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Fitch Ratings: JEA's Ratings Unaffected by Recent Resignation of Board of Directors

Fitch Ratings-Chicago-06 February 2020: Fitch Ratings believes the recent resignation of JEA's entire board of directors, culminating from a string of events dating back to 2018, is a distraction for the utility but is unlikely to present near-term credit risks. However, the utility's credit quality could be influenced over the intermediate term by significant changes in the strategic direction of the utility following the appointment of a new board and the hiring of new senior staff, according to Fitch.

Fitch believes the recent management changes, lawsuits challenging the validity of certain purchased power obligations, and the recently abandoned proposal to sell the utility, are all currently credit neutral to JEA. However, the resignation of JEA's board chairperson early last week, followed by notification from the City of Jacksonville's Mayor's office later that same day that the remaining six JEA board members intend to continue in their roles only until Feb. 28, 2020, leaves the utility with the possibility a governing quorum will not be in place starting next month as well as some uncertainty regarding the utility's longer-term strategic direction.

Jacksonville's Mayor and City Council have begun the process to fill all seven board vacancies, with the potential for new board members to be appointed (by the Mayor), and potentially confirmed (by city council) before the current remaining board members leave their posts at month's end. Fitch believes the prospect of appointing and approving a brand new seven-member board to be challenging. However, several key senior managers (including the interim CEO) have been retained, providing JEA some degree of continuity with respect to daily operations during this transition.

The new board will be charged with hiring a new CEO and setting the course for JEA going forward. Fitch will closely monitor the process over the coming weeks and months, with particular interest in the city's timetable for approving an acting board, as well as the board's ultimate composition, level of experience in utility operations and strategic objectives. While Fitch believes the changes in JEA's governance and leadership are unlikely to result in a change in the expected course of operations, any shifts in policy that compromise JEA's financial profile, including a reduction in electric rates (or reticence to increase rates, as needed) or a change in resources that leads to significant stranded costs, could impact future credit quality in Fitch's view.

Fitch recently affirmed JEA's Issuer Default Rating (IDR) and its outstanding ratings on a variety of electric system revenue bonds at 'AA'/Stable Outlook. The electric system's ratings are based on JEA's very strong revenue defensibility, aided by its delivery of monopolistic service to a sound service territory, independent rate setting and consistently solid financial performance.

Also considered in the rating is a steadily declining leverage profile led by the strategic use of excess cash flows to lower fixed costs through early retirement of outstanding bonds over the past several years. There are currently no asymmetric risks affecting JEA's ratings at this time. However, the quality of governance and management is an important consideration when assessing the potential performance of an entity over the life of its debt, where weak attributes could constrain the overall

rating.

Fitch further views the litigation with MEAG Power over the validity of JEA's purchase power agreement (PPA) for Plant Vogtle energy and capacity to be neutral to the rating. Fitch believes JEA's Vogtle-related obligations as currently known are manageable given the strong annual cash flows and rate flexibility coupled with rapidly amortizing debt obligations. JEA has publicly indicated it will continue to honor its obligations under the contract during the litigation process and thereafter as long as the PPA is not determined to be invalid. Any change in JEA's current intention to continue paying its obligations under the PPA absent a court ruling striking down its validity would cause Fitch to reevaluate all relevant ratings.

For more information on JEA's electric system ratings please see Fitch's press release affirming JEA's electric system revenue bonds dated Nov. 22, 2019 at www.fitchratings.com. For more information on how Fitch views asymmetric risks such as governance and management, please see the public power sector criteria dated April 4, 2019.

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