanne Ryan
Executive Assistant