OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building

MEMORANDUM

Date:	July 27, 2026
To:	Financial Audit and Oversight Select Committee
From:	Phillip Peterson, CPA, Council Auditor
Subject:	JEA - Additional Capacity Fees

Our Charge

Our office was asked "… to determine the extent to which capacity fees may not have been collected in recent years and identifying any amounts owed to the City or JEA."

Conclusion

Based on the analysis performed by our office in conjunction with the work performed by JEA, the maximum amount not collected by JEA since 2003 appears to be approximately $75 million for meters 3" and larger. Of the $75 million, approximately $21 million relates to multi-family properties. However, it appears that a significant number of these properties may not have changed the number of units in the development, which would mean that nothing additional should have been collected (i.e., the maximum may be closer to $55 million). As indicated by JEA, there are still interpretations of the tariff, customer specific circumstances, and other legal items that may reduce the amounts that would have been owed and specifically could be collected at this time. An example is the fact that just because a customer's average daily flow exceeds the capacity paid for by more than 20% (an indicator of when additional capacity fees could be due) does not mean that the customer necessarily owes an additional capacity fee. Depending upon the interpretation of the tariff document, the customer would also have had to increase, expand, or change operations.

No amounts would be owed to the City of Jacksonville.

We did not perform specific testing related to meters less than 3".

Background

It is important to note that everyone seems to agree that there was an issue with additional capacity fees potentially owed not being identified and charged. The disagreements appear to be related to the pervasiveness, the potential overall financial impact, and what options are available to address it at this point in time. While JEA has been working aspects of this back to 2022 specifically related to Mayo Clinic, the work related to all business entities has been more in the last 18 months with an even more focused effort in the last 6 months.

For our part, we have met with around 15 JEA employees related to capacity fees so that we can get a more in-depth understanding of (1) Capacity Fees and Additional Capacity Fees, (2) problems with Additional Capacity Fees, and (3) what JEA was doing to identify and address the problem. We received access to various JEA systems which were beneficial as we worked to calculate/validate amounts that were not collected.

JEA's Calculation

JEA Calculations of Baseline Capacity Fees Paid

Based on discussions, JEA employees spent a lot of time over the past year establishing the capacity paid for by business accounts. This has been a long process for JEA to undertake on all the 25,000+ business accounts since this was not tracked in a centrally located field within the JEA customer system prior to 2023. Instead, JEA had to pull information from various fields in the customer system as well as the system where capacity paid for has been input since 2021. Prior to this, the applications were made in hardcopy; however, the dollar amount paid for capacity was logged into the customer system, enabling JEA to recalculate the capacity amount based on the amount paid. Given the difficulty of this, JEA's review was changed to focus on validating the amounts for premises that had service points with meters 3" and larger, which reduced the size of the population to 1,697 meters.

JEA Calculations of Usage

Based on discussions, JEA employees also spent time in 2026 pulling and validating actual usage (focusing in on service points 3" and larger and the associated premise as a whole). The flow/usage calculation is needed to flag what amounts may be owed by businesses. Although this work may appear simple at first, there are many things that need to be accounted for such as (1) meter replacements, (2) billing adjustments (e.g., broken meters), and (3) getting the data broken down into consistent time frames given different billing periods for customers and service types.

JEA Final Analysis – Calculation of Additional Capacity Fees Potentially Owed

JEA then flagged and calculated what amount might be owed by customers. To do this, JEA first had to establish a baseline capacity amount. This was done by crediting the customers with the greater of the capacity identified by JEA based on various sources or the average daily flow in 2004 and 2005. The information was pulled for 2004 and 2005 since that is the earliest information available for average daily flow. JEA then compared the baseline amount to the average daily flow information by year to figure out the first year a customer might have tripped the 20% increase limit to owe additional fees. JEA then took the average daily flow for 2025 and multiplied it by the capacity fee in place the year the business tripped the 20% to determine the amount potentially owed, which was a reasonable approach to determine what might be owed today. In total, JEA's calculation resulted in a maximum amount owed from all customers of $25 million.

Council Auditor's Office Calculation

As part of our analysis, we recalculated the average daily flow for a sample of customers to determine if the data pulled appeared to match the customer bills. We reviewed and validated 42 of the larger customers given there is a higher likelihood of issues with these types of customers. Based on this work, we were able to get comfortable with the data from JEA for the purposes of our analysis.

In general, we re-performed the calculation with the same approach as JEA. The major difference in our approach was that we took the average daily flow by year (instead of using just the 2025 average daily flow) and compared it to the baseline capacity amount. Each year that the 20% threshold was tripped, we established a new baseline capacity amount for the customer based on that year's flow. The increase in capacity over the 20% threshold in each year for all customers was then multiplied by the capacity fee in place at the time to determine the amount that might be owed for that year. This resulted in approximately $75 million being potentially owed.

We also determined how much of the $75 million was applicable to multi-family customers and found that it was approximately $21 million. We looked into these parcels to determine if there appeared to be a significant change in the number of units over time. In general, there did not appear to be any changes, which indicates that there would not be amounts owed; however, a more in-depth analysis would need to be done to verify how many units were paid for originally.

Other Considerations

It is important to note that just because a business is flagged as potentially owing does not mean in fact, the business owes additional capacity fees. Other things that are being analyzed by JEA include the impact of different agreements, exemptions, and how the statute of limitations may impact the amount potentially owed as well as the need to ensure that everyone is being treated fairly.