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September 18, 2020

Ms. Lisa Felice  
Executive Secretary  
Michigan Public Service Commission  
7109 West Saginaw Highway  
Post Office Box 30221  
Lansing, MI 48909

**RE: Case No. U-20889 – In the matter of the application of CONSUMERS ENERGY COMPANY for a Financing Order Approving the Securitization of Qualified Costs.**

Dear Ms. Felice:

Enclosed for electronic filing in the above-captioned case, please find the **Application for Financing Order, Proposed Protective Order, and Testimony and Exhibits of Consumers Energy Company witnesses Laura M. Collins, Daniel L. Harry, Scott A. Hugo, Steffen Lunde, Heidi J. Myers, and Todd A. Wehner.**

This is a paperless filing and is therefore being filed only in PDF. I have included a Proof of Service showing electronic service upon the parties.

Sincerely,

Michael C. Rampe

cc: Parties per Attachment 1 to Proof of Service

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of	)	
<b>CONSUMERS ENERGY COMPANY</b>	)	
for a Financing Order Approving the	)	Case No. U-20889
Securitization of Qualified Costs.	)	
_____	)	

**APPLICATION FOR FINANCING ORDER**

Consumers Energy Company (“Consumers Energy” or “the Company”) applies to the Michigan Public Service Commission (“MPSC” or the “Commission”) pursuant to the Customer Choice and Electricity Reliability Act, MCL 460.10 et seq., (“CCERA”), the Michigan Administrative Procedures Act, MCL 24.201 et seq., MCL 460.1 et seq., as amended, and other applicable law, for a financing order: (i) determining that certain specified assets of the Company constitute “qualified costs” as that term is used in CCERA; (ii) approving the issuance of securitization bonds for the recovery of those qualified costs and other related costs; and (iii) granting other related approvals. In support of this Application, Consumers Energy states as follows:

**Identity of Applicant**

1. Consumers Energy is, among other things, engaged as a public utility in the business of generating, purchasing, distributing, and selling electric energy to approximately 1.8 million retail customers throughout much of the Lower Peninsula of the state of Michigan, as set forth at Sheet Nos. A-12.00 through A-25.00 of Consumers Energy’s Schedule of Rates Governing the Sale of Electric Service, M.P.S.C. No. 14 - Electric. The retail electric system of Consumers Energy is operated as a single utility system, within which uniform rates are charged.

2. On June 15, 2018, Consumers Energy filed a request for approval of an Integrated Resource Plan in Case No. U-20165. On June 7, 2019, the Commission issued an Order Approving Settlement Agreement in that case. Paragraph 3 of the Settlement Agreement states:

The parties agree that Karn Units 1 and 2 will be retired in 2023. The Company agrees to seek recovery of the Karn Units 1 and 2 unrecovered book balance by no later than May 31, 2023, filing an application under the applicable provisions of Customer Choice and Electricity Reliability Act, MCL 460.10 *et seq.*, seeking a financing order from the Commission authorizing Consumers Energy to recover the unrecovered book balance of Karn Units 1 and 2.

Consumers Energy files this Application consistent with the above-quoted provision.

#### **Statement of Statutory Authority**

3. CCERA became effective in June of 2000. A portion of CCERA (originally passed as 2000 PA 142 (“Act 142”)) sets forth the legislative provisions governing electric utility securitization. MCL 460.10h through MCL 460.10o. Act 142 provides that electric utilities may recover “qualified costs” if authorized by the Commission pursuant to a “financing order” approving the: (i) recovery of qualified costs, (ii) issuance of securitization bonds, and (iii) imposition of nonbypassable securitization charges. Due to the availability of very favorable credit ratings from the rating agencies, securities issued pursuant to the provisions of Act 142 are designed to lower the cost of capital of the electric utility and to thereby allow retail customers’ electric rates to be at a lower level than they would be if conventional financing methods were employed by the electric utility to finance the costs being securitized.

4. MCL 460.10h(g) defines “qualified costs” as follows:

(g) “Qualified costs” means an electric utility’s regulatory assets as determined by the commission, adjusted by the applicable portion of related investment tax credits, plus any costs that the commission determines that the electric utility would be unlikely to collect in a competitive market, including, but not limited to, retail open access implementation costs and the costs of a commission approved

restructuring, buyout or buy-down of a power purchase contract, together with the costs of issuing, supporting, and servicing securitization bonds and any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of securitization bonds. Qualified costs include taxes related to the recovery of securitization charges.

5. MCL 460.10i(6) requires that the Commission conduct an “expedited contested case proceeding” to consider the application of an electric utility for a financing order, and that a financing order or an order rejecting the application be issued no later than 90 days after the filing of the application.

### **Request for Financing Order**

#### **Eligibility for Financing Order**

6. Consumers Energy is an “electric utility” as that term is defined and used in Act 142, MCL 460.10h(c).

7. Consumers Energy has incurred “qualified costs” as that term is defined and used in Act 142, MCL 460.10h(g) that are eligible for securitization under Act 142.

8. MCL 460.10i provides in part:

(1) Upon the application of an electric utility, if the commission finds that the net present value of the revenues to be collected under the financing order is less than the amount that would be recovered over the remaining life of the qualified costs using conventional financing methods and that the financing order is consistent with the standards in subsection (2), the commission shall issue a financing order to allow the utility to recover qualified costs.

(2) In a financing order, the commission shall ensure all of the following:

(a) That the proceeds of the securitization bonds are used solely for the purposes of the refinancing or retirement of debt or equity.

(b) That securitization provides tangible and quantifiable benefits to customers of the electric utility.

(c) That the expected structuring and expected pricing of the securitization bonds will result in the lowest securitization charges consistent with market conditions and the terms of the financing order.

(d) That the amount securitized does not exceed the net present value of the revenue requirement over the life of the proposed securitization bonds associated with the qualified costs sought to be securitized.

9. As more fully explained in the accompanying testimony and exhibits that are incorporated herein and made a part hereof by reference, the securitization proposal set forth in this Application meets all of the statutory requirements set forth in Act 142.

Amount to be Securitized and Related Transactions

10. As more fully explained in the accompanying testimony and exhibits, Consumers Energy seeks a financing order that will authorize the securitization of up to \$702.8 million of qualified costs. Consumers Energy's requested form of financing order is attached to this Application as Exhibit A.

11. Act 142 contemplates the transfer by an electric utility of its rights in securitization property to another entity and provides certain benefits and protections with respect to that property. MCL 460.10h(a); MCL 460.10j-o. As more fully explained in the accompanying testimony and exhibits, Consumers Energy will create a special purpose entity and transfer certain securitization property to that entity. This transfer is done for the purpose of minimizing bankruptcy risks to potential securitization bondholders as much as possible and, thus, maximizing the ratings on the securitization bonds and minimizing the interest rate paid on the bonds.

12. Within the context of approving the securitization transaction in the financing order, Consumers Energy specifically requests the Commission to make the necessary findings, and approve the transactions involving Consumers Energy and the special purpose entity, as described in the accompanying testimony and exhibits, and make any financing order issued in

this proceeding applicable to any transferee, successor or assignee, of Consumers Energy in accordance with Act 142.

#### Initial Implementation and True-up of Securitization Charges

13. Consumers Energy also requests that the Commission approve the securitization charges to be collected from Consumers Energy's customers and a periodic true-up mechanism, all as described more fully in the accompanying testimony and exhibits, and all of which are designed to result in the highest credit rating (i.e., a triple-A rating) for any securitization bonds issued as the result of the financing order requested in this Application. The mechanisms proposed for initial implementation and periodic true-up would be approved by the Commission in the financing order issued in this proceeding for inclusion in Consumers Energy's electric tariff book. These mechanisms are comparable to those approved by the Commission in Case No. U-17473 for Consumers Energy's issuance of securitization bonds in connection with its B.C. Cobb Units 1 through 5, J.C. Weadock Units 7 through 8, and J.R. Whiting Units 1 through 3 (the "Classic 7"), updated to reflect current market practice and rating agency expectations.

#### Use of Proceeds

14. As set forth in more detail in the accompanying testimony and exhibits, Consumers Energy will use proceeds from securitization for refinancing or retirement of debt or equity as provided in MCL 460.10i(2)(a).

#### Qualified Costs and Securitization Savings

15. The qualified costs that Consumers Energy is seeking to securitize are the unrecovered book balance (as of the end of the most recent month before the securitization bonds are issued) associated with the retirement of D.E. Karn Units 1 and 2, and other qualified costs

supported by the Company's witnesses, consistent with the Settlement Agreement approved in Case No. U-20165.

16. As set forth in more detail in the accompanying testimony and exhibits, these costs meet the definition of "qualified costs" as used in Act 142. Costs associated with these units are currently included in Consumers Energy's retail electric rates. As described in the accompanying testimony and exhibits, customers will initially receive a bill credit that goes into effect coincident with the securitization charge. That bill credit will reflect the current revenue requirement associated with the above-identified costs that are included in Consumers Energy's retail electric rates, and will remain in effect until such time as the Company's rates are reset in its next general electric rate case. In that next rate case, Consumers Energy will propose base rates that exclude the revenue requirement associated with the above-identified costs. Consumers Energy's testimony and exhibits discuss these qualified costs, the calculation of the appropriate securitization charge, and the associated accounting and ratemaking treatment. The annual savings to customers (relative to existing ratemaking treatment) that Consumers Energy expects customers to realize as a result of this Application are \$126.0 million.

17. Upon the issuance of a financing order by the Commission, Consumers Energy will take all other actions necessary to implement the financing order.

#### **Testimony and Exhibits**

18. The testimony and exhibits accompanying this Application, which are incorporated herein and made a part hereof by reference, describe more fully the relief sought by Consumers Energy in this Application.

### **Request to Read the Record**

20. Rule 406; R 792.10406 of the Michigan Administrative Hearing Rules states in relevant part:

Not less than 7 days prior to the date set for the initial prehearing, an applicant may file a request that the commission read the record in a pending proceeding and dispense with the proposal for decision. A copy of the request shall be served upon the other parties to the proceeding and upon the director of regulatory affairs. Applicants are cautioned that such requests will be granted only under extraordinary circumstances.

21. To permit parties to fully litigate this case within the 90-day time frame set forth in MCL 460.10i(6), Consumers Energy respectfully requests that the Commission dispense with the proposal for decision, and read the record in this proceeding.

WHEREFORE, Consumers Energy respectfully requests that this honorable Commission dispense with the proposal for decision and, after reading the record in this proceeding, take the following actions:

A. Issue a financing order, in the form attached hereto as Exhibit A, applicable to Consumers Energy, its transferees, successors and assignees, pursuant to CCERA and other applicable law: (i) declaring that the costs described in the testimony and exhibits accompanying this Application are qualified costs under CCERA; and (ii) authorizing issuance of securitization bonds in an amount that will permit recovery of those qualified costs and other related costs. Such order shall reserve to Consumers Energy the sole discretion as to whether and when to proceed with a securitization transaction.

B. Authorize Consumers Energy in the financing order to impose a nonbypassable securitization charge payable to the issuer of the securitization bonds pursuant to CCERA as a separate item on customer bills, to be rendered on and after the issuance of securitization bonds, and that is sufficient to pay: (i) the principal and interest of the bonds, (ii) other costs associated



with the issuance of the bonds, and (iii) service and ongoing support of the securitization bonds and the issuer of the bonds as described in the accompanying testimony and exhibits.

C. Authorize Consumers Energy to include necessary language in its tariffs to accomplish the imposition of the above-referenced nonbypassable securitization charge and initially implement and periodically true-up the securitization charge, all as proposed and more fully explained in the accompanying testimony and exhibits.

D. Authorize Consumers Energy to employ appropriate methodology to account for the transactions contemplated by the financing order, including granting any additional accounting authority and appropriate ratemaking treatment, as proposed and more fully explained in the accompanying testimony and exhibits.


E. Grant to Consumers Energy, pursuant to MCL 460.10i(9), the authority to refund and retire any or all of the securitization bonds that are issued pursuant to this proceeding upon demonstration of an ability to refinance under applicable bond covenants and that securitization charges to service new securitization bonds, including transaction costs, would be less than the securitization charges required to service the securitization bonds being refunded.

F. Authorize Consumers Energy to create a special purpose entity to which it could transfer securitization property and approve transfers of the securitization property under the financing order issued in this proceeding and rights thereunder to any transferee, successor or assignee, of Consumers Energy in accordance with CCERA.

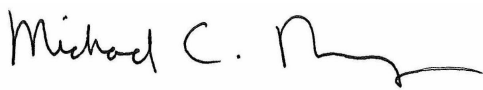
G. Grant such other and further relief as may be lawful and appropriate.

Respectfully submitted,

CONSUMERS ENERGY COMPANY

By:   
Srikanth Maddipati  
Treasurer and Vice President of Investor  
Relations

Dated: September 18, 2020

By:   
Bret A. Totoraitis (P72654)  
Michael C. Rampe (P58189)  
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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the )  
Securitization of Qualified Costs. )  
\_\_\_\_\_ )


Case No. U-20889

**VERIFICATION**

STATE OF MICHIGAN )  
 )SS  
COUNTY OF JACKSON )

Srikanth Maddipati, being first duly sworn, deposes and says that he is the Treasurer and Vice President of Investor Relations for Consumers Energy Company, that he has executed the foregoing Application for and on behalf of Consumers Energy Company; that he has read the foregoing Application and is familiar with the contents thereof, that the facts contained therein are true and correct to the best of his information knowledge and belief, and that he is duly authorized to execute and file such Application on behalf of Consumers Energy Company.

Dated: September 18, 2020

  
\_\_\_\_\_  
Srikanth Maddipati  
Treasurer and Vice President of Investor Relations  
Consumers Energy Company

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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Case No. U-20889

**EXHIBIT A**

**FORM OF FINANCING ORDER**

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the ) Case No. U-20889  
Securitization of Qualified Costs. )  
\_\_\_\_\_)

At the \_\_\_\_\_, 2020 meeting of the Michigan Public Service Commission in  
Lansing, Michigan.

PRESENT: Hon. Daniel C. Scripps, Chairman  
Hon. Tremaine L. Phillips, Commissioner  
Hon. Sally A. Talberg, Commissioner

**OPINION AND ORDER**

**I.**

**BACKGROUND AND HISTORY OF PROCEEDINGS**

On September 18, 2020, Consumers Energy Company (“Consumers” or the “Company”) filed an application, with supporting testimony and exhibits, seeking a financing order authorizing the issuance of securitization bonds in an amount up to \$702.8 million to cover qualified costs.

The application was filed pursuant to 2000 PA 142 (“Act 142”), which amended 1939 PA 3, MCL 460.1 et seq., and that, among other things, allows certain utilities<sup>1</sup> the option of reducing their costs through the issuance of securitization bonds.<sup>2</sup> The application requested

<sup>1</sup> Consumers meets the requirements to seek a financing order. See, MCL 460.10h(c); MCL 460.562(d).

<sup>2</sup> Securitization is the process by which a utility – following the issuance of a financing order by the Commission – utilizes highly rated low-cost debt in the form of securitization bonds issued by a special purpose entity for legislatively sanctioned financing purposes in lieu of using its own higher-cost equity and lower rated, higher cost debt.

authority to: (1) create one or more special purpose entities (each, an “SPE<sup>3</sup>”) to which Consumers would transfer specified “securitization property” for the purpose of minimizing bankruptcy risks and maximizing the ratings on the securitization bonds; (2) implement securitization charges of the SPE to be collected from Consumers’ customers<sup>4</sup>, as well as a mechanism for undertaking periodic true-ups of those securitization charges; (3) choose to proceed or not, at Consumers’ sole discretion, with the sale of the securitization bonds authorized in this case; and (4) employ appropriate methodologies to account for these transactions and to eventually refund or retire any or all of the securitization bonds.

Pursuant to due notice, a prehearing conference was held on \_\_\_\_\_, 2020 before Administrative Law Judge \_\_\_\_\_ (“ALJ”). In the course of the prehearing conference, the ALJ granted intervenor status to \_\_\_\_\_. The Commission Staff (“Staff”) also participated in the proceedings. The ALJ established a schedule for this case that would result in the completion of all proceedings and the issuance of the Commission’s financing order within 90 days after the filing of the application.

Evidentiary hearings were conducted on \_\_\_\_\_, 2020. The record consists of \_\_\_\_\_ pages of transcript and \_\_\_\_\_ exhibits. Initial Briefs were filed on \_\_\_\_\_, 2020. Reply Briefs were filed on \_\_\_\_\_, 2020. In part to expedite this proceeding, the Commission granted Consumers’ request, in its application, to dispense with the preparation of a Proposal for Decision, exceptions, and replies to exceptions, and read the record.

<sup>3</sup> For purposes of this financing order, all references to the SPE shall be applicable to all SPEs that are created to issue a series of securitization bonds.

<sup>4</sup> As used throughout this financing order, unless a different subset of the Company’s customers is expressly specified or the context clearly indicates that a different subset of the Company’s customers was intended, the term “customers” refers to all existing and future retail electric distribution customers of Consumers or its successors, except for current choice customers to the extent such current choice customers do not revert to full service customers after the date of this financing order, customers using self-service power as defined in MCL 460.10a(4), and customers engaged in affiliate wheeling as defined in MCL 460.10a(10).

Act 142 provides the opportunity for the issuance of securitization bonds and the authorization for a utility to impose, collect, and receive securitization charges to recover the qualified costs of electric utilities. As defined in Section 10h(c) of Act 142, the entities eligible for securitization are those falling within the definition of “electric utility” in Section 2 of the Electric Transmission Line Certification Act, 1995 PA 30, MCL 460.562. Consumers satisfies that definition. The Commission has previously issued financing orders that resulted in the sale of securitization bonds for Consumers in: (i) Case No. U-12505, which resulted in Consumers completing a sale of securitization bonds in November 2001; and (ii) Case No. U-17473, which resulted in Consumers completing a sale of securitization bonds in July 2014. Before Consumers could complete the securitization transaction authorized in Case No. U-12505, the Commission’s financing order was appealed to the Michigan Court of Appeals by the Attorney General, where it was unanimously affirmed by the Court, *Attorney General v Public Service Commission*, 247 Mich App 35; 634 NW2d 710 (2001).

## II.

### **OVERVIEW OF CONSUMERS’ PROPOSAL**

On June 15, 2018, Consumers filed a request for approval of an Integrated Resources Plan in Case No. U-20165. The Commission issued an Order Approving Settlement Agreement in that case on June 7, 2019. Paragraph 3 of the Settlement Agreement stated the signatories’ agreement that the Company would retire Units 1 and 2 of the D.E. Karn coal-fired generation plant in 2023.<sup>5</sup> The settlement provision further stated that “[t]he Company agrees to seek recovery of the Karn Units 1 and 2 unrecovered book balance by no later than May 31, 2023, filing an application under the applicable provisions of Customer Choice and Electricity

<sup>5</sup> D.E. Karn Units 1 and 2 refer to two coal-fired generation Units currently owned and operated by Consumers. These coal-fired generation units are referred to as “Karn Units 1 and 2” throughout this financing order.

Reliability Act, MCL 460.10 *et seq.*, seeking a financing order from the Commission authorizing Consumers Energy to recover the unrecovered book balance of Karn Units 1 and 2.” Consumers filed its application in this case in accordance with this provision.

Consistent with the Settlement Agreement approved in Case No. U-20165, Consumers is planning to cease operating its Karn Units 1 and 2 in 2023. Consumers is requesting to finance up to \$702.8 million of Qualified Costs through the issuance of securitization bonds. This amount is comprised of the unrecovered book balance of Karn Units 1 and 2 through April 30, 2023 as discussed in the testimony of Company witness Todd A. Wehner, which is comprised of an April 30, 2023 projected unrecovered book balance of \$691.2 million as supported by Company witness Daniel L. Harry, and \$11.6 million of Initial Other Qualified Costs, as discussed in the testimony of Company witness Wehner. Company witness Heidi J. Myers testified that qualified costs have been calculated at the gross amount rather than “net of tax.” The total qualified costs that Consumers is proposing to finance is up to \$702.8 million.

Company witness Steffen Lunde, a Director in the Global ABS Financing and Securitization Group of Citigroup Global Markets Inc., described the securitization process and provided an overview of Consumers’ proposal. As explained by Mr. Lunde, securitization separates the credit quality of the issued bonds from that of the Company in order to achieve higher credit ratings and lower financing costs. In order to accomplish this, he states, Consumers proposes to sell the revenue stream and other entitlements and property created by the financing order (i.e. the “securitization property”) to a bankruptcy remote SPE, which sale, pursuant to Act 142, will constitute a “true sale” for bankruptcy purposes. This “true sale” is designed to insulate the securitization property from creditors of Consumers and, thereby, from the credit risk of the



Company.<sup>6</sup> According to Mr. Lunde, a trustee will also be appointed to: (1) act on behalf of the bondholders; (2) remit payments to these bondholders; and (3) ensure that the bondholders' rights are protected in accordance with the terms of the financing documents. The securitization property and certain other related collateral will be pledged to the trustee, and the SPE will then issue bonds supported by the underlying collateral to investors. In addition to the bankruptcy remote status of the SPE, he continued, credit enhancements, such as capital contributions at the outset of the transaction and a true-up mechanism, will be used to obtain the desired "triple-A" or AAA rating for the securitization bonds. Although he does not believe it will be needed in this case, Mr. Lunde states that Consumers would like to be authorized to use a letter of credit and/or an overcollateralization subaccount, which may be later deemed necessary as additional credit enhancement in the context of the credit ratings review process, the optimal bond structure, and market conditions. \_\_ TR \_\_.

Mr. Lunde went on to state that the securitization property that is sold to the SPE is composed of the rights and interests of Consumers under the financing order, including the right to impose, collect, and receive from Consumers' customers amounts necessary to pay principal and interest on the securitization bonds, as well as the SPE's "Ongoing Other Qualified Costs," timely and in full, and including the right to adjust the amounts of securitization charges through

<sup>6</sup> Pursuant to MCL 460.10/(2), this designation as a "true sale" applies regardless of whether the purchaser has any recourse against the seller, or any other term of the parties' agreement, including the seller's retention of an equity interest in the securitization property, the fact that Consumers may act as the collector of securitization charges, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.

the periodic use of a true-up mechanism.<sup>7</sup> According to Mr. Lunde, the phrase “Ongoing Other Qualified Costs” refers to certain “qualified costs arising from the issuance of securitization bonds that will be payable from securitization charge collections on an ongoing basis over the transaction’s life.” These primarily include servicing fees, trustee fees and expenses, auditor expenses and administrative fees, rating agency fees, independent manager fees, SEC reporting expenses, and other operating expenses incurred by, or on behalf of, the SPE. The Ongoing Other Qualified Costs, which are set forth on Exhibit A-20 (TAW-3), are estimated at about \$750,000 per year.

When put into effect, Consumers’ proposal is designed to establish nonbypassable securitization charges expressed in cents per kilowatt-hour (“kWh”). These securitization charges will be stated as a separate charge on customers’ bills. Consumers further proposes a system of periodic true-up adjustments to the securitization charges intended to ensure that the dedicated revenue stream from the securitization charge is adequate to pay, in a timely manner, all scheduled payments of the principal and interest on the securitization bonds, as well as all related other qualified costs. At least initially, Consumers will act as the servicer for the SPE. In that capacity, Consumers will bill and collect the securitization charge, perform the periodic true-

<sup>7</sup> As stated in MCL 460.10j(2), securitization property shall constitute a present property right even though the imposition and collection of securitization charges depends on further acts of the electric utility or others that have not yet occurred. Moreover, pursuant to MCL 460.10m(2) and MCL 460.10m(4), the lien and security interest of the trustee in the securitization property shall attach automatically once value is received for the securitization bonds, shall constitute a continuously perfected lien and security interest, and shall not be impaired by any later modification of the financing order or by the commingling of funds arising from securitization charges with other funds. As stated in MCL 460.10n(2), the State of Michigan pledges not to take or permit any action that would impair the value of the securitization property or that would reduce or alter—except as allowed in the context of a true-up procedure undertaken pursuant to MCL 460.10k(3)—or otherwise impair the securitization charges approved in this financing order. Finally, as set forth in MCL 460.10m(8), any changes in either the financing order or the securitization charges do not affect the validity, perfection, or priority of the security interest in the securitization property.

ups and calculate any necessary adjustments to that securitization charge, and undertake related activities.

Mr. Lunde stressed that any financing order approving Consumers' proposal must contain certain elements. These include terms which, when combined with the elements of Act 142, ensure that securitization will produce revenues adequate to meet scheduled debt service requirements and the SPE's Ongoing Other Qualified Costs on a timely basis. Among the most significant of these terms are: (1) irrevocability of the financing order and a reaffirmation by the Commission of the state's non-impairment pledge; (2) nonbypassability of the securitization charges among the retail electric distribution customers of Consumers and its successors, irrespective of the source of generation provided to customers with limited predefined exceptions; (3) an annual true-up mechanism (with semi-annual or more frequent true-ups if needed) subject only to mathematical review by the Commission; and (4) aggregate securitization charges collected from customers for all such securitization transactions which do not exceed aggregate amounts likely to result in stress. He asserted that the financing order should specifically reserve to Consumers the sole discretion as to whether and when to issue securitization bonds. \_\_\_ Tr \_\_\_. According to Mr. Lunde, this discretion is critical to Consumers' achieving the lowest financing cost possible because receptive market conditions do not always exist. Likewise, he asks that Consumers be authorized to refinance outstanding securitization bonds if indenture provisions so provide and if market conditions in the future are such that refinancing would allow for the creation of sufficient additional savings.

Mr. Lunde explained that the true-up mechanism represents the most fundamental component of credit enhancement to the rating agencies and investors and is a cornerstone of the credit ratings achieved in prior utility securitization transactions. He indicated that consistent

with current market and rating agency standards, in addition to the annual true-up mandated by Section 10k(3) of Act 142, true-up adjustments should be required on a semi-annual basis (and quarterly beginning one year prior to the expected final payment date of any series, class or tranche of the securitization bonds) if the servicer determines that a true-up adjustment is needed to ensure the expected recovery during the succeeding 12 months of amounts sufficient to pay scheduled principal and interest on the securitization bonds, the SPE's Ongoing Other Qualified Costs, and amounts necessary to replenish the Capital Subaccount balance. Mr. Lunde also testified that interim true-ups should be permitted more frequently if the servicer determines the true-up is needed to meet the SPE's financial obligations as described above.

### **III.**

#### **DISCUSSION**

Act 142 establishes the legal framework by which the Commission may authorize the issuance of securitization bonds. Consumers' Application in this case raises several significant issues to be resolved by the Commission in the context of Act 142. First, it must determine what amount of Consumers' proposed qualified costs should be deemed recoverable through securitization. Second, it must decide whether the utility's proposal satisfies the statutory requirements of Act 142. Third, it should examine Consumers' proposal regarding the use of the securitization proceeds. Fourth, it must decide whether the various amortization, accounting, and ratemaking approvals requested by the utility to effectuate the proposed financing of its qualified costs are reasonable and should be approved. Fifth, it needs to determine whether the utility's proposed securitization charge (namely, the charges Consumers seeks to impose on customers to fund repayment of the securitization bonds) is reasonable both in amount and rate design. Sixth,

it must rule on whether the utility's proposed securitization charge true-up mechanism is reasonable and should be approved. These issues will be addressed seriatim.

A. Qualified Costs Being Financed

Key to the issuance of a financing order like that requested by Consumers is the Commission's determination of the amount of qualified costs to be recovered. Qualified costs are defined in Section 10h(g) of Act 142 as follows:

"Qualified costs" means an electric utility's regulatory assets as determined by the commission, adjusted by the applicable portion of related investment tax credits, plus any costs that the commission determines that the electric utility would be unlikely to collect in a competitive market, including, but not limited to, retail open access implementation costs and the costs of a commission approved restructuring, buyout or buy-down of a power purchase contract, together with the costs of issuing, supporting, and servicing securitization bonds and any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of securitization bonds. Qualified costs include taxes related to the recovery of securitization charges. MCL 460.10h(g).

As the Commission previously stated in its December 6, 2013 Opinion and Order in Case No. U-17473, the plain language of the statute describes three potential categories of qualified costs: (1) regulatory assets as determined by the Commission; (2) any costs that the Commission determines that the electric utility would be unlikely to collect in a competitive market; and (3) the costs of issuing, supporting, and servicing the securitization bonds and costs of retiring and refunding the electric utility's debt and equity existing at the time of the issuance of the securitization bonds. The first category grants broad discretion to the Commission; the second category requires a finding that the costs are unlikely to be recovered under the current regulatory scheme; and the third category is subject to automatic approval if securitization is granted and the proposed costs meet the statutory definition.

According to the testimony presented by Consumers, the qualified costs that the utility seeks to securitize through the issuance of securitization bonds are: (i) the unrecovered book balance of Karn Units 1 and 2; and (ii) the estimated initial cost of issuing the securitization bonds, along with the estimated cost of retiring and refunding portions of Consumers' debt securities existing at the time of the issuance of the securitization bonds (referred to in the testimony of Company witness Wehner as "Initial Other Qualified Costs").

With respect to the unrecovered book balance associated with Consumers' Karn Units 1 and 2, Consumers witness Wehner testified that, the unrecovered book balance for Karn Units 1 and 2 would be unlikely to be collected in a competitive market and should therefore be determined to be regulatory assets eligible for recovery through securitization. For that reason, Consumers contends that those costs are properly classified as "qualified costs."

The calculation of the unrecovered book balance of the generation assets as of April 30, 2023, (the earliest date a securitization transaction is assumed to occur for purposes of Consumers' filing) was provided by Consumers in the testimony of Company witness Daniel L. Harry, Director of General Accounting at Consumers. Mr. Harry made these calculations by walking forward the current plant investment on Consumers' books for the affected units and walking forward accumulated depreciation from December 31, 2019 to April 30, 2023 (using Consumers' approved depreciation rates). These costs can be broken down as follows:

Unrecovered book balance of generating units *	\$691.2 million
Initial Securitization Issuance	
Costs (estimated)	\$11.6 million
<b>TOTAL</b>	<b>\$702.8 million</b>

\* The unrecovered book balance is listed as of April 30, 2023. The amount of the securitization bonds actually issued will be adjusted to match the actual book balance of the generating units at the end of the most recent month before the securitization bonds are issued.

Company witness Wehner states that, in addition to the qualified costs which will be financed through the issuance of the securitization bonds as described above, qualified costs also include the SPE's Ongoing Other Qualified Costs to include annual costs of the SPE as it pays debt service, both interest and principal amortization, on the securitization bonds, i.e. these are Qualified Costs pursuant to the statute. These Ongoing Other Qualified Costs include an annual servicing fee (of 0.05% of the initial principal amount of the securitization bonds if Consumers is servicer, and up to 0.75% of the initial principal amount of the securitization bonds if another entity becomes the servicer), as well as the auditor expenses relating to the securitization bonds, trustee fees, independent manager fees, rating agency fees, SEC reporting expenses, the administrative fee, and, to the extent deemed necessary in the context of the credit ratings review process, the optimal bond structure, and market conditions, a letter of credit and/or an overcollateralization subaccount. Consumers estimates that these ongoing expenses will total approximately \$750,000 per year. See Exhibit A-20 (TAW-3). Consumers seeks to meet these Ongoing Other Qualified Costs obligations through the revenues produced by the securitization charge. Variations in the actual amount of ongoing costs to be recovered will be met through the adjustment of the securitization charge by means of the true-up mechanism.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS]

In addressing the issue of the proper amount of qualified costs to be financed through the issuance of securitization bonds, the Commission notes that the following costs are explicitly recognized as being qualified costs within the text of the statutory definition contained in Act 142: "the costs of issuing, supporting, and servicing securitization bonds and any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of securitization bonds." MCL 460.10h(g). These classes of qualified costs are

approved for recovery through securitization charges by the Commission because they meet the statutory definition.

Consumers has proposed that the unrecovered book balance of Karn Units 1 and 2 are properly considered “qualified costs” as that term is used in Act 142, and the Commission agrees. The Commission, in its June 7, 2019 Order Approving Settlement Agreement, previously determined that the retirement of Karn Units 1 and 2 in 2023 was in the public interest and would result in significant customer savings. Accordingly, the Commission finds that the unrecovered book balance of Karn Units 1 and 2 are costs that are unlikely to be recovered in a competitive market. Additionally, the Commission has previously found, and the Court of Appeals has affirmed, that the Commission may confer regulatory asset status on generation assets at the same time that the Commission authorizes the use of securitization to finance those assets. See *Attorney General v Public Service Comm*, 247 Mich App 35; 634 NW2d 710 (2001). The Commission finds that the remaining unrecovered book balance of Karn Units 1 and 2 is a generation-related asset that qualifies for treatment as a regulatory asset as that term is used in Act 142. The remaining unrecovered book balance of Karn Units 1 and 2 and the costs of issuing, supporting, and servicing securitization bonds and any costs of retiring and refunding the electric utility’s debt and equity securities (existing at the time of the issuance of the securitization bonds) in connection with the issuance of securitization bonds are qualified costs. The Commission finds that Consumers’ approach to calculating its qualified costs and the amount of qualified costs as of April 30, 2023 proposed by the Company are reasonable and represent the maximum amount of qualified costs for which the Company may issue securitization bonds pursuant to this financing order. The Commission agrees that the actual amount of the securitization bonds issued will depend upon the timing of the issuance of the



securitization bonds, which timing the Commission agrees should occur at Consumers' sole discretion. Therefore, before issuing any securitization bonds pursuant to this financing order, Consumers shall determine the appropriate amount of qualified costs which reflects the remaining unrecovered book balance of Karn Units 1 and 2 at the most recent month end prior to issuance of the securitization bonds calculated in the manner proposed in Consumers' testimony and exhibits.

B. Satisfaction of Statutory Criteria

Act 142 establishes several criteria that must be satisfied before the Commission is required to issue a financing order approving the issuance of securitization bonds and the implementation of securitization charges. These criteria are set forth in Sections 10i(1) and 10i(2) of Act 142, which read as follows:

(1) Upon the application of an electric utility, if the commission finds that the net present value of the revenues to be collected under the financing order is less than the amount that would be recovered over the remaining life of the qualified costs using conventional financing methods and that the financing order is consistent with the standards in subsection (2), the commission shall issue a financing order to allow the utility to recover qualified costs.

(2) In a financing order, the commission shall ensure all of the following:

(a) That the proceeds of the securitization bonds are used solely for the purposes of the refinancing or retirement of debt or equity.

(b) That securitization provides tangible and quantifiable benefits to customers of the electric utility.

(c) That the expected structuring and expected pricing of the securitization bonds will result in the lowest securitization charges consistent with market conditions and the terms of the financing order.

(d) That the amount securitized does not exceed the net present value of the revenue requirement over the life of the proposed securitization bonds associated with the qualified costs sought to be securitized.” MCL 460.10i(1) and (2).

1. Section 10i(1)

Company witness Heidi J. Myers, who is an Executive Director of Revenue Requirements and Regulatory Affairs at Consumers, described how the utility’s proposal satisfies the statutory requirements set forth in Section 10i(1) of Act 142. This provision requires the Commission to ensure that the net present value (“NPV”) of the revenues to be collected under this financing order is less than the NPV of the amount to be recovered over the remaining life of the qualified costs under conventional financing methods. Ms. Myers offered Exhibit A-9 (HJM-1) in response to this standard. This exhibit compares the NPV of the estimated annual revenue requirements for the qualified costs to be securitized under this financing order under conventional financing methods to the NPV of the estimated revenue requirements associated with the securitization bond payments over a similar recovery period with both revenue requirement streams being discounted at Consumers’ current authorized pre-tax cost of capital from Case No. U-20134 of 7.40%. As shown on this exhibit, the net present value of the revenues collected will be less than the amount to be recovered over the remaining life of the qualified costs under conventional financing methods. The amount in excess of the satisfaction of the statutory requirement is \$126.0 million. Based on Ms. Myers’ testimony, Consumers concludes it meets the statutory requirement contained in Section 10i(1) of Act 142.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS]

The Commission finds the analysis presented by Consumers is correct and properly performed for the amounts that the Company proposes to finance. Because this analysis shows that the NPV of the revenues to be collected under the financing order would be less than the

NPV of the amount that would be recovered over the remaining life of the qualified costs using conventional financing methods, the Commission finds that the statutory requirement set forth in Section 10i(1) of Act 142 is satisfied.

2. Sections 10i(2)(a) and 10i(2)(c)

As noted above, Section 10i(2)(a) of Act 142 requires that the proceeds derived from the sale of the securitization bonds be used solely for the purposes of refinancing or retiring Consumers' debt or equity. Section 10i(2)(c) of Act 142 requires that the expected structuring and pricing of the securitization bonds will result in the lowest securitization charges consistent with market conditions and the terms of the financing order. Consumers asserts that, based on information provided by Mr. Wehner and Mr. Lunde, both of these statutory tests should be deemed satisfied.

Consumers cites testimony offered by Mr. Wehner as showing that appropriate use will be made of all securitization bond proceeds, as demanded by Section 10i(2)(a) of Act 142. As explained by Mr. Wehner, the proceeds of the securitization bonds are the net amount realized from the issuance of the securitization bonds after the SPE pays the costs of issuing the securitization bonds, which net amount is the purchase price the SPE will pay to Consumers for the securitization property. According to Mr. Wehner, "the Company will utilize the proceeds of securitization bonds to retire Company debt and equity" as stipulated by Act 142. \_\_\_\_ Tr \_\_\_\_\_. He stated that, in deciding precisely when and in what proportions to refinance Consumers' current debt, the utility will consider, among other factors:

- (i) the cost of each of Consumers Energy's debt instruments and securities outstanding at the time proceeds from the sale of the securitization property to the SPE that issues the securitization bonds are received; (ii) the mandatory cost of retiring each of the securities existing at the time of issuance of the securitization bonds; and (iii) market conditions which might impact tender offer

opportunities for securities existing at the time of issuance of the securitization bonds. \_\_\_\_ Tr \_\_\_\_.

Mr. Wehner concluded by stating that Consumers would support the imposition by the Commission in the financing order in this proceeding with substantially the same reporting requirements on use of proceeds that were put into place after the most recent sale of securitization bonds. \_\_\_\_Tr\_\_\_\_. Those were described by Mr. Wehner as follows:

The Company will file reports with the Commission substantially similar to the reporting requirements imposed by the Commission in MPSC Case No. U-17473 related to the Company's most recent sale of securitization bonds. In my opinion, these reporting requirements related to the most recent sale of securitization bonds were reasonable. The reports will specify the principal amount of the securitization bonds, the amounts expended for Initial Other Qualified Costs, the net amount of proceeds remaining after such expenses, and the amount of debt and equity retired as of the date of the report. The report will be substantially in the form of Exhibit A-20 (TAW-1). The Company will file its first report within 30 days of the bonds' initial issuance (or any portion of their issuance), and file quarterly from that date until all bond proceeds have been disbursed. \_\_\_\_ Tr \_\_\_\_.

Consistent with Section 10i(9) of Act 142, the Commission authorizes the early retirement or refunding of the securitization bonds for new securitization bonds. Mr. Wehner described the process as follows:

If economic conditions favorable to a securitization refinancing prevail, and the securitization indenture provides for such a refinancing, the Company will notify the Commission prior to initiating a refinancing transaction. The Company's notification will advise the Commission of the steps the Company intends to take, considering the favorable conditions, to realize any potential refinancing savings. The Company then will notify the Commission within seven days of a completed refinancing. \_\_\_\_ Tr \_\_\_\_.

With regard to satisfying the requirements of Section 10i(2)(c) of Act 142, Consumers relies on a detailed description of the securitization bond marketing plan provided by Mr. Lunde.

Specifically, Mr. Lunde indicated that, among other things, the following steps would be used to minimize Consumers' securitization charges: (1) all securitization bonds will be rated by at least two rating agencies; (2) no legal final maturity date of any series, class or tranche of securitization bonds will exceed 15 years from the date of issuance, and each series, class or tranche will have a scheduled final payment date of 14 years or less; (3) several series, classes or tranches of securitization bonds will be developed to present offerings across a wide spectrum of potential demand; (4) an investor education program will be provided by the Company and the securitization bonds' underwriters; (5) one or more underwriters will be used to market the securitization bonds, each having wide experience in the marketing of asset-backed securities and specific experience in the marketing of electric utility securitization bonds; (6) the book-running lead underwriter, exercising professional judgment based on the amount of orders received from potential investors and with Consumers' express concurrence, may adjust the prices and coupon rates to ensure maximum distribution of the securitization bonds at the lowest bond yields consistent with a fixed price offering; and (7) taking into account the actual demand for the securitization bonds on the day of pricing, the underwriters, acting through the book-running lead underwriter and pursuant to the terms of an executed underwriting agreement, will offer to purchase the securitization bonds at specified prices and coupon rates. \_\_\_\_ Tr \_\_\_\_.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS]

The Commission finds that Consumers' securitization proposal satisfies Sections 10i(2)(a) and 10i(2)(c) of Act 142. Through the testimony provided by Mr. Wehner, Consumers specifically and unequivocally states that all of the proceeds from the sale of the securitization bonds will be used to retire Consumers' debt or equity existing at the time of securitization bond issuance. That is sufficient to meet the requirements imposed by Section

10i(2)(a) of Act 142. Similarly, the detailed marketing plan developed by Consumers and described by Mr. Lunde shows that Consumers plans to take all reasonable steps in structuring and pricing the securitization bonds to achieve the lowest possible securitization charges consistent with market conditions. Thus, Consumers' proposal satisfies Section 10i(2)(c) of Act 142. Finally, the Commission finds appropriate and adopts the reporting requirements described by Mr. Wehner.

3. Section 10i(2)(b)

Section 10i(2)(b) of Act 142 requires that Consumers' securitization proposal be shown to provide tangible and quantifiable benefits to its customers. In satisfaction of this requirement, Consumers cites Exhibit A-9 (HJM-1), an exhibit developed by Ms. Myers. The exhibit shows the effect of securitizing up to approximately \$702.8 million in qualified costs, as Consumers proposes to do in this case. According to Ms. Myers, the exhibit demonstrates that customers will receive tangible and quantifiable benefits from securitization since the NPV of the estimated revenue requirements collected under the proposed securitization financing order is less than the NPV of the estimated revenue requirements that would be recovered over the remaining life of the qualified costs using conventional financing methods. Consumers estimates the weighted average interest rate for the securitization bonds to be 1.776% based upon current market conditions, anticipated transaction structure, and ratings, which will be lower than the utility's current pre-tax cost of capital (which presently stands at 7.40%). Based on this evidence, Consumers asserts the Commission should find this statutory requirement to be satisfied.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS]

The Commission finds adequate support in the record for concluding that the statutory requirement set forth in Section 10i(2)(b) of Act 142 is satisfied at the level of securitization

bond sales shown on Ms. Myers' exhibit. The stated goal of securitization, and one that several witnesses – including Mr. Lunde – view as achievable in this case, is to issue bonds with a high (i.e., “triple-A”) credit rating and the lowest cost consistent with market conditions. As reflected in Consumers' exhibits, the expected weighted average interest rate for the securitization bonds (which Consumers estimates to be 1.776% based upon current market conditions, anticipated transaction structure and ratings) will be lower than Consumers' current pre-tax cost of capital (which presently stands at 7.40%) and cost of capital for future ratemaking purposes. Due to this differential, it is clear to the Commission that by using the securitization bond proceeds to retire debt and equity, Consumers' proposal will produce tangible and quantifiable benefits to Consumers' customers. Thus, the Commission concludes that the requirements of section 10i(2)(b) of Act 142 are satisfied.

4. Section 10i(2)(d)

The last of these statutory requirements requires the Commission to find that the NPV revenue requirements to finance the qualified costs using securitization not exceed the NPV of the revenue requirement for those qualified costs over the life of the securitization bonds. Based on testimony provided by Ms. Myers, the Commission concludes that the requirements of Section 10i(2)(d) of Act 142 are satisfied up to the amount of qualified costs approved by this financing order. As set forth on Exhibit A-10 (HJM-2), Ms. Myers computed the NPV of the revenue requirement (conventional financing) for the qualified costs over the life of the securitization bonds to be \$702.8 million when discounted at 7.40%. Because the NPV figure does not exceed the revenue requirements of the proposed securitization, Ms. Myers stated that the statutory requirement spelled out in Section 10i(2)(d) of Act 142 has been satisfied up to the

total amount of qualified costs requested by Consumers as of April 30, 2023. See, \_\_\_\_ Tr \_\_\_\_.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS]

Based on the testimony on behalf of Consumers as set forth above, the Commission finds that this financing order and the proposed sale of securitization bonds in an amount up to \$702.8 million is consistent with the standards set forth in Sections 10i(1) and 10i(2) of Act 142.

5. Summary of Results of Statutory Tests

Accordingly, based upon the findings set forth above, the Commission concludes that Consumers' proposal for the sale of up to \$702.8 million in securitization bonds meets each of the criteria established by Sections 10i(1) and 10i(2) of Act 142. The Commission therefore concludes that Consumers' request for authority to issue up to \$702.8 million of securitization bonds should be granted as further discussed herein.

C. Proposed Use of Securitization Cost Savings

The next issue to be addressed is the utility's proposed treatment of any future cost savings from securitization. Consumers' position on this issue was described by Ms. Myers. She testified that the Company initially proposes to reduce customer rates by providing a bill credit reflecting the costs related to the securitized generating plant assets, included in base rates as requested in Case No. U-20697. Such a bill credit would provide for removal of the amounts included in base rates at the time securitization bonds are issued and would go into effect at the time the securitization charges are included in customer bills. The implementation of this bill credit at the same time as the implementation of the securitization charge will provide customers with a timely realization of savings related to the refinancing of the coal plant assets with securitization bonds versus conventional ratemaking. This credit would continue until retail rates are reset by the Commission in a final order in Consumers' next electric general rate case



following the issuance of the securitization bonds. In that subsequent case, Consumers will propose that the Commission exclude the costs associated with the securitized coal plants from customer base rates. The removal of the securitized assets from rate base and the replacement of traditional financing costs with the securitization charges will continue to result in savings to customers. The NPV of these savings is estimated to equal \$126.0 million. The Commission approves Consumers' proposed treatment of future cost savings resulting from securitization as set forth above.

D. Proposed Amortization and Accounting Approvals

The Company's accounting witness, Mr. Harry, testified that Consumers specifically seeks the authority necessary to record on Consumers' books all financial transactions necessary to undertake securitization, including those between Consumers and the proposed SPE. As testified to by Mr. Harry, this set of authorizations is similar to those requested by Consumers and granted by the Commission in Consumers' securitization proceedings in Case Nos. U-12505 and U-17473, and forms the basis for the accounting currently being followed by Consumers. The authority being requested would permit, among other things, all accounting entries needed to record: (1) the securitized qualified costs, including the establishment of regulatory assets for the costs being securitized; (2) the issuance of the securitization bonds; (3) the use of the securitization bond proceeds to retire debt and equity existing at the time of the issuance of the securitization bonds; (4) the receipt of revenues arising from the proposed securitization charge; (5) the payment of principal, interest, and expenses relating to the securitization bonds; (6) the retirement or refunding of the securitization bonds; and (7) the amortization of securitized qualified costs. According to Mr. Harry, consistent with the previous sales of securitization bonds, the amount securitized in connection with this sale of securitization bonds will be recorded as a financing of the SPE for financial reporting purposes and, because the SPE will be

consolidated with Consumers for financial reporting purposes, the amounts financed will also appear as a financing in Consumers' consolidated financial statements. \_\_\_\_ Tr \_\_\_\_\_. The Commission finds that the authority requested by Mr. Harry on behalf of Consumers is appropriate and should be granted.

The Commission approves, to the extent deemed necessary, a letter of credit and/or the overcollateralization subaccount as requested.

E. The Securitization Charge

1. Allocation of Charge

Consumers proposes to allocate annual billings to each rate class based on the production capacity allocator after which the annual billings by rate class are converted to a uniform per kWh charge by rate class. Company witness Laura M. Collins notes that this method is consistent with the Commission's decision in Case No. U-17473.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS]

Thus, the Commission finds that the securitization charge for this case shall initially be imposed using the methodology proposed by Ms. Collins in her testimony, taking into consideration the production capacity allocator from Consumers' then most recent rate case, to determine each rate class' annual responsibility for the total revenue requirement of the securitization. The production capacity allocation method assigned by this financing order (though not necessarily the current percentages) shall determine each rate class' annual responsibility for the total revenue requirement of the securitization. The securitization charge shall be applied as a uniform per kWh charge within each class. Consumers shall, after issuance of the securitization bonds, submit revised tariff sheets reflecting the actual initial securitization charge for each rate class.

2. Nonbypassability

Act 142 defines securitization charges as nonbypassable amounts to be charged for the use or availability of electric services. Section 10k(2) of Act 142 further mandates that a financing order include provisions ensuring that the securitization charges are nonbypassable, with nonbypassability being defined as a charge payable by a customer to an electric utility “regardless of the identity of the customer’s electric generation supplier.”

The Commission’s December 6, 2013 Order in Case No. U-17473 addressed the tension between the cost-based rate mandate of MCL 460.11 and the nonbypassability mandate of MCL 460.10k. In that case, the Commission found that the securitization charge should be assigned to each customer class using the then current production capacity allocation methodology. Current choice customers as of the date of the Commission’s December 6, 2013 Order in Case No. U-17473 were excluded from the securitization charge; however, customers who thereafter became choice customers were obligated to pay the securitization charge, as well as choice customers who became full service customers. The use of the similar methodology proposed by Consumers to establish the securitization charge in this proceeding will result in the assessment of the securitization charge to those customers who will benefit from the reduction in power supply costs achieved through the retirement of Karn Units 1 and 2.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS]

The Commission finds that the securitization charge for this case shall be imposed using the methodology proposed by Ms. Collins in her testimony, taking into consideration the production capacity allocator from Consumers’ then most recent rate case to determine each rate class’ annual responsibility for the total revenue requirement of the securitization. The securitization charge shall be applied as a uniform per kWh charge within each class. Consistent

with the 2013 financing order in Case No. U-17473, the Commission finds that current choice customers should be excluded from this securitization. Full-service customers who transition to choice service any time after the date of this financing order will carry the securitization obligation, including applicable true-ups, with them. Any current choice customer who later transitions to full service would thereafter be subject to the securitization charge applied to that customer's rate class.

### 3. Periodic True-Ups

Ms. Myers explains that the purpose of the periodic true-up mechanism is to adjust the securitization charge to ensure cash collections are sufficient to meet the obligations of the securitization bonds, including for bond principal and interest and Ongoing Other Qualified Costs. In addition, the true-up may be required to maintain the required balance in the Capital Subaccount, described in the testimony of Mr. Lunde.

Ms. Myers discussed the factors that necessitate the periodic adjustment of securitization charges. She noted that charges are based on forecasted sales, the most recently approved production capacity allocation across rate classes, and the estimated Ongoing Other Qualified Costs of the securitization bond issuer, which are unlikely to ever exactly match actual sales and actual expenses. Thus, the revenues collected are unlikely to ever exactly match the cash required by the SPE for the purposes of paying principal of and interest on the securitization bonds and ongoing expenses. Ms. Myers further explained that the next period's charges must reflect not only the costs attributable to the upcoming period, but also reflect the impact of any over- or under-collections from the previous period. Even absent any over- or under-collections from the prior period, however, Ms. Myers notes that the securitization charges may be adjusted pursuant to the true-up mechanism to reflect changes in such things as forecasted sales, the most

recently approved production capacity allocation across rate classes, expenses, and customer payment patterns.

Company witness Lunde explained that the true-up mechanism represents the most fundamental component of credit enhancement to investors and is a cornerstone of the low interest rates achieved in prior utility securitization transactions. He explained that market and rating agency standards for these provisions have evolved in the years since Consumers' first securitization. He indicated that consistent with current standards, in addition to the annual true-up required by Section 10k(3) of Act 142, true-up adjustments should be mandated on a semi-annual basis (and quarterly beginning one year prior to the scheduled final payment date of any series, class or the latest maturing tranche of securitization bonds) if the servicer determines that a true-up adjustment is needed to ensure the expected recovery during the succeeding 12 months is sufficient to pay scheduled principal and interest on the securitization bonds and the SPE's Ongoing Other Qualified Costs (including replenishing the Capital Subaccount balance). Mr. Lunde also testified that interim true-ups should be permitted more frequently if the servicer determines the true-up is needed to meet the SPE's financial requirements as described above.

Ms. Myers proposed that a true-up mechanism similar to that adopted by the Commission for Consumers in Case No. U-17473, modified to reflect current securitization market standards, as discussed above, be adopted in this proceeding. Ms. Myers indicated that, consistent with this precedent and the standards for utility securitization charge true-ups, the Commission's review should be completed on an expedited basis within 45 days and be limited to confirming the mathematical computations contained in the proposed true-up adjustment. She has set forth the proposed procedure in new Rule C9.2, contained in her Exhibit A-14 (HJM-6) in this proceeding. In addition, Consumers seeks Commission authorization that whenever it is

determined that the methodology used to calculate securitization charge adjustments requires modification to more accurately project and generate adequate securitization charge collections, a true-up may be requested, with the resulting securitization charge adjustment (reflecting such modification to the methodology or model) only to be effective upon review and approval by the Commission that such adjustment is necessary to ensure the timely recovery of all Qualified Costs that are the subject of this finance order, with such review and determination to occur within 45 days of such filing.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS].

Periodic securitization charge true-ups are necessary to provide the certainty needed to obtain a high credit rating for the securitization bonds and need to be undertaken in a way that allows for their swift and certain resolution. The Commission approves the Company's proposal for annual and potential additional interim true-ups. The Commission's role in true-ups is limited to a mathematical one, and the more expeditiously the true-up occurs, the better for all parties. Annual true-ups are required and potentially more frequent true-ups may be implemented. Semi-annual or more frequent true-ups may be implemented absent a Commission order, unless contested. Any contest of any true-up shall be subject only to confirmation of the mathematical computations contained in the proposed true-up adjustments.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; and the Michigan Administrative Hearings System Administrative Hearings Rules, 2015 AACCS, R 792.10101 et seq.

b. Consumers is an electric utility as defined by MCL 460.10h(c).

c. Consumers' complete application was filed on September 18, 2020.

d. The remaining unrecovered book balance of Karn Units 1 and 2, up to the maximum amount of \$691.2 million as of April 30, 2023, constitute qualified costs as defined in MCL 460.10h(g) and are therefore recoverable by Consumers through securitization bond issuance. To the extent that the actual amounts associated with any estimates used in the Company's securitization bond issuance deviate from the amounts approved for securitization in this case, Consumers will address the differences according to ordinary ratemaking principles after such time as those differences become known.

e. Consumers should be allowed to establish an SPE, capitalize and direct the administration of the SPE, and sell to the SPE the securitization property as set forth in this financing order. The SPE will be an assignee as defined below once an interest in securitization property is transferred to the SPE. For purposes of this financing order, the term "assignee" as defined in MCL 460.10h(a) refers only to an individual, corporation or other legally recognized entity to which an interest in securitization property is transferred, other than as security.

f. Consumers' and the SPE's Initial Other Qualified Costs identified in this financing order, including the SPE's costs of issuance and Consumers' costs of retiring debt and equity securities existing at the time of the issuance of the securitization bonds, along with the Commission's costs of financial and legal services to assist in the issuance of this financing order being included as a cost of issuance, are all qualified costs pursuant to MCL 460.10h(g) and are therefore appropriate to be included as part of the principal balance of the securitization bonds issued pursuant to this financing order.

g. The holders of the securitization bonds and the trustee will each be a financing party as defined in MCL 460.10h(e).

h. The SPE may issue securitization bonds in accordance with this financing order and may pledge all of its interest in the securitization property, as defined in MCL 460.10j, and related assets, to secure those securitization bonds.

i. The proceeds of the securitization bonds are the amounts realized from the sale of the securitization bonds, after payment of the costs of issuance, and paid to Consumers by the SPE as the purchase price for the securitization property. The securitization transaction approved in this financing order satisfies the requirements of MCL 460.10i(2)(a) because the proceeds to Consumers of the securitization bonds shall be used solely for the purposes of the refinancing or the retirement of debt or equity of Consumers.

j. The securitization transaction approved in this financing order satisfies the requirements of MCL 460.10i(2)(b) because it provides tangible and quantifiable benefits to customers of Consumers.

k. The SPE's issuance of securitization bonds in compliance with this financing order will satisfy the requirements of MCL 460.10i(2)(c) because the expected structuring and pricing of the securitization bonds will result in the lowest securitization charges consistent with market conditions and the terms of this financing order.

l. The amount of qualified costs approved for securitization in this financing order does not exceed the NPV of the revenue requirement over the life of the securitization bonds associated with the qualified costs sought to be securitized, as required by MCL 460.10i(2)(d).

m. The securitization transaction approved in this financing order satisfies the requirements of MCL 460.10i(1) because the NPV of the revenues to be collected under this financing order will be less than the amount that would be recovered over the remaining life of the qualified costs using conventional financing methods.



n. This financing order adequately details the amount of qualified costs, including the Ongoing Other Qualified Costs, to be recovered by Consumers through securitization charges. Consumers' securitization bond issuance shall not exceed \$702.8 million principal amount of such securitization bonds, and the period over which Consumers will be permitted to recover nonbypassable securitization charges does not exceed 15 years, as required by MCL 460.10i(3).

o. As provided in MCL 460.10i(4), this financing order, together with the securitization charges authorized by this financing order, are irrevocable and not subject to reduction, impairment, or adjustment by further action of the Commission, except by use of the true-up procedures approved in this financing order.

p. The Company's proposed methodology to implement the initial securitization charge and to make subsequent adjustments to the securitization charges through the use of an expedited true-up mechanism, as set forth in Exhibit A-14 (HJM-6) and as illustrated in Exhibit A-13 (HJM-5), satisfy the requirements of MCL 460.10k(3) and are approved in this financing order. Partial payments of bills by customers should be allocated ratably among the securitization charges authorized pursuant to the financing order in Case No. U-17473, the securitization charges authorized by this financing order and other billed amounts based on the ratio of each component of the bill to the total bill.

q. Consumers' request to establish securitization property, including a nonbypassable securitization charge, from which the securitization bonds are to be paid, is granted as set forth herein.

r. Consistent with MCL 460.10j(1), the securitization property established hereby includes, without limitation: (1) the right to impose, collect, and receive securitization charges in

an amount necessary to allow for the full recovery of all qualified costs; (2) the right to obtain periodic adjustments of securitization charges as described herein; and (3) all revenue, collections, payments, money, and proceeds arising out of the rights and interests described above.

s. Consistent with MCL 460.10j(2), all securitization property arising as a result of this financing order constitutes a present property right even though the imposition and collection of securitization charges depends on further acts by Consumers or others that have not yet occurred.

t. Consistent with MCL 460.10m(2), any lien and security interest created in the securitization property (through the execution and delivery of a security agreement with a financing party in connection with the issuance of the securitization bonds) will arise and be created only in favor of a financing party and shall attach automatically from the time that value is received for the securitization bonds and, further, shall be a continuously perfected lien and security interest in the securitization property and all proceeds of the property.

u. The priority of any lien and security interest in the securitization property and all proceeds of the property arising from this financing order will not be considered impaired by any later modification of this financing order or by the commingling of the funds arising from securitization charges with any other funds, consistent with MCL 460.10m(4). The securitization property shall constitute an account under the Uniform Commercial Code and shall be in existence whether or not the revenue or proceeds have accrued and whether or not the value of the property right is dependent on the customers of an electric utility receiving service, consistent with MCL 460.10m(6).

v. The structure of the securitization transactions, the expected terms of the securitization bonds, and the use of the securitization bond proceeds, as proposed by Consumers, are reasonable and should be approved.

w. If and when Consumers transfers the securitization property to the SPE, including the right to impose, collect, and receive the securitization charges, the servicer will be authorized to recover the securitization charges only for the benefit of the SPE in accordance with the servicing agreement.

x. If and when Consumers transfers the securitization property to the SPE under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the “true sale” provisions of MCL 460.10l(1), that transfer will constitute a “true sale” and not a secured transaction or other financing arrangement, and title (both legal and equitable) to the securitization property will immediately pass to the SPE. As provided by MCL 460.10l(2), this “true sale” shall apply regardless of whether the purchaser has any recourse against the seller, or any other term of the parties’ agreement, including the seller’s retention of an indirect equity interest in the securitization property by reason of its equity interest in the SPE, the fact that Consumers acts as the collector of securitization charges relating to the securitization property, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.

y. As provided in MCL 460.10m(5), if the servicer defaults on its obligation to remit revenues arising with respect to the securitization property, on application by or on behalf of the financing parties, the Commission or a court of appropriate jurisdiction shall order the sequestration and payment to those parties of revenues arising with respect to the securitization property.

z. Pursuant to MCL 460.10n(2), the State of Michigan pledges, and the Commission reaffirms, for the benefit and protection of all financing parties and Consumers, that the State of Michigan will not take or permit any action that would impair the value of the securitization property, reduce or alter, except by use of the true-up mechanism approved in this financing order and as allowed under MCL 460.10k(3), or impair the securitization charges to be imposed, collected, and remitted to the financing parties, until the principal, interest, and premium, as well as any other charges incurred and contracts to be performed in connection with the securitization bonds have been paid and performed in full. The SPE, when issuing securitization bonds, is authorized, pursuant to MCL 460.10n(2) and this financing order, to include this pledge in any documentation relating to the securitization bonds.

aa. This financing order, as well as Consumers' written acceptance of all conditions and limitations imposed by this financing order, will remain in effect and unabated notwithstanding the bankruptcy or insolvency of Consumers, its successors, or its assignees, as required by MCL 460.10k(1).

bb. Consumers retains sole discretion regarding whether or when to cause the issuance of any securitization bonds authorized by this financing order.

cc. Any securitization bonds issued pursuant to the authority granted in this financing order are not a debt or obligation of the State of Michigan and are not a charge on its full faith and credit or taxing power.

dd. As required by MCL 460.10m(8), any subsequent changes in this financing order or in the customer's securitization charges do not affect the validity, perfection, or priority of the security interest in the securitization property.

ee. As required by MCL 460.10j(2), this financing order shall remain in effect and the securitization property shall continue to exist until the securitization bonds authorized for issuance by this financing order, as well as all expenses related to those securitization bonds, have been paid in full.

ff. The securitization charges authorized in this financing order shall be billed, collected, and delivered to the trustee by Consumers, as the initial servicer, and by any successor servicer pursuant to a servicing agreement. Any payment of the securitization charge by a customer to the SPE, or to the servicer on behalf of the SPE, will discharge the customer's obligations regarding that charge to the extent of that payment, notwithstanding any objection or direction to the contrary by Consumers.

gg. As required by MCL 460.10k(2), the imposition and collection of the securitization charges authorized in this financing order are a nonbypassable charge.

hh. Consumers should file a report, within 30 days following the receipt of any proceeds from the sale of securitization bonds and quarterly thereafter, until all securitization bond proceeds have been disbursed, specifying: (1) the gross amount of proceeds arising from the sale of those securitization bonds; (2) any amounts expended for payment of Initial Other Qualified Costs relating to that sale; (3) the amount of proceeds remaining after payment of those costs, and (4) the precise type and amount of debt or equity that was retired through use of those proceeds.

ii. In the event that a decline in interest rates or other change in market conditions leads Consumers to refinance any of the securitization bonds, Consumers should file, within seven days, a report disclosing the details of that refinancing.

jj. All amortization, accounting, and relevant ratemaking approvals, as well as all other authorizations, provided for in this financing order should be tolled pending Consumers' express written acceptance of all conditions and limitations that this financing order places on Consumers.

kk. This financing order is final and is not subject to rehearing by the Commission, except as provided in MCL 460.10i(7), and is not subject to review or appeal, except as expressly provided in MCL 460.10i(8). This financing order is a financing order within the meaning of MCL 460.10h(d).

THEREFORE, IT IS ORDERED that:

A. The general structure of the securitization transactions, the expected terms of the securitization bonds, and the use of the securitization bonds' proceeds, as proposed by Consumers Energy Company, is approved, and Consumers Energy Company is authorized to proceed, at its sole discretion, with the sale of securitization bonds as set forth in this financing order.

B. Consumers Energy Company is authorized to treat the unrecovered book balance associated with the Karn Units 1 and 2 at the time of issuing the securitization bonds authorized in this financing order, up to the total amount of \$691.2 million, as qualified costs as defined in MCL 460.10h(g).

C. Consumers Energy Company is authorized to proceed with the issuance of securitization bonds for up to \$702.8 million of its qualified costs, as detailed in this financing order.

D. Consumers Energy Company, and any successor to Consumers Energy Company, shall impose and collect from customers, in the manner provided by this financing order,

securitization charges in amounts sufficient to provide for the full and timely recovery of the amount securitized, and the Ongoing Other Qualified Costs of the special purpose entity.

E. Consumers Energy Company shall include, as part of its electric tariffs and before any securitization bonds are issued, new language consistent with proposed Rule C9.2. Consumers Energy Company shall also file, no less than seven days prior to the initial imposition and billing of the securitization charges, revised tariff sheets reflecting all the terms of this financing order.

F. Consumers Energy Company, and any successor to Consumers Energy Company, is authorized to bill to its customers, following the sale of securitization bonds, a securitization charge applying the production capacity allocation currently approved at time of bond issuance. The then currently approved production capacity allocator at the time the securitization bonds are issued shall determine each class' annual responsibility for the total revenue requirement of the securitization. The securitization charge shall be applied as a uniform per kilowatt-hour charge within each class. Full-service customers who transition to retail open access service after the date of this financing order will carry the securitization obligation with them, including applicable true-ups, at the same rate at which they were paying as full service customers. Any current choice customers who transition to full service after the date of this financing order shall thereafter be subject to the securitization charge applied to that customers' class. The initial securitization charge shall be placed on customer bills beginning with the first billing cycle after the issuance of the securitization bonds and shall be subject to subsequent true-ups in the manner directed in this financing order. Partial payments shall be allocated ratably among the components of the bill as provided in this financing order. Such charges shall remain in effect until changed pursuant to the true-up mechanism approved in this financing order. The initial

securitization charge shall be placed on customer bills beginning with the first billing cycle after the issuance of the securitization bonds and shall be subject to subsequent true-ups in the manner directed in this financing order. Partial payments shall be allocated ratably among the components of the bill.

G. The securitization charges related to the securitization bonds shall be billed to each customer for recovery over a period of not greater than 15 years after the beginning of the first complete billing cycle during which the securitization charges were initially placed on any customer's bill. However, Consumers Energy Company may continue to collect any billed but uncollected securitization charges after the close of this 15-year period. Amounts of the securitization charges remaining unpaid after the close of this 15-year period may be recovered through use of collection activities, including the use of the judicial process.

H. True-ups of the securitization charges shall be conducted periodically, in accordance with the schedule and the methodology approved in this financing order. Semi-annual true-up and potential additional interim true-up results may be implemented immediately for any such true-up that is uncontested provided, however that any contest of a semi-annual or interim true-up shall be subject only to confirmation of the mathematical computations contained in the proposed true-up adjustments.

I. Consumers Energy Company is authorized to create a special purpose entity to which it may transfer securitization property. The SPE will be an assignee, as defined below, once an interest in securitization property is transferred to the SPE. In turn, the special purpose entity is authorized to issue securitization bonds in the manner specified in this financing order. All securitization bonds shall be binding in accordance with their terms, regardless of whether this financing order is later vacated, modified, or otherwise held to be invalid, in whole or in



part. The special purpose entity shall be funded with sufficient capital to carry out its intended functions and to obtain the desired ratings for the securitization bonds that it issues. For purposes of this financing order, the term “assignee” as defined in MCL 460.10h(a) refers only to an individual, corporation or other legally recognized entity to which an interest in securitization property is transferred, other than as security.

J. Consumers Energy Company is authorized to initiate and complete the refinancing of the securitization bonds when justified by financial market conditions.

K. All securitization property and other collateral shall be pledged by the special purpose entity to the trustee for the benefit of the holders of the securitization bonds and the other parties specified in the indenture.

L. Consumers Energy Company is authorized to enter into a servicing agreement with the special purpose entity that it creates and to perform the servicing duties contemplated by this financing order in return for an annual servicing fee of 0.05% of the initial principal amount of the securitization bonds. If some other entity is selected to serve in place of Consumers Energy Company, that replacement servicer shall perform the servicing duties in return for an annual fee not to exceed 0.75% of the initial principal amount of the securitization bonds. The servicer shall remit all collections of the securitization charges to the trustee for the special purpose entity’s account, in accordance with the terms of the servicing agreement.

M. Upon the issuance of securitization bonds, the special purpose entity shall pay the proceeds from the sale of the securitization bonds (after payment of the Initial Other Qualified Costs) to Consumers Energy Company as the purchase price of the securitization property. The proceeds from the sale of the securitization property (after payment or reimbursement of all

Initial Other Qualified Costs) shall be applied to retire Consumers Energy Company's debt or equity existing at the time of the issuance of the securitization bonds.

N. Consumers Energy Company has the continuing, irrevocable right to cause the issuance of securitization bonds in one or more series, classes, or tranches in accordance with the terms of this financing order for a period of 4.5 years following the later of the date upon which this financing order becomes final and no longer appealable or, if appealed, is no longer subject to further judicial review.

O. Consumers Energy Company shall provide the Commission with a copy of each registration statement, prospectus, or any other closing documents filed with the Securities and Exchange Commission as part of its securitization transaction immediately following the filing of the original document.

P. This financing order, together with the securitization charges authorized by this financing order, shall be binding upon Consumers Energy Company and any of its successors or affiliates that provide distribution service directly to customers in Consumers Energy Company's service area as of the initial date of issuance of the securitization bonds. This financing order is also binding upon any servicer or other entity responsible for billing and collecting securitization charges on behalf of the owners of securitization property, and upon any successor to the Commission.

Q. Subject to compliance with the requirements of this financing order, Consumers Energy Company and the special purpose entity that it creates shall be afforded flexibility in establishing the terms and conditions of the securitization bonds, including the final structure of the special purpose entity as either a business trust or limited liability company, repayment schedules, term, payment dates, collateral, credit enhancement, required debt service, reserves,

interest rates, other reasonable and necessary financing costs, and the ability of Consumers Energy Company, at its option, to cause the issuance of one or more series, classes or tranches of securitization bonds.

R. All regulatory approvals within the jurisdiction of the Commission that are necessary for the securitization of the qualified costs identified in this financing order, and all related transactions, are granted. Accordingly, following Consumers Energy Company's submission of an unconditional acceptance letter, Consumers Energy Company will be deemed to have satisfied all state-imposed prerequisites to the execution of a security agreement, the Commission will have taken all of its necessary steps with regard to approving Consumers Energy Company's request for securitization, and, pursuant to Act 142, a valid and enforceable lien and security interest in the securitization property will be created (and will be created only in favor of a financing party) following the execution and delivery of the applicable security agreement in connection with the issuance of the securitization bonds.

S. Consumers Energy Company shall file a report, within 30 days following the receipt of all or any portion of the proceeds from the sale of the securitization bonds and quarterly thereafter until all securitization bond proceeds have been disbursed, specifying: (1) the gross amount of proceeds arising from the sale of those securitization bonds, i.e. the principal amount of the securitization bonds; (2) any amounts expended for payment of Initial Other Qualified Costs relating to that sale; (3) the amount of proceeds remaining after payment of those costs; and (4) the precise type and amount of debt or equity, originally held by Consumers Energy Company retired through use of those proceeds. The initial report filed following receipt of securitization bond proceeds shall include a copy of the closing documents (generally referred to as the "closing transcript") arising from the sale of the securitization bonds.

T. In the event that a change in market conditions leads Consumers Energy Company to refinance any of its securitization bonds, Consumers Energy Company shall file, within seven days of the refinancing, a report disclosing the details of that refinancing, in which case, upon Consumers Energy Company's request, as accompanied by demonstration of an ability to refinance under applicable bond covenants and that securitization charges to service new securitization bonds, including transaction costs, would be less than the future securitization charges required to service the securitization bonds being refunded, pursuant to MCL 460.10i(9), this financing order shall constitute a financing order adopted by the Commission in accordance with MCL 460.10i(9).

U. Following Consumers Energy Company's express written acceptance of all conditions and limitations established by this financing order, this financing order – and each of its terms – shall be irrevocable. Consumers Energy Company's acceptance likewise shall be irrevocable and, therefore, shall survive bankruptcy or any other change in Consumers Energy Company's legal or economic structure.

V. This financing order shall, consistent with MCL 460.10i(4), be irrevocable. No adjustment through the true-up adjustment mechanism shall affect the irrevocability of this financing order. Consistent with MCL 460.10n(2), the Commission reaffirms that it shall not reduce, impair, postpone, terminate or otherwise adjust the securitization charges approved in this financing order or impair the securitization property or the collection of securitization charges or the recovery of the qualified costs and Ongoing Other Qualified Costs. Consistent with MCL 460.10k(3), the Commission affirms that it will act pursuant to this financing order to ensure that the expected securitization charges are sufficient to pay on a timely basis scheduled

principal of and interest on the securitization bonds issued pursuant to this financing order and the Ongoing Other Qualified Costs in connection with the securitization bonds.

The Commission reserves jurisdiction and may issue further orders as necessary, to the extent not inconsistent with this financing order and Act 142.

Any party desiring to appeal this financing order must do so in the appropriate court within 30 days after issuance and notice of this financing order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

\_\_\_\_\_  
Chairman

(SEAL)

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Commissioner

By its action of \_\_\_\_\_, 2020.

\_\_\_\_\_  
Its Executive Secretary

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the )  
Securitization of Qualified Costs. )  
\_\_\_\_\_ )

Case No. U-20889

**PROPOSED PROTECTIVE ORDER**

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of	)	
<b>CONSUMERS ENERGY COMPANY</b>	)	
for a Financing Order Approving the	)	Case No. U-20889
Securitization of Qualified Costs.	)	
_____	)	

**PROTECTIVE ORDER**

This Protective Order governs the use and disposition of Protected Material that Consumers Energy Company (“Applicant”) or any other Party discloses to another Party during the course of this proceeding. The Applicant or other Party disclosing Protected Material is referred to as the “Disclosing Party”; the recipient is the “Receiving Party” (defined further below). The intent of this Protective Order is to protect non-public, confidential information and materials so designated by the Applicant or by any other party, which information and materials contain confidential, proprietary, or commercially sensitive information. This Protective Order defines “Protected Material” and describes the manner in which Protected Material is to be identified and treated. Accordingly, it is ordered:

**I. “Protected Material” And Other Definitions**

A. For the purposes of this Protective Order, “Protected Material” consists of trade secrets or confidential, proprietary, or commercially sensitive information provided in Disclosing Party’s discovery or audit responses, any witness’ related exhibit and testimony, and any arguments of counsel describing or relying upon the Protected Material. Subject to challenge under Paragraph IV.A, Protected Material shall consist of non-public confidential information

and materials including, but not limited to, the following information disclosed during the course of this case if it is marked as required by this Protective Order:

1. Trade secrets or confidential, proprietary, or commercially sensitive information provided in response to discovery, in response to an order issued by the presiding hearing officer or the Michigan Public Service Commission ("MPSC" or the "Commission"), in testimony or exhibits filed later in this case, or in arguments of counsel;
2. To the extent permitted, information obtained under license from a third-party licensor, to which the Disclosing Party or witnesses engaged by the Disclosing Party is a licensee, that is subject to any confidentiality or non-transferability clause. This information includes reports; analyses; models (including related inputs and outputs); trade secrets; and confidential, proprietary, or commercially sensitive information that the Disclosing Party or one of its witnesses receives as a licensee and is authorized by the third-party licensor to disclose consistent with the terms and conditions of this Protective Order; and
3. Information that could identify the bidders and bids, including the winning bid, in a competitive solicitation for a power purchase agreement or in a competitively bid engineering, procurement, or construction contract at any stage of the selection process (i.e., before the Disclosing Party has entered into a power purchase agreement or selected a contractor).

B. The information subject to this Protective Order does not include:

1. Information that is or has become available to the public through no fault of the Receiving Party or Reviewing Representative and no breach of this Protective Order, or information that is otherwise lawfully known by the Receiving Party without any obligation to hold it in confidence;
2. Information received from a third party free to disclose the information without restriction;
3. Information that is approved for release by written authorization of the Disclosing Party, but only to the extent of the authorization;
4. Information that is required by law or regulation to be disclosed, but only to the extent of the required disclosure; or
5. Information that is disclosed in response to a valid, non-appealable order of a court of competent jurisdiction or governmental body, but only to the extent the order requires.



C. “Party” refers to the Applicant, MPSC Staff (“Staff”), Michigan Attorney General, or any other person, company, organization, or association that is granted intervention in Case No. U-20889 under the Commission’s Rules of Practice and Procedure, Mich Admin Code, R 792.10401 et al.

D. “Receiving Party” means any Party to this proceeding who requests or receives access to Protected Material, subject to the requirement that each Reviewing Representative sign a Nondisclosure Certificate attached to this Protective Order as Attachment 1.

E. “Reviewing Representative” means a person who has signed a Nondisclosure Certificate and who is:

1. An attorney who has entered an appearance in this proceeding for a Receiving Party;
2. An attorney, paralegal, or other employee associated, for the purpose of this case, with an attorney described in Paragraph I.E.1;
3. An expert or employee of an expert retained by a Receiving Party to advise, prepare for, or testify in this proceeding; or
4. An employee or other representative of a Receiving Party with significant responsibility in this case.

A Reviewing Representative is responsible for assuring that persons under his or her supervision and control comply with this Protective Order.

F. “Nondisclosure Certificate” means the certificate attached to this Protective Order as Attachment 1, which is signed by a Reviewing Representative who has been granted access to Protected Material and agreed to be bound by the terms of this Protective Order.

## **II. Access To And Use Of Protected Material**

A. This Protective Order governs the use of all Protected Material that is marked as required by Paragraph III.A and made available for review by the Disclosing Party to any

Receiving Party or Reviewing Representative. This Protective Order protects: (i) the Protected Material; (ii) any copy or reproduction of the Protected Material made by any person; and (iii) any memorandum, handwritten notes, or any other form of information that copies, contains, or discloses Protected Material. All Protected Material in the possession of a Receiving Party shall be maintained in a secure place. Access to Protected Material shall be limited to persons authorized to have access subject to the provisions of this Protective Order.

B. Protected Material shall be used and disclosed by the Receiving Party solely in accordance with the terms and conditions of this Protective Order. A Receiving Party may authorize access to, and use of, Protected Material by a Reviewing Representative identified by the Receiving Party, subject to Paragraphs III and V below, only as necessary to analyze the Protected Material; make or respond to discovery; present evidence; prepare testimony, argument, briefs, or other filings; prepare for cross-examination; consider strategy; and evaluate settlement. These individuals shall not release or disclose the content of Protected Material to any other person or use the information for any other purpose.

C. The Disclosing Party retains the right to object to any designated Reviewing Representative if the Disclosing Party has reason to believe that there is an unacceptable risk of misuse of confidential information. If a Disclosing Party objects to a Reviewing Representative, the Disclosing Party and the Receiving Party will attempt to reach an agreement to accommodate that Receiving Party's request to review Protected Material. If no agreement is reached, then either the Disclosing Party or the Receiving Party may submit the dispute to the presiding hearing officer. If the Disclosing Party notifies a Receiving Party of an objection to a Reviewing Representative, then the Protected Material shall not be provided to that Reviewing Representative until the objection is resolved by agreement or by the presiding hearing officer.

D. Before reviewing any Protected Material, including copies, reproductions, and copies of notes of Protected Material, a Receiving Party and Reviewing Representative shall sign a copy of the Nondisclosure Certificate (Attachment 1 to this Protective Order) agreeing to be bound by the terms of this Protective Order. The Reviewing Representative shall also provide a copy of the executed Nondisclosure Certificate to the Disclosing Party.

E. Even if no longer engaged in this proceeding, every person who has signed a Nondisclosure Certificate continues to be bound by the provisions of this Protective Order. The obligations under this Protective Order are not extinguished or nullified by entry of a final order in this case and are enforceable by the MPSC or a court of competent jurisdiction. To the extent Protected Material is not returned to a Disclosing Party, it remains subject to this Protective Order.

F. Members of the Commission, Commission staff assigned to assist the Commission with its deliberations, and the presiding hearing officer shall have access to all Protected Material that is submitted to the Commission under seal without the need to sign the Nondisclosure Certificate.

G. A Party retains the right to seek further restrictions on the dissemination of Protected Material to persons who have or may subsequently seek to intervene in this MPSC proceeding.

H. Nothing in this Protective Order precludes a Party from asserting a timely evidentiary objection to the proposed admission of Protected Material into the evidentiary record for this case.

### **III. Procedures**

A. The Disclosing Party shall mark any information that it considers confidential as “CONFIDENTIAL: SUBJECT TO THE PROTECTIVE ORDER ISSUED IN CASE NO. U-20889.” If the Receiving Party or a Reviewing Representative makes copies of any Protected Material, they shall conspicuously mark the copies as Protected Material. Notes of Protected Material shall also be conspicuously marked as Protected Material by the person making the notes.

B. If a Receiving Party wants to quote, refer to, or otherwise use Protected Material in pleadings, pre-filed testimony, exhibits, cross-examination, briefs, oral argument, comments, or in some other form in this proceeding (including administrative or judicial appeals), the Receiving Party shall do so consistent with procedures that will maintain the confidentiality of the Protected Material. For purposes of this Protective Order, the following procedures apply:

1. Written submissions using Protected Material shall be filed in a sealed record to be maintained by the MPSC’s Docket Section, or by a court of competent jurisdiction, in envelopes clearly marked on the outside, “CONFIDENTIAL – SUBJECT TO THE PROTECTIVE ORDER ISSUED IN CASE NO. U-20889.” Simultaneously, identical documents and materials, with the Protected Material redacted, shall be filed and disclosed the same way that evidence or briefs are usually filed;
2. Oral testimony, examination of witnesses, or argument about Protected Material shall be conducted on a separate record to be maintained by the MPSC’s Docket Section or by a court of competent jurisdiction. These separate record proceedings shall be closed to all persons except those furnishing the Protected Material and persons otherwise subject to this Protective Order. The Receiving Party presenting the Protected Material during the course of the proceeding shall give the presiding officer or court sufficient notice to allow the presiding officer or court an opportunity to take measures to protect the confidentiality of the Protected Material; and
3. Copies of the documents filed with the MPSC or a court of competent jurisdiction, which contain Protected Material, including the portions of the exhibits, transcripts, or briefs that refer to Protected Material, must be sealed

and maintained in the MPSC's or court's files with a copy of the Protective Order attached.

C. It is intended that the Protected Material subject to this Protective Order should be shielded from disclosure by a Receiving Party. If any person files a request under the Freedom of Information Act with the MPSC or the Michigan Attorney General seeking access to documents subject to this Protective Order, the MPSC's Executive Secretary, Staff, or the Attorney General shall immediately notify the Disclosing Party, and the Disclosing Party may take whatever legal actions it deems appropriate to protect the Protected Material from disclosure. In light of Section 5 of the Freedom of Information Act, MCL 15.235, the notice must be given at least five (5) business days before the MPSC, Staff, and/or the Michigan Attorney General grant the request in full or in part.

#### **IV. Termination Of Protected Status**

A. A Receiving Party reserves the right to challenge whether a document or information is Protected Material and whether this information can be withheld under this Protective Order. In response to a motion, the Commission or the presiding hearing officer in this case may revoke a document's protected status after notice and hearing. If the presiding hearing officer revokes a document's protected status, then the document loses its protected status after 14 days unless a Party files an application for leave to appeal the ruling to the Commission within that time period. Any Party opposing the application for leave to appeal shall file an answer with the Commission no more than 14 days after the filing and service of the appeal. If an application is filed, then the information will continue to be protected from disclosure until either the time for appeal of the Commission's final order resolving the issue has expired under MCL 462.26 or, if the order is appealed, until judicial review is completed and the time to take further appeals has expired.

B. If a document's protected status is challenged under Paragraph IV.A, the Receiving Party challenging the protected status of the document shall explicitly state its reason for challenging the confidential designation. The Disclosing Party bears the burden of proving that the document should continue to be protected from disclosure.

## **V. Retention Of Documents**

Protected Material remains the property of the Disclosing Party and only remains available to the Receiving Party until the time expires for petitions for rehearing of a final MPSC order in Case No. U-20889 or until the MPSC has ruled on all petitions for rehearing in this case (if any). However, an attorney for a Receiving Party who has signed a Nondisclosure Certificate and who is representing the Receiving Party in an appeal from an MPSC final order in this case may retain copies of Protected Material until either the time for appeal of the Commission's final order resolving the issue has expired under MCL 462.26 or, if the order is appealed, until judicial review is completed and the time to take further appeals has expired. On or before the time specified by the preceding sentences, the Receiving Party shall return to the Disclosing Party all Protected Material in its possession or in the possession of its Reviewing Representatives-including all copies and notes of Protected Material-or certify in writing to the Disclosing Party that the Protected Material has been destroyed.

## **VI. Limitations and Disclosures**

The provisions of this Protective Order do not apply to a particular document, or portion of a document, described in Paragraph II.A if a Receiving Party can demonstrate that it has been previously disclosed by the Disclosing Party on a non-confidential basis or meets the criteria set forth in Paragraphs I.B.1 through I.B.5. A Receiving Party intending to disclose information taken directly from materials identified as Protected Material must-before actually disclosing the

information-do one of the following: (i) contact the Disclosing Party's counsel of record and obtain written permission to disclose the information, or (ii) challenge the confidential nature of the Protected Material and obtain a ruling under Paragraph IV that the information is not confidential and may be disclosed in or on the public record.

## **VII. Remedies**

If a Receiving Party violates this Protective Order by improperly disclosing or using Protected Material, the Receiving Party shall take all necessary steps to remedy the improper disclosure or use. This includes immediately notifying the MPSC, the presiding hearing officer, and the Disclosing Party, in writing, of the identity of the person known or reasonably suspected to have obtained the Protected Material. A Party or person that violates this Protective Order remains subject to this paragraph regardless of whether the Disclosing Party could have discovered the violation earlier than it was discovered. This paragraph applies to both inadvertent and intentional violations. Nothing in this Protective Order limits the Disclosing Party's rights and remedies, at law or in equity, against a Party or person using Protected Material in a manner not authorized by this Protective Order, including the right to obtain injunctive relief in a court of competent jurisdiction to prevent violations of this Protective Order.

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Administrative Law Judge

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of	)	
<b>CONSUMERS ENERGY COMPANY</b>	)	
for authority to increase its rates for the	)	Case No. U-20889
distribution of natural gas and for other relief.	)	
_____	)	

**NONDISCLOSURE CERTIFICATE**

By signing this Nondisclosure Certificate, I acknowledge that access to Protected Material is provided to me under the terms and restrictions of the Protective Order issued in Case No. U-20889, that I have been given a copy of and have read the Protective Order, and that I agree to be bound by the terms of the Protective Order. I understand that the substance of the Protected Material (as defined in the Protective Order), any notes from Protected Material, or any other form of information that copies or discloses Protected Material, shall be maintained as confidential and shall not be disclosed to anyone other than in accordance with the Protective Order.

Reviewing Representative

Date: \_\_\_\_\_

\_\_\_\_\_  
Title:  
Representing:

\_\_\_\_\_  
Printed Name



STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the )  
Securitization of Qualified Costs. )  
\_\_\_\_\_ )

Case No. U-20889

**DIRECT TESTIMONY**

**OF**

**LAURA M. COLLINS**

**ON BEHALF OF**

**CONSUMERS ENERGY COMPANY**

September 2020

LAURA M. COLLINS  
DIRECT TESTIMONY

**Q. Please state your name and business address.**

A. My name is Laura M. Collins, and my business address is One Energy Plaza, Jackson, Michigan 49201.

**Q. By whom are you employed and in what capacity?**

A. I am employed by Consumers Energy Company (“Consumers Energy” or the “Company”) as a Principal Rate Analyst - Lead in the Pricing Section of the Rates and Regulation Department.

**Q. Please describe your educational background and business experience.**

A. I received a Bachelor of Business Administration degree in Finance in December 2000 from the University of Michigan – Flint. In January 2001, I joined Consumers Energy as a Rate Analyst in the Revenue Requirements section of the Rates Department, where I held positions of increasing responsibility. I joined the Cost Analysis, Pricing and Tariff Section of the Rates Department in 2012 and was promoted to Principal Rate Analyst in January 2015.

**Q. What are your responsibilities as a Principal Rate Analyst - Lead for Consumers Energy?**

A. My current responsibilities include rate design, research and development of additional services, analyses for Senior Management, and customer-specific rate analyses.

**Q. Have you previously filed testimony with the Michigan Public Service Commission (“MPSC” or the “Commission”)?**

A. Yes. I have filed testimony in the following cases:

Case No. U-12575-R                      Gas Cost Recovery Reconciliation;

Case No. U-13220                      Gas Cost Recovery Plan;

LAURA M. COLLINS  
DIRECT TESTIMONY

1	Case No. U-13570	Gas Cost Recovery Plan;
2	Case No. U-13570-R	Gas Cost Recovery Reconciliation;
3	Case No. U-13730	Gas General Rate Case;
4	Case No. U-13916	Gas Cost Recovery Plan;
5	Case No. U-13917-R	Power Supply Cost Recovery Reconciliation;
6	Case No. U-14274-R	Power Supply Cost Recovery Reconciliation;
7	Case No. U-14347	Electric General Rate Case;
8	Case No. U-14403	Gas Cost Recovery Plan;
9	Case No. U-14403-R	Gas Cost Recovery Reconciliation;
10	Case No. U-14701-R	Power Supply Cost Recovery Reconciliation;
11	Case No. U-14716	Gas Cost Recovery Plan;
12	Case No. U-14716-R	Gas Cost Recovery Reconciliation;
13	Case No. U-15001-R	Power Supply Cost Recovery Reconciliation;
14	Case No. U-15415-R	Power Supply Cost Recovery Reconciliation;
15	Case No. U-15454	Gas Cost Recovery Plan;
16	Case No. U-15675-R	Power Supply Cost Recovery Reconciliation;
17	Case No. U-16045	Power Supply Cost Recovery Plan;
18	Case No. U-16045-R	Power Supply Cost Recovery Reconciliation;
19	Case No. U-16736	Energy Optimization Reconciliation;
20	Case No. U-16432	Power Supply Cost Recovery Plan;
21	Case No. U-16432-R	Power Supply Cost Recovery Reconciliation;
22	Case No. U-16890	Power Supply Cost Recovery Plan;
23	Case No. U-17197	Gas General Rate Case;

LAURA M. COLLINS  
DIRECT TESTIMONY

Case No. U-17281	Energy Optimization Reconciliation;
Case No. U-17601	Energy Optimization Reconciliation;
Case No. U-17688	Public Act 169 of 2014;
Case No. U-17735	Electric General Rate Case;
Case No. U-17990	Electric General Rate Case;
Case No. U-18322	Electric General Rate Case;
Case No. U-20134	Electric General Rate Case;
Case No. U-20102	Electric Tax Credit A;
Case No. U-20286	Electric Tax Credit B; and
Case No. U-20563	Demand Response Reconciliation.

**PURPOSE OF TESTIMONY**

**Q. What is the purpose of your testimony in this filing?**

A. The purpose of my testimony is to sponsor the Company's proposed rate design of the securitization charge associated with the retirement of the D.E. Karn ("Karn") Coal-Fired Generation Units 1 & 2, present an illustration of the estimated rate impacts, and sponsor the calculation of the Karn Units 1 & 2 bill credit.

**Q. Are you sponsoring any exhibits?**

A. Yes, I am sponsoring the following exhibits:

Exhibit A-1 (LMC-1)	Development of Karn Units 1 & 2 Securitization Charges;
Exhibit A-2 (LMC-2)	Illustration of Estimated Rate Impact by Rate Schedule; and
Exhibit A-3 (LMC-3)	Calculation of Karn Units 1 & 2 Bill Credit.

**Q. Were these exhibits prepared by you or under your direction?**

A. Yes.

LAURA M. COLLINS  
DIRECT TESTIMONY

1 **Q. Please describe Exhibit A-1 (LMC-1) Development of Securitization Charge.**

2 A. Exhibit A-1 (LMC-1) is a four-page exhibit illustrating the development of the proposed  
3 securitization charges over the proposed eight-year scheduled life of the securitization  
4 bonds. An illustration of the securitization charges over a 14-year scheduled life is also  
5 presented. Exhibit A-1 (LMC-1), page 1 shows the securitization charge for each rate class  
6 in each of the eight years which is the result of the estimated annual billings calculated by  
7 Company witness Steffen Lunde. Exhibit A-1 (LMC-1), page 1, lines 9 through 16 show  
8 the estimated annual billings as allocated to each rate class based on the production  
9 capacity allocator approved in Case No. U-20134, the Company's latest approved Electric  
10 General Rate case. Exhibit A-1, (LMC-1), page 1, lines 17 through 24 show the forecasted  
11 kWh sales for each rate class in each of the eight years. The estimated billings divided by  
12 the forecasted sales result in the Karn Units 1 & 2 securitization charges shown in Exhibit  
13 A-1 (LMC-1), page 1, lines 1 through 8.

14 The Karn Units 1 & 2 securitization charges for the breakeven case, as described  
15 by Company witness Lunde, are shown in an identical format on Exhibit A-1 (LMC-1),  
16 page 2.

17 The Karn Units 1 & 2 securitization charges for both the expected case and the  
18 breakeven case, based on a 14-year scheduled life are illustrated in identical format on  
19 pages 3 and 4, respectively, of Exhibit A-1 (LMC-1)

20 **Q. Why is the Company proposing to assess a different rate per kWh to each rate class,**  
21 **rather than through a uniform charge applicable to all rate classes?**

22 A. The Company is proposing to recover the qualified costs calculated in this case using a  
23 methodology consistent with the methodology approved by the Commission in the

LAURA M. COLLINS  
DIRECT TESTIMONY

Company's Coal Plant Securitization Case No. U-17473 and Palisades PPA securitization Case No. U-18250.

**Q. Is the Company proposing that all rate classes be subject to the proposed securitization charge?**

A. No. Consistent with the methodology adopted by the Commission in Case No. U-17473 and Case No. U-18250, the Company is proposing to exclude all current Retail Open Access ("ROA") customers. Any customers who participate in the Company's electric choice program as of the date of the Commission order in this case would be excluded from the securitization charge. Full-service customers who transition to ROA after the date of the order will carry the securitization charge obligation. In addition, any ROA customers who return to full service will also carry the securitization charge obligation applicable to their rate class from that point forward. As described by witness Lunde, it is important that there only be limited, pre-defined exceptions to the nonbypassability of the securitization charge. In addition, by law, customers, to the extent they obtain or use self-service power or engage in affiliate wheeling, will be exempt from paying the securitization charge.

**Q. Please describe Exhibit A-2 (LMC-2).**

A. Exhibit A-2 (LMC-2) is a summary by rate schedule of the Company's average kilowatt-hour charges before and after the implementation of the Karn Units 1 and 2 securitization. The average rate per kilowatt-hour under the rates established in Case No. U-20134 is shown in Exhibit A-2 (LMC-2), column (a). Each kilowatt-hour charge will be reduced by the Karn securitization bill credit, shown in Exhibit A-2 (LMC-2), column (b), until rates are reset in the next general electric rate case. Exhibit A-2 (LMC-2), Column (c) represents the year 1 securitization charge. The results of the current average rate plus the bill credit

LAURA M. COLLINS  
DIRECT TESTIMONY

1 plus initial securitization charge is the average rate after securitization shown in Exhibit A-  
2 2 (LMC-2), column (d). This shows a reduction in all rate schedules resulting from the  
3 proposed securitization. Exhibit A-2 (LMC-2), Page 1 is an illustration of the expected  
4 case at an 8-year life, page 2 is an illustration of the breakeven case at an 8-year life, page  
5 3 is an illustration of the expected case at a 14-year life, and page 4 is an illustration of the  
6 breakeven case at a 14-year life.

7 **Q. Please describe Exhibit A-3 (LMC-3).**

8 A. Exhibit A-3 (LMC-3) shows the calculation of the Karn 1 and 2 bill credit by rate schedule,  
9 as discussed by Company witness Heidi J. Myers. Exhibit A-3 (LMC-3), Column (b)  
10 shows the forecasted sales during year 1 of the securitization charge period. Exhibit A-3  
11 (LMC-3), Column (c) shows the total bill credit amount as calculated by Company witness  
12 Myers, allocated to each rate class based on the production capacity allocator approved in  
13 Case No. U-20134, the Company's latest approved Electric General Rate case. Exhibit A-3  
14 (LMC-3), Column (d) divides the allocated credit by the forecast sales to get the total  
15 \$/kWh bill credit by rate schedule.

16 **Q. Do the charges and credits shown in your exhibits represent the final charges that will**  
17 **be implemented upon issuance of the bonds?**

18 A. No. The charges and credits are shown for illustrative purposes only. The allocation of  
19 the estimated annual billings and Karn Units 1 & 2 revenue requirement are calculated  
20 using the production capacity allocator approved in Case No. U-20134. At the time the  
21 bonds are issued, the charge and bill credit calculations will be updated to reflect the most  
22 recently approved production allocator. At this time, the Company has a general electric  
23 rate case pending, Case No. U-20697, and an order is expected in that case in December

LAURA M. COLLINS  
DIRECT TESTIMONY

1 2020. If the Case No U-20697 rates are in effect at the time the bonds are issued, the  
2 approved production allocator would serve as the basis for the bill credit and initial  
3 securitization charges.

4 **Q. Does this conclude your testimony?**

5 **A.** Yes.



STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the )  
Securitization of Qualified Costs. )  
\_\_\_\_\_ )

Case No. U-20889

**EXHIBITS**

**OF**

**LAURA M. COLLINS**

**ON BEHALF OF**

**CONSUMERS ENERGY COMPANY**

September 2020

**MICHIGAN PUBLIC SERVICE COMMISSION**

Consumers Energy Company

Development of Karn Units 1 & 2 Securitization Charges

Expected Case - 8 Year Charge

Case No.: U-20889

Exhibit No.: A-1 (LMC-1)

Page: 1 of 4

Witness: LMCollins

Date: September 2020

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Annual Securitization Surcharge							
Line	Year	Residential \$/kWh	Secondary \$/kWh	Primary Voltage 1 \$/kWh	Primary Voltage 2 \$/kWh	Primary Voltage 3 \$/kWh	Streetlighting \$/kWh
1	1	0.003216	0.003304	0.002344	0.002716	0.002662	0.001423
2	2	0.003259	0.003425	0.002402	0.002787	0.002740	0.001461
3	3	0.003302	0.003494	0.002435	0.002825	0.002777	0.001480
4	4	0.003307	0.003501	0.002440	0.002831	0.002782	0.001482
5	5	0.003293	0.003485	0.002429	0.002818	0.002770	0.001476
6	6	0.003308	0.003502	0.002441	0.002832	0.002783	0.001483
7	7	0.003290	0.003482	0.002427	0.002815	0.002767	0.001475
8	8	0.003286	0.003480	0.002426	0.002815	0.002765	0.001472

		Estimated Annual Billings						
Line	Year	Total	Residential	Secondary	Primary Voltage 1	Primary Voltage 2	Primary Voltage 3	Streetlighting
		(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
9	1	96,421	40,829	23,003	8,549	6,487	17,261	293
10	2	97,943	41,473	23,366	8,684	6,589	17,533	297
11	3	98,374	41,656	23,469	8,722	6,618	17,610	299
12	4	98,305	41,626	23,452	8,716	6,613	17,598	299
13	5	98,144	41,559	23,414	8,702	6,602	17,569	298
14	6	98,383	41,659	23,471	8,723	6,619	17,612	299
15	7	98,143	41,558	23,414	8,702	6,602	17,569	298
16	8	98,436	41,682	23,484	8,728	6,622	17,622	299

		Annual Sales Forecast						
Line	Year	Total	Residential	Secondary	Primary Voltage 1	Primary Voltage 2	Primary Voltage 3	Streetlighting
		MWh	MWh	MWh	MWh	MWh	MWh	MWh
17	1	32,385,181	12,696,658	6,962,986	3,646,518	2,388,474	6,484,811	205,734
18	2	32,131,545	12,727,597	6,822,031	3,614,719	2,364,004	6,399,518	203,677
19	3	31,800,197	12,614,676	6,716,269	3,582,303	2,342,737	6,342,360	201,852
20	4	31,723,100	12,587,125	6,699,467	3,572,671	2,336,267	6,326,081	201,490
21	5	31,807,031	12,618,596	6,717,645	3,582,472	2,342,949	6,343,471	201,896
22	6	31,733,571	12,591,923	6,701,696	3,573,460	2,336,879	6,328,073	201,540
23	7	31,839,873	12,632,658	6,724,443	3,585,784	2,345,106	6,349,744	202,136
24	8	31,958,690	12,683,666	6,748,850	3,598,040	2,352,823	6,372,244	203,068

**MICHIGAN PUBLIC SERVICE COMMISSION**

Consumers Energy Company

Development of Karn Units 1 & 2 Securitization Charges

Breakeven Case - 8 Year Charge

Case No.: U-20889  
Exhibit No.: A-1 (LMC-1)  
Page: 2 of 4  
Witness: LMCollins  
Date: September 2020

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Annual Securitization Surcharge							
Line	Year	Residential	Secondary	Primary Voltage 1	Primary Voltage 2	Primary Voltage 3	Streetlighting
		\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kWh
1	1	0.003942	0.004050	0.002874	0.003329	0.003263	0.001745
2	2	0.003982	0.004186	0.002936	0.003406	0.003348	0.001785
3	3	0.004037	0.004272	0.002977	0.003454	0.003395	0.001810
4	4	0.004043	0.004279	0.002982	0.003460	0.003401	0.001811
5	5	0.004026	0.004261	0.002969	0.003445	0.003386	0.001805
6	6	0.004045	0.004282	0.002984	0.003462	0.003402	0.001813
7	7	0.004022	0.004257	0.002967	0.003442	0.003383	0.001803
8	8	0.004018	0.004254	0.002965	0.003441	0.003381	0.001800

		Estimated Annual Billings						
Line	Year	Total	Residential	Secondary	Primary Voltage 1	Primary Voltage 2	Primary Voltage 3	Streetlighting
		(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
9	1	118,194	50,048	28,197	10,479	7,951	21,159	359
10	2	119,691	50,682	28,554	10,612	8,052	21,427	364
11	3	120,279	50,931	28,695	10,664	8,092	21,532	365
12	4	120,173	50,887	28,669	10,655	8,084	21,513	365
13	5	119,985	50,807	28,624	10,638	8,072	21,479	364
14	6	120,273	50,929	28,693	10,664	8,091	21,531	365
15	7	119,981	50,805	28,624	10,638	8,072	21,479	364
16	8	120,340	50,957	28,709	10,670	8,096	21,543	365

		Annual Sales Forecast						
Line	Year	Total	Residential	Secondary	Primary Voltage 1	Primary Voltage 2	Primary Voltage 3	Streetlighting
		MWh	MWh	MWh	MWh	MWh	MWh	MWh
17	1	32,385,181	12,696,658	6,962,986	3,646,518	2,388,474	6,484,811	205,734
18	2	32,131,545	12,727,597	6,822,031	3,614,719	2,364,004	6,399,518	203,677
19	3	31,800,197	12,614,676	6,716,269	3,582,303	2,342,737	6,342,360	201,852
20	4	31,723,100	12,587,125	6,699,467	3,572,671	2,336,267	6,326,081	201,490
21	5	31,807,031	12,618,596	6,717,645	3,582,472	2,342,949	6,343,471	201,896
22	6	31,733,571	12,591,923	6,701,696	3,573,460	2,336,879	6,328,073	201,540
23	7	31,839,873	12,632,658	6,724,443	3,585,784	2,345,106	6,349,744	202,136
24	8	31,958,690	12,683,666	6,748,850	3,598,040	2,352,823	6,372,244	203,068

**MICHIGAN PUBLIC SERVICE COMMISSION**

Consumers Energy Company

Development of Karn Units 1 & 2 Securitization Charges

Expected Case - 14 Year Charge

Case No.: U-20889  
Exhibit No.: A-1 (LMC-1)  
Page: 3 of 4  
Witness: LMCollins  
Date: September 2020

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Annual Securitization Surcharge							
Line	Year	Residential \$/kWh	Secondary \$/kWh	Primary Voltage 1 \$/kWh	Primary Voltage 2 \$/kWh	Primary Voltage 3 \$/kWh	Streetlighting \$/kWh
1	1	0.001981	0.002035	0.001444	0.001673	0.001640	0.000877
2	2	0.002012	0.002115	0.001483	0.001721	0.001692	0.000902
3	3	0.002038	0.002157	0.001503	0.001743	0.001714	0.000914
4	4	0.002041	0.002161	0.001506	0.001747	0.001717	0.000915
5	5	0.002033	0.002151	0.001499	0.001739	0.001710	0.000911
6	6	0.002042	0.002162	0.001507	0.001748	0.001718	0.000915
7	7	0.002031	0.002149	0.001498	0.001738	0.001708	0.000910
8	8	0.002028	0.002148	0.001497	0.001737	0.001707	0.000909
9	9	0.001997	0.002114	0.001473	0.001710	0.001680	0.000895
10	10	0.001997	0.002114	0.001473	0.001709	0.001680	0.000895
11	11	0.001994	0.002110	0.001471	0.001706	0.001677	0.000894
12	12	0.002008	0.002126	0.001482	0.001719	0.001689	0.000900
13	13	0.001995	0.002112	0.001472	0.001708	0.001678	0.000894
14	14	0.001987	0.002104	0.001466	0.001701	0.001672	0.000891

		Estimated Annual Billings						
Line	Year	Total	Residential	Secondary	Primary Voltage 1	Primary Voltage 2	Primary Voltage 3	Streetlighting
		(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
15	1	59,408	25,156	14,173	5,267	3,997	10,635	180
16	2	60,471	25,606	14,426	5,361	4,068	10,825	184
17	3	60,716	25,710	14,485	5,383	4,085	10,869	184
18	4	60,680	25,695	14,476	5,380	4,082	10,863	184
19	5	60,579	25,652	14,452	5,371	4,075	10,845	184
20	6	60,727	25,714	14,487	5,384	4,085	10,871	184
21	7	60,579	25,652	14,452	5,371	4,075	10,845	184
22	8	60,760	25,728	14,495	5,387	4,087	10,877	185
23	9	60,547	25,638	14,445	5,368	4,073	10,839	184
24	10	60,694	25,701	14,480	5,381	4,083	10,865	184
25	11	60,578	25,651	14,452	5,371	4,075	10,845	184
26	12	60,733	25,717	14,489	5,385	4,086	10,872	184
27	13	60,618	25,668	14,461	5,375	4,078	10,852	184
28	14	60,665	25,688	14,473	5,379	4,081	10,860	184

		Annual Sales Forecast						
Line	Year	Total	Residential	Secondary	Primary Voltage 1	Primary Voltage 2	Primary Voltage 3	Streetlighting
		MWh	MWh	MWh	MWh	MWh	MWh	MWh
29	1	32,385,181	12,696,658	6,962,986	3,646,518	2,388,474	6,484,811	205,734
30	2	32,131,545	12,727,597	6,822,031	3,614,719	2,364,004	6,399,518	203,677
31	3	31,800,197	12,614,676	6,716,269	3,582,303	2,342,737	6,342,360	201,852
32	4	31,723,100	12,587,125	6,699,467	3,572,671	2,336,267	6,326,081	201,490
33	5	31,807,031	12,618,596	6,717,645	3,582,472	2,342,949	6,343,471	201,896
34	6	31,733,571	12,591,923	6,701,696	3,573,460	2,336,879	6,328,073	201,540
35	7	31,839,873	12,632,658	6,724,443	3,585,784	2,345,106	6,349,744	202,136
36	8	31,958,690	12,683,666	6,748,850	3,598,040	2,352,823	6,372,244	203,068
37	9	32,352,803	12,837,251	6,832,608	3,643,200	2,382,587	6,451,720	205,438
38	10	32,435,386	12,870,266	6,849,985	3,652,454	2,388,596	6,468,103	205,982
39	11	32,423,897	12,863,409	6,847,986	3,651,795	2,388,368	6,466,540	205,799
40	12	32,275,593	12,807,101	6,816,192	3,634,380	2,376,763	6,436,177	204,979
41	13	32,423,880	12,865,720	6,847,525	3,651,177	2,387,737	6,465,799	205,922
42	14	32,576,047	12,926,222	6,879,622	3,668,304	2,398,906	6,496,091	206,903

**MICHIGAN PUBLIC SERVICE COMMISSION**

Consumers Energy Company

Development of Karn Units 1 & 2 Securitization Charges

Breakeven Case - 14 Year Charge

Case No.: U-20889  
Exhibit No.: A-1 (LMC-1)  
Page: 4 of 4  
Witness: LMCollins  
Date: September 2020

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Annual Securitization Surcharge							
Line	Year	Residential \$/kWh	Secondary \$/kWh	Primary Voltage 1 \$/kWh	Primary Voltage 2 \$/kWh	Primary Voltage 3 \$/kWh	Streetlighting \$/kWh
1	1	0.002697	0.002771	0.001966	0.002278	0.002232	0.001194
2	2	0.002732	0.002872	0.002014	0.002337	0.002297	0.001225
3	3	0.002769	0.002930	0.002042	0.002369	0.002328	0.001241
4	4	0.002773	0.002935	0.002046	0.002374	0.002333	0.001242
5	5	0.002762	0.002923	0.002037	0.002363	0.002322	0.001238
6	6	0.002774	0.002937	0.002047	0.002375	0.002334	0.001243
7	7	0.002758	0.002920	0.002035	0.002361	0.002320	0.001236
8	8	0.002756	0.002918	0.002034	0.002360	0.002319	0.001234
9	9	0.002713	0.002872	0.002002	0.002322	0.002282	0.001216
10	10	0.002713	0.002871	0.002001	0.002322	0.002282	0.001216
11	11	0.002709	0.002867	0.001998	0.002318	0.002278	0.001214
12	12	0.002728	0.002888	0.002013	0.002335	0.002295	0.001222
13	13	0.002710	0.002869	0.002000	0.002320	0.002280	0.001215
14	14	0.002700	0.002858	0.001992	0.002311	0.002271	0.001210

		Estimated Annual Billings						
Line	Year	Total	Residential	Secondary	Primary Voltage 1	Primary Voltage 2	Primary Voltage 3	Streetlighting
		(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
15	1	80,869	34,244	19,293	7,170	5,440	14,477	246
16	2	82,121	34,774	19,592	7,281	5,525	14,701	249
17	3	82,487	34,928	19,679	7,313	5,549	14,766	251
18	4	82,428	34,903	19,665	7,308	5,545	14,756	250
19	5	82,294	34,847	19,633	7,296	5,536	14,732	250
20	6	82,493	34,931	19,680	7,314	5,550	14,768	251
21	7	82,292	34,846	19,632	7,296	5,536	14,732	250
22	8	82,538	34,950	19,691	7,318	5,553	14,776	251
23	9	82,249	34,828	19,622	7,292	5,533	14,724	250
24	10	82,449	34,913	19,670	7,310	5,547	14,760	250
25	11	82,292	34,846	19,632	7,296	5,536	14,732	250
26	12	82,502	34,935	19,682	7,315	5,550	14,769	251
27	13	82,346	34,869	19,645	7,301	5,540	14,741	250
28	14	82,409	34,896	19,660	7,307	5,544	14,753	250

		Annual Sales Forecast						
Line	Year	Total	Residential	Secondary	Primary Voltage 1	Primary Voltage 2	Primary Voltage 3	Streetlighting
		MWh	MWh	MWh	MWh	MWh	MWh	MWh
29	1	32,385,181	12,696,658	6,962,986	3,646,518	2,388,474	6,484,811	205,734
30	2	32,131,545	12,727,597	6,822,031	3,614,719	2,364,004	6,399,518	203,677
31	3	31,800,197	12,614,676	6,716,269	3,582,303	2,342,737	6,342,360	201,852
32	4	31,723,100	12,587,125	6,699,467	3,572,671	2,336,267	6,326,081	201,490
33	5	31,807,031	12,618,596	6,717,645	3,582,472	2,342,949	6,343,471	201,896
34	6	31,733,571	12,591,923	6,701,696	3,573,460	2,336,879	6,328,073	201,540
35	7	31,839,873	12,632,658	6,724,443	3,585,784	2,345,106	6,349,744	202,136
36	8	31,958,690	12,683,666	6,748,850	3,598,040	2,352,823	6,372,244	203,068
37	9	32,352,803	12,837,251	6,832,608	3,643,200	2,382,587	6,451,720	205,438
38	10	32,435,386	12,870,266	6,849,985	3,652,454	2,388,596	6,468,103	205,982
39	11	32,423,897	12,863,409	6,847,986	3,651,795	2,388,368	6,466,540	205,799
40	12	32,275,593	12,807,101	6,816,192	3,634,380	2,376,763	6,436,177	204,979
41	13	32,423,880	12,865,720	6,847,525	3,651,177	2,387,737	6,465,799	205,922
42	14	32,576,047	12,926,222	6,879,622	3,668,304	2,398,906	6,496,091	206,903

**MICHIGAN PUBLIC SERVICE COMMISSION**

Consumers Energy Company

Karn 1 & 2 Securitization

Illustration of Estimated Karn 1 & 2 Plant Securitization Rate Impact by Rate Schedule

Case No.: U-20889  
Exhibit No.: A-2 (LMC-2)  
Page: 1 of 4  
Witness: LMCollins  
Date: September 2020

Expected Case - 8 Year Charge

Line No.	Description	( a ) Average Rate Before Securitization <sup>(1)</sup> \$/kWh	( b ) Karn 1 & 2 Bill Credit <sup>(2)</sup> \$/kWh	( c ) Initial Securitization Charge <sup>(3)</sup> \$/kWh	( d ) Average Rate After Securitization \$/kWh
<b>Bundled Service</b>					
<b>Residential Class</b>					
1	Residential RS/Summer On Pk	0.157123	(0.003965)	0.003216	0.156374
2	Residential RT	0.143928	(0.003965)	0.003216	0.143179
3	Residential REV	0.144134	(0.003965)	0.003216	0.143385
4	Residential RDP	0.143720	(0.003965)	0.003216	0.142971
5	Residential RDPR	0.140419	(0.003965)	0.003216	0.139670
6	Residential Opt Out	0.154260	(0.003965)	0.003216	0.153512
<b>Secondary Class</b>					
7	Secondary Energy-only GS	0.151361	(0.004073)	0.003304	0.150592
8	Secondary Demand GSD	0.129524	(0.004073)	0.003304	0.128754
9	Secondary Energy-only GS TOU	0.151361	(0.004073)	0.003304	0.150592
<b>Primary Class</b>					
<b>Primary Energy-only GP</b>					
10	Voltage Level 1	0.093767	(0.002890)	0.002344	0.093221
11	Voltage Level 2	0.105106	(0.003348)	0.002716	0.104473
12	Voltage Level 3	0.121390	(0.003282)	0.002662	0.120771
<b>Primary Demand GPD</b>					
13	Voltage Level 1	0.057150	(0.002890)	0.002344	0.056604
14	Voltage Level 2	0.079775	(0.003348)	0.002716	0.079143
15	Voltage Level 3	0.097159	(0.003282)	0.002662	0.096539
<b>Primary Energy Intensive Rate EIP</b>					
16	Voltage Level 1	0.057027	(0.002890)	0.002344	0.056481
17	Voltage Level 2	0.059577	(0.003348)	0.002716	0.058944
18	Voltage Level 3	0.081576	(0.003282)	0.002662	0.080956
<b>Primary Time of Use Pilot GPTU</b>					
19	Voltage Level 1	0.080549	(0.002890)	0.002344	0.080003
20	Voltage Level 2	0.080483	(0.003348)	0.002716	0.079851
21	Voltage Level 3	0.098503	(0.003282)	0.002662	0.097883
<b>Lighting &amp; Unmetered Class</b>					
22	Metered Lighting Service GML	0.114565	(0.001755)	0.001423	0.114234
23	Unmetered Lighting Service GUL	0.290432	(0.001755)	0.001423	0.290101
24	Unmetered Exp. Lighting GU-XL	0.338447	(0.001755)	0.001423	0.338116
25	Unmetered Service GU	0.094190	(0.001755)	0.001423	0.093859
<b>Self-generation Class</b>					
<b>Large Self-generation GSG-2</b>					
26	Voltage Level 1	0.139740	(0.002890)	0.002344	0.139194
27	Voltage Level 2	0.031095	(0.003348)	0.002716	0.030462
28	Voltage Level 3	0.181116	(0.003282)	0.002662	0.180496
<b>ROA Service</b>					
<b>Secondary Class</b>					
29	Secondary Energy-only GS	0.043168	0.000000	0.000000	0.043168
30	Secondary Demand GSD	0.033601	0.000000	0.000000	0.033601
<b>Primary Class</b>					
<b>Primary Energy-only GP</b>					
<b>Standard Service</b>					
31	Voltage Level 1	0.000000	0.000000	0.000000	0.000000
32	Voltage Level 2	0.008698	0.000000	0.000000	0.008698
33	Voltage Level 3	0.014002	0.000000	0.000000	0.014002
<b>Primary Demand GPD</b>					
<b>Standard Service</b>					
34	Voltage Level 1	0.001710	0.000000	0.000000	0.001710
35	Voltage Level 2	0.003665	0.000000	0.000000	0.003665
36	Voltage Level 3	0.010411	0.000000	0.000000	0.010411

(1) Average Rates based on Final Order in Case No. U-20134

(2) Exhibit A-3 (LMC-3), in place until general rates are reset

(3) Exhibit A-1 (LMC-1), page 1

**MICHIGAN PUBLIC SERVICE COMMISSION**

Consumers Energy Company

Karn 1 & 2 Securitization

Illustration of Estimated Karn 1 & 2 Plant Securitization Rate Impact by Rate Schedule

Case No.: U-20889  
Exhibit No.: A-2 (LMC-2)  
Page: 2 of 4  
Witness: LMCollins  
Date: September 2020

Breakeven Case - 8 Year Charge

Line No.	Description	( a ) Average Rate Before Securitization <sup>(1)</sup> \$/kWh	( b ) Karn 1 & 2 Bill Credit <sup>(2)</sup> \$/kWh	( c ) Initial Securitization Charge <sup>(3)</sup> \$/kWh	( d ) Average Rate After Securitization \$/kWh
<b>Bundled Service</b>					
<b>Residential Class</b>					
1	Residential RS/Summer On Pk	0.157123	(0.003965)	0.003942	0.157100
2	Residential RT	0.143928	(0.003965)	0.003942	0.143905
3	Residential REV	0.144134	(0.003965)	0.003942	0.144112
4	Residential RDP	0.143720	(0.003965)	0.003942	0.143697
5	Residential RDPR	0.140419	(0.003965)	0.003942	0.140397
6	Residential Opt Out	0.154260	(0.003965)	0.003942	0.154238
<b>Secondary Class</b>					
7	Secondary Energy-only GS	0.151361	(0.004073)	0.004050	0.151338
8	Secondary Demand GSD	0.129524	(0.004073)	0.004050	0.129500
9	Secondary Energy-only GS TOU	0.151361	(0.004073)	0.004050	0.151338
<b>Primary Class</b>					
<b>Primary Energy-only GP</b>					
10	Voltage Level 1	0.093767	(0.002890)	0.002874	0.093750
11	Voltage Level 2	0.105106	(0.003348)	0.003329	0.105087
12	Voltage Level 3	0.121390	(0.003282)	0.003263	0.121372
<b>Primary Demand GPD</b>					
13	Voltage Level 1	0.057150	(0.002890)	0.002874	0.057133
14	Voltage Level 2	0.079775	(0.003348)	0.003329	0.079756
15	Voltage Level 3	0.097159	(0.003282)	0.003263	0.097140
<b>Primary Energy Intensive Rate EIP</b>					
16	Voltage Level 1	0.057027	(0.002890)	0.002874	0.057011
17	Voltage Level 2	0.059577	(0.003348)	0.003329	0.059558
18	Voltage Level 3	0.081576	(0.003282)	0.003263	0.081557
<b>Primary Time of Use Pilot GPTU</b>					
19	Voltage Level 1	0.080549	(0.002890)	0.002874	0.080533
20	Voltage Level 2	0.080483	(0.003348)	0.003329	0.080464
21	Voltage Level 3	0.098503	(0.003282)	0.003263	0.098484
<b>Lighting &amp; Unmetered Class</b>					
22	Metered Lighting Service GML	0.114565	(0.001755)	0.001745	0.114555
23	Unmetered Lighting Service GUL	0.290432	(0.001755)	0.001745	0.290422
24	Unmetered Exp. Lighting GU-XL	0.338447	(0.001755)	0.001745	0.338437
25	Unmetered Service GU	0.094190	(0.001755)	0.001745	0.094180
<b>Self-generation Class</b>					
<b>Large Self-generation GSG-2</b>					
26	Voltage Level 1	0.139740	(0.002890)	0.002874	0.139724
27	Voltage Level 2	0.031095	(0.003348)	0.003329	0.031075
28	Voltage Level 3	0.181116	(0.003282)	0.003263	0.181097
<b>ROA Service</b>					
<b>Secondary Class</b>					
29	Secondary Energy-only GS	0.043168	0.000000	0.000000	0.043168
30	Secondary Demand GSD	0.033601	0.000000	0.000000	0.033601
<b>Primary Class</b>					
<b>Primary Energy-only GP</b>					
<b>Standard Service</b>					
31	Voltage Level 1	0.000000	0.000000	0.000000	0.000000
32	Voltage Level 2	0.008698	0.000000	0.000000	0.008698
33	Voltage Level 3	0.014002	0.000000	0.000000	0.014002
<b>Primary Demand GPD</b>					
<b>Standard Service</b>					
34	Voltage Level 1	0.001710	0.000000	0.000000	0.001710
35	Voltage Level 2	0.003665	0.000000	0.000000	0.003665
36	Voltage Level 3	0.010411	0.000000	0.000000	0.010411

(1) Average Rates based on Final Order in Case No. U-20134

(2) Exhibit A-3 (LMC-3), in place until general rates are reset

(3) Exhibit A-1 (LMC-1), page 2

**MICHIGAN PUBLIC SERVICE COMMISSION**

Consumers Energy Company

Karn Units 1 & 2 Securitization

Illustration of Estimated Karn 1 & 2 Plant Securitization Rate Impact by Rate Schedule

Case No.: U-20889

Exhibit No.: A-2 (LMC-2)

Page: 3 of 4

Witness: LMCollins

Date: September 2020

Expected Case - 14 Year Charge

Line No.	Description	( a ) Average Rate Before Securitization <sup>(1)</sup> \$/kWh	( b ) Karn 1 & 2 Bill Credit <sup>(2)</sup> \$/kWh	( c ) Initial Securitization Charge <sup>(3)</sup> \$/kWh	( d ) Average Rate After Securitization \$/kWh
Bundled Service					
Residential Class					
1	Residential RS/Summer On Pk	0.157123	(0.003965)	0.001981	0.155139
2	Residential RT	0.143928	(0.003965)	0.001981	0.141945
3	Residential REV	0.144134	(0.003965)	0.001981	0.142151
4	Residential RDP	0.143720	(0.003965)	0.001981	0.141737
5	Residential RDPR	0.140419	(0.003965)	0.001981	0.138436
6	Residential Opt Out	0.154260	(0.003965)	0.001981	0.152277
Secondary Class					
7	Secondary Energy-only GS	0.151361	(0.004073)	0.002035	0.149324
8	Secondary Demand GSD	0.129524	(0.004073)	0.002035	0.127486
9	Secondary Energy-only GS TOU	0.151361	(0.004073)	0.002035	0.149324
Primary Class					
Primary Energy-only GP					
10	Voltage Level 1	0.093767	(0.002890)	0.001444	0.092321
11	Voltage Level 2	0.105106	(0.003348)	0.001673	0.103431
12	Voltage Level 3	0.121390	(0.003282)	0.001640	0.119749
Primary Demand GPD					
13	Voltage Level 1	0.057150	(0.002890)	0.001444	0.055704
14	Voltage Level 2	0.079775	(0.003348)	0.001673	0.078100
15	Voltage Level 3	0.097159	(0.003282)	0.001640	0.095517
Primary Energy Intensive Rate EIP					
16	Voltage Level 1	0.057027	(0.002890)	0.001444	0.055581
17	Voltage Level 2	0.059577	(0.003348)	0.001673	0.057902
18	Voltage Level 3	0.081576	(0.003282)	0.001640	0.079934
Primary Time of Use Pilot GPTU					
19	Voltage Level 1	0.080549	(0.002890)	0.001444	0.079103
20	Voltage Level 2	0.080483	(0.003348)	0.001673	0.078808
21	Voltage Level 3	0.098503	(0.003282)	0.001640	0.096861
Lighting & Unmetered Class					
22	Metered Lighting Service GML	0.114565	(0.001755)	0.000877	0.113687
23	Unmetered Lighting Service GUL	0.290432	(0.001755)	0.000877	0.289554
24	Unmetered Exp. Lighting GU-XL	0.338447	(0.001755)	0.000877	0.337569
25	Unmetered Service GU	0.094190	(0.001755)	0.000877	0.093312
Self-generation Class					
Large Self-generation GSG-2					
26	Voltage Level 1	0.139740	(0.002890)	0.001444	0.138294
27	Voltage Level 2	0.031095	(0.003348)	0.001673	0.029420
28	Voltage Level 3	0.181116	(0.003282)	0.001640	0.179474
ROA Service					
Secondary Class					
29	Secondary Energy-only GS	0.043168	0.000000	0.000000	0.043168
30	Secondary Demand GSD	0.033601	0.000000	0.000000	0.033601
Primary Class					
Primary Energy-only GP					
Standard Service					
31	Voltage Level 1	0.000000	0.000000	0.000000	0.000000
32	Voltage Level 2	0.008698	0.000000	0.000000	0.008698
33	Voltage Level 3	0.014002	0.000000	0.000000	0.014002
Primary Demand GPD					
Standard Service					
34	Voltage Level 1	0.001710	0.000000	0.000000	0.001710
35	Voltage Level 2	0.003665	0.000000	0.000000	0.003665
36	Voltage Level 3	0.010411	0.000000	0.000000	0.010411

(1) Average Rates based on Final Order in Case No. U-20134

(2) Exhibit A-3 (LMC-3), in place until general rates are reset

(3) Exhibit A-1 (LMC-1), page 3



**MICHIGAN PUBLIC SERVICE COMMISSION**

Consumers Energy Company

Karn 1 & 2 Securitization

Illustration of Estimated Karn 1 & 2 Plant Securitization Rate Impact by Rate Schedule

Case No.: U-20889  
Exhibit No.: A-2 (LMC-2)  
Page: 4 of 4  
Witness: LMCollins  
Date: September 2020

Breakeven Case - 14 Year Charge

Line No.	Description	( a ) Average Rate Before Securitization <sup>(1)</sup> \$/kWh	( b ) Karn 1 & 2 Bill Credit <sup>(2)</sup> \$/kWh	( c ) Initial Securitization Charge <sup>(3)</sup> \$/kWh	( d ) Average Rate After Securitization \$/kWh
<b>Bundled Service</b>					
<b>Residential Class</b>					
1	Residential RS/Summer On Pk	0.157123	(0.003965)	0.002697	0.155855
2	Residential RT	0.143928	(0.003965)	0.002732	0.142695
3	Residential REV	0.144134	(0.003965)	0.002769	0.142939
4	Residential RDP	0.143720	(0.003965)	0.002773	0.142528
5	Residential RDPR	0.140419	(0.003965)	0.002762	0.139216
6	Residential Opt Out	0.154260	(0.003965)	0.002774	0.153070
<b>Secondary Class</b>					
7	Secondary Energy-only GS	0.151361	(0.004073)	0.002771	0.150059
8	Secondary Demand GSD	0.129524	(0.004073)	0.002771	0.128221
9	Secondary Energy-only GS TOU	0.151361	(0.004073)	0.002771	0.150059
<b>Primary Class</b>					
<b>Primary Energy-only GP</b>					
10	Voltage Level 1	0.093767	(0.002890)	0.001966	0.092843
11	Voltage Level 2	0.105106	(0.003348)	0.002278	0.104035
12	Voltage Level 3	0.121390	(0.003282)	0.002232	0.120341
<b>Primary Demand GPD</b>					
13	Voltage Level 1	0.057150	(0.002890)	0.001966	0.056226
14	Voltage Level 2	0.079775	(0.003348)	0.002278	0.078705
15	Voltage Level 3	0.097159	(0.003282)	0.002232	0.096109
<b>Primary Energy Intensive Rate EIP</b>					
16	Voltage Level 1	0.057027	(0.002890)	0.001966	0.056103
17	Voltage Level 2	0.059577	(0.003348)	0.002278	0.058506
18	Voltage Level 3	0.081576	(0.003282)	0.002232	0.080527
<b>Primary Time of Use Pilot GPTU</b>					
19	Voltage Level 1	0.080549	(0.002890)	0.001966	0.079625
20	Voltage Level 2	0.080483	(0.003348)	0.002278	0.079413
21	Voltage Level 3	0.098503	(0.003282)	0.002232	0.097453
<b>Lighting &amp; Unmetered Class</b>					
22	Metered Lighting Service GML	0.114565	(0.001755)	0.001194	0.114004
23	Unmetered Lighting Service GUL	0.290432	(0.001755)	0.000877	0.289554
24	Unmetered Exp. Lighting GU-XL	0.338447	(0.001755)	0.000877	0.337569
25	Unmetered Service GU	0.094190	(0.001755)	0.000877	0.093312
<b>Self-generation Class</b>					
<b>Large Self-generation GSG-2</b>					
26	Voltage Level 1	0.139740	(0.002890)	0.001966	0.138816
27	Voltage Level 2	0.031095	(0.003348)	0.002278	0.030024
28	Voltage Level 3	0.181116	(0.003282)	0.002232	0.180067
<b>ROA Service</b>					
<b>Secondary Class</b>					
29	Secondary Energy-only GS	0.043168	0.000000	0.000000	0.043168
30	Secondary Demand GSD	0.033601	0.000000	0.000000	0.033601
<b>Primary Class</b>					
<b>Primary Energy-only GP</b>					
<b>Standard Service</b>					
31	Voltage Level 1	0.000000	0.000000	0.000000	0.000000
32	Voltage Level 2	0.008698	0.000000	0.000000	0.008698
33	Voltage Level 3	0.014002	0.000000	0.000000	0.014002
<b>Primary Demand GPD</b>					
<b>Standard Service</b>					
34	Voltage Level 1	0.001710	0.000000	0.000000	0.001710
35	Voltage Level 2	0.003665	0.000000	0.000000	0.003665
36	Voltage Level 3	0.010411	0.000000	0.000000	0.010411

(1) Average Rates based on Final Order in Case No. U-20134

(2) Exhibit A-3 (LMC-3), in place until general rates are reset

(3) Exhibit A-1 (LMC-1), page 4

**MICHIGAN PUBLIC SERVICE COMMISSION**Consumers Energy Company

Calculation of the Karn Units 1 and 2 Bill Credit

Case No.: U-20889  
Exhibit No.: A-3 (LMC-3)  
Page: 1 of 1  
Witness: LMCollins  
Date: September 2020

Line	( a ) Rate Schedule	( b ) Sales <sup>(1)</sup> MWh	( c ) Credit <sup>(2)</sup> (\$000)	( d ) Bill Credit \$/kWh
1	Residential	12,696,658	(50,337)	(0.003965)
2	Secondary	6,962,986	(28,360)	(0.004073)
3	Primary Voltage 1	3,646,518	(10,540)	(0.002890)
4	Primary Voltage 2	2,388,474	(7,997)	(0.003348)
5	Primary Voltage 3	6,484,811	(21,281)	(0.003282)
6	Streetlighting	205,734	(361)	(0.001755)
7	Total	32,385,181	(118,876)	

(1) Year 1 Sales May 2023 - April 2024

(2) Exhibit A-12 (HJM-4)

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the )  
Securitization of Qualified Costs. )  
\_\_\_\_\_ )

Case No. U-20889

**DIRECT TESTIMONY**

**OF**

**DANIEL L. HARRY**

**ON BEHALF OF**

**CONSUMERS ENERGY COMPANY**

September 2020

DANIEL L. HARRY  
DIRECT TESTIMONY

**Q. Please state your name and business address.**

A. My name is Daniel L. Harry, and my business address is One Energy Plaza, Jackson, Michigan 49201.

**Q. By whom are you employed and in what capacity?**

A. I am the Director of General Accounting for Consumers Energy Company (“Consumers Energy” or the “Company”).

**Q. How long have you been employed by Consumers Energy?**

A. I have been employed by Consumers Energy since 1999.

**Q. Please state your educational background.**

A. I graduated from Central Michigan University with a Bachelor of Science in Business Administration with a major in accounting.

**Q. What other professional designations do you hold?**

A. I am a Certified Public Accountant registered in Michigan.

**Q. What are your responsibilities in your current position?**

A. As Director of General Accounting, I am responsible for the financial statement preparation and analysis for Consumers Energy and supporting various Company regulatory and external reporting requirements.

**Q. Please describe your prior work experience.**

A. I have held my current position since February 2018. From 2014 to February 2018, I was Director of Accounting Process and Control for Consumers Energy, responsible for the ongoing financial analysis of utility operations, with a focus on accounting process and control. From 2008 to 2014, I was the Director of Business Support – Rates for Consumers Energy, responsible for the development of the gas utility strategic plans, budgets,

DANIEL L. HARRY  
DIRECT TESTIMONY

1        outlooks, and forecasts as well as the ongoing financial analysis of gas utility operations.  
2        In that capacity, I was also responsible for the development of the electric and natural gas  
3        deliveries and revenue forecasts. From 2003 to 2008, I was the Director of Accounting  
4        Research for Consumers Energy, responsible for implementation of new accounting  
5        standards and for determining the appropriate accounting for major transactions. From  
6        2001 to 2003, I was a Senior Accountant for Consumers Energy, responsible for electric  
7        revenue and power cost accounting. From 1999 to 2001, I was a General Accountant for  
8        Consumers Energy, responsible for external reporting, accounting research, and subsidiary  
9        accounting.

10    **Q.    Have you previously presented testimony before the Michigan Public Service**  
11        **Commission (“MPSC” or the “Commission”)?**

12    A.    Yes, I have testified before the Commission on a number of occasions. Specifically, I have  
13        testified in Case Nos. U-15986, U-16418, U-16855, U-17197, U-17735, U-17643, U-  
14        17882, U-17990, U-18124, U-18322, U-18424, U-20134, U-20322, and U-20697.

15    **Q.    What is the purpose of your testimony in this proceeding?**

16    A.    The purpose of my testimony is to: 1) identify the Qualified Costs to be securitized by  
17        Consumers Energy; 2) describe the accounting that will be required to properly account for  
18        the collection and remittance of securitization charge revenue payable to the Special Purpose  
19        Entity (“SPE”) involved in the securitization transaction; 3) request the Commission to grant  
20        authority to Consumers Energy to record on Consumers Energy’s books all financial  
21        transactions necessary to undertake securitization, including those between the utility and  
22        the proposed SPE; and 4) explain the financial statement impacts.

DANIEL L. HARRY  
DIRECT TESTIMONY

1 **Q. Are you sponsoring any exhibits in this proceeding?**

2 A. Yes. I am sponsoring the following two exhibits, which were prepared under my direction  
3 or supervision:

4	Exhibit A-4 (DLH-1)	Unrecovered Investment for Units Karn 1-2 from
5		December 31, 2019 through April 30, 2023, with
6		Walkforward of Activity from January 1, 2020 to
7		April 30, 2023; and

8	Exhibit A-5 (DLH-2)	Sample Securitization Journal Entries
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9 **IDENTIFICATION OF QUALIFIED COSTS**

10 **Q. What are Qualified Costs?**

11 A. 2000 PA 142 ("Act 142") §10h(g) defines "Qualified Costs" as:

12 [A]n electric utility's regulatory assets as determined by the  
13 Commission, adjusted by the applicable portion of related  
14 investment tax credits, plus any costs that the Commission  
15 determines that the electric utility would be unlikely to collect in a  
16 competitive market, including, but not limited to, retail open access  
17 implementation costs and the costs of a Commission approved  
18 restructuring, buyout or buy-down of a power purchase contract,  
19 together with the costs of issuing, supporting, and servicing  
20 securitization bonds and any costs of retiring and refunding the  
21 electric utility's existing debt and equity securities in connection  
22 with the issuance of securitization bonds. Qualified Costs include  
23 taxes related to the recovery of securitization charges.

24 **Q. What is the amount of the Qualified Costs that Consumers Energy is seeking to**  
25 **securitize?**

26 A. Consumers Energy is requesting to securitize up to \$702.8 million of Qualified Costs. This  
27 amount is comprised of the unrecovered book balance of Karn Units 1 and 2 (the  
28 "Referenced Units") through April 30, 2023, and \$11.6 million of Initial Other Qualified  
29 Costs, as discussed in the testimony of Company witness Todd A. Wehner. My Exhibit A-4  
30 (DLH-1) illustrates the unrecovered book balance by starting with the Referenced Units' net  
31 book value as of December 31, 2019, then adjusting for the expected additions and

DANIEL L. HARRY  
DIRECT TESTIMONY

depreciation activity from January 1, 2020 to April 30, 2023. As shown on my Exhibit A-4 (DLH-1), on April 30, 2023 the projected unrecovered book balance is \$691.2 million. As described in Mr. Wehner's testimony, the Initial Other Qualified Costs are \$11.6 million. Consumers Energy is also seeking to securitize this amount. The described Qualified Costs have been calculated at the gross amount rather than "net of tax" as explained by Company witness Heidi J. Myers. The total Qualified Costs that Consumers Energy is proposing to securitize is up to \$702.8 million.

**Q. How was the unrecovered book balance, at April 30, 2023, of the Referenced Units determined?**

A. The plant in service and accumulated depreciation account balances were walked forward from December 31, 2019 to April 30, 2023.

**Q. What steps were used in this walkforward?**

A. The steps used were as follows:

1. Walkforward the current plant investment for the Referenced Units from known data at December 31, 2019 by adding projected plant additions by plant account;
2. Walkforward the accumulated depreciation at December 31, 2019 by adjusting for the projected depreciation expense for the period January 1, 2020 to April 30, 2023;
3. Compute the unrecovered book balance at April 30, 2023 using the described information by Federal Energy Regulatory Commission ("FERC") plant account.

**Q. Please describe the process used to accomplish step 1.**

A. The first step in the walkforward was to update the plant balances with the estimated asset addition activity from January 1, 2020 to April 30, 2023, as demonstrated in Exhibit A-4 (DLH-1), page 2. The estimated asset additions consist of the construction work in progress balance at December 31, 2019 plus the projected additions provided to me by Company

DANIEL L. HARRY  
DIRECT TESTIMONY

witness Scott A. Hugo. These estimated asset additions were allocated across the FERC plant accounts.

**Q. Please describe the process used to accomplish step 2.**

A. The second step in this process was to walkforward the actual accumulated depreciation at December 31, 2019 with projected depreciation expense for 2020, 2021, 2022, and the first four months of 2023, as demonstrated in Exhibit A-4 (DLH-1), page 3. The projected depreciation expense is calculated by multiplying the approved annual depreciation rates to the average plant in-service balances for each year. The 2023 depreciation expense was prorated to reflect only the depreciation expense through April 30, 2023.

**Q. Please describe the process used to accomplish step 3.**

A. The calculated accumulated depreciation amount at April 30, 2023 was subtracted from the calculated plant balance at April 30, 2023. The result of this calculation is the unrecovered book balance at April 30, 2023 of \$691.2 million as shown on Exhibit A-4 (DLH-1), page 1, column (G) line 7.

**Q. What is the estimated unrecovered book balance amount at April 30, 2023?**

A. I calculated the unrecovered book balance amount to be \$691.2 million.

**Q. Why did you prepare the walkforward to April 30, 2023?**

A. The Company is requesting authority to securitize the unrecovered book balance for the Referenced Units that are reflected on the Company's books at the time the securitization transaction is carried out. Further, as noted in the testimony of Mr. Hugo, the suspension of operation of the Referenced Units is currently planned to be May 2023. The maximum Qualified Costs associated with the unrecovered book balance for the Referenced Units that the Company anticipates securitizing are those costs as of April 30, 2023, i.e. \$691.2 million.



DANIEL L. HARRY  
DIRECT TESTIMONY

Therefore, the Company is requesting Commission approval to issue securitization bonds reflecting amounts up to \$691.2 million plus the Company's Initial Other Qualified Costs as described in the testimony of Company witness Wehner.

**SECURITIZATION ACCOUNTING TREATMENT**

**Q. Please describe the accounting treatment that Consumers Energy is requesting for the securitization bonds.**

A. As explained in Company witness Steffen Lunde's testimony, Consumers Energy will create a distinct SPE which will be owned by Consumers Energy. The accounting entries related to the securitization, debt servicing, and collection of the securitization charge revenue are illustrated on my Exhibit A-5 (DLH-2).

**Q. What are the anticipated accounting entries on Consumers Energy's books resulting from the issuance of the securitization bonds by the SPE?**

A. Accounting entry 1, as shown on Exhibit A-5 (DLH-2) reflects the accounting entries needed to establish the Referenced Units' costs as regulatory assets. Exhibit A-5 (DLH-2), Accounting entries 2 and 3 record the receipt of cash from the issuance of securitization bonds and the retirement of debt securities existing at the time of the issuance of the securitization bonds, respectively.

**Q. Why will Consumers Energy reclassify the Referenced Units Plant in Service and Accumulated Depreciation account balances to a regulatory asset?**

A. By authorizing these Qualified Costs to be reclassified as regulatory assets, the Commission will be indicating that these costs will not be recovered by Consumers Energy as part of normal rate base ratemaking. As such, these costs would not be properly classified in Consumers Energy's net Property, Plant & Equipment accounts. Rather, these amounts will

DANIEL L. HARRY  
DIRECT TESTIMONY

1 be recovered through the securitization process and removed from the Company's rate base  
2 for ratemaking purposes. Given that treatment, these costs are more appropriately classified  
3 as regulatory assets. Such regulatory asset accounting treatment will serve as evidence of  
4 the Commission's intention to allow Consumers Energy to recover such costs over a period  
5 equal to the life of the securitization bonds.

6 **Q. Please describe the term "regulatory assets."**

7 A. The term "regulatory assets" refers to assets that are capitalized under the provisions of ASC  
8 980 Regulated Operations (formerly SFAS No. 71, Accounting for the Effects of Certain  
9 Types of Regulation), if it is probable that a regulated utility's incurred cost will be  
10 recovered through future revenue based on the recovery of costs set by the regulator. The  
11 regulator's ratemaking action creates a regulatory asset that represents a promise of recovery  
12 from customers for those costs previously incurred by the utility. The main difference  
13 between more typical utility property and a regulatory asset is that utility property is  
14 included in rate base and earns a return on investment whereas, traditional regulatory assets  
15 are not a part of rate base and may not earn a return on investment. This is also consistent  
16 with the Company's use of the FERC Uniform System of Accounts for its regulated  
17 operations. FERC's Uniform System of Accounts for Public Utilities, 18 CFR § 101,  
18 describes "Regulatory Assets" as follows:

19 Regulatory Assets and Liabilities are assets and liabilities that result  
20 from rate actions of regulatory agencies. Regulatory assets and  
21 liabilities arise from specific revenues, expenses, gains, or losses  
22 that would have been included in net income determination in one  
23 period under the general requirements of the Uniform System of  
24 Accounts but for it being probable:

25 A. that such items will be included in a different period(s) for  
26 purposes of developing the rates the utility is authorized to charge  
27 for its utility services; or

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1  
2 B. in the case of regulatory liabilities, that refunds to customers, not  
3 provided for in other accounts, will be required.

4 **Q. In addition to the regulatory assets described above, what other Qualified Costs does**  
5 **the Company propose to securitize?**

6 A. Act 142 categorizes certain other costs as Qualified Costs if they are related to “issuing,  
7 supporting, and servicing securitization bonds” or to the costs of “retiring and refunding the  
8 electric utility’s existing debt and equity securities in connection with the issuance of  
9 securitization bonds.” The costs of issuing the securitization bonds and of retiring debt  
10 securities existing at the time of the issuance of the securitization bonds are described and  
11 in the testimony of Company witness Wehner as Initial Other Qualified Costs. Mr. Wehner  
12 estimates these costs to be \$11.6 million. Consumers Energy is also seeking to securitize  
13 these Initial Other Qualified Costs of \$11.6 million in this case.

14 **Q. What are the anticipated periodic accounting entries that would occur as a result of**  
15 **the securitization charge collections?**

16 A. Entries 4 through 7 shown on Exhibit A-5 (DLH-2) are required to record the financial  
17 transactions related to the securitization bonds. Exhibit A-5 (DLH-2), Entry 4 records the  
18 recognition and collection of securitization charge revenues. Exhibit A-5 (DLH-2), Entries  
19 5 through 6 record payment of securitization bond principal and interest. As part of Exhibit  
20 A-5 (DLH-2), Entry 4, Consumers Energy, on behalf of the SPE and in accordance with a  
21 servicing agreement, will be responsible for calculating, billing, collecting and remitting the  
22 securitization charge revenues received from customers. Because the SPE is a separate legal  
23 entity from Consumers Energy, the Company will be paid a servicing fee by the SPE for the  
24 administrative costs of servicing the securitization bonds. This servicing fee will be part of  
25 the securitization charges collected from customers and forwarded to the SPE. The fee will

DANIEL L. HARRY  
DIRECT TESTIMONY

1 be eliminated in Consumers Energy's consolidated financial statements. Exhibit A-5  
2 (DLH-2), Entry 7 records amortization of the regulatory asset securitized. It should be noted  
3 that Exhibit A-5 (DLH-2), Entries 4 through 7 in my exhibit are illustrative of the recurring  
4 entries the Company and the SPE complete after the issuance of the securitization bonds,  
5 which provides for reduction in the principal portion of the bonds, as well as amortization  
6 of the regulatory asset securitized.

7 **Q. Please describe the accounting the SPE will follow related to the true-up of**  
8 **securitization charge revenues.**

9 A. The initial securitization charge will be applied to retail electric distribution customers who  
10 are taking full service from Consumers Energy at the time the Commission issues an order  
11 in this case, with certain limited exceptions, as described by Company witness Laura M.  
12 Collins, to collect the amount (net of uncollectibles) to be remitted to the trustee. The trustee  
13 will, on an ongoing basis, receive amounts to pay the principal and interest on the  
14 securitization bonds, and to recover its on-going operational costs. To the extent the  
15 securitization charges billed, net of uncollectibles, have not provided sufficient funding to  
16 service these payments (e.g., kilowatt-hour ("kWh") deliveries are less than anticipated,  
17 creating an under-recovery), the difference will be drawn from any available funds in the  
18 Excess Funds and Capital Subaccounts. These accounts are described in Mr. Lunde's  
19 testimony. To the extent that the securitization charge billed, net of uncollectibles, provides  
20 more than the required amount to service the payments (i.e., kWh deliveries are more than  
21 anticipated, creating an over-recovery), the trustee will hold these remittances in the Excess  
22 Funds Subaccount until the next true-up date and will use the remittances to replenish the  
23 Capital Subaccount, as needed, and to make future principal and interest payments on the

DANIEL L. HARRY  
DIRECT TESTIMONY

1 securitization bonds. The securitization charge to be applied to future period kWh deliveries  
2 will be adjusted periodically to reflect the remaining principal and interest payments plus  
3 any funding and/or refunding of the subaccounts as needed.

4 **REQUEST FOR ACCOUNTING AUTHORITY**

5 **Q. Please describe the accounting authority being requested by the Company.**

6 A. Consumers Energy respectfully requests to be granted similar authority as that granted by  
7 the Commission in the Company's prior securitizations, MPSC Case No. U-12505 and  
8 U-17473. This accounting authority will authorize Consumers Energy and/or the SPE to  
9 record: (1) the securitized Qualified Costs, including the establishment of regulatory assets  
10 for the costs being securitized; (2) the issuance of the securitization bonds; (3) the use of the  
11 bond proceeds to retire a portion of the debt and equity existing at the time of issuance of  
12 the securitization bonds; (4) the receipt of revenues arising from the proposed securitization  
13 charge; (5) the payment of principal, interest, and expenses relating to the bonds; (6) the  
14 retirement or refunding of the securitization bonds; and (7) the amortization of securitized  
15 Qualified Costs. This authority includes authorization to establish an amortization schedule  
16 of the regulatory asset equal to the payment schedule of the bonds, authorization for the  
17 accounting to true-up the securitization charge revenue, and authorization for the possible  
18 future retirement or refunding of the securitization bonds.

19 **FINANCIAL STATEMENT IMPACTS**

20 **Q. What will be the financial reporting impacts of these transactions?**

21 A. As with the previous sales of securitization bonds, the amount securitized in connection with  
22 the current sale of securitization bonds will be recorded as a financing of the SPE for  
23 financial reporting purposes and, because the SPE will be consolidated with Consumers

DANIEL L. HARRY  
DIRECT TESTIMONY

Energy for financial reporting purposes, the amounts financed will also appear as a financing in the consolidated financial statements of Consumers Energy. The balance of the amount financed will be reduced as principal is paid. The associated interest expense will be accrued monthly.

**Q. Why is Consumers Energy required to reflect the securitization bonds on its consolidated balance sheet as a financing?**

A. This transaction is required to be recorded as a financing under the provisions of the Sales of Future Revenues or Various Other Measures of Income subsection of ASC 470, Debt. According to ASC 470-10-25-2, the presence of any of the following six criteria creates a presumption that the classification of amounts financed as debt is appropriate:

1. The transaction does not purport to be a sale (that is, the form of the transaction is debt).
2. The entity has significant continuing involvement in the generation of the cash flows due the investor (for example, active involvement in the generation of the operating revenues of a product line, subsidiary, or business segment).
3. The transaction is cancelable by either the entity or the investor through payment of a lump sum or other transfer of assets by the entity.
4. The investor's rate of return is implicitly or explicitly limited by the terms of the transaction.
5. Variations in the entity's revenue or income underlying the transaction have only a trifling impact on the investor's rate of return.
6. The investor has any recourse to the enterprise relating to the payments due the investor.

The continuing involvement of Consumers Energy in the generation of cash flows (criterion 2 above) leads me to the conclusion that the transaction should be recorded as a financing. This is consistent with Consumers Energy's previous securitizations, which were also treated as financings.

DANIEL L. HARRY  
DIRECT TESTIMONY

1 **Q. Will the securitized debt be the debt of Consumers Energy?**

2 A. No, it will be the debt of the SPE but, as explained above, will be included in Consumers  
3 Energy's consolidated financial statements as debt. Consumers Energy's financial  
4 statements will include a footnote disclosure that the repayment of the securitized amount is  
5 supported by future securitization charge revenue from Consumers Energy's customers and  
6 is otherwise non-recourse to Consumers Energy.

7 **CONCLUSION**

8 **Q. Does this conclude your direct testimony?**

9 A. Yes, it does.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the )  
Securitization of Qualified Costs. )  
\_\_\_\_\_ )

Case No. U-20889

**EXHIBITS OF**

**DANIEL L. HARRY**

**ON BEHALF OF**

**CONSUMERS ENERGY COMPANY**

September 2020



**CONSUMERS ENERGY**  
**UNRECOVERED INVESTMENT FOR UNITS: KARN 1-2**  
**FROM DECEMBER 31, 2019 THROUGH APRIL 30, 2023**

Line Number	Account	Description	(A) Plant & CWIP 12/31/2019	(B) Adds 2020 - 2023	(C) (A + B) Plant 4/30/2023	(D) Reserve 12/31/2019	(E) Depr Exp 2020 - 2023	(F) Reserve 4/30/2023	(G) NBV 4/30/2023
1	310.2	Karn 1-2 - Rights of Way	-	-	-	-	-	-	-
2	311.0	Karn 1-2 - Structures & Imp	82,325,147	929,052	83,254,199	(14,503,984)	10,380,473	(4,123,511)	87,377,710
3	312.0	Karn 1-2 - Boiler Plant Equip	920,613,438	10,388,767	931,002,205	276,400,702	156,213,370	432,614,072	498,388,133
4	314.0	Karn 1-2 - Turbogen Units	148,163,831	1,674,324	149,838,155	33,723,609	25,002,759	58,726,368	91,111,787
5	315.0	Karn 1-2 - Access Electric Eq	32,805,418	369,229	33,174,647	20,588,094	5,683,015	26,271,109	6,903,538
6	316.0	Karn 1-2 - Misc PowerPlant Eq	14,845,763	165,371	15,011,134	4,735,945	2,866,166	7,602,111	7,409,023
7		<b>Total - Karn 1-2</b>	<b>1,198,753,597</b>	<b>13,526,743</b>	<b>1,212,280,340</b>	<b>320,944,366</b>	<b>200,145,783</b>	<b>521,090,149</b>	<b>691,190,191</b>

CONSUMERS ENERGY

WALKFORWARD OF PLANT BALANCE FOR UNITS: KARN 1-2  
FROM DECEMBER 31, 2019 THROUGH APRIL 30, 2023

Account	Description	(A) Plant 12/31/2019	(B) CWIP 12/31/2019	(C) Adds 2020	(D) (A + B + C) Plant 12/31/2020	(E) Adds 2021	(F) (D + E) Plant 12/31/2021	(G) Adds 2022	(H) (F + G) Plant 12/31/2022	(I) Adds 2023	(J) (H + I) Plant 4/30/2023
310.2	Karn 1-2 - Rights of Way	-	-	-	-	-	-	-	-	-	-
311.0	Karn 1-2 - Structures & Imp	81,823,655	501,492	460,761	82,785,908	247,929	83,033,837	169,871	83,203,708	50,491	83,254,199
312.0	Karn 1-2 - Boiler Plant Equip	914,917,102	5,696,336	5,152,030	925,765,468	2,772,508	928,537,976	1,899,608	930,437,584	564,621	931,002,205
314.0	Karn 1-2 - Turbogen Units	147,662,611	501,220	831,509	148,995,340	446,215	149,441,555	305,728	149,747,283	90,872	149,838,155
315.0	Karn 1-2 - Access Electric Eq	32,431,834	373,584	182,628	32,988,046	98,793	33,086,839	67,689	33,154,528	20,119	33,174,647
316.0	Karn 1-2 - Misc PowerPlant Eq	14,372,665	473,098	80,935	14,926,698	44,703	14,971,401	30,629	15,002,030	9,104	15,011,134
	<b>Total - Karn 1-2</b>	<b>1,191,207,867</b>	<b>7,545,730</b>	<b>6,707,863</b>	<b>1,205,461,460</b>	<b>3,610,148</b>	<b>1,209,071,608</b>	<b>2,473,525</b>	<b>1,211,545,133</b>	<b>735,207</b>	<b>1,212,280,340</b>

**CONSUMERS ENERGY**  
**WALKFORWARD OF ACCUMULATED DEPRECIATION FOR UNITS: KARN 1-2,**  
**FROM DECEMBER 31, 2019 THROUGH APRIL 30, 2023**

<u>Account</u>	<u>Description</u>	(A) Reserve 12/31/2019	(B) Depr Exp 2020	(C) Reserve 12/31/2020 (A + B)	(D) Depr Exp 2021	(E) Reserve 12/31/2021 (C + D)	(F) Depr Exp 2022	(G) Reserve 12/31/2022 (E + F)	(H) Depr Exp 2023	(I) Reserve 4/30/2023 (G + H)
310.2	Karn 1-2 - Rights of Way	-	-	-	-	-	-	-	-	-
311.0	Karn 1-2 - Structures & Imp	(14,503,984)	3,094,660	(11,409,324)	3,117,411	(8,291,913)	3,125,266	(5,166,647)	1,043,136	(4,123,511)
312.0	Karn 1-2 - Boiler Plant Equip	276,400,702	46,569,269	322,969,971	46,913,877	369,883,848	47,032,082	416,915,930	15,698,142	432,614,072
314.0	Karn 1-2 - Turbogen Units	33,723,609	7,460,947	41,184,556	7,505,688	48,690,244	7,524,599	56,214,843	2,511,525	58,726,368
315.0	Karn 1-2 - Access Electric Eq	20,588,094	1,691,104	22,279,198	1,708,036	23,987,234	1,712,339	25,699,573	571,536	26,271,109
316.0	Karn 1-2 - Misc PowerPlant Eq	4,735,945	846,752	5,582,697	864,055	6,446,752	866,232	7,312,984	289,127	7,602,111
	<b>Total - Karn 1-2</b>	<b>320,944,366</b>	<b>59,662,732</b>	<b>380,607,098</b>	<b>60,109,067</b>	<b>440,716,165</b>	<b>60,260,518</b>	<b>500,976,683</b>	<b>20,113,466</b>	<b>521,090,149</b>

**Consumers Energy Company**  
**Sample Securitization Journal Entries**

Consumers Energy				Special Purpose Entity (SPE)			
Account Number	Account Name	Debit	Credit	Account Number	Account Name	Debit	Credit
Journal Entry #1: Remove Assets from PP&E which are securitized to establish regulatory asset.							
1	182.3 Regulatory Asset	XXX		No Corresponding Entry			
	108 Accumulated Depreciation	XXX					
	101 Plant In Service		XXX				
Journal Entry #2: Record the LTD Issuance (Securitization Bonds).							
2	No Corresponding Entry			N/A	Cash	XXX	
				N/A	Bonds Payable		XXX
Journal Entry #3: Record the pay down of debt and equity at Consumers Energy.							
3	221/224 Long Term Debt	XXX		No Corresponding Entry			
	208 Equity - Return of Capital	XXX					
	131 Cash		XXX				
Journal Entry #4: Record revenue billed to customers for securitization charge as servicer (completed via CCS Billing System).							
4	142 Customer Accounts Receivable	XXX		No Corresponding Entry			
	400 Revenue - Securitization		XXX				
Journal Entry #5: Record monthly interest payable on debt balance.							
5	No Corresponding Entry			N/A	Interest Expense	XXX	
				N/A	Interest Payable		XXX
Journal Entry #6: Record recurring debt payments.							
6	No Corresponding Entry			N/A	Bonds Payable	XXX	
				N/A	Interest Payable	XXX	
				N/A	Cash		XXX
Journal Entry #7: Record amortization of regulatory asset for amounts billed to customers via securitization charge as servicer.							
7	407.3 Amortization Expense	XXX		No Corresponding Entry			
	182.3 Regulatory Asset		XXX				

NOTE: There are additional consolidating and clearing entries (between Consumers Energy and SPE to move cash), reclass entries between current/non-current debt, and small entries for servicing and professional fees between Consumers Energy and SPE that are not included in the entries above.

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the )  
Securitization of Qualified Costs. )  
\_\_\_\_\_ )

Case No. U-20889

**DIRECT TESTIMONY**  
  
**OF**  
  
**SCOTT A. HUGO**  
  
**ON BEHALF OF**  
  
**CONSUMERS ENERGY COMPANY**

September 2020

SCOTT A. HUGO  
DIRECT TESTIMONY

1 **Q. Please state your name and business address.**

2 A. My name is Scott A. Hugo, and my business address is One Energy Plaza, Jackson,  
3 Michigan 49201.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by Consumers Energy Company (“Consumers Energy” or the “Company”)  
6 as the Director of Electric Asset Strategy.

7 **Qualifications**

8 **Q. Please describe your educational background.**

9 A. In 1995, I received a Bachelor of Science in Electrical Engineering from Michigan State  
10 University.

11 **Q. Please describe your business experience.**

12 A. From 1995 to 1996, I was employed by Detroit Diesel as a Maintenance Engineer. In  
13 August 1996, I accepted the position of Controls Design Engineer with NEWCOR Bay  
14 City and progressed to Senior Controls Design Engineer in 1997. In January 2003, I  
15 accepted a position as a system engineer with Consumers Energy at the D.E. Karn  
16 (“Karn”)/J.C. Weadock (“Weadock”) Generating Complex. My responsibilities as a  
17 system engineer at the Karn/Weadock Generating Complex included monitoring the  
18 health, troubleshooting, and planning routine maintenance and creating long range plans  
19 for the electric and fuel handling systems for Karn Units 1 and 2. In 2007, I was promoted  
20 to Strategic Planning Economic Based Reliability Lead and had responsibility for  
21 gathering, reviewing, and calculating economic benefit when required, and prioritizing  
22 Capital Expenditure and Major Maintenance projects for the Karn/Weadock site. In this  
23 position, I worked with Operations and Engineering to prioritize the work identified at the

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1 site and represent the site's interest at the Generation level, in addition to other Generation  
2 sites' requests. In May 2012, I accepted the position as the East Side Engineering Services  
3 Department Plant Modification Section Head. In September 2015, I accepted the position  
4 of Karn/Weadock Production Manager. In February 2017, I accepted the position of  
5 Manager of Generation Asset Strategy. In October 2018, I was promoted to Director of  
6 Generation Asset Strategy, which is the position I currently hold. In this role, I am  
7 responsible for the strategy of the Company's coal, oil- and gas-fired, hydroelectric, and  
8 renewable generation assets, as well as the management of those assets.

9 **Q. What has been your involvement in previous proceedings before the Michigan Public**  
10 **Service Commission ("MPSC" or the "Commission")?**

11 A. I filed testimony in the Company's 2020 Electric Rate Case No. U-20697. In addition, I  
12 have also provided witness support in the Company's 2018 Integrated Resource Plan  
13 ("IRP"), under MCL 460.6t, in Case No. U-20165, and in the Company's 2018 Electric  
14 Rate Case No. U-20134.

15 **Q. What is the purpose of your direct testimony in this proceeding?**

16 A. The purpose of my direct testimony is to support the projected capital expenditures for  
17 Karn Units 1 and 2 through their retirement date in 2023, which will inform Company  
18 witness Daniel L. Harry's testimony concerning the expected remaining book value of  
19 Karn Units 1 and 2 at their 2023 retirement.

20 **Q. Are you sponsoring any exhibits with your testimony?**

21 A. Yes. I am sponsoring the following exhibit:

22	Exhibit A-6 (SAH-1)	Summary of Karn Units 1 and 2 Projected Electric
23		Capital Expenditures.

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1 **Q. Was this exhibit prepared by you or under your direction or supervision?**

2 A. Yes.

3 **KARN UNITS 1 AND 2 GENERATION ASSET STRATEGY**

4 **Q. Please provide an overview of the Company's generation asset strategy for Karn**  
5 **Units 1 and 2.**

6 A. The strategic plan for Karn Units 1 and 2 is predicated on their planned retirement in May  
7 2023, as approved by the Commission, pursuant to a Settlement Agreement, in the  
8 Company's most recent IRP Case No. U-20165. The overall remaining life objective for  
9 Karn Units 1 and 2 is to operate safely, compliantly, and maintain energy and capacity  
10 value for customers. The capital expenditures included in the Company's 2020-2023  
11 projections, as shown in Exhibit A-6 (SAH-1), are targeted to provide safe and regulatory  
12 compliant units until retired. In addition, critical reliability investments, which are required  
13 to keep the units available, are also included in the projections. Projects that are targeted  
14 to only improve reliability, and not deemed critical reliability investments, are not being  
15 considered, as investments targeted at Karn Units 1 and 2 to only improve reliability just  
16 33 months prior to retirement would not prove to be economically beneficial for our  
17 customers.

18 **Q. Why are critical reliability investments included in the Company's projected capital**  
19 **expenditures?**

20 A. The critical reliability investments are included in the Company's projected capital  
21 expenditures because such investments are necessary to maintain the operability of critical  
22 plant equipment which will enable Karn Units 1 and 2 to continue to provide energy and  
23 capacity value for customers until retirement. The Company's failure to make critical



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1 reliability investments in the Karn Units 1 and 2 generating units would put their ability to  
2 provide customer value at risk. Each of the Company's generating units create customer  
3 value through the unit's ability to provide energy and capacity value in the respective  
4 Midcontinent Independent System Operator, Inc. ("MISO") Energy and Resource  
5 Adequacy Markets.

6 **Q. Please explain the energy value of Karn Units 1 and 2.**

7 A. The Company utilizes Net Energy Value ("NEV") to quantify customer benefit from  
8 generating units producing energy. At a high level, NEV of a generating unit is the  
9 difference between the market value of energy for the generating unit and the cost of  
10 producing and supplying energy from the generating unit. NEV is the net customer benefit  
11 of a generator's energy production expressed in dollars. During the five-year historical  
12 period from 2015 through 2019, Karn Unit 1 had a NEV of \$27.5 million and Karn Unit 2  
13 had a NEV of \$18.9 million.

14 **Q. Please explain the capacity value of Karn Units 1 and 2.**

15 A. In addition to measuring NEV for a generating unit, the Company also considers the impact  
16 a higher availability will have on the amount of capacity available from a particular  
17 generating unit, which directly impacts the amount of capacity accredited by MISO in its  
18 Resource Adequacy Market. The annual capacity value for Karn Unit 1 based upon the  
19 settlement price for Zone 7 in the 2020-2021 MISO Planning Resource Auction is  
20 \$20.96 million, and the capacity value for Karn Unit 2 is \$21.24 million.<sup>1</sup> Zone 7 fell  
21 123 MW short of its Local Clearing Requirement for procuring resources within its own  
22 borders and, as a result, the settlement price was set at Cost Of New Entry.

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<sup>1</sup> Karn Units 1 and 2 Zonal Resource Credit ("ZRC") values of 223 and 226, respectively, at a settlement price of \$257.53/ZRC-day for Zone 7.

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1 **Q. Please explain the Company's projected capital investment for the 40-month period**  
2 **ending April 30, 2023 for Karn Units 1 and 2.**

3 A. The Company plans to invest a total of \$13.527 million in the period beginning January 1,  
4 2020 and ending April 30, 2023, on Karn Units 1 and 2 to operate safely, compliantly, and  
5 reliably in order to provide energy and capacity value to our customers. This projected  
6 amount includes \$9.687 million in non-environmental expenditures and \$3.840 million in  
7 environmental expenditures. These amounts are shown on Exhibit A-6 (SAH-1), page 2,  
8 lines 9 through 10, column (f), respectively. These capital investments will be facilitated  
9 by outages at Karn Unit 1 in the fall of 2021 and 2022, as well as at Karn Unit 2 in the fall  
10 of 2020, 2021, and 2022. The outages in 2021 and 2022 will allow for execution of various  
11 activities required to decouple Karn Units 1 and 2 from Karn Units 3 and 4, which are  
12 necessary to allow Karn Units 3 and 4 to continue operation past May of 2023.

13 **Q. What is the basis for the projected \$13.527 million capital investment for the**  
14 **40-month period ending April 30, 2023 for Karn Units 1 and 2?**

15 A. The projected \$13.527 million capital investment for this period will fund a total of  
16 twenty-seven regulatory compliance/environmental, reliability, infrastructure, and other  
17 related projects. The Company's investment in these projects will allow the Company to  
18 operate Karn Units 1 and 2 in a safe, compliant, and reliable manner in order to provide  
19 energy and capacity value to our customers. As reflected on Exhibit A-6 (SAH-1), page 1,  
20 line 28, column (d) through column (g), the projected capital expenditures are \$6.708  
21 million for 2020, \$3.610 million for 2021, \$2.474 million for 2022, and \$0.735 million for  
22 the first four months of 2023.

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DIRECT TESTIMONY

1 **Q. Are the projected capital expenditure amounts for 2020 and 2021 included in this**  
2 **proceeding the same as those the Company supported in its Electric Rate Case No.**  
3 **U-20697?**

4 A. No. The projected capital expenditure amounts for 2020 and 2021 identified in this case  
5 have been adjusted to: (i) remove the projected costs associated with the separation of Karn  
6 Units 1 and 2 from Karn Units 3 and 4, and (ii) add the capitalized portion of the  
7 Company's retention and separation plan (discussed later in this testimony).

8 **Q. Please describe the basis for the \$3.840 million in environmental expenditures.**

9 A. The projected \$3.840 million environmental capital investment will fund four separate  
10 projects for Karn Unit 2 and Karn Unit 1 and 2 Commons (the Karn Unit 1 and 2 Commons  
11 projects are those projects which are shared between Karn Units 1 and 2). These four  
12 projects are described below:

- 13 i. **Karn Unit 1 and 2 Landfill Remedial Action Plan (\$1,700,000).** The  
14 purpose of this project is to maintain long-term compliance with site-specific  
15 water quality monitoring. The Karn Landfill is governed under Solid Waste  
16 Operating License No. 9440, which requires compliance with a  
17 Hydrogeological Monitoring Plan that is limited to an Interim Remedial  
18 Action System in the form of a groundwater extraction and treatment system,  
19 located along the solid waste boundary of the landfill adjacent to Saginaw  
20 Bay, and a groundwater mixing zone. The groundwater treatment system was  
21 put into service in 2017 and currently comprises an element of the  
22 groundwater compliance solution for the landfill. Leading indicators from  
23 groundwater monitoring wells located on the perimeter embankment dike  
24 evaluated against episodic excursions of elevated arsenic concentrations and  
25 indicated that a more robust closure strategy will be needed to meet final  
26 closure certification. The final closure certification from the Michigan  
27 Department of Environment, Great Lakes and Energy will necessitate  
28 finalization of interim systems (groundwater mixing zone and groundwater  
29 extraction system) to be evaluated against other alternatives before final  
30 closure can be accepted. Various long-term compliance options were  
31 evaluated, and the selected alternative was to maintain and optimize  
32 groundwater extraction system, complete a biomass redox study to evaluate  
33 attenuation mechanism and likelihood of success, and to evaluate other  
34 constructed systems to replace or work in coordination of the groundwater

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extraction and treatment system. During 2020, the scope of this project is the completion of detailed engineering and the start of groundwater treatment system installation. Installation of the groundwater treatment system will be completed in 2021 along with performance testing and project closeout;

ii. **Karn Unit 2 Selective Catalytic Reduction (“SCR”) Catalyst Replacement (\$1,100,000).** The scope of this project is the replacement of two layers of existing catalyst. The SCR is required for compliance with nitrogen dioxide emission rate limits. As the catalyst ages, it deactivates due to poisons and ash fouling and needs to be replaced periodically. This project will be implemented in the Karn Unit 2 during the fall 2020 outage with project closeout in 2021. Performance of this project will maintain environmental compliance of the unit through its retirement in 2023;

iii. **Karn Unit 2 Pulse Jet Fabric Filter (“PJFF”) bag replacement (\$795,000).** The scope of this project is the procurement and installation of the PJFF bags. There are 10,160 bags total in 10 chambers and the bags are tested on an annual basis for integrity. This project will be implemented in the Karn Unit 2 Fall of 2020 outage with project closeout in 2021. Performance of this project will maintain environmental compliance of the unit through its retirement in 2023; and

iv. **Karn Unit 2 Nitrogen Oxide (“NO<sub>x</sub>”) analyzer replacement (\$245,000).** The scope of this capital project is to replace the NO<sub>x</sub> analyzer probes. The current probes are unreliable, causing potential over/under injection of ammonia and therefore potentially not providing the proper ammonia ratio for NO<sub>x</sub> reduction. The system has been designed and procured. This funding is for installation.

**Q. Please describe the basis for the \$9.687 million in non-environmental expenditures.**

A. The projected \$9.687 million in non-environmental capital investment will fund 10 reliability projects, six infrastructure projects, five general maintenance projects, and two other projects. The projects which are specific to Karn Units 1 and 2 are described below:

i. **The Karn retention and separation plan (\$3,579,310).** This capital expenditure spans the entire forecast period from January 2020 through April 2023 and reflects the capitalized portion of the Company’s retention and separation plan. This project is a people strategy that the Company has implemented to ensure that it can retain the necessary qualified employees to operate Karn Units 1 and 2 through their retirement date in May 2023, as well as during the cold and dark time period following retirement. The Company’s

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2018 IRP included detailed support of the Company's need to implement a retention and separation plan to ensure that it could operate the plants safely and reliably through their retirement date. The Karn retention and separation plan includes three benefit types: retention benefits, severance benefits, and relocation and moving costs. The retention component will allow the Company to retain employees that may seek employment at other Company locations or outside of the Company. The Company's ability to hire new employees at Karn Units 1 and 2 will become increasingly difficult given the short remaining lifespan of the units and, to the extent that the Company has the ability to hire new employees, the training time necessary for any new hires will provide a significant challenge to operating the units both safely and reliably. The retention component utilizes the best practices that the Company employed in retiring the Classic 7.<sup>2</sup> The separation component will implement the terms of the collective bargaining agreement for Operating Maintenance and Construction ("OM&C") employees represented by the Utility Workers Union of America ("UWUA"), and the terms of the employee handbook policy and separation plan for non-represented exempt and non-exempt employees. The structure and amount of the severance offers will vary based on employee salary and classification due to differences in the terms of the separation plan covering non-represented employees and the bargaining agreement for UWUA-represented employees. In the event that exempt or non-exempt employees cannot find placement within the Company within 60 miles from their current location, they will be offered involuntary severance in accordance with the terms of the Company's Salaried Separation Plan. The Company's Working Agreement with the UWUA governs separation for OM&C employees who elect to leave the Company rather than accept a new position as well as relocation expenses if they accept a position more than 60 miles away from their current location. Finally, after plant closure, some employees may be paid a relocation incentive and moving expenses;

ii. **Karn Unit 1 Major Motor and Pump Overhauls (\$600,000).** This project will overhaul major motors and/or pumps based on established rebuild schedules and equipment condition assessments. Large pumps and motors require overhauls/rewinds on a regular schedule and the work will provide continued equipment reliability to provide safe operation through the May 2023 retirement date. This project includes projected capital expenditures of \$250,000 for 2021, \$250,000 for 2022, and \$100,000 for 2023 for Karn Unit 1;

iii. **Karn Unit 2 Major Motor and Pump Overhauls (\$600,000).** This project will overhaul major motors and/or pumps based on established rebuild schedules and equipment condition assessments. Large pumps and motors require overhauls/rewinds on a regular schedule and the work will provide continued equipment reliability to provide safe operation through the

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<sup>2</sup> The Classic 7 include B.C. Cobb (BCC), J.C. Weadock (JCW), and J.R. Whiting (JRW).

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May 2023 retirement date. This project includes projected capital expenditures of \$250,000 for 2021, \$250,000 for 2022, and \$100,000 for 2023 for Karn Unit 2;

- iv. **Karn Unit 1 Mill Exhauster Wheel Replacement (\$180,000).** This project will perform the periodic replacement of the exhauster fan wheels on the Karn Unit 1 mills. The mill exhauster wheels experience erosion wear over time and require replacement based upon their condition. Because Karn Unit 1 does not have the mill capacity to operate at full load with one of the mills out of service, timely replacement of the exhauster fan wheel is critical to providing customer value. This project reflects annual projected capital expenditure amounts of \$60,000 for the years 2020 through 2022;
- v. **Karn Unit 1 Boiler Circulating Water Pump ("BCWP") rebuild (\$63,100).** This project will perform the rebuild of one of the four BCWPs in 2021 based upon condition assessment. Maintaining the BCWPs in an operable condition is critical to continued plant operation at full load;
- vi. **Replace element on Karn Unit 1 Boiler Feed Pump ("BFP") 1B (\$110,500).** This 2020 project will remove and replace the Karn Unit 1 BFP 1B element which is at its end of life. Performance of this work will provide for reliable feed pump operation through the May 2023 Karn Unit 1 retirement date;
- vii. **Karn Unit 1 Feedwater Control Valve drive rebuild (\$40,000).** This 2020 project will perform the overhaul of the feedwater control valve actuator which is at its end of life. Performance of this work will provide for reliable feedwater control for Karn Unit 1 through its May 2023 retirement date;
- viii. **Karn Unit 1 Balance of Plant ("BOP") Equipment Replacements (\$700,000).** This project will replace various BOP equipment on Karn Unit 1 in the years 2021 through 2023 based upon condition assessments. The projects for 2020 have been defined (i.e., BFP 1B element replacement) but are not yet known for future years. This project includes projected capital expenditures of \$250,000 for 2021, \$350,000 for 2022, and \$100,000 for 2023;
- ix. **Karn Unit 2 BOP Equipment Replacements (\$350,000).** This project will replace various BOP equipment on Karn Unit 2 in the years 2021 and 2023 based upon condition assessments. The projects for 2020 and 2022 have been defined (i.e. BFP 2A and 2C element replacement/re-machine barrel) but are not yet known for 2021 or 2023. This project includes projected capital expenditures of \$250,000 for 2021 and \$100,000 for 2023;
- x. **Rebuild Sootblowing Air Compressor "B" for Karn Units 1 and 2 (\$275,000).** This 2020 project will perform the rebuild of sootblowing air compressor "B" in accordance with the five-year maintenance schedule.

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Performance of this work will maintain both the reliability and the capacity of the sootblowing air compressor for Karn Units 1 and 2 through their May 2023 retirement date;

xi. **Replace element and re-machine the barrel for Karn Unit 2 boiler feed pump 2A (\$250,000).** This 2020 project will fund the removal and replacement of the pump element and inspect and repair the pump barrel in accordance with the pump's six-year maintenance schedule. Performance of this work will provide for reliable operation of the boiler feedwater system for Karn Unit 2 through its May 2023 retirement date;

xii. **Replace element and re-machine the barrel for Karn Unit 2 boiler feed pump 2C (\$250,000).** This 2022 project will fund the removal and replacement of the pump element and inspect and repair the pump barrel in accordance with the pump's six-year maintenance schedule. Performance of this work will provide for reliable operation of the boiler feedwater system for Karn Unit 2 through its May 2023 retirement date;

xiii. **Karn Unit 2 low pressure heater level control valve replacement (\$45,000).** This 2020 project will replace the low-pressure heater level control valve. The current level control valve is in poor condition and does not provide proper level control. Replacement of the valve will support reliability operation of the low-pressure heater for Karn Unit 2 through its May 2023 retirement date;

xiv. **Karn Fuel Handling Conveyor Belt Replacement (\$340,000).** The scope of this project is to replace the Karn Units 1 and 2 fuel handling 'A' conveyor belt and pulleys along with the vertical and horizontal supports for the bend and take-up pulleys. The existing pulleys are worn, and the supports are damaged, requiring temporary repairs until equipment replacement can be accomplished. Replacement of the equipment is necessary to ensure continued reliable operation of Karn Units 1 and 2;

xv. **Fuel Handling Rail Road replacements (\$472,000).** This project will provide for continued rail system replacements at the Karn site and on the secondary rail system. This project includes projected capital expenditures of \$236,000 for both 2020 and 2021 in order to maintain the integrity of the rail system for the delivery of fuel necessary to operate Karn Units 1 and 2 through their May 2023 retirement date; and

xvi. **Fuel Handling Infrastructure replacements (\$700,000).** This project will fund periodic replacement of fuel handling equipment which experiences normal wear over time. The specific projects for 2020 have been defined (i.e., conveyor belt replacement, rail road replacement) and additional equipment will be identified for replacement in the years 2021-2023 based on condition. Specific work includes replacement of conveyor belts, chutes, and other major fuel handling equipment. This project includes projected capital



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expenditures of \$250,000 for 2021, \$350,000 for 2022, and \$100,000 for 2023.

In addition to the projects which are specific to Karn Units 1 and 2, there are seven other projects which are common to the Karn site (Karn Units 1, 2, 3, and 4). The total projected capital expenditures for these common projects were allocated equally to Karn Units 1 and 2 and Karn Units 3 and 4 for the projected years of 2020 through 2022. The total projected capital expenditures for the 2023 common projects were allocated equally for the first four months of the year, resulting in an allocation of approximately 17% to Karn Units 1 and 2 for 2023. A description of each of these site common projects is provided below:

- i. **Karn small tools and equipment (\$340,000).** This project will fund the purchase of small tools and equipment for the Karn site for the years 2020 through 2023. This project includes projected capital expenditures allocated to Karn Units 1 and 2 of \$105,000 for the years 2020 through 2022 and \$31,250 for 2023;
- ii. **Karn small pumps and motors (\$162,500).** This project will fund the purchase of small pumps and motors for the Karn site for the years 2020 through 2023. This project includes projected capital expenditures allocated to Karn Units 1 and 2 of \$50,000 for the years 2020 through 2022 and \$15,625 for 2023;
- iii. **Karn small valves and instrumentation (\$340,000).** This project will fund the purchase of small valves and instrumentation for the Karn site for the years 2020 through 2023. This project includes projected capital expenditures allocated to Karn Units 1 and 2 of \$105,000 for the years 2020 through 2022 and \$31,250 for 2023;
- iv. **Karn Emerson Power and Water Cyber Security Suite Upgrade (\$132,500).** This 2020 project will update the Company's existing cyber security controls to the vendor's latest supported version to incorporate upgrades to protect against the quickly changing technology and techniques employed by potential hackers. The upgraded software includes multiple components including anti-virus, malware protection and application control, patch management, device control, rogue system detection, system backup and recovery, security incident and event manager, and change management;



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DIRECT TESTIMONY

1           v.    **Replace Karn Security Gateway Servers (\$25,000).** This 2021 project will  
2               replace the Company's existing Security Gateway Server. The existing server  
3               is running on Windows 2003 which is obsolete and no longer supported by  
4               the manufacturer;

5           vi.   **Karn cyber security capital (\$83,333).** This project provides for annual  
6               funding of the repair and replacement of cyber security hardware and  
7               infrastructure. This project includes projected capital expenditures allocated  
8               to Karn Units 1 and 2 of \$25,000 for the years 2020 through 2022 and  
9               \$10,417 for 2023; and

10          vii. **Karn site firewall and switch replacements (\$48,500).** The Karn site  
11               currently uses firewalls to segregate each generating unit on site; this 2020  
12               project will replace the existing firewalls. The firewalls and core switches  
13               were last replaced in 2014, the equipment has reached its end of life, and the  
14               vendor no longer supports upgrades.

15    **Q.     Does this complete your direct testimony?**

16    **A.     Yes.**

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the )  
Securitization of Qualified Costs. )  
\_\_\_\_\_ )

Case No. U-20889

**EXHIBIT**  
**OF**  
**SCOTT A. HUGO**  
**ON BEHALF OF**  
**CONSUMERS ENERGY COMPANY**

September 2020

**MICHIGAN PUBLIC SERVICE COMMISSION**  
Consumers Energy Company

Case No.: U-20889  
Exhibit No.: A-6 (SAH-1)  
Page: 1 of 2  
Witness: SAHugo  
Date: September 2020

Summary of Karn Units 1 and 2 Projected Electric Capital Expenditures  
For the years 2020 through 2023  
Generation Capital Projects  
(\$000's)

**Generation Capital Expenditures**

Line No.	(a) Unit Designation	(b) Project Type	(c) Project Description	(d) 2020 Amount		(e) 2021 Amount		(f) 2022 Amount		(g) 2023 Amount		(g) 2020-2023 Amount	
				Amount	\$	Amount	\$	Amount	\$	Amount	\$	Amount	\$
1	Karn 1	Reliability	Mill Exhauster Wheel Replacement	60,000	\$	60,000	\$	60,000	\$	-	\$	180,000	\$
2	Karn 1	Reliability	Boiler Circulating Water Pump Rebuild - Condition Based	-	\$	63,100	\$	-	\$	-	\$	63,100	\$
3	Karn 1	Reliability	Boiler Feed Pump 1B Remove and Replace Element	110,500	\$	-	\$	-	\$	-	\$	110,500	\$
4	Karn 1	Infrastructure	Rebuild REXA Drive for Feedwater Control Valve	40,000	\$	-	\$	-	\$	-	\$	40,000	\$
5	Karn 1	Reliability	Major Motor and Pump Overhauls	-	\$	250,000	\$	250,000	\$	100,000	\$	600,000	\$
6	Karn 1	Reliability	Balance of Plant Equipment Replacements	-	\$	250,000	\$	350,000	\$	100,000	\$	700,000	\$
7	Karn 2	Environmental Maintenance	Install NOx Analyzers	245,000	\$	-	\$	-	\$	-	\$	245,000	\$
8	Karn 2	General Maintenance	Replace 2-3 low pressure heater level control valve	45,000	\$	-	\$	-	\$	-	\$	45,000	\$
9	Karn 2	Environmental Maintenance	Selective Catalytic Reduction - Catalyst Replacement	1,000,000	\$	100,000	\$	-	\$	-	\$	1,100,000	\$
10	Karn 2	Environmental Maintenance	Pulse Jet Fabric Filter Bag Replacement	695,000	\$	100,000	\$	-	\$	-	\$	795,000	\$
11	Karn 2	Reliability	Remachine boiler feed pump 2A barrel and replace element	250,000	\$	-	\$	-	\$	-	\$	250,000	\$
12	Karn 2	Reliability	Remachine boiler feed pump 2C barrel and replace element	-	\$	-	\$	250,000	\$	-	\$	250,000	\$
13	Karn 2	General Maintenance	Major Motor & Pump Overhauls	-	\$	250,000	\$	250,000	\$	100,000	\$	600,000	\$
14	Karn 2	General Maintenance	Balance of Plant Equipment Replacements	-	\$	250,000	\$	-	\$	100,000	\$	350,000	\$
15	Karn 1&2 Commons	Infrastructure	Fuel Handling Rail Road Replacement	236,000	\$	236,000	\$	-	\$	-	\$	472,000	\$
16	Karn 1&2 Commons	Reliability	Rebuild Sootblowing Air Compressor B	275,000	\$	-	\$	-	\$	-	\$	275,000	\$
17	Karn 1&2 Commons	Environmental Maintenance	Landfill Remedial Action Plan	1,200,000	\$	500,000	\$	-	\$	-	\$	1,700,000	\$
18	Karn 1&2 Commons	General Maintenance	Fuel Handling/Infrastructure Replacements	-	\$	250,000	\$	350,000	\$	100,000	\$	700,000	\$
19	Karn 1&2 Commons	Other	Karn Retention & Separation Plan	1,745,363	\$	991,048	\$	678,525	\$	164,374	\$	3,579,310	\$
20	Karn Fuel Handling	General Maintenance	Fuel Handling Conveyor Belt Replacement	340,000	\$	-	\$	-	\$	-	\$	340,000	\$
21	Karn Site Commons	Infrastructure	Karn Cyber Security Capital	25,000	\$	25,000	\$	25,000	\$	8,333	\$	83,333	\$
22	Karn Site Commons	Other	Karn Small Tools and Equipment	105,000	\$	105,000	\$	105,000	\$	25,000	\$	340,000	\$
23	Karn Site Commons	Reliability	Small Pumps and Motors	50,000	\$	50,000	\$	50,000	\$	12,500	\$	162,500	\$
24	Karn Site Commons	Reliability	Small Valves and Instrumentation	105,000	\$	105,000	\$	105,000	\$	25,000	\$	340,000	\$
25	Karn Site Commons	Infrastructure	Replace OPC Security Gateway Servers	-	\$	25,000	\$	-	\$	-	\$	25,000	\$
26	Karn Site Commons	Infrastructure	Emerson Power and Water Cyber Security Suite Upgrade	132,500	\$	-	\$	-	\$	-	\$	132,500	\$
27	Karn Site Commons	Infrastructure	Site Firewall & Switch Replacements	48,500	\$	-	\$	-	\$	-	\$	48,500	\$
28	<b>Project Totals</b>			<b>6,707,863</b>	<b>\$</b>	<b>3,610,148</b>	<b>\$</b>	<b>2,473,525</b>	<b>\$</b>	<b>735,207</b>	<b>\$</b>	<b>13,526,743</b>	<b>\$</b>

**MICHIGAN PUBLIC SERVICE COMMISSION**Consumers Energy Company

Case No.: U-20889

Exhibit No.: A-6 (SAH-1)

Page: 2 of 2

Witness: SAHugo

Date: September 2020

Summary of Karn Units 1 and 2 Projected Electric Capital Expenditures

For the years 2020 through 2023

Generation Capital Projects

(\$000's)

**Generation Capital Expenditures**

	(a)	(b)	(c)	(d)	(e)	(f)
Line		2020	2021	2022	2023	2020-2023
No. Description		Amount	Amount	Amount	Amount	Amount
1 Karn Unit 1 Non-Environmental		\$ 210,500	\$ 623,100	\$ 660,000	\$ 200,000	\$ 1,693,600
2 Karn Unit 1 Environmental		\$ -	\$ -	\$ -	\$ -	\$ -
3 Karn Unit 2 Non-Environmental		\$ 295,000	\$ 500,000	\$ 500,000	\$ 200,000	\$ 1,495,000
4 Karn Unit 2 Environmental		\$ 1,940,000	\$ 200,000	\$ -	\$ -	\$ 2,140,000
5 Karn Units 1 and 2 Common Non-Environmental		\$ 2,596,363	\$ 1,477,048	\$ 1,028,525	\$ 264,374	\$ 5,366,310
6 Karn Units 1 and 2 Common "Environmental"		\$ 1,200,000	\$ 500,000	\$ -	\$ -	\$ 1,700,000
7 Karn Site Common Non-Environmental		\$ 466,000	\$ 310,000	\$ 285,000	\$ 70,833	\$ 1,131,833
8 Karn Site Common "Environmental"		\$ -	\$ -	\$ -	\$ -	\$ -
9 Karn Total Non-Environmental		\$ 3,567,863	\$ 2,910,148	\$ 2,473,525	\$ 735,207	\$ 9,686,743
10 Karn Total "Environmental"		\$ 3,140,000	\$ 700,000	\$ -	\$ -	\$ 3,840,000
11 <b>Karn Total</b>		<b>\$ 6,707,863</b>	<b>\$ 3,610,148</b>	<b>\$ 2,473,525</b>	<b>\$ 735,207</b>	<b>\$ 13,526,743</b>

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the )  
Securitization of Qualified Costs. )  
\_\_\_\_\_ )

Case No. U-20889

**DIRECT TESTIMONY**  
**OF**  
**STEFFEN LUNDE**  
**ON BEHALF OF**  
**CONSUMERS ENERGY COMPANY**

September 2020

STEFFEN LUNDE  
DIRECT TESTIMONY

**I. NAME AND QUALIFICATIONS**

**Q. Please state your name, business address, and current employment position.**

A. My name is Steffen Lunde. My business address is 388 Greenwich Street, New York, New York. I am a Director in the Global ABS Financing and Securitization group with Citigroup Global Markets Inc. My responsibilities include leading the utility securitization efforts on behalf of Citigroup Global Markets Inc.

**Q. Please discuss your educational background and professional experience.**

A. I graduated from Columbia Business School with an MBA in Finance and additionally hold a Masters Degree in Accounting, Business Law and Taxation from the Copenhagen Business School. I joined Citi in 1989 and have spent the last 21 years originating, structuring and executing capital markets transactions and credit facilities for Citi's securitization clients. During this period, I have been involved in several types of asset-backed securities transactions across multiple classes.

**Q. Do you possess any professional licenses related to the securities industry?**

A. Yes. I am both Series 7 (NASD General Securities Representative Qualification) and Series 63 (Uniform Securities Agent State Law Examination) qualified by the National Association of Securities Dealers ("NASD"). These qualifications allow an individual to function as a representative dealing in a full range of products including corporate equity and debt securities, real estate investment trusts, options, municipal securities, government securities, open-end and closed-end investment company shares, variable contracts, real estate securities, limited partnerships, oil and gas, and other direct participation programs.

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**II. PURPOSE OF TESTIMONY**

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to provide an overview of the characteristics and rationale for financings of the type proposed by Consumers Energy Company (“Consumers Energy” or the “Company”) in its filing of this application, and to discuss the structure and necessary elements of the transaction and related financing order. For the convenience of the Michigan Public Service Commission (“MPSC” or the “Commission”) I have modeled my testimony on similar testimony provided in the Company’s prior securitization proceedings by its financial adviser. In my testimony I will:

- Present information on the basis for the use of securitization bonds (also called transition bonds, rate reduction bonds, system restoration bonds, utility securitization bonds, or, more generically, asset backed securities, or “ABS”) by utilities in other jurisdictions and non-utility companies in other industries;
- Present a proposed structure of the securitization transaction (the “Proposed Securitization”) as well as scenarios for: (a) the interest rate that today is considered the most likely recognizing the extended period until actual issuance of the Proposed Securitization and the uncertainty of future market conditions (the “Expected Case”), and (b) the interest rate where the Proposed Securitization would no longer offer any tangible and quantifiable benefits to the customers (the “Breakeven Case”); and
- Describe the essential content to be included in the Commission’s financing order to meet the standards against which the Proposed Securitization will be tested. In this context, I will provide support for the requirement that the structuring of the securitization bonds should result in the lowest securitization charges consistent with market conditions and the terms of the financing order.

**Q. Are you sponsoring any exhibits in this proceeding?**

A. Yes, as further described below, I am sponsoring two separate exhibits.

**Q. Please identify the exhibits that you are sponsoring in connection with your testimony.**

A. I am submitting the following exhibits:

Exhibit A-7 (SL-1)	Annual Cash Flow Requirements and Indicative Structure of Proposed Securitization; and
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STEFFEN LUNDE  
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Exhibit A-8 (SL-2) Form of Financing Order.

I am sponsoring the portions of the form of financing order which set forth the essential content required to meet the standards against which the Proposed Securitization will be tested, including the requirements for the structuring of the securitization bonds that should result in the lowest securitization charges consistent with market conditions and the terms of the financing order. These portions of the proposed financing order were prepared under my supervision in Exhibit A-8 (SL-2) as well as Exhibit A-7 (SL-1).

**III. SUMMARY OF RECOMMENDATIONS**

**Q. Please summarize your testimony in this proceeding.**

A. Pursuant to 2000 PA 142 (“Act 142” or the “Act”), Consumers Energy is seeking the issuance by the Commission of a financing order containing the terms and provisions referenced in my testimony, thereby permitting the Company to use securitization to recover certain qualified costs and to meet the statutory standards for the use of this type of financing. I believe that a financing order containing the features identified by my testimony should enable Consumers Energy to achieve the highest possible credit rating and lowest financing costs for the Proposed Securitization and respectfully propose its adoption by the Commission.

**IV. SECURITIZATION BACKGROUND AND TRANSACTION OVERVIEW**

**Q. Please provide a simple description of securitization.**

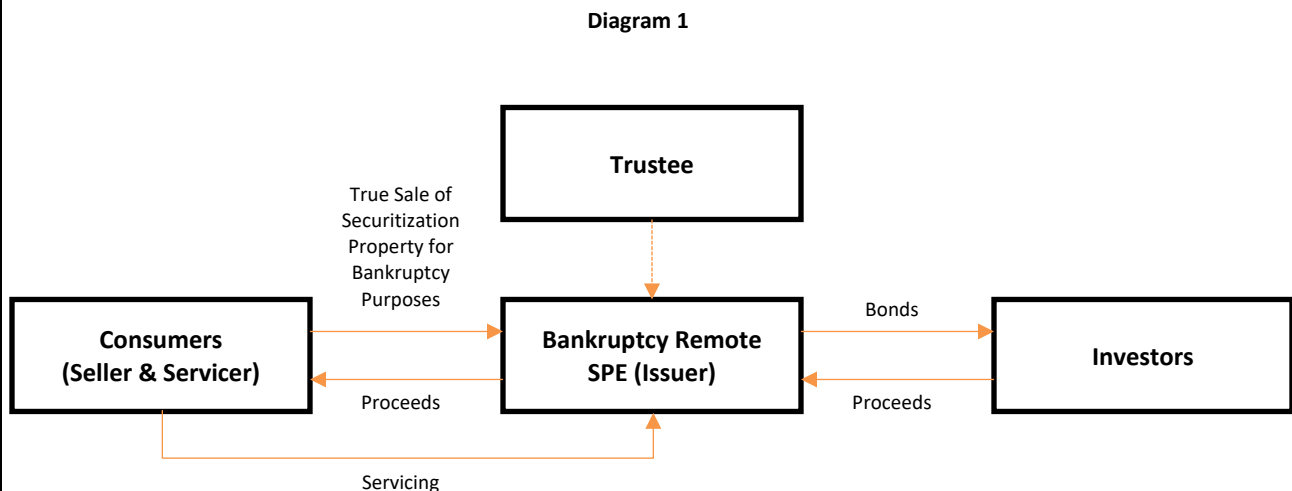
A. As this Commission knows from the records in Case No. U-12505 and Case No. U-17473, which respectively relate to Consumers Energy’s 2001 securitization financing (the “2001 Securitization”) and the more recent 2014 securitization financing (the “2014 Securitization”), securitization is the financing of a discrete asset or group of assets by a utility with securities whose credit quality is separated from that of the utility in order to



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1 achieve higher credit ratings and lower financing costs. In order to accomplish this, the  
2 utility sells the revenue stream and other entitlements and property created by the financing  
3 order to a newly-established bankruptcy remote special purpose entity (“SPE” or “Issuer”)  
4 in a transaction which, consistent with the Act, represents a “true sale” for bankruptcy  
5 purposes. This sale insulates the securitization property from the creditors of the utility  
6 and, thereby, from the credit risk of the utility. The SPE then issues bonds backed by the  
7 securitization property and “other collateral” to investors / bondholders. A trustee acts on  
8 behalf of bondholders, remits payments to bondholders and ensures bondholders’ rights  
9 are protected in accordance with the terms of the financing documents. The Company will  
10 perform routine billing, collection, and reporting duties as the servicer for the Issuer  
11 pursuant to a servicing agreement between the Company, the Issuer and the trustee. In  
12 addition to the bankruptcy remote status of the Issuer, credit enhancements, such as a  
13 capital contribution to the Issuer and a true-up mechanism, are necessary to reach the rating  
14 standard for this type of securitization, which is the highest rating (a “triple-A rating”) from  
15 each of two or more of the major rating agencies.

16 Diagram 1, which is representative of a securitization transaction, follows.



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1 **Q. Did all of this happen in Case No. U-12505 and Case No. U-17473, Consumers**  
2 **Energy's 2001 Securitization and 2014 Securitization?**

3 A. Yes it did. The SPEs for those transactions were Consumers Funding LLC and Consumers  
4 2014 Securitization Funding LLC, respectively. Both are limited liability companies  
5 organized under the laws of the state of Delaware and serve the purposes described in this  
6 testimony for an SPE. All the material information and documentation associated with the  
7 issuance of securitization bonds by Consumers Funding LLC was filed with the  
8 Commission in the "Thirty Day Report" filed on December 7, 2001 and the "Final  
9 Securitization Report" filed on June 7, 2002, as required by the financing order in  
10 Case No. U-12505. All the material information and documentation associated with the  
11 issuance of securitization bonds by Consumers 2014 Securitization Funding LLC was filed  
12 with the Commission in the "Thirty Day Report" filed on August 21, 2014 and the  
13 "Quarterly Report" filed on November 18, 2014, as required by the financing order in  
14 Case No. U-17473. A similar but updated transaction structure, with one or more new  
15 SPEs, currently expected to be organized, as remains typical, in Delaware, will be  
16 employed for the purpose of the new issuance of securitization bonds.

17 **Q. From a financing perspective, what makes up the "securitization property" that is**  
18 **sold to the Issuer?**

19 A. The securitization property that is sold to the Issuer is composed of the rights and interests  
20 of Consumers Energy under the financing order, including the right to impose, collect and  
21 receive from Consumers Energy's retail electric distribution customers, amounts necessary  
22 to pay principal and interest on the securitization bonds, as well as the Issuer's "Ongoing  
23 Other Qualified Costs," timely and in full, and including the ability to adjust the amounts

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1 of the securitization charges periodically through the “true-up” mechanism. The  
2 securitization property, as well as the Issuer’s rights under the transaction documents, and  
3 the “other collateral” hereinafter discussed, are then pledged by the Issuer as collateral to  
4 the trustee under the indenture under which the securitization bonds are issued.

5 **Q. What are the Ongoing Other Qualified Costs referred to in your prior answer?**

6 A. Ongoing Other Qualified Costs are qualified costs arising from the issuance of  
7 securitization bonds that will be payable from securitization charge collections on an  
8 ongoing basis over the transaction’s life. These costs are primarily composed of servicing  
9 fees, trustee fees and expenses, auditor expenses, administrative fees, rating agency fees,  
10 independent manager fees, SEC reporting expenses and other operating expenses incurred  
11 by or on behalf of the SPE. These anticipated fees and expenses are estimated in the  
12 testimony of Company witness Todd A. Wehner and in his Exhibit A-20 (TAW-3). Based  
13 on my experience, his estimates are reasonable.

14 **Q. What is the composition of the “other collateral” that you mentioned above?**

15 A. The “other collateral” is composed of the “Collection Account,” which is established by  
16 the Issuer as a trust account to be held by the trustee to ensure the payment of principal,  
17 interest, and other costs associated with the securitization bonds in full and on a timely  
18 basis. The Collection Account, in turn, includes the “General Subaccount,” the “Capital  
19 Subaccount,” and the “Excess Funds Subaccount,” each of which is described below. The  
20 Company would like authorization, as hereinafter discussed, to use an overcollateralization  
21 subaccount to the extent that the Company later deems such a subaccount necessary in the  
22 context of the credit ratings review process, the optimal bond structure, and market  
23 conditions. Similar to the 2014 Securitization (but in contrast to the Company’s 2001

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1       Securitization), no “liquidity subaccount” will be required.. This had been required for the  
2       2001 Securitization as a result of a rate cap in effect at the time of that transaction. The  
3       “other collateral” also includes any other credit enhancements provided by or on behalf of  
4       the Issuer, as well as a pledge of the Issuer’s rights under the transaction documents,  
5       including the agreement for the sale of the securitization property, the servicing agreement,  
6       and an administration agreement, whereby the Company provides administration services  
7       to the Issuer for an annual fee. The “other collateral” also includes an intercreditor  
8       agreement or agreements, among the Issuer, the servicer, the trustee for the 2014  
9       Securitization and the trustee for the Proposed Securitization, establishing conventions for  
10      the allocation among the transactions of payments from customers received by the servicer.  
11      Additionally, the Company covenanted in the 2014 Securitization and will covenant in the  
12      Proposed Securitization that it will not undertake a securitization transaction under Act 142  
13      or any similar law or execute any trade receivables purchase and sale agreement unless  
14      such intercreditor agreement is amended to cover those other financing transactions.

15             The General Subaccount is the subaccount in which the trustee deposits  
16      securitization charge remittances and investment earnings on the subaccounts (other than  
17      the Capital Subaccount). Moneys in this subaccount will be applied by the trustee on a  
18      periodic basis to pay the expenses of the Issuer, to pay principal and interest on the  
19      securitization bonds of the Proposed Securitization, and to meet the funding requirements  
20      of the other subaccounts.

21             The Capital Subaccount represents the equity capital of the Issuer and is funded by  
22      an amount contributed by Consumers Energy at issuance that is equal to 0.5% of the initial  
23      principal balance of the securitization bonds. The availability of these funds mitigates the

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1 risks of payment fluctuations causing a delay in the payment of scheduled principal,  
2 interest or operating expenses. If the Capital Subaccount is drawn upon, it is replenished  
3 from securitization charge collections up to the amount of the initial contribution.  
4 Investment earnings on funds in this subaccount will be periodically released to the Issuer  
5 if funds are available after paying principal, interest, all fees and expenses required on each  
6 payment date. Pursuant to Internal Revenue Service Revenue Procedure 2005-62, the  
7 Internal Revenue Service has established this equity capital investment in the Issuer as  
8 necessary for the desired tax treatment of the Proposed Securitization, which avoids  
9 recognition by the Company of gross income upon receipt from the Issuer of the net  
10 proceeds of the securitization bonds as the sales price of the securitization property, and  
11 treats the securitization charges as gross income to the Company under its usual method of  
12 accounting.

13 The Excess Funds Subaccount will receive deposits of any amounts remaining in  
14 the Collection Account after payment of interest, scheduled principal, operating expenses  
15 of the Issuer and required deposits into the Capital Subaccount when due. This subaccount,  
16 if drawn upon, is not replenished through the true-up. Amounts in the Excess Funds  
17 Subaccount are available to cover shortfalls in securitization charge collections in order to  
18 meet scheduled cash flow requirements.

19 **Q. Will a liquidity subaccount or an overcollateralization subaccount be needed to**  
20 **provide credit support to the transaction?**

21 A. Similar to the 2014 Securitization (but in contrast to the Company's 2001 Securitization),  
22 I recommend that this transaction not include a liquidity subaccount. This had been  
23 required in the 2001 Securitization as a result of a rate cap applicable to the Company

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1       which has now expired. This rate cap limited the amount of recovery that could be charged  
2       to the customers, creating the risk that collections would not be sufficient to cover  
3       securitization charges during that period.

4               Although it is not anticipated, and has not been part of the 2014 Securitization, an  
5       overcollateralization subaccount may be required by the credit ratings agencies in order for  
6       the transaction to achieve the highest credit ratings and lowest financing costs. In the 2001  
7       Securitization, a cash balance would build-up in an overcollateralization sub-account (over  
8       the life of the transaction) to an amount equal to 0.5% of the initial principal amount of the  
9       bond issuance and could be used to make scheduled payments on the outstanding bonds,  
10      should amounts available from securitization charges not be sufficient. As in the 2001  
11      Securitization, such an account (should it be necessary) would be funded by securitization  
12      charges and if drawn upon or at an amount less than required, would be funded from  
13      additional securitization charge collections through the true-up process.

14             The proposed structure and estimated costs outlined in Exhibit A-7 (SL-1) do not  
15      incorporate an overcollateralization subaccount because Consumers Energy does not, at  
16      the present time, believe, similar to the 2014 Securitization, that such a subaccount will be  
17      necessary to achieve the desired credit rating or marketability of the securitization bonds  
18      in the Proposed Securitization. However, as already noted, the Company would like  
19      authorization to use an overcollateralization subaccount to the extent that the Company  
20      later deems such a subaccount necessary in the context of the credit ratings review process,  
21      the optimal bond structure, and market conditions.

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1 **Q. May amounts in the Collection Account be invested?**

2 A. Amounts on deposit in the subaccounts will be invested by the trustee in “eligible”  
3 investments. The indenture for the Proposed Securitization will define eligible investments  
4 comparably to the term in the Company’s prior securitization transactions. Eligible  
5 investments will be limited to securities and issuers with specified ratings and  
6 characteristics designed to minimize credit risk, such as U.S. government issued or  
7 guaranteed obligations and commercial paper or money market funds bearing the highest  
8 ratings.

9 **Q. Please describe the treatment of any funds remaining in the various subaccounts upon**  
10 **payment in full of the securitization bonds.**

11 A. Funds remaining in the General Subaccount, the Excess Funds Subaccount and an  
12 overcollateralization subaccount, if needed, upon payment in full of the securitization  
13 bonds and all other related costs and expenses, will be released to the Issuer, and the  
14 payment or credit of any of these amounts to customers will be determined later by the  
15 Commission. In Consumers Energy’s prior securitizations, the transaction documents  
16 provide, as is typical in these transactions, that the remaining balance will be released to  
17 the Issuer free from the lien of the indenture following repayment of all securitization  
18 bonds. The Issuer is then free to pay over to Consumers Energy any amounts released to  
19 the Issuer upon retirement of the securitization bonds, subject to the Commission’s  
20 determination as to ultimate disposition. In addition, upon payment in full of the  
21 securitization bonds, funds remaining in the Capital Subaccount and any investment  
22 earnings thereon will be released to the Issuer for future disposition as determined by the  
23 Issuer since this subaccount was funded at issuance by Consumers Energy.

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1 **Q. Should other forms of credit enhancement be utilized to minimize the costs of the**  
2 **Proposed Securitization?**

3 A. Although ABS transactions sometimes use additional credit enhancement such as letters of  
4 credit or insurance to enhance ratings and reduce net costs, such enhancements have not  
5 generally been utilized in the context of utility securitizations. While such enhancements  
6 are not needed under current market conditions to achieve the highest ratings for rate  
7 reduction bonds with the types of legislative support, financing order and transaction  
8 structure being proposed for this transaction, I do suggest that, as reflected in the proposed  
9 financing order, the financing order provide the ability to use additional forms of credit  
10 enhancement, such as letters of credit, if required in order to obtain the highest credit rating  
11 or if market conditions at the time of issuance would result in the expected benefits of  
12 additional credit enhancement outweighing the costs.

13 **Q. What has been the experience of states to date with respect to utility securitization**  
14 **bonds?**

15 A. Over \$55.7 billion of securitization bonds have been issued successfully by or on behalf of  
16 electric utilities in various states as shown below in Table A.

**Table A**

**Utility Securitization Transactions  
As of July 31, 2020**



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<b>State</b>	<b>Utility</b>	<b>Pricing Date</b>	<b>Issuance (\$mm)</b>
Texas	AEP Texas	09/11/2019	235
New Hampshire	Public Service Company of New Hampshire	05/01/2018	636
New York	Long Island Power Authority	10/25/2017	369
New York	Long Island Power Authority	08/11/2016	469
New York	Long Island Power Authority	03/02/2016	637
Florida	Duke Energy Florida	06/15/2016	1,294
New York	Long Island Power Authority	10/16 /2015	1,002
Louisiana	Entergy New Orleans	07/14/2015	99
Hawaii	Hawaiian Electric; Hawaii Electric Light; Maui Electric	11/04/2014	150
Louisiana	Entergy Gulf States Louisiana	07/29/2014	71
Louisiana	Entergy Louisiana	07/29/2014	244
Michigan	Consumers Energy	07/14/2014	378
New York	Long Island Power Authority	12/12/2013	2,022
West Virginia	Appalachian Power	11/06/2013	380
Ohio	Ohio Power	07/23/2013	267
Ohio	Cleveland Electric Illuminating; Ohio Edison; Toledo Edison	06/12/2013	445
Texas	AEP Texas Central	03/07/2012	800
Texas	CenterPoint Energy Houston Electric	01/11/2012	1,695
Louisiana	Entergy Louisiana	09/15/2011	207
Arkansas	Entergy Arkansas	08/11/2010	124
Louisiana	Entergy Gulf States Louisiana	07/15/2010	244
Louisiana	Entergy Louisiana	07/15/2010	469
West Virginia	Monongahela Power	12/16/2009	64
West Virginia	Potomac Edison	12/16/2009	22
Texas	CenterPoint Energy Houston Electric	11/18/2009	665
Texas	Entergy Texas	10/29/2009	546
Louisiana	Entergy Gulf States Louisiana	08/20/2008	278
Louisiana	Entergy Louisiana	07/22/2008	688
Louisiana	Cleco Power	02/28/2008	181
Texas	CenterPoint Energy Houston Electric	01/29/2008	488
Texas	Entergy Gulf States	06/22/2007	330
Maryland	Baltimore Gas and Electric	06/22/2007	623
Florida	Florida Power & Light	05/17/2007	652
West Virginia	Monongahela Power	04/03/2007	345
West Virginia	Potomac Edison	04/03/2007	115
Texas	AEP Texas Central	10/04/2006	1,740
New Jersey	Jersey Central Power & Light	08/04/2006	182
Texas	CenterPoint Energy Houston Electric	12/09/2005	1,851
California	Pacific Gas and Electric	11/03/2005	844

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Pennsylvania	West Penn Power	09/22/2005	115
New Jersey	Public Service Electric and Gas	09/09/2005	103
Massachusetts	Boston Edison; Commonwealth Electric	02/15/2005	675
California	Pacific Gas and Electric	02/03/2005	1,888
New Jersey	Rockland Electric	07/28/2004	46
Connecticut	Connecticut Light and Power	06/23/2004	205
Texas	Oncor Electric Delivery	05/28/2004	790
New Jersey	Atlantic City Electric	12/18/2003	152
Texas	Oncor Electric Delivery	08/14/2003	500
New Jersey	Atlantic City Electric	12/11/2002	440
New Jersey	Jersey Central Power & Light	06/04/2002	320
Texas	Central Power and Light	01/31/2002	797
New Hampshire	Public Service of New Hampshire	01/16/2002	50
Michigan	Consumers Energy	10/31/2001	469
Texas	Reliant Energy	10/17/2001	749
Massachusetts	Western Massachusetts Electric	05/14/2001	155
New Hampshire	Public Service of New Hampshire	04/20/2001	525
Connecticut	Connecticut Light and Power	03/27/2001	1,438
Michigan	Detroit Edison	03/02/2001	1,750
Pennsylvania	PECO Energy	02/15/2001	805
New Jersey	Public Service Electric and Gas	01/25/2001	2,525
Pennsylvania	PECO Energy	04/27/2000	1,000
Pennsylvania	West Penn Power	11/03/1999	600
Pennsylvania	PP&L	07/29/1999	2,420
Massachusetts	Boston Edison	07/26/1999	725
California	Sierra Pacific Power	04/08/1999	24
Pennsylvania	PECO Energy	03/18/1999	4,000
Montana	Montana Power	12/22/1998	63
Illinois	Illinois Power	12/10/1998	864
Illinois	Commonwealth Edison	12/07/1998	3,400
California	Southern California Edison	12/04/1997	2,463
California	San Diego Gas & Electric	12/04/1997	658
California	Pacific Gas and Electric	11/25/1997	2,901
Washington	Puget Sound Energy	07/30/1997	35
Washington	Puget Sound Power & Light	06/08/1995	202
<b>Total</b>			<b>55,703</b>

A broad range of investors have participated in utility securitization bond issues to date, including domestic and international banks, institutional and retail trust funds, money managers, investment advisors, pension funds, insurance companies, securities lenders, state trust funds, and corporate cash managers. Traditional utility unsecured and first

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mortgage bond investors have also participated broadly, as some perceive securitization bonds as a highly-rated substitute for the product they traditionally purchase. Securitization bonds backed by securitization property and financing orders have maintained their high ratings, even when the credit of the utility has been downgraded and, in one case, notwithstanding the bankruptcy of the utility, thus justifying the investors' confidence in the bonds.

**Q. Has this type of financing structure been widely accepted by the market?**

A. Yes. The utility securitization subset of the larger \$235.9 billion securitization market (full year 2019 volumes) has been widely accepted, even during the disruptions in the larger securitization market in the 2007-2008 financial crises. Additionally, the broader securitization market has shown resilience amidst broader market dislocation, as most recently evidenced in its quick rebound following the COVID-19 outbreak. While there were no new ABS issuances for a four-week period in March/April 2020 and secondary spreads during the same widened significantly, the ABS market has subsequently recovered with new issuance volumes in June and July, slightly outpacing the same months in 2019. The same dynamic has played out in the secondary market where renewed ABS has resulted in significant spread tightening since the peak in March.

**V. DESCRIPTION OF BONDS**

**A. Bond Structure & Terms**

**Q. Please describe the structure of Consumers Energy's Proposed Securitization, including projected interest rates and bond maturities.**

A. The precise terms and conditions of the Proposed Securitization will not be known until just prior to the time of sale anticipated to take place around April of 2023. The bond structure will reflect specific input from the rating agencies and be adjusted to current

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1 market conditions and investor preferences so that the lowest financing costs and highest  
2 credit ratings can be achieved. This flexibility will serve the goal of obtaining the lowest  
3 interest rates consistent with market conditions and the financing order.

4 I have provided a preliminary financing structure and terms developed in the  
5 context of current market conditions in my Exhibit A-7 (SL-1), reflecting the suggested  
6 bond structure (page 3), and reflecting cash flows for each of the Expected Case (page 1)  
7 and Breakeven Case (page 2) scenarios, under a transaction size of approximately \$702.8  
8 million. The structure shown in Exhibit A-7 (SL-1) was chosen in order to provide the  
9 most efficient distribution of securities across the maturity spectrum and thus the lowest  
10 cost of funds to the Issuer. The 2014 Securitization had three tranches (*i.e.*, individual sub-  
11 groups of bonds each with a different maturity and average life) to take advantage of  
12 discrete pockets of investor demand across the entire term of the transaction, and I  
13 anticipate this transaction similarly will have three tranches given the expected issuance  
14 amount and tenor of this transaction. The underlying tranches of the Proposed  
15 Securitization set forth in Exhibit A-7 (SL-1) have been designed to have a large enough  
16 tranche size to ensure secondary market liquidity while at the same time maintain an  
17 attractive tenor profile. Average life, in this context, is a measure of the average amount  
18 of time it takes to repay the principal balance of the securitization bonds in full. Liquidity  
19 refers to the ability of a bondholder to sell the bond without having to significantly discount  
20 its price. As previously discussed, rating agency requirements and investor demand at the  
21 time of pricing will determine the number, size, and average lives of tranches offered to  
22 investors, and as a result, structures and pricing terms are provided only on a preliminary  
23 and estimated basis, and the actual structures and pricing may differ.

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1           The preliminary financing structure and cash flows reflect annual debt service and  
2 revenue requirements which are substantially level (except that the annual debt service and  
3 revenue requirements for the first period are somewhat smaller given the shortened period).  
4 The projected levels for these requirements are designed to satisfy rating agency stress  
5 scenarios required for triple-A ratings in precedent utility securitization bond transactions.

6 **Q. Will the securitization bonds pay fixed or floating rates?**

7 A. It is my recommendation that the bonds pay fixed rates, which is consistent with recent  
8 similar utility securitization bonds precedent. Fixed rates enable the costs and benefits to  
9 be evaluated in advance and ensure roughly equal charges over time. I should note that  
10 this result could be achieved with floating rate bonds, if converted for this purpose to a  
11 fixed rate through an interest rate swap within the bond structure. Under a swap, the Issuer  
12 would pay a fixed rate of interest to the swap counterparty and, in exchange, would receive  
13 the bonds' floating rate from the swap counterparty. The Issuer would use the payments  
14 from the swap counterparty to pay the floating rate bondholders. The economic effect upon  
15 customers is as if the bonds had been issued at the fixed rate established by the swap  
16 agreement. The use of a swap would create additional documentation costs and risks,  
17 which have been deemed inappropriate in the recent utility securitization market. Citi does  
18 not believe that the assumption of swap counterparty risk, as discussed below, or the  
19 incremental legal expenses associated with the solicitation and documentation of proposals  
20 for swaps within the bond structure is justified. Investors which seek a floating rate coupon  
21 can independently execute a swap of this type with third parties outside of the bond  
22 structure and without the SPE incurring the risks discussed.

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1 **Q. What are the risks associated with an interest rate swap?**

2 A. Interest rate swaps introduce counterparty risk for customers. This is a risk of a ratings  
3 downgrade of the financial institution providing the swap, and that an appropriate  
4 replacement swap provider may not be able to be obtained. Such counterparty credit and  
5 replacement risk presents significant potential interest rate risk exposure for customers.  
6 Furthermore, if the swap counterparty defaults on its payment obligations under the interest  
7 rate swap, an increase of utility securitization charges may be required to cover the interest  
8 payments on the floating rate notes or to pay the cost of obtaining a replacement swap, if  
9 such a replacement happens to be available. Additionally, the Issuer may potentially owe  
10 “termination payments” to the counterparty if the termination occurs after rates have  
11 declined, regardless of whose default caused the termination. Such termination payments  
12 potentially might be offset by another counterparty paying to undertake the swap at the  
13 original fixed rate, or by the savings associated with obtaining a swap at a rate lower than  
14 the original fixed rate. However, the availability of these potential offsets is uncertain.

15 Moreover, an interest rate swap typically requires payment of interest on a notional  
16 amount specified in the swap instrument. Any swap instrument used in a utility  
17 securitization would be an “amortizing swap.” This means that the notional amount on  
18 each payment date would reduce over time, equaling the principal amount that is scheduled  
19 to remain outstanding on the related tranche, assuming principal payments are made as  
20 scheduled. However, actual principal payments on securitization bonds could vary from  
21 the scheduled principal payments, depending on the actual cash flows received by the  
22 Issuer. The cash flows could be affected by several variables, such as weather-driven  
23 consumption volatility, customer delinquencies and charge-offs. Therefore, the actual

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1 principal balance of the bonds may be more or less than the scheduled notional amounts of  
2 the swaps. If the bond principal balance is more, the floating rate payment from the swap  
3 counterparty may not be adequate to satisfy the Issuer's actual interest payment obligation.  
4 Since the Issuer will have no significant available assets other than the right to impose,  
5 charge, and collect securitization charges, this risk would likely be borne by customers,  
6 who would have to pay, with increased charges, for the shortfall between the floating rate  
7 payments owed to bondholders and the floating rate payments received from the swap  
8 counterparty.

9 **Q. What is the expected tenor of the proposed financing?**

10 A. In order to roughly align the payments of the securitization charges with the previously  
11 anticipated retirement of the Karn Units 1 and 2 from a timing perspective, I have structured  
12 a scheduled final payment date of April 2031 with a legal final maturity date of around  
13 April 2033. Both the Expected Case and the Breakeven Case (see Exhibit A-7 (SL-1))  
14 assume an extended first debt service payment date (i.e. almost a full year from the closing  
15 date) followed by fourteen additional debt service payment dates every six months  
16 thereafter.

17 **Q. What is the difference between the scheduled final payment date of securitization**  
18 **bonds and their legal final maturity date?**

19 A. Unlike corporate bonds with fixed date-certain maturities, securitization bonds reflect the  
20 uncertainty with respect to the timing of principal repayment dependent upon a dedicated  
21 pool of cash flows subject to delinquencies and write-offs. In lieu of the single fixed  
22 maturity date, securitization bonds schedule amortization resulting in payment by an  
23 "expected" or "scheduled final" payment date, the date when principal is expected to be

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1 repaid, and then specify a “legal final” maturity date, the date following the scheduled final  
2 payment date by which all principal is due. No legal obligation exists to retire a bond by  
3 the scheduled final payment date, only the legal final maturity date. The legal final  
4 maturity date of the securitization bonds generally may be up to two years beyond the  
5 scheduled final payment date and it is the date by which final payment on the securitization  
6 bonds must be made. In this case, Consumers Energy is proposing a scheduled final  
7 payment date of up to eight years from issuance, with a legal final maturity date of up to  
8 ten years, i.e. two years beyond the scheduled final payment date. The ratings on the  
9 securitization bonds are derived, in part, based on the assumption that the outstanding  
10 principal of a tranche will be paid in full by the legal final maturity date. Both the  
11 scheduled final payment and the legal final maturity date will meet the Act requirements  
12 as both must be within 15 years from the date of issuance of the securitization bonds as  
13 mandated by the Act.

14 **B. Cash Flow Requirements**

15 **Q. Please discuss the cash flows required for the Proposed Securitization in terms of the**  
16 **credit and rating agency analysis of the bonds.**

17 **A.** Credit and rating agency analysis of securitization bonds differ from that of corporate  
18 bonds. The credit analysis of a corporate bond broadly examines the company’s financial  
19 risks (e.g. debt leverage, cash flow coverage of fixed charges), operating risks  
20 (e.g. competitive pressures and, for a utility, regulatory environment) and management’s  
21 overall commitment to a healthy balance sheet, taking into account security such as the  
22 property, plant, and equipment securing utility first mortgage bonds. The analysis of  
23 securitization bonds is necessarily more limited because the sole sources of payment are  
24 the dedicated revenue streams and other assets of the SPE. The rating agencies perform



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1 extensive analyses – often referred to as “stress tests” – on the cash flows of the underlying  
2 assets to assess whether interest will be paid in a timely fashion and principal will be fully  
3 repaid by the legal final maturity date, even when actual experience deviates significantly  
4 from predicted historical norms. For example, if the historical charge-off experience is  
5 2%, the analysis may examine the resilience of the structure to a 5%, 10% or 15% charge-  
6 off rate.

7 **Q. Describe the total estimated annual cash flow required to make interest and principal**  
8 **payments as well as ongoing fees and expenses on the Proposed Securitization under**  
9 **each of the Expected Case and Breakeven Case scenarios.**

10 A. Company witness Wehner provided me with the level of qualified costs to be recovered  
11 through securitization pursuant to the Act. That figure, combined with the transaction  
12 structure discussed earlier in my direct testimony, and the three tranches we have modeled,  
13 leads to the projected annual cash flow requirements of the Proposed Securitization, i.e.,  
14 the level of cash needed each year to fund the payment of principal and interest and all  
15 other costs associated with the securitization bonds under each of the interest rates  
16 associated with the Expected Case and the Breakeven Case scenarios.

17 These estimated annual cash flow requirements are shown in my Exhibit A-7 (SL-  
18 1) and were provided to Company witness Heidi J. Myers to use in her analysis of the  
19 Proposed Securitization. With respect to the annual cash flow requirements of the  
20 Expected Case, Exhibit A-7 (SL-1), page 1, column (B), shows the amount of principal  
21 payments required for each bond payment date for the securitization bonds. Exhibit A-7  
22 (SL-1), page 1, column (C) shows the amount of interest payments required for each bond  
23 payment date for the securitization bonds. (It should be noted that the first bond payment

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1 date covers a period that is in excess of six months from the closing date.) Exhibit A-7  
2 (SL-1), page 1, column (D) calculates the total debt service amount required for each bond  
3 payment date by adding the principal and interest amounts for each such date. Exhibit A-7  
4 (SL-1), page 1, column (E) shows the estimated annual servicing and expenses payments  
5 for each bond payment date. These are the Ongoing Other Qualified Costs discussed earlier  
6 in my testimony which were provided to me by Mr. Wehner. Exhibit A-7 (SL-1), page 1,  
7 column (F) calculates the total cash requirement for each bond payment date for the  
8 securitization bonds by adding the total debt service amounts from column (D) to the  
9 servicing and expense amounts from column (E). Exhibit A-7 (SL-1), page 1, column (G)  
10 calculates the total annual cash requirement for each year for the securitization bonds by  
11 adding the amounts due on each bond payment date in column (F) for the year (noting that  
12 the first “annual” period will shortened). Finally, Exhibit A-7 (SL-1), page 1, column (H)  
13 shows the estimated annual billings necessary under securitization to achieve the annual  
14 total cash requirements shown on column (G). The billing amounts shown in Exhibit A-7  
15 (SL-1), page 1, column (H) are higher than the annual total cash requirements to reflect  
16 and account for the fact that: (a) the Company expects to experience a certain amount of  
17 uncollectible activity and charge-offs on billed amounts, and (b) there will be a timing  
18 difference between billings and cash collections (this will especially impact the difference  
19 for the first payment date).

20 It should be noted that the interest rates, credit enhancement, payment dates,  
21 maturity date, cash flow requirements, frequency of principal payments, terms, number of  
22 tranches, and tranche sizes are estimates, and may vary at the time of pricing to ensure  
23 optimal pricing and ratings. Market conditions and rating agency considerations leading

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up to the marketing of the transaction will determine the final amortization structure, and market conditions for these securities at the time of pricing will determine the final interest rates.

**Q. What assumptions are you employing in your Expected Case?**

A. Asset-backed securities typically are priced in relation to the swap curve, with ABS yields corresponding more closely to this benchmark than the Treasury curve in recent years. The benchmark yield on the bonds was determined assuming the securitization bonds are issued in April 2023 and by using current forward swap rates as of August 3 2020. These assumptions were made at the time of modeling because it is impossible to definitively predict future interest rates. The yields of various extremely liquid, risk-free government securities and interest rate swap yields are integral to predicting the characteristics of the securitization bonds because securities in the fixed income market are traditionally priced with reference to these “benchmark” indices. The yield of the securitization bonds will be determined by noting the yield of a predetermined benchmark index at the time of pricing and then adding a margin determined by the marketing and pricing process (the “spread to benchmark”). The term of the applicable benchmark for a given bond generally matches the average life of such bond. This margin over the benchmark yield is commonly measured in hundredths of a percentage point or “basis points.” Finally, given the extended period until the Proposed Securitization will be issued, a volatility factor to reflect the uncertainty of future market conditions at the time of issuance has been added to the estimated coupon. Additional assumptions may be found on Exhibit A-7 (SL-1).

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1 **Q. Please describe the methodology for deriving the Breakeven Case.**

2 A. The Breakeven Case represents the maximum level of coupon on the securitization bonds  
3 above where the Proposed Securitization would no longer provide tangible and quantifiable  
4 benefits to customers, or fail a statutory test, as summarized in Company witness Myers's  
5 testimony. It should be noted that the Breakeven Case assumes that Consumers Energy's  
6 weighted cost of capital remains unchanged when a scenario that would increase the cost  
7 of the Proposed Securitization would likely also impact the financing costs of Consumers  
8 Energy. These breakeven cash flow requirements are shown on page 2 of my Exhibit A-7  
9 (SL-1). Exhibit A-7 (SL-1), page 2 presents the Breakeven Case for the Proposed  
10 Securitization in the same manner as described above for the Expected Case.

11 **VI. SECURITIZATION CHARGE COLLECTION**

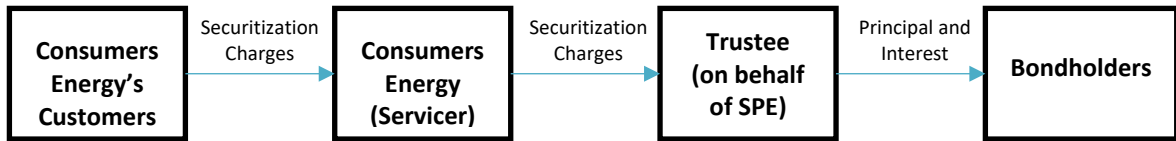
12 **Q. Please describe the ongoing billing, collection and remittance of securitization charges**  
13 **over the life of the Proposed Securitization.**

14 A. As is the case for the prior issuances of securitization bonds, Consumers Energy, as  
15 servicer, will be responsible for billing and collecting securitization charges for the third  
16 issuance of securitization bonds. All of the infrastructure necessary to accomplish this is  
17 in place and has worked well. Consumers Energy as servicer will remit collections to the  
18 trustee and the trustee will distribute amounts to bondholders in accordance with the terms  
19 of the transaction. In circumstances where the servicer is unable to track actual collections  
20 from customers on a timely basis, collections may be remitted to the trustee based on an  
21 aging curve, with a periodic reconciliation to actual collections.

22 The following diagram (Diagram 2) represents the ongoing securitization cashflow  
23 remittances in respect of principal and interest.

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Diagram 2



1 **Q. How should partial payments of customers' bills be allocated to the securitization**  
2 **charges?**

3 A. Partial payments should be allocated ratably among (1) the securitization charges of the  
4 2014 Securitization; (2) the securitization charges of the Proposed Securitization; and  
5 (3) other billed amounts, based on the ratio of each of those three components of the bill to  
6 the total bill. The intercreditor agreement previously referenced will document this  
7 convention among the servicer and the trustees for each of the securitizations as well as  
8 any trade receivables purchase and sale agreement to which the Company may become a  
9 party. Ratable allocation of partial payments is acceptable to the rating agencies if  
10 controlled through an acceptable intercreditor agreement.

11 **Q. Section 10q (4) and (5) of 2000 Public Act 141 read in pertinent part as follows:**

12 **(4) Only investor-owned, cooperative, or municipal**  
13 **utilities shall own, construct, or operate electric**  
14 **distribution facilities or electric meter equipment used in**  
15 **the distribution of electricity in this state....**

16 **and**

17 **(5) The commission shall not prohibit an electric utility**  
18 **from metering and billing its customers for services**  
19 **provided by the electric utility.**

20 **What impact will these statutory provisions have on the credit rating process?**

21 A. These statutory provisions will be interpreted favorably because they remove the risk of  
22 allowing for the metering, billing, and collection of revenues from customers by third  
23 parties, and therefore the remittance of securitization charge revenues by third parties to

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the servicer or to the SPE. The absence of nonutility servicers also simplifies the documentation required as part of the transaction. The perception is that parties other than the incumbent utilities simply do not have the necessary track record and experience, let alone the financial qualifications, to be put into such a critical stage of the securitization charge payment process for hundreds of millions of dollars of securitization bonds. During the life of the securitization bonds, if the situation were ever to change and third parties did obtain the right to fulfill these responsibilities, the rating agencies would have to feel secure that there were safeguards in place so that the securitization charge revenue stream was not jeopardized and the high credit quality not compromised. There is a covenant from Consumers Energy in both of the Servicing Agreements for Consumers Energy's 2001 Securitization and 2014 Securitization that Consumers Energy would not allow for the billing and collecting of securitization charges by third parties unless there was confirmation of the existing ratings of the securitization bonds by the ratings agencies. This covenant is designed to mitigate the perceived risk of third party servicers by rating agencies and investors. I anticipate that Consumers Energy in the Proposed Securitization would be required by the rating agencies to provide a similar covenant.

**VII. RATING AGENCY PROCESS AND STANDARDS**

**Q. Please describe the ratings process.**

A. Consumers Energy and the lead underwriter(s) will meet with the rating agency personnel to discuss the terms, documentation and legal and credit framework for the Proposed Securitization. Each agency asked to rate the bonds will review Consumers Energy's forecasting, billing, and collections operations and capabilities. They will review Consumers Energy's operational capabilities as servicer and its related systems. The rating agencies will analyze the constituent documents and seek extensive opinions in reviewing

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the transaction and will review those matters with Consumers Energy, the lead underwriter(s) and counsel. The lead underwriter(s) will be required to prepare various cash flow stress scenarios to demonstrate that the bonds will be repaid under stressed cash flow projections. Extensive review of the bond structures will occur. The rating agencies will review the transaction for key elements including, among others: (1) nonbypassability of the securitization charges; (2) bankruptcy proof status for the Issuer; (3) a current property right in the rights under the Act and financing order, which is established by the financing order and statute and transferred to the Issuer pursuant to a true sale; (4) the assignment of the Issuer's rights to the trustee in a perfected first priority security interest, (5) the terms of a true-up mechanism occurring with requisite frequency and subject only to mathematical review by the Commission; (6) the irrevocability of the financing order; (7) the state's non-impairment pledge and reaffirmation of the state's pledge by the Commission; (8) federal and state constitutional protections; and (9) the breadth of the market to whom the securitization charge will be applied and the extent to which the charge might be "bypassable" by the retail electric distribution customers. The agencies will also assess the political and legal environment in the state and analyze the credit characteristics of Consumers Energy's service area.

**VIII. DISCUSSION OF CRITICAL ELEMENTS OF THE FINANCING ORDER**

**Q. Are there elements which should be included in the Commission's financing order that are critical to achieving a successful utility securitization transaction?**

A. Yes. Exhibit A-8 (SL-2) contains a proposed financing order with all of the critical elements necessary for a successful securitization bond issuance. It is based upon the Commission's financing orders in Case No. U-12505 and Case No. U-17473 updated to reflect the factual circumstances of this current transaction, subsequent improvements to

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1 utility securitization documentation, and current market and rating agency requirements.

2 My testimony contains a general discussion of the critical elements. These include terms  
3 which, when combined with the elements of the Act, ensure that securitization charges will  
4 produce revenues adequate to meet scheduled debt service requirements and the Issuer's  
5 ongoing operational costs on a timely basis. Among the most significant of these terms are  
6 irrevocability for the financing order and a reaffirmation by the Commission of the state's  
7 non-impairment pledge, nonbypassability for the securitization charges among the retail  
8 electric distribution customers of the utility and its successors irrespective of the source of  
9 generation provided to customers (with limited and clearly pre-defined exceptions, as  
10 discussed further below), an annual, semi-annual, and more frequent if needed true-up  
11 mechanism subject to only mathematical review by the Commission, and aggregate  
12 securitization charges to customers for all such securitization transactions which do not  
13 exceed levels likely to result in political stress. The financing order exhibit should be  
14 consulted for the precise financing order terms and provisions being recommended for this  
15 issuance of securitization bonds. These elements, when taken together with provisions of  
16 the Act, will enable Consumers Energy to effectuate the financing in a manner consistent  
17 with investor preferences and to meet rating agency standards for achieving a triple-A  
18 ratings level, resulting in optimal structure and pricing.

19 The financing order describes the structure of the Proposed Securitization, whereby  
20 Consumers Energy will transfer the rights to impose and collect the securitization charges  
21 and its other rights under the financing order to a bankruptcy remote Issuer in order to  
22 separate the issued securitization bonds from the credit of Consumers Energy. As Issuer,  
23 the SPE will receive the proceeds from the sale of the securitization bonds and then, after



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1 paying expenses, transfer these funds to Consumers Energy as consideration for the  
2 securitization property, including the rights to impose and collect the securitization charges  
3 and certain other rights.

4 The financing will be structured to allow the rating agencies and investors to  
5 conclude that the Issuer will not become the subject of a bankruptcy proceeding. It is my  
6 understanding that under the Federal Bankruptcy Code, payments on the debt obligations  
7 of an issuer in a bankruptcy proceeding become subject to an automatic stay – *i.e.*, the  
8 payments are suspended until the courts decide which creditors of an issuer are to be paid,  
9 when they will be paid, and whether they are to be paid in whole or in part. Unless all  
10 practical risk of a bankruptcy of Consumers Energy is removed from the rating agencies’  
11 credit analysis, the financing cannot achieve the highest possible ratings since Consumers  
12 Energy’s secured debt obligations are currently rated below this level. The creation of a  
13 bankruptcy remote SPE that is legally distinct from Consumers Energy is designed to limit  
14 the risk of the SPE being consolidated, for bankruptcy purposes, with Consumers Energy.  
15 Characterization of the transfer of the securitization property by Consumers Energy to the  
16 Issuer as a “true sale” will also limit the risk that the securitization property would be  
17 deemed part of Consumers Energy’s estate if it were to become bankrupt.

18 **Q. Please describe the process by which the lowest securitization charges will be achieved**  
19 **in satisfaction of the statutory test in the Act, §10(i)(2)(c).**

20 A. Securitization bonds will be issued and result in the lowest securitization charges consistent  
21 with the terms of the financing order and market conditions by use of the following plan:

- 22 • It is expected that the securitization bonds will be rated by at least two rating  
23 agencies;

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- The bonds will have expected scheduled final payment dates of approximately eight years after the date of issuance with a legal final maturity date approximately two years thereafter. We currently estimate that the proposed offering will have three tranches with an overall weighted average life of approximately 4.43 years. The final structure will be selected to produce the lowest securitization average interest cost based on actual investor demand which could result in adjustments in the number of tranches being offered to maintain secondary market liquidity based on then existing market conditions;
- Extensive education will be provided to investors regarding the bonds. Following the delivery of a preliminary prospectus and a preliminary term sheet to potential investors, Consumers Energy and the underwriter(s) will work together to bring the issue to the attention of such investors, to inform them of its structure and terms, and to directly answer any questions they may have. This process will include a “net roadshow” internet presentation to potential investors. The purpose of this overall process is to stimulate the broadest investor demand for the issue, so that the pricing process will result in the lowest available interest rates;
- The securitization bonds will be offered for sale to investors through one or more underwriter(s), each of which should have wide experience in the marketing of asset-backed and corporate debt securities and specific experience in the marketing of utility securitization and corporate utility issues. The underwriter(s) will disclose a benchmark index and informal spread ranges relative to the benchmark rate for each tranche, in response to which investors will provide indications of interest. As representative for Consumers Energy, the book-running lead underwriter(s) will be charged with keeping the master record (known as “the book”) in which all indications of interest received by the underwriter(s) from potential investors are recorded;
- At the official launch of the transaction, the underwriter(s) will disclose specific spreads for each tranche (assuming there is more than one) and investors will be invited to place orders through the underwriter(s) for the amount and specific tranches of securitization bonds they are willing to purchase, at certain prices and securitization bond coupon rates;
- The book-running lead underwriter(s), exercising professional judgment based on the amounts of orders received from potential investors and with the express concurrence of Consumers Energy, may adjust the prices and securitization bond coupon rates to ensure maximum distribution of the securitization bonds at the lowest bond yields consistent with a fixed price offering. If a tranche is oversubscribed, the lead underwriter(s) may lower the coupon, provided that this adjustment does not decrease the aggregate investor interest below the size of the tranche; or, if a tranche is undersubscribed, the lead underwriter(s) may increase the coupon to attract sufficient investor orders to sell the entire tranche; and

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- Taking into account the actual demand for the securitization bonds on the day of pricing, the underwriter(s), acting through the book-running lead underwriter(s) and pursuant to the terms of an executed underwriting agreement, will agree to purchase the securitization bonds at specified prices and coupon rates.

In sum, it is through the marketing and price discovery process that I have described that the actual market for the securitization bonds is determined. It should be noted that this determination is specific to the issue of the securitization bonds in question. It is based on the actual investor orders for particular securitization bonds on the actual day of pricing.

**Q. Why do you assume that the securitization bonds will have a legal final maturity date of approximately ten years?**

A. A date approximately eight years after the issuance of the securitization bonds (currently assumed to be April 1, 2023) was selected as the scheduled final payment date in order to roughly align the timing of payments of the securitization charges with the previously anticipated retirement of the Karn units. The legal final maturity date is expected to be set approximately two years following the scheduled final payment date in order to have a period of time after the scheduled final payment date during which securitization charges can be collected to make up for any shortfall. This period of time after the scheduled payment date is typically two years to account for the volatility of electric utility revenues.

**Q. How do the elements of the financing order enable the rating agencies to conclude that the bankruptcy risk to the Issuer's debt obligations is sufficiently remote to achieve the highest possible ratings?**

A. The financing order must enable Consumers Energy to create the securitization property in a manner that will allow the Company to sell irrevocably the securitization property to an Issuer that is "bankruptcy remote" as required by the rating agencies, in a transaction treated as a "true sale" for bankruptcy law purposes. My understanding that the Issuer will

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1 be “bankruptcy remote” is based on a series of contractual and organizational restrictions  
2 that will apply to the SPE’s activities. The SPE is the Issuer, and it will be formed as a  
3 limited liability company with Consumers Energy as owner of all beneficial interests in the  
4 Issuer. The SPE will be formed for the limited purpose of acquiring the securitization  
5 property, issuing the securitization bonds, pledging its assets to the trustee under the  
6 indenture, entering into related contracts, and performing other limited activities related to  
7 these basic purposes. The SPE will be prohibited from engaging in any other activities and  
8 will have no assets other than the securitization property and related assets, such as rights  
9 under the sale agreement, the servicing agreement and any interest rate swap or other hedge  
10 agreements. Obligations relating to the securitization bonds will be the SPE’s only  
11 significant liabilities. Additionally, my understanding is that securitization property will  
12 be sold to the Issuer pursuant to a “true sale” and not a secured transaction, that title, legal  
13 and equitable, will pass to the SPE, and that a bankruptcy court would not be expected to  
14 overturn and declare the securitization property to be owned by Consumers Energy upon  
15 its bankruptcy. The financing order must enable the Issuer to issue the securitization bonds,  
16 irrevocably pledging the securitization property as security for the payment thereof. The  
17 practical effect of such protections is that they allow the rating agencies to ignore or  
18 discount any legal risk that Consumers Energy itself may in the future become the subject  
19 of a bankruptcy proceeding, and to focus solely on the risk that the Issuer may itself become  
20 subject to such a proceeding; a risk that, pursuant to rating agency bankruptcy remoteness  
21 requirements for the Issuer, is satisfactorily mitigated. The rating agencies can then focus  
22 strictly on the credit strength of the securitization property, which other elements of the  
23 financing order, including the right to obtain periodic adjustments of the securitization

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charges under §10(k)(3) of the Act, ensure will be sufficient to achieve the highest possible ratings and will not be subject to impairment by subsequent acts of the Commission.

**Q. What elements of a financing order are necessary to ensure credit strength of the securitization property?**

A. The financing order must contain provisions that ensure the collection of securitization charges arising from the securitization property sufficient to pay the Issuer's financing obligations on a timely basis by their terms, even in the face of:

- Dramatic reductions in electricity usage by customers taking retail electric distribution service from Consumers Energy;
- Dramatic increases in delinquencies and losses on payments from customers taking retail electric distribution service from Consumers Energy; or
- Self-generation of electric power by significant numbers of customers without those customers taking any form of auxiliary service, stand-by service, back-up service or any other electric service from Consumers Energy.

**Q. What should be the nature of any statutory and regulatory overview contained in a financing order?**

A. The financing order should provide the legal context for the financing order itself, connecting it unambiguously to the Act and other relevant provisions of Michigan law and regulations. The financing order should interpret and implement the provisions of the Act, establishing an irrevocable set of rights and entitlements, not subject to further Commission or judicial review. The objective is to make it clear to the rating agencies that the financing order is rooted in statutory law and irrevocable, thereby making it possible for the rating

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1 agencies to conclude that legal risks investors cannot measure, and for which they would  
2 otherwise demand a disproportionately higher yield, have been mitigated.

3 **Q. Why does the financing order describe the qualified costs being financed through**  
4 **securitization?**

5 A. The financing order must contain a section that describes and approves the various  
6 qualified costs defined in the Act that are to be recovered through securitization. This is  
7 contemplated by the definition of “qualified costs” in the Act and provides assurance for  
8 rating agencies and investors of the Commission’s irrevocable authorization of their  
9 recovery through the issuance of securitization bonds. This reduces legal uncertainty to  
10 enable the highest credit ratings by the rating agencies on the securitization bonds and to  
11 reduce investor perception of legal risks.

12 **Q. Please discuss the provisions of the financing order devoted to securitization charges.**

13 A. For purposes of providing certainty to investors, the imposition and amount, collection  
14 period, allocation among customers, nonbypassability, and true-up mechanism need to be  
15 described, authorized, and affirmed by the Commission in the financing order. The  
16 nonbypassability element minimizes the degree to which the collection of securitization  
17 charges will be hampered by customers who switch generation suppliers and also captures  
18 future customers connecting to the electric system of Consumers Energy or its successor.  
19 Nonbypassability is extremely important. It is essential that the load (or a clearly pre-  
20 defined and certain portion thereof) connected to Consumers Energy’s distribution system  
21 will be responsible for paying the securitization charges and cannot avoid the payment of  
22 securitization charges in the future after the bonds are issued. An assured customer base  
23 to pay securitization charges is essential for the triple-A securitization rating analysis. As

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1 explained in Company witness Laura M. Collins' testimony, the Proposed Securitization  
2 would apply the securitization charge to all existing and future retail electric distribution  
3 customers of Consumers Energy or its successors, except for: (i) customers taking retail  
4 open access ("ROA"), service from Consumers Energy as of the date of the financing order  
5 to the extent that those ROA customers remain, without transition to bundled service, on  
6 Consumers Energy's retail choice program; (ii) customers to the extent they obtain or use  
7 self-service power; or (iii) customers to the extent engaged in affiliate wheeling (these  
8 exclusions are consistent with the 2014 Securitization). This portion of the financing order  
9 also creates a binding obligation of the Company, its successor, or its assignee to collect  
10 the securitization charges in exchange for a servicing fee and would allow that obligation  
11 to be performed by an assignee determined by the trustee if Consumers Energy or its  
12 replacement servicer does not so perform.

13         The true-up mechanism provisions of the Act and the financing order represent the  
14 most fundamental component of credit enhancement to investors and is a cornerstone of  
15 the low interest rate levels achieved in prior utility securitization transactions. Pursuant to  
16 the Act, an annual true-up adjustment must be included in the financing order to correct for  
17 any over- or under-collections for any reason and to ensure that the collection of future  
18 securitization charges will generate sufficient funds to timely pay all scheduled payments  
19 of principal and interest on the securitization bonds and the Issuer's other qualified costs.  
20 Consistent with current market standards and the 2014 Securitization, I also recommend  
21 that in addition to the annual true-up mandated by Act 142, true-ups be required on a semi-  
22 annual basis (and quarterly beginning one year prior to the last scheduled final payment  
23 date of any series, class, or tranche of securitization bonds) if the servicer determines that

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1 a true-up adjustment is necessary to ensure the expected recovery during the succeeding  
2 12 months of amounts sufficient to pay scheduled principal and interest on the  
3 securitization bonds, the Issuer's Ongoing Other Qualified Costs, and amounts necessary  
4 to replenish the draws on the Capital Subaccount. Furthermore and consistent with the  
5 2014 Securitization, I recommend that interim true-ups, in addition to the true-ups  
6 proposed above, be permitted more frequently if the servicer determines that a true-up  
7 adjustment is necessary to ensure the expected recovery, during the succeeding period, of  
8 amounts sufficient to pay scheduled principal and interest on the securitization bonds, the  
9 Issuer's other qualified costs and amounts necessary to replenish the draws on the Capital  
10 Subaccount.

11 The requested Commission language with respect to true-ups is incorporated in the  
12 proposed financing order in Exhibit A-8 (SL-2). Such a true-up structure will help achieve  
13 the desired credit ratings and to repay in full the securitization bonds by the scheduled final  
14 payment date of the transaction. It is critical to achieve the lowest cost financing that true-  
15 up adjustments: (1) be implemented on a regular basis over a specified short period of time  
16 (as noted in Ms. Myers' testimony); and (2) are implemented subject only to mathematical  
17 review by the Commission. Ms. Myers has included an initial implementation procedure  
18 and a true-up procedure in her testimony. In my opinion, if the Commission adopts these  
19 procedures, that will be satisfactory to the rating agencies.

20 The rating agencies furthermore look to the actual level of securitization charges  
21 and affiliated true-up mechanics to mitigate a variety of risks evaluated as part of triple-A  
22 rating scenarios, such as significant declines in consumption, high levels of customer  
23 bankruptcy, self-generation risk which enables customers to avoid paying the securitization



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1 charge, or significant exodus of customers from Consumers Energy's service territory. For  
2 example, the rating agencies may evaluate the potential impact of some or all customers in  
3 a given rate class leaving the system, leaving a certain amount of securitized costs to be  
4 recovered under a true-up procedure from other rate classes. If recovery were not assured,  
5 the rating agencies may, in that instance, require additional credit enhancement. Shortfalls  
6 in collections from one particular customer rate class must be readily allocated among all  
7 customer rate classes as part of the true-up process to provide the broadest possible  
8 customer base against which to adjust securitization charges.

9         While a securitization charge per kilowatt-hour ("kWh") which is the same for all  
10 customer rate classes and is adjusted identically for all customer rate classes at each true-  
11 up adjustment date over the life of the transaction would be preferable to optimize the  
12 benefit associated with the true-up mechanism, I believe that a different securitization  
13 charge for each customer rate class where a uniform per kWh charge is applied within each  
14 customer rate class would be acceptable to the rating agencies as long as the mechanics for  
15 determining such charges are pre-defined and specific. I understand from Ms. Myers' and  
16 Ms. Collins' testimonies that the mechanics for determining the securitization charges will  
17 be substantially similar to those used for the 2014 Securitization. As described in  
18 Ms. Myers' testimony, however, the Company proposes that the servicer be permitted to  
19 modify the allocation among rate classes used in the true-up mechanism to calculate true-  
20 up adjustments to the securitization charges to allow for a change to the allocation among  
21 rate classes to use the then current Commission-approved production capacity allocation  
22 at the time of each true-up. Commission approval of the production capacity allocations

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1 would happen as part of general electric rate cases, and I believe they would be acceptable  
2 to the rating agencies.

3 **Q. What bearing is there on your recommendation of the fact that this would be the**  
4 **second outstanding securitization transaction for Consumers Energy?**

5 A. The Proposed Securitization increases the relative amount of securitization charges being  
6 paid by electric customers, and therefore attracts increased scrutiny by ratings agencies on  
7 the credit quality of both the 2014 Securitization and the Proposed Securitization. The  
8 rating agencies take the position that the higher the level of securitization charges on the  
9 bill, the greater the risk of political or legal challenge. The aggregate securitization charges  
10 (covering both the 2001 Securitization and the 2014 Securitization) for an average  
11 residential customer (656 kWh per month at the time) amounted to approximately 2.6% of  
12 the total monthly electric bill immediately following the issuance of the 2014  
13 Securitization. (It should be noted that the 2001 Securitization at this time has been fully  
14 repaid and accordingly there no longer is a securitization charge being charged to the retail  
15 electric distribution customers in this connection.) Based on information provided by  
16 Ms. Collins, the aggregate securitization charges (covering both the 2014 Securitization  
17 and the Proposed Securitization) for an average residential customer (658 kWh per month  
18 at this time) are estimated to be at a slightly higher level (or approximately 2.8%) of the  
19 total monthly electric bill immediately following the issuance of the Proposed  
20 Securitization. The inclusion (to the extent required) of semi-annual and quarterly true-  
21 ups, and optional interim true-ups, as I have recommended helps to mitigate the ratings  
22 agencies' concerns in this regard. Similarly, the rating agencies will view positively

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1 Consumers Energy's successful experience as servicer in both the 2001 Securitization and  
2 the 2014 Securitization.

3 **Q. From the perspective of the rating agencies evaluating the credit quality of the**  
4 **securitization bonds, is it possible to impose any limitations on the size of adjustments**  
5 **to the securitization charges that might be accomplished through the true-up**  
6 **mechanism?**

7 A. There can be no artificial or arbitrary limitations placed on the size of those adjustments  
8 over the life of the securitization bonds without jeopardizing the rating agency analysis that  
9 the securitization bonds merit triple-A ratings.

10 **Q. Please identify other features the financing order should contain.**

11 A. The financing order should reserve to Consumers Energy the sole discretion as to whether  
12 and when to issue securitization bonds. This discretion is critical to the Company's  
13 achieving the lowest financing cost possible, as receptive market conditions do not always  
14 exist. The financing order should also provide the Company with the ability to seek  
15 authority from the Commission to refinance outstanding securitization bonds if the  
16 indenture provisions provide for such a refinancing and market conditions in the future  
17 result in the absolute level of interest rates falling sufficiently to enable savings to result  
18 from such a refinancing. The financing order should also affirm the Company's use of the  
19 proceeds of the securitization bonds consistent with the Act.

20 **Q. Please describe the contents and purpose of a servicing agreement.**

21 A. The servicing agreement will be an agreement among Consumers Energy as initial servicer  
22 of the securitization bonds, the trustee and the SPE that is the Issuer of the bonds.  
23 Consumers Energy, as initial servicer, will be responsible for making all required and

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1 permitted filings with the Commission, including true-up adjustment filings, and for  
2 preparing and filing any other reports with the Commission, trustee, rating agencies and  
3 other interested parties. The servicing agreement sets forth the responsibilities and  
4 obligations of the servicer, including, among other things, billing and collection of  
5 securitization charges, responding to customer inquiries, terminating electric service, filing  
6 for true-up adjustments, and remitting collections to the trustee for distribution to  
7 bondholders. The servicing agreement would prohibit Consumers Energy, as the initial  
8 servicer, from resigning as servicer unless it shall no longer be permissible under applicable  
9 law for the initial servicer to continue in such a capacity. Such resignation would not be  
10 effective until a successor servicer has assumed the initial servicer's obligations in order to  
11 continue servicing the securitization property without interruption. The servicer may also  
12 be terminated from its responsibilities under certain instances upon a majority vote of  
13 bondholders, such as the failure to remit collections within a specified period of time. Any  
14 merger or consolidation of the servicer with another entity would require the merged entity  
15 to assume the servicer's responsibility under the servicing agreement. The terms of the  
16 servicing agreement are critical to the rating agency analysis of the Proposed Securitization  
17 and the ability to achieve the highest credit ratings.

18 The servicing agreements for the 2001 Securitization and the 2014 Securitization  
19 were filed with the Commission and satisfied all ratings agency criteria at the time. I would  
20 expect the servicing agreement to be quite similar to the 2014 Securitization for this new  
21 sale of securitization bonds, although it will be updated to reflect current rating agency  
22 standards. In addition, the rating agencies always reserve the ability to demand different  
23 features in a servicing agreement based upon the conditions at the time.

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As compensation for its role as servicer, Consumers Energy will receive a fixed servicing fee payable out of securitization charge collections in a per annum amount up to 0.05% of the original principal amount of securitization bonds. This servicing fee is meant to offer the servicer a reasonable compensation for services provided. In the 2001 Securitization, the servicing fee per annum was 0.25% of the outstanding principal amount of securitization bonds. More recently, the current standard for this fee is a fixed percentage of the original principal amount of the bonds (typically not in excess of 0.10% of such original principal amount), which has the benefit for the arms-length analysis of being a constant even when the amount of outstanding bonds is significantly reduced. In the 2014 Securitization, the servicing fee per annum was authorized up to 0.1% of the original principal amount of securitization bonds. Ensuring there is reasonable compensation to the servicer is important to the rating agencies and the bankruptcy analysis of the transaction since it assures that Consumers Energy is acting in an arms-length fashion as servicer of the securitization property. Utility securitizations to date have also allowed an increase in the servicing fee should a successor servicer, which is not part of the electric utility business and who decouples the securitization charge bill from other bill amounts, assume the obligations of the utility as servicer, since the successor servicer would require additional inducement because of its lack of a servicing relationship with utility distribution customers. Under the same analysis as above and consistent with current practice, this successor fee can be increased from the level authorized for Consumers Energy to a fixed 0.75% per year of the original principal amount of the securitization bonds.

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1           The servicer discussion in the proposed financing order delineates standard  
2 arrangements for servicing securitization bonds, in particular ensuring that such obligations  
3 are assignable and will be so assigned in the event of a servicer default. Allowing for  
4 commingling of securitization charges with funds of Consumers Energy eases  
5 administrative burden and is standard for utility securitization servicers. The use of  
6 estimates together with adjustments for actual tracked receipts is also normal for these  
7 transactions and may lend administrative ease for servicers that have systems reporting  
8 limitations.

9 **Q. In summary, what is critical for the financing order to convey?**

10 A. The financing order is the means by which the Commission definitively interprets the  
11 language of the Act and affirms the conformity of the financing with the applicable  
12 provisions of the Act. The Commission's findings and conclusions in the financing order  
13 provide the legal foundation upon which the rating agencies may definitively rely in order  
14 to determine the highest possible ratings for the securitization bonds. With the structure  
15 authorized in the financing order as proposed, the stability of the cash flows securing the  
16 securitization bonds will be maximized. The combination of maximized cash flow stability  
17 and highest possible ratings will allow the securitization bonds, when offered pursuant to  
18 the Company's financing plan, to be structured and priced so as to result in the lowest  
19 securitization charges consistent with market conditions and the terms of the financing  
20 order.

21           The financing order should also address two additional key issues that merit further  
22 discussion. The finality and irrevocability of the financing order should be affirmed. Thus,  
23 so long as the securitization bonds are outstanding, all of the rights and benefits arising

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1 from the securitization property created by virtue of the financing order may be definitively  
2 relied upon by the rating agencies and investors.

3 Equally important, the Commission, in the financing order, should definitively  
4 reaffirm the pledge of the state set forth in MCL 460.10(n) of the Act not to take or permit  
5 any action that would impair the value of the securitization property, or, except pursuant  
6 to a true-up adjustment, reduce or alter the securitization charges to be imposed, collected,  
7 and remitted to the financing parties, until the principal and interest, and any other charges  
8 incurred and contracts to be performed in connection with the securitization bonds have  
9 been paid and performed in full.

10 Securitization bond investors and rating agencies generally perceive the possibility  
11 of a change in law that affects the securitization property or their rights under the financing  
12 order as the greatest risk that securitization bonds might not be paid according to their  
13 terms. The Commission's reaffirmation in the financing order of the state's legislative  
14 non-impairment pledge will enhance investor perception that the risk of an adverse change  
15 in law or regulation is remote.

16 In addition, the Commission in the financing order should recognize the need for,  
17 and afford the Company, the flexibility to establish the final terms and conditions of the  
18 securitization bonds, flexibility which will allow the Company to achieve the structure and  
19 pricing that is expected to result in the lowest possible securitization charges consistent  
20 with market conditions, rating agency considerations, and the terms of the financing order.

21 **IX. CONCLUSION**

22 **Q. Please summarize your testimony.**

23 A. The elements of the financing order discussed above in my testimony will enable  
24 Consumers Energy to achieve the highest possible ratings for the Proposed Securitization

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1 and to structure the financing in a manner consistent with investor preferences at the time  
2 of sale. Moreover, the elements proposed for the financing order allow optimal pricing of  
3 the securitization bonds, resulting in the lowest securitization charges consistent with  
4 market conditions and the terms of the financing order. For these reasons, the Commission  
5 should adopt these elements in its financing order, as more precisely shown in Exhibit A-8  
6 (SL-2).

7 **Q. Does this complete your direct testimony at this time?**

8 **A.** Yes, it does.



**STATE OF MICHIGAN**  
**BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION**

\* \* \* \* \*

In the matter of the application of	)	
<b>CONSUMERS ENERGY COMPANY</b> for a	)	
financing order approving the securitization	)	
of qualified costs and related approvals.	)	Case No. U-20889
<hr/>	)	

**EXHIBITS**  
  
**OF**  
  
**STEFFEN LUNDE**  
  
**ON BEHALF OF**  
  
**CONSUMERS ENERGY COMPANY**

September 2020

**Annual Cash Flow Requirements of Proposed Transaction  
8 Year (Expected Case) (1)(2)**

Line	(A) Bond Payment Date (3)	(B) Principal	(C) Interest	(D) Total Debt Service	(E) Servicing & Expenses	(F) Total Cash Requirements (\$)	(G) Estimated Billings Under Securitization (\$)	(H) Total Annual Cash Requirements (\$)	(I) Estimated Annual Billings Under Securitization (\$ (4)
1	1.0	71,823,718.16	12,481,728.00	84,305,446.16	750,000.00	85,055,446.16	96,421,030.43	85,055,446.16	96,421,030.43
2	2.0	43,545,927.19	5,603,069.38	49,148,996.58	375,000.00	49,523,996.58	50,121,875.08	49,523,996.58	50,121,875.08
3	3.0	41,886,036.09	5,216,381.55	47,102,417.64	375,000.00	47,477,417.64	47,820,841.70	47,477,417.64	47,820,841.70
4	4.0	43,847,278.54	4,844,433.55	48,691,712.09	375,000.00	49,066,712.09	50,047,699.84	49,066,712.09	50,047,699.84
5	5.0	43,104,632.41	4,455,069.72	47,559,702.13	375,000.00	47,934,702.13	48,325,924.91	47,934,702.13	48,325,924.91
6	6.0	44,702,016.27	4,072,300.58	48,774,316.85	375,000.00	49,149,316.85	49,925,451.08	49,149,316.85	49,925,451.08
7	7.0	43,801,750.69	3,675,346.67	47,477,097.36	375,000.00	47,852,097.36	48,379,294.40	47,852,097.36	48,379,294.40
8	8.0	45,678,491.24	3,286,387.13	48,964,878.37	375,000.00	49,339,878.37	50,086,775.88	49,339,878.37	50,086,775.88
9	9.0	44,405,773.72	2,880,762.13	47,286,535.85	375,000.00	47,661,535.85	48,057,486.03	47,661,535.85	48,057,486.03
10	10.0	46,200,752.75	2,486,438.86	48,687,191.61	375,000.00	49,062,191.61	49,911,633.90	49,062,191.61	49,911,633.90
11	11.0	45,488,046.44	2,076,176.17	47,564,222.61	375,000.00	47,939,222.61	48,470,890.54	47,939,222.61	48,470,890.54
12	12.0	47,288,706.28	1,672,242.32	48,960,948.60	375,000.00	49,335,948.60	50,047,682.91	49,335,948.60	50,047,682.91
13	13.0	46,038,147.01	1,252,318.61	47,290,465.62	375,000.00	47,665,465.62	48,095,134.31	47,665,465.62	48,095,134.31
14	14.0	47,782,510.79	843,499.86	48,626,010.65	375,000.00	49,001,010.65	49,791,152.98	49,001,010.65	49,791,152.98
15	15.0	47,206,212.40	419,191.17	47,625,403.57	375,000.00	48,000,403.57	48,645,086.97	48,000,403.57	48,645,086.97
16	16.0	-	-	-	-	-	-	-	-
17	17.0	-	-	-	-	-	-	-	-
18	18.0	-	-	-	-	-	-	-	-
19	19.0	-	-	-	-	-	-	-	-
20	20.0	-	-	-	-	-	-	-	-
21	21.0	-	-	-	-	-	-	-	-
22	22.0	-	-	-	-	-	-	-	-
23	23.0	-	-	-	-	-	-	-	-
24	24.0	-	-	-	-	-	-	-	-
25	25.0	-	-	-	-	-	-	-	-
26	26.0	-	-	-	-	-	-	-	-
27	27.0	-	-	-	-	-	-	-	-
28		702,800,000.00	55,265,345.69	758,065,345.69	6,000,000.00	764,065,345.69	784,147,960.96	764,065,345.69	784,147,960.96
29					Weighted Average Coupon (5):	1.7760%			

- These preliminary results are subject to change or amendment based on market conditions at the time of offering and are based in part on information provided by Consumers Energy. No representation or warranty is being made relating to this structure. Estimates of future performance are based on assumptions that may not be realized. Actual events may account for any projections or estimates, and Clitgroup does not represent that any such assumptions will reflect actual future events.
- Assumes triple-A ratings obtained from at least two major NRSRO's.
- All bond payment dates will be semi-annual except the first which is estimated to be 365 days after issuance.
- Consumers Energy provided a 8-year forecast for consumer power consumption for the periods from 2023-2031 and collection history for 2014 – 2019, which formed the basis for the collection curve assumed. Assume 0% of consumption invoiced in the first billing month (April 2023) will be subject to the securitization charge.
- Swap Benchmarks are determined using interpolated Bloomberg Forward Swap Rates for 04/30/2023 effective date, as of 08/03/2020

**Annual Cash Flow Requirements of Proposed Transaction  
8 Year (Expected Case) (1)/(2)**

Line	(A) Bond Payment Date (3)	(B) Principal	(C) Interest	(D) Total Debt Service	(E) Servicing & Expenses	(F) Total Cash Requirements (\$)	(G) Estimated Billings Under Securitization (\$)	(H) Total Annual Cash Requirements (\$)	(I) Estimated Annual Billings Under Securitization (\$) (4)
1	1.0	55,517,302.64	47,994,212.00	103,511,514.64	750,000.00	104,261,514.64	118,193,521.17	104,261,514.64	118,193,521.17
2	2.0	38,122,020.41	22,101,467.70	60,223,488.11	375,000.00	60,598,488.11	61,285,297.19	118,585,537.67	119,690,754.02
3	3.0	36,812,258.24	20,799,791.31	57,612,049.56	375,000.00	57,987,049.56	58,405,456.83	118,585,537.67	119,690,754.02
4	4.0	40,047,904.87	19,542,836.76	59,590,741.63	375,000.00	59,965,741.63	61,180,267.37	118,585,537.67	120,278,848.87
5	5.0	40,069,394.99	18,175,401.04	58,244,796.04	375,000.00	58,619,796.04	59,098,581.50	118,585,537.67	120,278,848.87
6	6.0	42,910,078.12	16,807,231.55	59,717,309.67	375,000.00	60,092,309.67	61,035,852.66	118,585,537.67	120,278,848.87
7	7.0	42,776,161.06	15,342,066.94	58,118,228.00	375,000.00	58,493,228.00	59,137,536.37	118,585,537.67	120,278,848.87
8	8.0	46,059,882.29	13,881,474.92	59,941,357.21	375,000.00	60,316,357.21	61,231,305.62	118,585,537.67	119,984,603.23
9	9.0	45,585,420.23	12,308,760.23	57,894,180.46	375,000.00	58,269,180.46	58,753,297.61	118,585,537.67	120,273,295.97
10	10.0	48,852,748.40	10,752,246.06	59,604,994.46	375,000.00	59,979,994.46	61,017,805.54	118,585,537.67	120,273,295.97
11	11.0	49,146,374.24	9,084,168.97	58,230,543.21	375,000.00	58,605,543.21	59,255,490.43	118,585,537.67	120,273,295.97
12	12.0	52,532,515.97	7,406,066.02	59,938,581.99	375,000.00	60,313,581.99	61,183,912.25	118,585,537.67	119,981,151.53
13	13.0	52,284,612.42	5,612,343.26	57,896,955.68	375,000.00	58,271,955.68	58,797,239.28	118,585,537.67	119,981,151.53
14	14.0	55,702,409.44	3,827,085.17	59,529,494.61	375,000.00	59,904,494.61	60,870,376.02	118,585,537.67	120,339,550.08
15	15.0	56,380,916.66	1,925,126.40	58,306,043.06	375,000.00	58,681,043.06	59,469,174.06	118,585,537.67	120,339,550.08
16	16.0	-	-	-	-	-	-	-	-
17	17.0	-	-	-	-	-	-	-	-
18	18.0	-	-	-	-	-	-	-	-
19	19.0	-	-	-	-	-	-	-	-
20	20.0	-	-	-	-	-	-	-	-
21	21.0	-	-	-	-	-	-	-	-
22	22.0	-	-	-	-	-	-	-	-
23	23.0	-	-	-	-	-	-	-	-
24	24.0	-	-	-	-	-	-	-	-
25	25.0	-	-	-	-	-	-	-	-
26	26.0	-	-	-	-	-	-	-	-
27	27.0	-	-	-	-	-	-	-	-
28		702,800,000.00	225,560,278.33	928,360,278.33	6,000,000.00	934,360,278.33	958,915,113.91	934,360,278.33	958,915,113.91
29				Weighted Average Coupon (5):	6.8290%				

- These preliminary results are subject to change or amendment based on market conditions at the time of offering and are based in part on information provided by Consumers Energy. No representation or warranty is being made relating to this structure. Estimates of future performance are based on assumptions that may not be realized. Actual events may account for and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates, and Citigroup does not represent that any such assumptions will reflect actual future events.
- Assumes triple-A ratings obtained from at least two major NRSRO's.
- All bond payment dates will be semi-annual except the first which is estimated to be 365 days after issuance.
- Consumers Energy provided a 8-year forecast for consumer power consumption for the periods from 2023-2031 and collection history for 2014 – 2019, which formed the basis for the collection curve assumed. Assume 0% of consumption invoiced in the first billing month (April 2023) will be subject to the securitization charge.
- Swap Benchmarks are determined using interpolated Bloomberg Forward Swap Rates for 04/30/2023 effective date, as of 08/03/2020.

**Annual Cash Flow Requirements of Proposed Transaction  
14 Year (Expected Case) (1)(2)**

Line	(A) Bond Payment Date (3)	(B) Principal	(C) Interest	(D) Total Debt Service	(E) Servicing & Expenses	(F) Total Cash Requirements (\$)	(G) Estimated Billings Under Securitization (\$)	(H) Total Annual Cash Requirements (\$)	(I) Estimated Annual Billings Under Securitization (\$ (4)
1	1.0	36,369,229.73	15,285,900.00	51,655,129.73	750,000.00	52,405,129.73	59,407,796.17	52,405,129.73	59,407,796.17
2	2.0	22,927,595.37	7,247,434.63	30,175,030.00	375,000.00	30,550,030.00	30,934,074.11	30,934,074.11	30,934,074.11
3	3.0	21,950,923.19	6,998,093.19	28,949,020.22	375,000.00	29,324,020.22	29,536,486.04	59,874,050.22	60,470,560.15
4	4.0	23,158,485.87	6,759,380.74	29,917,846.60	375,000.00	30,292,846.60	30,893,171.02	59,874,050.22	60,715,683.00
5	5.0	22,698,671.20	6,507,532.42	29,206,203.62	375,000.00	29,581,203.62	29,822,511.98	59,874,050.22	60,715,683.00
6	6.0	23,699,447.12	6,260,684.37	29,960,131.49	375,000.00	30,335,131.49	30,815,999.88	59,874,050.22	60,680,397.64
7	7.0	23,160,965.84	6,002,952.88	29,163,918.73	375,000.00	29,538,918.73	29,864,397.76	59,874,050.22	60,680,397.64
8	8.0	24,329,711.33	5,751,077.38	30,080,788.71	375,000.00	30,455,788.71	30,916,179.21	59,874,050.22	60,578,819.33
9	9.0	23,556,769.74	5,486,491.77	29,043,261.51	375,000.00	29,418,261.51	29,662,640.13	59,874,050.22	60,578,819.33
10	10.0	24,678,015.84	5,230,311.90	29,908,327.74	375,000.00	30,283,327.74	30,807,864.30	59,874,050.22	60,726,766.57
11	11.0	24,253,784.00	4,961,938.48	29,215,722.48	375,000.00	29,590,722.48	29,918,902.28	59,874,050.22	60,726,766.57
12	12.0	25,379,494.25	4,698,178.58	30,077,672.83	375,000.00	30,452,672.83	30,891,913.60	59,874,050.22	60,578,501.00
13	13.0	24,624,200.81	4,422,176.58	29,046,377.39	375,000.00	29,421,377.39	29,686,587.40	59,874,050.22	60,578,501.00
14	14.0	25,716,415.38	4,154,388.39	29,870,803.77	375,000.00	30,245,803.77	30,733,545.16	59,874,050.22	60,759,723.03
15	15.0	26,378,524.07	3,874,722.37	29,253,246.44	375,000.00	29,628,246.44	30,026,177.87	59,874,050.22	60,759,723.03
16	16.0	25,523,586.43	3,598,730.93	30,122,317.36	375,000.00	30,497,317.36	30,869,443.66	59,874,050.22	60,546,761.74
17	17.0	25,691,445.94	3,310,286.92	29,001,732.86	375,000.00	29,376,732.86	29,677,318.08	59,874,050.22	60,546,761.74
18	18.0	26,912,872.17	3,030,892.45	29,943,764.61	375,000.00	30,318,764.61	30,820,523.21	59,874,050.22	60,694,098.62
19	19.0	26,442,070.64	2,738,214.96	29,180,285.60	375,000.00	29,555,285.60	29,873,575.41	59,874,050.22	60,694,098.62
20	20.0	27,623,095.45	2,450,657.45	30,073,752.89	375,000.00	30,448,752.89	30,916,552.09	59,874,050.22	60,578,338.77
21	21.0	26,900,041.04	2,150,256.28	29,050,297.33	375,000.00	29,425,297.33	29,661,786.68	59,874,050.22	60,578,338.77
22	22.0	28,037,426.08	1,857,718.34	29,895,144.42	375,000.00	30,270,144.42	30,802,082.67	59,874,050.22	60,732,757.43
23	23.0	27,676,094.47	1,552,811.33	29,228,905.80	375,000.00	29,603,905.80	29,930,674.76	59,874,050.22	60,732,757.43
24	24.0	28,780,676.31	1,251,833.80	30,032,510.11	375,000.00	30,407,510.11	30,831,132.46	59,874,050.22	60,617,954.07
25	25.0	28,152,696.17	938,843.95	29,091,540.11	375,000.00	29,466,540.11	29,786,821.62	59,874,050.22	60,617,954.07
26	26.0	29,342,352.96	632,683.37	29,975,036.33	375,000.00	30,350,036.33	30,811,568.78	59,874,050.22	60,617,954.07
27	27.0	28,835,428.60	313,585.29	29,149,013.89	375,000.00	29,524,013.89	29,853,333.61	59,874,050.22	60,664,902.39
28		702,800,000.00	117,467,782.57	820,267,782.57	10,500,000.00	830,767,782.57	847,753,059.91	830,767,782.57	847,753,059.91

29 Weighted Average Coupon (5): 2.1750%

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- All bond payment dates will be semi-annual except the first which is estimated to be 365 days after issuance.
- Consumers Energy provided an 8-year forecast for consumer power consumption for the periods from 2023-2031 and collection history for 2014 – 2019, which formed the basis for the collection curve assumed. Assume 0% of consumption invoiced in the first billing month (April 2023) will be subject to the securitization charge.
- Swap Benchmarks are determined using interpolated Bloomberg Forward Swap Rates for 04/30/2023 effective date, as of 08/03/2020.

**Annual Cash Flow Requirements of Proposed Transaction  
14 Year (Expected Case) (1)(2)**

Line	(A) Bond Payment Date (3)	(B) Principal	(C) Interest	(D) Total Debt Service	(E) Servicing & Expenses	(F) Total Cash Requirements (\$)	(G) Estimated Billings Under Securitization (\$)	(H) Total Annual Cash Requirements (\$)	(I) Estimated Annual Billings Under Securitization (\$ (4)
1	1.0	21,496,245.81	49,090,580.00	70,586,825.81	750,000.00	71,336,825.81	80,869,251.33	71,336,825.81	80,869,251.33
2	2.0	17,359,636.18	23,794,533.62	41,154,169.80	375,000.00	41,529,169.80	42,027,603.22	81,335,136.00	82,121,434.82
3	3.0	16,242,717.88	23,188,248.32	39,430,966.21	375,000.00	39,805,966.21	40,093,831.60	81,335,136.00	82,486,757.74
4	4.0	18,144,947.62	22,620,971.40	40,765,919.02	375,000.00	41,140,919.02	41,964,469.30	81,335,136.00	82,486,757.74
5	5.0	17,831,957.87	21,987,259.10	39,819,216.98	375,000.00	40,194,216.98	40,522,288.44	81,335,136.00	82,486,757.74
6	6.0	19,472,377.67	21,364,477.97	40,836,855.64	375,000.00	41,211,855.64	41,862,293.75	81,335,136.00	82,486,757.74
7	7.0	19,063,875.17	20,684,405.18	39,748,280.36	375,000.00	40,123,280.36	40,565,319.19	81,335,136.00	82,486,757.74
8	8.0	20,977,457.95	20,018,599.34	40,996,057.29	375,000.00	41,371,057.29	41,997,448.01	81,335,136.00	82,486,757.74
9	9.0	20,303,117.08	19,285,961.63	39,589,078.71	375,000.00	39,964,078.71	40,296,084.79	81,335,136.00	82,486,757.74
10	10.0	22,186,546.84	18,576,546.84	40,763,422.10	375,000.00	41,138,422.10	41,850,632.56	81,335,136.00	82,486,757.74
11	11.0	22,019,703.79	17,802,010.11	39,821,713.90	375,000.00	40,196,713.90	40,642,512.88	81,335,136.00	82,486,757.74
12	12.0	23,959,922.93	17,032,971.96	40,992,894.89	375,000.00	41,367,894.89	41,964,694.82	81,335,136.00	82,486,757.74
13	13.0	23,396,069.46	16,196,171.65	39,592,241.11	375,000.00	39,967,241.11	40,327,516.38	81,335,136.00	82,486,757.74
14	14.0	25,333,012.16	15,379,063.92	40,712,076.09	375,000.00	41,087,076.09	41,749,600.84	81,335,136.00	82,486,757.74
15	15.0	25,378,751.44	14,494,308.47	39,873,059.91	375,000.00	40,248,059.91	40,788,623.09	81,335,136.00	82,486,757.74
16	16.0	27,445,716.07	13,607,955.58	41,053,671.65	375,000.00	41,428,671.65	41,934,196.42	81,335,136.00	82,486,757.74
17	17.0	26,882,050.41	12,649,413.95	39,531,464.36	375,000.00	39,906,464.36	40,314,791.02	81,335,136.00	82,486,757.74
18	18.0	29,100,585.15	11,710,588.34	40,811,143.48	375,000.00	41,186,143.48	41,867,745.93	81,335,136.00	82,486,757.74
19	19.0	29,079,772.12	10,694,220.40	39,773,992.52	375,000.00	40,148,992.52	40,581,369.04	81,335,136.00	82,486,757.74
20	20.0	31,309,106.48	9,678,609.36	40,987,715.83	375,000.00	41,362,715.83	41,998,193.44	81,335,136.00	82,486,757.74
21	21.0	31,012,281.35	8,585,138.81	39,597,420.17	375,000.00	39,972,420.17	40,293,676.16	81,335,136.00	82,486,757.74
22	22.0	33,243,055.54	7,502,034.89	40,745,090.42	375,000.00	41,120,090.42	41,842,694.51	81,335,136.00	82,486,757.74
23	23.0	33,499,024.40	6,341,021.17	39,840,045.58	375,000.00	40,215,045.58	40,658,940.66	81,335,136.00	82,486,757.74
24	24.0	35,760,624.30	5,171,067.75	40,931,692.05	375,000.00	41,306,692.05	41,882,156.61	81,335,136.00	82,486,757.74
25	25.0	35,731,316.01	3,922,127.94	39,653,443.95	375,000.00	40,028,443.95	40,463,526.27	81,335,136.00	82,486,757.74
26	26.0	38,179,406.16	2,674,211.73	40,853,617.89	375,000.00	41,228,617.89	41,855,580.66	81,335,136.00	82,486,757.74
27	27.0	38,390,722.14	1,340,795.97	39,731,518.11	375,000.00	40,106,518.11	40,553,878.26	81,335,136.00	82,486,757.74
28		702,800,000.00	415,393,593.84	1,118,193,593.84	10,500,000.00	1,128,693,593.84	1,151,768,919.16	1,128,693,593.84	1,151,768,919.16

Weighted Average Coupon (5): 6.9850%

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- Consumers Energy provided a 8-year forecast for consumer power consumption for the periods from 2023-2031 and collection history for 2014 – 2019, which formed the basis for the collection curve assumed. Assume 0% of consumption invoiced in the first billing month (April 2023) will be subject to the securitization charge.
- Swap Benchmarks are determined using interpolated Bloomberg Forward Swap Rates for 04/30/2023 effective date, as of 08/03/2020.

**Form of Financing Order**

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the )  
Securitization of Qualified Costs. )  
\_\_\_\_\_ )

Case No. U-20889

At the \_\_\_\_\_, 2020 meeting of the Michigan Public Service Commission in  
Lansing, Michigan.

PRESENT: Hon. Daniel C. Scripps, Chairman  
Hon. Tremaine L. Phillips, Commissioner  
Hon. Sally A. Talberg, Commissioner

**OPINION AND ORDER**

**I.**

**BACKGROUND AND HISTORY OF PROCEEDINGS**

On September 18, 2020, Consumers Energy Company (“Consumers” or the “Company”) filed an application, with supporting testimony and exhibits, seeking a financing order authorizing the issuance of securitization bonds in an amount up to \$702.8 million to cover qualified costs.

The application was filed pursuant to 2000 PA 142 (“Act 142”), which amended 1939 PA 3, MCL 460.1 et seq., and that, among other things, allows certain utilities<sup>1</sup> the option of reducing their costs through the issuance of securitization bonds.<sup>2</sup> The application requested

<sup>1</sup> Consumers meets the requirements to seek a financing order. See, MCL 460.10h(c); MCL 460.562(d).

<sup>2</sup> Securitization is the process by which a utility – following the issuance of a financing order by the Commission – utilizes highly rated low-cost debt in the form of securitization bonds issued by a special purpose entity for legislatively sanctioned financing purposes in lieu of using its own higher-cost equity and lower rated, higher cost debt.

authority to: (1) create one or more special purpose entities (each, an “SPE<sup>3</sup>”) to which Consumers would transfer specified “securitization property” for the purpose of minimizing bankruptcy risks and maximizing the ratings on the securitization bonds; (2) implement securitization charges of the SPE to be collected from Consumers’ customers<sup>4</sup>, as well as a mechanism for undertaking periodic true-ups of those securitization charges; (3) choose to proceed or not, at Consumers’ sole discretion, with the sale of the securitization bonds authorized in this case; and (4) employ appropriate methodologies to account for these transactions and to eventually refund or retire any or all of the securitization bonds.

Pursuant to due notice, a prehearing conference was held on \_\_\_\_\_, 2020 before Administrative Law Judge \_\_\_\_\_ (“ALJ”). In the course of the prehearing conference, the ALJ granted intervenor status to \_\_\_\_\_. The Commission Staff (“Staff”) also participated in the proceedings. The ALJ established a schedule for this case that would result in the completion of all proceedings and the issuance of the Commission’s financing order within 90 days after the filing of the application.

Evidentiary hearings were conducted on \_\_\_\_\_, 2020. The record consists of \_\_\_\_\_ pages of transcript and \_\_\_\_\_ exhibits. Initial Briefs were filed on \_\_\_\_\_, 2020. Reply Briefs were filed on \_\_\_\_\_, 2020. In part to expedite this proceeding, the Commission granted Consumers’ request, in its application, to dispense with the preparation of a Proposal for Decision, exceptions, and replies to exceptions, and read the record.

<sup>3</sup> For purposes of this financing order, all references to the SPE shall be applicable to all SPEs that are created to issue a series of securitization bonds.

<sup>4</sup> As used throughout this financing order, unless a different subset of the Company’s customers is expressly specified or the context clearly indicates that a different subset of the Company’s customers was intended, the term “customers” refers to all existing and future retail electric distribution customers of Consumers or its successors, except for current choice customers to the extent such current choice customers do not revert to full service customers after the date of this financing order, customers using self-service power as defined in MCL 460.10a(4), and customers engaged in affiliate wheeling as defined in MCL 460.10a(10).



Act 142 provides the opportunity for the issuance of securitization bonds and the authorization for a utility to impose, collect, and receive securitization charges to recover the qualified costs of electric utilities. As defined in Section 10h(c) of Act 142, the entities eligible for securitization are those falling within the definition of “electric utility” in Section 2 of the Electric Transmission Line Certification Act, 1995 PA 30, MCL 460.562. Consumers satisfies that definition. The Commission has previously issued financing orders that resulted in the sale of securitization bonds for Consumers in: (i) Case No. U-12505, which resulted in Consumers completing a sale of securitization bonds in November 2001; and (ii) Case No. U-17473, which resulted in Consumers completing a sale of securitization bonds in July 2014. Before Consumers could complete the securitization transaction authorized in Case No. U-12505, the Commission’s financing order was appealed to the Michigan Court of Appeals by the Attorney General, where it was unanimously affirmed by the Court, *Attorney General v Public Service Commission*, 247 Mich App 35; 634 NW2d 710 (2001).

## II.

### **OVERVIEW OF CONSUMERS’ PROPOSAL**

On June 15, 2018, Consumers filed a request for approval of an Integrated Resources Plan in Case No. U-20165. The Commission issued an Order Approving Settlement Agreement in that case on June 7, 2019. Paragraph 3 of the Settlement Agreement stated the signatories’ agreement that the Company would retire Units 1 and 2 of the D.E. Karn coal-fired generation plant in 2023.<sup>5</sup> The settlement provision further stated that “[t]he Company agrees to seek recovery of the Karn Units 1 and 2 unrecovered book balance by no later than May 31, 2023, filing an application under the applicable provisions of Customer Choice and Electricity

<sup>5</sup> D.E. Karn Units 1 and 2 refer to two coal-fired generation Units currently owned and operated by Consumers. These coal-fired generation units are referred to as “Karn Units 1 and 2” throughout this financing order.



Reliability Act, MCL 460.10 *et seq.*, seeking a financing order from the Commission authorizing Consumers Energy to recover the unrecovered book balance of Karn Units 1 and 2.” Consumers filed its application in this case in accordance with this provision.

Consistent with the Settlement Agreement approved in Case No. U-20165, Consumers is planning to cease operating its Karn Units 1 and 2 in 2023. Consumers is requesting to finance up to \$702.8 million of Qualified Costs through the issuance of securitization bonds. This amount is comprised of the unrecovered book balance of Karn Units 1 and 2 through April 30, 2023 as discussed in the testimony of Company witness Todd A. Wehner, which is comprised of an April 30, 2023 projected unrecovered book balance of \$691.2 million as supported by Company witness Daniel L Harry, and \$11.6 million of Initial Other Qualified Costs, as discussed in the testimony of Company witness Wehner. Company witness Heidi J. Myers testified that qualified costs have been calculated at the gross amount rather than “net of tax.” The total qualified costs that Consumers is proposing to finance is up to \$702.8 million.

Company witness Steffen Lunde, a Director in the Global ABS Financing and Securitization Group of Citigroup Global Markets Inc., described the securitization process and provided an overview of Consumers’ proposal. As explained by Mr. Lunde, securitization separates the credit quality of the issued bonds from that of the Company in order to achieve higher credit ratings and lower financing costs. In order to accomplish this, he states, Consumers proposes to sell the revenue stream and other entitlements and property created by the financing order (i.e. the “securitization property”) to a bankruptcy remote SPE, which sale, pursuant to Act 142, will constitute a “true sale” for bankruptcy purposes. This “true sale” is designed to insulate the securitization property from creditors of Consumers and, thereby, from the credit risk of the

Company.<sup>6</sup> According to Mr. Lunde, a trustee will also be appointed to: (1) act on behalf of the bondholders; (2) remit payments to these bondholders; and (3) ensure that the bondholders' rights are protected in accordance with the terms of the financing documents. The securitization property and certain other related collateral will be pledged to the trustee, and the SPE will then issue bonds supported by the underlying collateral to investors. In addition to the bankruptcy remote status of the SPE, he continued, credit enhancements, such as capital contributions at the outset of the transaction and a true-up mechanism, will be used to obtain the desired "triple-A" or AAA rating for the securitization bonds. Although he does not believe it will be needed in this case, Mr. Lunde states that Consumers would like to be authorized to use a letter of credit and/or an overcollateralization subaccount, which may be later deemed necessary as additional credit enhancement in the context of the credit ratings review process, the optimal bond structure, and market conditions. \_\_ TR \_\_.

Mr. Lunde went on to state that the securitization property that is sold to the SPE is composed of the rights and interests of Consumers under the financing order, including the right to impose, collect, and receive from Consumers' customers amounts necessary to pay principal and interest on the securitization bonds, as well as the SPE's "Ongoing Other Qualified Costs," timely and in full, and including the right to adjust the amounts of securitization charges through

<sup>6</sup> Pursuant to MCL 460.10/(2), this designation as a "true sale" applies regardless of whether the purchaser has any recourse against the seller, or any other term of the parties' agreement, including the seller's retention of an equity interest in the securitization property, the fact that Consumers may act as the collector of securitization charges, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.

the periodic use of a true-up mechanism.<sup>7</sup> According to Mr. Lunde, the phrase “Ongoing Other Qualified Costs” refers to certain “qualified costs arising from the issuance of securitization bonds that will be payable from securitization charge collections on an ongoing basis over the transaction’s life.” These primarily include servicing fees, trustee fees and expenses, auditor expenses and administrative fees, rating agency fees, independent manager fees, SEC reporting expenses, and other operating expenses incurred by, or on behalf of, the SPE. The Ongoing Other Qualified Costs, which are set forth on Exhibit A-20 (TAW-3), are estimated at about \$750,000 per year.

When put into effect, Consumers’ proposal is designed to establish nonbypassable securitization charges expressed in cents per kilowatt-hour (“kWh”). These securitization charges will be stated as a separate charge on customers’ bills. Consumers further proposes a system of periodic true-up adjustments to the securitization charges intended to ensure that the dedicated revenue stream from the securitization charge is adequate to pay, in a timely manner, all scheduled payments of the principal and interest on the securitization bonds, as well as all related other qualified costs. At least initially, Consumers will act as the servicer for the SPE. In that capacity, Consumers will bill and collect the securitization charge, perform the periodic true-

<sup>7</sup> As stated in MCL 460.10j(2), securitization property shall constitute a present property right even though the imposition and collection of securitization charges depends on further acts of the electric utility or others that have not yet occurred. Moreover, pursuant to MCL 460.10m(2) and MCL 460.10m(4), the lien and security interest of the trustee in the securitization property shall attach automatically once value is received for the securitization bonds, shall constitute a continuously perfected lien and security interest, and shall not be impaired by any later modification of the financing order or by the commingling of funds arising from securitization charges with other funds. As stated in MCL 460.10n(2), the State of Michigan pledges not to take or permit any action that would impair the value of the securitization property or that would reduce or alter—except as allowed in the context of a true-up procedure undertaken pursuant to MCL 460.10k(3)—or otherwise impair the securitization charges approved in this financing order. Finally, as set forth in MCL 460.10m(8), any changes in either the financing order or the securitization charges do not affect the validity, perfection, or priority of the security interest in the securitization property.

ups and calculate any necessary adjustments to that securitization charge, and undertake related activities.

Mr. Lunde stressed that any financing order approving Consumers' proposal must contain certain elements. These include terms which, when combined with the elements of Act 142, ensure that securitization will produce revenues adequate to meet scheduled debt service requirements and the SPE's Ongoing Other Qualified Costs on a timely basis. Among the most significant of these terms are: (1) irrevocability of the financing order and a reaffirmation by the Commission of the state's non-impairment pledge; (2) nonbypassability of the securitization charges among the retail electric distribution customers of Consumers and its successors, irrespective of the source of generation provided to customers with limited predefined exceptions; (3) an annual true-up mechanism (with semi-annual or more frequent true-ups if needed) subject only to mathematical review by the Commission; and (4) aggregate securitization charges collected from customers for all such securitization transactions which do not exceed aggregate amounts likely to result in stress. He asserted that the financing order should specifically reserve to Consumers the sole discretion as to whether and when to issue securitization bonds. \_\_\_ Tr \_\_\_. According to Mr. Lunde, this discretion is critical to Consumers' achieving the lowest financing cost possible because receptive market conditions do not always exist. Likewise, he asks that Consumers be authorized to refinance outstanding securitization bonds if indenture provisions so provide and if market conditions in the future are such that refinancing would allow for the creation of sufficient additional savings.

Mr. Lunde explained that the true-up mechanism represents the most fundamental component of credit enhancement to the rating agencies and investors and is a cornerstone of the credit ratings achieved in prior utility securitization transactions. He indicated that consistent

with current market and rating agency standards, in addition to the annual true-up mandated by Section 10k(3) of Act 142, true-up adjustments should be required on a semi-annual basis (and quarterly beginning one year prior to the expected final payment date of any series, class or tranche of the securitization bonds) if the servicer determines that a true-up adjustment is needed to ensure the expected recovery during the succeeding 12 months of amounts sufficient to pay scheduled principal and interest on the securitization bonds, the SPE's Ongoing Other Qualified Costs, and amounts necessary to replenish the Capital Subaccount balance. Mr. Lunde also testified that interim true-ups should be permitted more frequently if the servicer determines the true-up is needed to meet the SPE's financial obligations as described above.

### **III.**

#### **DISCUSSION**

Act 142 establishes the legal framework by which the Commission may authorize the issuance of securitization bonds. Consumers' Application in this case raises several significant issues to be resolved by the Commission in the context of Act 142. First, it must determine what amount of Consumers' proposed qualified costs should be deemed recoverable through securitization. Second, it must decide whether the utility's proposal satisfies the statutory requirements of Act 142. Third, it should examine Consumers' proposal regarding the use of the securitization proceeds. Fourth, it must decide whether the various amortization, accounting, and ratemaking approvals requested by the utility to effectuate the proposed financing of its qualified costs are reasonable and should be approved. Fifth, it needs to determine whether the utility's proposed securitization charge (namely, the charges Consumers seeks to impose on customers to fund repayment of the securitization bonds) is reasonable both in amount and rate design. Sixth,

it must rule on whether the utility's proposed securitization charge true-up mechanism is reasonable and should be approved. These issues will be addressed seriatim.

A. Qualified Costs Being Financed

Key to the issuance of a financing order like that requested by Consumers is the Commission's determination of the amount of qualified costs to be recovered. Qualified costs are defined in Section 10h(g) of Act 142 as follows:

"Qualified costs" means an electric utility's regulatory assets as determined by the commission, adjusted by the applicable portion of related investment tax credits, plus any costs that the commission determines that the electric utility would be unlikely to collect in a competitive market, including, but not limited to, retail open access implementation costs and the costs of a commission approved restructuring, buyout or buy-down of a power purchase contract, together with the costs of issuing, supporting, and servicing securitization bonds and any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of securitization bonds. Qualified costs include taxes related to the recovery of securitization charges. MCL 460.10h(g).

As the Commission previously stated in its December 6, 2013 Opinion and Order in Case No. U-17473, the plain language of the statute describes three potential categories of qualified costs: (1) regulatory assets as determined by the Commission; (2) any costs that the Commission determines that the electric utility would be unlikely to collect in a competitive market; and (3) the costs of issuing, supporting, and servicing the securitization bonds and costs of retiring and refunding the electric utility's debt and equity existing at the time of the issuance of the securitization bonds. The first category grants broad discretion to the Commission; the second category requires a finding that the costs are unlikely to be recovered under the current regulatory scheme; and the third category is subject to automatic approval if securitization is granted and the proposed costs meet the statutory definition.

According to the testimony presented by Consumers, the qualified costs that the utility seeks to securitize through the issuance of securitization bonds are: (i) the unrecovered book balance of Karn Units 1 and 2; and (ii) the estimated initial cost of issuing the securitization bonds, along with the estimated cost of retiring and refunding portions of Consumers' debt securities existing at the time of the issuance of the securitization bonds (referred to in the testimony of Company witness Wehner as "Initial Other Qualified Costs").

With respect to the unrecovered book balance associated with Consumers' Karn Units 1 and 2, Consumers witness Wehner testified that, the unrecovered book balance for Karn Units 1 and 2 would be unlikely to be collected in a competitive market and should therefore be determined to be regulatory assets eligible for recovery through securitization. For that reason, Consumers contends that those costs are properly classified as "qualified costs."

The calculation of the unrecovered book balance of the generation assets as of April 30, 2023, (the earliest date a securitization transaction is assumed to occur for purposes of Consumers' filing) was provided by Consumers in the testimony of Company witness Daniel L. Harry, Director of General Accounting at Consumers. Mr. Harry made these calculations by walking forward the current plant investment on Consumers' books for the affected units and walking forward accumulated depreciation from December 31, 2019 to April 30, 2023 (using Consumers' approved depreciation rates). These costs can be broken down as follows:

Unrecovered book balance of generating units *	\$691.2 million
Initial Securitization Issuance	
Costs (estimated)	\$11.6 million
<b>TOTAL</b>	<b>\$702.8 million</b>

\* The unrecovered book balance is listed as of April 30, 2023. The amount of the securitization bonds actually issued will be adjusted to match the actual book balance of the generating units at the end of the most recent month before the securitization bonds are issued.

Company witness Wehner states that, in addition to the qualified costs which will be financed through the issuance of the securitization bonds as described above, qualified costs also include the SPE's Ongoing Other Qualified Costs to include annual costs of the SPE as it pays debt service, both interest and principal amortization, on the securitization bonds, i.e. these are Qualified Costs pursuant to the statute. These Ongoing Other Qualified Costs include an annual servicing fee (of 0.05% of the initial principal amount of the securitization bonds if Consumers is servicer, and up to 0.75% of the initial principal amount of the securitization bonds if another entity becomes the servicer), as well as the auditor expenses relating to the securitization bonds, trustee fees, independent manager fees, rating agency fees, SEC reporting expenses, the administrative fee, and, to the extent deemed necessary in the context of the credit ratings review process, the optimal bond structure, and market conditions, a letter of credit and/or an overcollateralization subaccount. Consumers estimates that these ongoing expenses will total approximately \$750,000 per year. See Exhibit A-20 (TAW-3). Consumers seeks to meet these Ongoing Other Qualified Costs obligations through the revenues produced by the securitization charge. Variations in the actual amount of ongoing costs to be recovered will be met through the adjustment of the securitization charge by means of the true-up mechanism.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS]

In addressing the issue of the proper amount of qualified costs to be financed through the issuance of securitization bonds, the Commission notes that the following costs are explicitly recognized as being qualified costs within the text of the statutory definition contained in Act 142: "the costs of issuing, supporting, and servicing securitization bonds and any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of securitization bonds." MCL 460.10h(g). These classes of qualified costs are



approved for recovery through securitization charges by the Commission because they meet the statutory definition.

Consumers has proposed that the unrecovered book balance of Karn Units 1 and 2 are properly considered “qualified costs” as that term is used in Act 142, and the Commission agrees. The Commission, in its June 7, 2019 Order Approving Settlement Agreement, previously determined that the retirement of Karn Units 1 and 2 in 2023 was in the public interest and would result in significant customer savings. Accordingly, the Commission finds that the unrecovered book balance of Karn Units 1 and 2 are costs that are unlikely to be recovered in a competitive market. Additionally, the Commission has previously found, and the Court of Appeals has affirmed, that the Commission may confer regulatory asset status on generation assets at the same time that the Commission authorizes the use of securitization to finance those assets. See *Attorney General v Public Service Comm*, 247 Mich App 35; 634 NW2d 710 (2001). The Commission finds that the remaining unrecovered book balance of Karn Units 1 and 2 is a generation-related asset that qualifies for treatment as a regulatory asset as that term is used in Act 142. The remaining unrecovered book balance of Karn Units 1 and 2 and the costs of issuing, supporting, and servicing securitization bonds and any costs of retiring and refunding the electric utility’s debt and equity securities (existing at the time of the issuance of the securitization bonds) in connection with the issuance of securitization bonds are qualified costs. The Commission finds that Consumers’ approach to calculating its qualified costs and the amount of qualified costs as of April 30, 2023 proposed by the Company are reasonable and represent the maximum amount of qualified costs for which the Company may issue securitization bonds pursuant to this financing order. The Commission agrees that the actual amount of the securitization bonds issued will depend upon the timing of the issuance of the

securitization bonds, which timing the Commission agrees should occur at Consumers' sole discretion. Therefore, before issuing any securitization bonds pursuant to this financing order, Consumers shall determine the appropriate amount of qualified costs which reflects the remaining unrecovered book balance of Karn Units 1 and 2 at the most recent month end prior to issuance of the securitization bonds calculated in the manner proposed in Consumers' testimony and exhibits.

B. Satisfaction of Statutory Criteria

Act 142 establishes several criteria that must be satisfied before the Commission is required to issue a financing order approving the issuance of securitization bonds and the implementation of securitization charges. These criteria are set forth in Sections 10i(1) and 10i(2) of Act 142, which read as follows:

(1) Upon the application of an electric utility, if the commission finds that the net present value of the revenues to be collected under the financing order is less than the amount that would be recovered over the remaining life of the qualified costs using conventional financing methods and that the financing order is consistent with the standards in subsection (2), the commission shall issue a financing order to allow the utility to recover qualified costs.

(2) In a financing order, the commission shall ensure all of the following:

(a) That the proceeds of the securitization bonds are used solely for the purposes of the refinancing or retirement of debt or equity.

(b) That securitization provides tangible and quantifiable benefits to customers of the electric utility.

(c) That the expected structuring and expected pricing of the securitization bonds will result in the lowest securitization charges consistent with market conditions and the terms of the financing order.

(d) That the amount securitized does not exceed the net present value of the revenue requirement over the life of the proposed securitization bonds associated with the qualified costs sought to be securitized.” MCL 460.10i(1) and (2).

1. Section 10i(1)

Company witness Heidi J. Myers, who is an Executive Director of Revenue Requirements and Regulatory Affairs at Consumers, described how the utility’s proposal satisfies the statutory requirements set forth in Section 10i(1) of Act 142. This provision requires the Commission to ensure that the net present value (“NPV”) of the revenues to be collected under this financing order is less than the NPV of the amount to be recovered over the remaining life of the qualified costs under conventional financing methods. Ms. Myers offered Exhibit A-9 (HJM-1) in response to this standard. This exhibit compares the NPV of the estimated annual revenue requirements for the qualified costs to be securitized under this financing order under conventional financing methods to the NPV of the estimated revenue requirements associated with the securitization bond payments over a similar recovery period with both revenue requirement streams being discounted at Consumers’ current authorized pre-tax cost of capital from Case No. U-20134 of 7.40%. As shown on this exhibit, the net present value of the revenues collected will be less than the amount to be recovered over the remaining life of the qualified costs under conventional financing methods. The amount in excess of the satisfaction of the statutory requirement is \$126.0 million. Based on Ms. Myers’ testimony, Consumers concludes it meets the statutory requirement contained in Section 10i(1) of Act 142.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS]

The Commission finds the analysis presented by Consumers is correct and properly performed for the amounts that the Company proposes to finance. Because this analysis shows that the NPV of the revenues to be collected under the financing order would be less than the

NPV of the amount that would be recovered over the remaining life of the qualified costs using conventional financing methods, the Commission finds that the statutory requirement set forth in Section 10i(1) of Act 142 is satisfied.

2. Sections 10i(2)(a) and 10i(2)(c)

As noted above, Section 10i(2)(a) of Act 142 requires that the proceeds derived from the sale of the securitization bonds be used solely for the purposes of refinancing or retiring Consumers' debt or equity. Section 10i(2)(c) of Act 142 requires that the expected structuring and pricing of the securitization bonds will result in the lowest securitization charges consistent with market conditions and the terms of the financing order. Consumers asserts that, based on information provided by Mr. Wehner and Mr. Lunde, both of these statutory tests should be deemed satisfied.

Consumers cites testimony offered by Mr. Wehner as showing that appropriate use will be made of all securitization bond proceeds, as demanded by Section 10i(2)(a) of Act 142. As explained by Mr. Wehner, the proceeds of the securitization bonds are the net amount realized from the issuance of the securitization bonds after the SPE pays the costs of issuing the securitization bonds, which net amount is the purchase price the SPE will pay to Consumers for the securitization property. According to Mr. Wehner, "the Company will utilize the proceeds of securitization bonds to retire Company debt and equity" as stipulated by Act 142. \_\_\_\_ Tr \_\_\_\_\_. He stated that, in deciding precisely when and in what proportions to refinance Consumers' current debt, the utility will consider, among other factors:

- (i) the cost of each of Consumers Energy's debt instruments and securities outstanding at the time proceeds from the sale of the securitization property to the SPE that issues the securitization bonds are received; (ii) the mandatory cost of retiring each of the securities existing at the time of issuance of the securitization bonds; and (iii) market conditions which might impact tender offer

opportunities for securities existing at the time of issuance of the securitization bonds. \_\_\_\_ Tr \_\_\_\_.

Mr. Wehner concluded by stating that Consumers would support the imposition by the Commission in the financing order in this proceeding with substantially the same reporting requirements on use of proceeds that were put into place after the most recent sale of securitization bonds. \_\_\_\_ Tr \_\_\_\_\_. Those were described by Mr. Wehner as follows:

The Company will file reports with the Commission substantially similar to the reporting requirements imposed by the Commission in MPSC Case No. U-17473 related to the Company's most recent sale of securitization bonds. In my opinion, these reporting requirements related to the most recent sale of securitization bonds were reasonable. The reports will specify the principal amount of the securitization bonds, the amounts expended for Initial Other Qualified Costs, the net amount of proceeds remaining after such expenses, and the amount of debt and equity retired as of the date of the report. The report will be substantially in the form of Exhibit A-20 (TAW-1). The Company will file its first report within 30 days of the bonds' initial issuance (or any portion of their issuance), and file quarterly from that date until all bond proceeds have been disbursed. \_\_\_\_ Tr \_\_\_\_.

Consistent with Section 10i(9) of Act 142, the Commission authorizes the early retirement or refunding of the securitization bonds for new securitization bonds. Mr. Wehner described the process as follows:

If economic conditions favorable to a securitization refinancing prevail, and the securitization indenture provides for such a refinancing, the Company will notify the Commission prior to initiating a refinancing transaction. The Company's notification will advise the Commission of the steps the Company intends to take, considering the favorable conditions, to realize any potential refinancing savings. The Company then will notify the Commission within seven days of a completed refinancing. \_\_\_\_ Tr \_\_\_\_.

With regard to satisfying the requirements of Section 10i(2)(c) of Act 142, Consumers relies on a detailed description of the securitization bond marketing plan provided by Mr. Lunde.

Specifically, Mr. Lunde indicated that, among other things, the following steps would be used to minimize Consumers' securitization charges: (1) all securitization bonds will be rated by at least two rating agencies; (2) no legal final maturity date of any series, class or tranche of securitization bonds will exceed 15 years from the date of issuance, and each series, class or tranche will have a scheduled final payment date of 14 years or less; (3) several series, classes or tranches of securitization bonds will be developed to present offerings across a wide spectrum of potential demand; (4) an investor education program will be provided by the Company and the securitization bonds' underwriters; (5) one or more underwriters will be used to market the securitization bonds, each having wide experience in the marketing of asset-backed securities and specific experience in the marketing of electric utility securitization bonds; (6) the book-running lead underwriter, exercising professional judgment based on the amount of orders received from potential investors and with Consumers' express concurrence, may adjust the prices and coupon rates to ensure maximum distribution of the securitization bonds at the lowest bond yields consistent with a fixed price offering; and (7) taking into account the actual demand for the securitization bonds on the day of pricing, the underwriters, acting through the book-running lead underwriter and pursuant to the terms of an executed underwriting agreement, will offer to purchase the securitization bonds at specified prices and coupon rates. \_\_\_\_ Tr \_\_\_\_.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS]

The Commission finds that Consumers' securitization proposal satisfies Sections 10i(2)(a) and 10i(2)(c) of Act 142. Through the testimony provided by Mr. Wehner, Consumers specifically and unequivocally states that all of the proceeds from the sale of the securitization bonds will be used to retire Consumers' debt or equity existing at the time of securitization bond issuance. That is sufficient to meet the requirements imposed by Section

10i(2)(a) of Act 142. Similarly, the detailed marketing plan developed by Consumers and described by Mr. Lunde shows that Consumers plans to take all reasonable steps in structuring and pricing the securitization bonds to achieve the lowest possible securitization charges consistent with market conditions. Thus, Consumers' proposal satisfies Section 10i(2)(c) of Act 142. Finally, the Commission finds appropriate and adopts the reporting requirements described by Mr. Wehner.

3. Section 10i(2)(b)

Section 10i(2)(b) of Act 142 requires that Consumers' securitization proposal be shown to provide tangible and quantifiable benefits to its customers. In satisfaction of this requirement, Consumers cites Exhibit A-9 (HJM-1), an exhibit developed by Ms. Myers. The exhibit shows the effect of securitizing up to approximately \$702.8 million in qualified costs, as Consumers proposes to do in this case. According to Ms. Myers, the exhibit demonstrates that customers will receive tangible and quantifiable benefits from securitization since the NPV of the estimated revenue requirements collected under the proposed securitization financing order is less than the NPV of the estimated revenue requirements that would be recovered over the remaining life of the qualified costs using conventional financing methods. Consumers estimates the weighted average interest rate for the securitization bonds to be 1.776% based upon current market conditions, anticipated transaction structure, and ratings, which will be lower than the utility's current pre-tax cost of capital (which presently stands at 7.40%). Based on this evidence, Consumers asserts the Commission should find this statutory requirement to be satisfied.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS]

The Commission finds adequate support in the record for concluding that the statutory requirement set forth in Section 10i(2)(b) of Act 142 is satisfied at the level of securitization

bond sales shown on Ms. Myers' exhibit. The stated goal of securitization, and one that several witnesses – including Mr. Lunde – view as achievable in this case, is to issue bonds with a high (i.e., “triple-A”) credit rating and the lowest cost consistent with market conditions. As reflected in Consumers' exhibits, the expected weighted average interest rate for the securitization bonds (which Consumers estimates to be 1.776% based upon current market conditions, anticipated transaction structure and ratings) will be lower than Consumers' current pre-tax cost of capital (which presently stands at 7.40%) and cost of capital for future ratemaking purposes. Due to this differential, it is clear to the Commission that by using the securitization bond proceeds to retire debt and equity, Consumers' proposal will produce tangible and quantifiable benefits to Consumers' customers. Thus, the Commission concludes that the requirements of section 10i(2)(b) of Act 142 are satisfied.

4. Section 10i(2)(d)

The last of these statutory requirements requires the Commission to find that the NPV revenue requirements to finance the qualified costs using securitization not exceed the NPV of the revenue requirement for those qualified costs over the life of the securitization bonds. Based on testimony provided by Ms. Myers, the Commission concludes that the requirements of Section 10i(2)(d) of Act 142 are satisfied up to the amount of qualified costs approved by this financing order. As set forth on Exhibit A-10 (HJM-2), Ms. Myers computed the NPV of the revenue requirement (conventional financing) for the qualified costs over the life of the securitization bonds to be \$702.8 million when discounted at 7.40%. Because the NPV figure does not exceed the revenue requirements of the proposed securitization, Ms. Myers stated that the statutory requirement spelled out in Section 10i(2)(d) of Act 142 has been satisfied up to the



total amount of qualified costs requested by Consumers as of April 30, 2023. See, \_\_\_\_ Tr \_\_\_\_.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS]

Based on the testimony on behalf of Consumers as set forth above, the Commission finds that this financing order and the proposed sale of securitization bonds in an amount up to \$702.8 million is consistent with the standards set forth in Sections 10i(1) and 10i(2) of Act 142.

5. Summary of Results of Statutory Tests

Accordingly, based upon the findings set forth above, the Commission concludes that Consumers' proposal for the sale of up to \$702.8 million in securitization bonds meets each of the criteria established by Sections 10i(1) and 10i(2) of Act 142. The Commission therefore concludes that Consumers' request for authority to issue up to \$702.8 million of securitization bonds should be granted as further discussed herein.

C. Proposed Use of Securitization Cost Savings

The next issue to be addressed is the utility's proposed treatment of any future cost savings from securitization. Consumers' position on this issue was described by Ms. Myers. She testified that the Company initially proposes to reduce customer rates by providing a bill credit reflecting the costs related to the securitized generating plant assets, included in base rates as requested in Case No. U-20697. Such a bill credit would provide for removal of the amounts included in base rates at the time securitization bonds are issued and would go into effect at the time the securitization charges are included in customer bills. The implementation of this bill credit at the same time as the implementation of the securitization charge will provide customers with a timely realization of savings related to the refinancing of the coal plant assets with securitization bonds versus conventional ratemaking. This credit would continue until retail rates are reset by the Commission in a final order in Consumers' next electric general rate case

following the issuance of the securitization bonds. In that subsequent case, Consumers will propose that the Commission exclude the costs associated with the securitized coal plants from customer base rates. The removal of the securitized assets from rate base and the replacement of traditional financing costs with the securitization charges will continue to result in savings to customers. The NPV of these savings is estimated to equal \$126.0 million. The Commission approves Consumers' proposed treatment of future cost savings resulting from securitization as set forth above.

D. Proposed Amortization and Accounting Approvals

The Company's accounting witness, Mr. Harry, testified that Consumers specifically seeks the authority necessary to record on Consumers' books all financial transactions necessary to undertake securitization, including those between Consumers and the proposed SPE. As testified to by Mr. Harry, this set of authorizations is similar to those requested by Consumers and granted by the Commission in Consumers' securitization proceedings in Case Nos. U-12505 and U-17473, and forms the basis for the accounting currently being followed by Consumers. The authority being requested would permit, among other things, all accounting entries needed to record: (1) the securitized qualified costs, including the establishment of regulatory assets for the costs being securitized; (2) the issuance of the securitization bonds; (3) the use of the securitization bond proceeds to retire debt and equity existing at the time of the issuance of the securitization bonds; (4) the receipt of revenues arising from the proposed securitization charge; (5) the payment of principal, interest, and expenses relating to the securitization bonds; (6) the retirement or refunding of the securitization bonds; and (7) the amortization of securitized qualified costs. According to Mr. Harry, consistent with the previous sales of securitization bonds, the amount securitized in connection with this sale of securitization bonds will be recorded as a financing of the SPE for financial reporting purposes and, because the SPE will be

consolidated with Consumers for financial reporting purposes, the amounts financed will also appear as a financing in Consumers' consolidated financial statements. \_\_\_\_ Tr \_\_\_\_\_. The Commission finds that the authority requested by Mr. Harry on behalf of Consumers is appropriate and should be granted.

The Commission approves, to the extent deemed necessary, a letter of credit and/or the overcollateralization subaccount as requested.

E. The Securitization Charge

1. Allocation of Charge

Consumers proposes to allocate annual billings to each rate class based on the production capacity allocator after which the annual billings by rate class are converted to a uniform per kWh charge by rate class. Company witness Laura M. Collins notes that this method is consistent with the Commission's decision in Case No. U-17473.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS]

Thus, the Commission finds that the securitization charge for this case shall initially be imposed using the methodology proposed by Ms. Collins in her testimony, taking into consideration the production capacity allocator from Consumers' then most recent rate case, to determine each rate class' annual responsibility for the total revenue requirement of the securitization. The production capacity allocation method assigned by this financing order (though not necessarily the current percentages) shall determine each rate class' annual responsibility for the total revenue requirement of the securitization. The securitization charge shall be applied as a uniform per kWh charge within each class. Consumers shall, after issuance of the securitization bonds, submit revised tariff sheets reflecting the actual initial securitization charge for each rate class.

## 2. Nonbypassability

Act 142 defines securitization charges as nonbypassable amounts to be charged for the use or availability of electric services. Section 10k(2) of Act 142 further mandates that a financing order include provisions ensuring that the securitization charges are nonbypassable, with nonbypassability being defined as a charge payable by a customer to an electric utility “regardless of the identity of the customer’s electric generation supplier.”

The Commission’s December 6, 2013 Order in Case No. U-17473 addressed the tension between the cost-based rate mandate of MCL 460.11 and the nonbypassability mandate of MCL 460.10k. In that case, the Commission found that the securitization charge should be assigned to each customer class using the then current production capacity allocation methodology. Current choice customers as of the date of the Commission’s December 6, 2013 Order in Case No. U-17473 were excluded from the securitization charge; however, customers who thereafter became choice customers were obligated to pay the securitization charge, as well as choice customers who became full service customers. The use of the similar methodology proposed by Consumers to establish the securitization charge in this proceeding will result in the assessment of the securitization charge to those customers who will benefit from the reduction in power supply costs achieved through the retirement of Karn Units 1 and 2.

### [DISCUSSION OF STAFF AND INTERVENER POSITIONS]

The Commission finds that the securitization charge for this case shall be imposed using the methodology proposed by Ms. Collins in her testimony, taking into consideration the production capacity allocator from Consumers’ then most recent rate case to determine each rate class’ annual responsibility for the total revenue requirement of the securitization. The securitization charge shall be applied as a uniform per kWh charge within each class. Consistent

with the 2013 financing order in Case No. U-17473, the Commission finds that current choice customers should be excluded from this securitization. Full-service customers who transition to choice service any time after the date of this financing order will carry the securitization obligation, including applicable true-ups, with them. Any current choice customer who later transitions to full service would thereafter be subject to the securitization charge applied to that customer's rate class.

### 3. Periodic True-Ups

Ms. Myers explains that the purpose of the periodic true-up mechanism is to adjust the securitization charge to ensure cash collections are sufficient to meet the obligations of the securitization bonds, including for bond principal and interest and Ongoing Other Qualified Costs. In addition, the true-up may be required to maintain the required balance in the Capital Subaccount, described in the testimony of Mr. Lunde.

Ms. Myers discussed the factors that necessitate the periodic adjustment of securitization charges. She noted that charges are based on forecasted sales, the most recently approved production capacity allocation across rate classes, and the estimated Ongoing Other Qualified Costs of the securitization bond issuer, which are unlikely to ever exactly match actual sales and actual expenses. Thus, the revenues collected are unlikely to ever exactly match the cash required by the SPE for the purposes of paying principal of and interest on the securitization bonds and ongoing expenses. Ms. Myers further explained that the next period's charges must reflect not only the costs attributable to the upcoming period, but also reflect the impact of any over- or under-collections from the previous period. Even absent any over- or under-collections from the prior period, however, Ms. Myers notes that the securitization charges may be adjusted pursuant to the true-up mechanism to reflect changes in such things as forecasted sales, the most

recently approved production capacity allocation across rate classes, expenses, and customer payment patterns.

Company witness Lunde explained that the true-up mechanism represents the most fundamental component of credit enhancement to investors and is a cornerstone of the low interest rates achieved in prior utility securitization transactions. He explained that market and rating agency standards for these provisions have evolved in the years since Consumers' first securitization. He indicated that consistent with current standards, in addition to the annual true-up required by Section 10k(3) of Act 142, true-up adjustments should be mandated on a semi-annual basis (and quarterly beginning one year prior to the scheduled final payment date of any series, class or the latest maturing tranche of securitization bonds) if the servicer determines that a true-up adjustment is needed to ensure the expected recovery during the succeeding 12 months is sufficient to pay scheduled principal and interest on the securitization bonds and the SPE's Ongoing Other Qualified Costs (including replenishing the Capital Subaccount balance). Mr. Lunde also testified that interim true-ups should be permitted more frequently if the servicer determines the true-up is needed to meet the SPE's financial requirements as described above.

Ms. Myers proposed that a true-up mechanism similar to that adopted by the Commission for Consumers in Case No. U-17473, modified to reflect current securitization market standards, as discussed above, be adopted in this proceeding. Ms. Myers indicated that, consistent with this precedent and the standards for utility securitization charge true-ups, the Commission's review should be completed on an expedited basis within 45 days and be limited to confirming the mathematical computations contained in the proposed true-up adjustment. She has set forth the proposed procedure in new Rule C9.2, contained in her Exhibit A-14 (HJM-6) in this proceeding. In addition, Consumers seeks Commission authorization that whenever it is

determined that the methodology used to calculate securitization charge adjustments requires modification to more accurately project and generate adequate securitization charge collections, a true-up may be requested, with the resulting securitization charge adjustment (reflecting such modification to the methodology or model) only to be effective upon review and approval by the Commission that such adjustment is necessary to ensure the timely recovery of all Qualified Costs that are the subject of this finance order, with such review and determination to occur within 45 days of such filing.

[DISCUSSION OF STAFF AND INTERVENER POSITIONS].

Periodic securitization charge true-ups are necessary to provide the certainty needed to obtain a high credit rating for the securitization bonds and need to be undertaken in a way that allows for their swift and certain resolution. The Commission approves the Company's proposal for annual and potential additional interim true-ups. The Commission's role in true-ups is limited to a mathematical one, and the more expeditiously the true-up occurs, the better for all parties. Annual true-ups are required and potentially more frequent true-ups may be implemented. Semi-annual or more frequent true-ups may be implemented absent a Commission order, unless contested. Any contest of any true-up shall be subject only to confirmation of the mathematical computations contained in the proposed true-up adjustments.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; and the Michigan Administrative Hearings System Administrative Hearings Rules, 2015 AACCS, R 792.10101 et seq.

b. Consumers is an electric utility as defined by MCL 460.10h(c).

- c. Consumers' complete application was filed on September 18, 2020.
- d. The remaining unrecovered book balance of Karn Units 1 and 2, up to the maximum amount of \$691.2 million as of April 30, 2023, constitute qualified costs as defined in MCL 460.10h(g) and are therefore recoverable by Consumers through securitization bond issuance. To the extent that the actual amounts associated with any estimates used in the Company's securitization bond issuance deviate from the amounts approved for securitization in this case, Consumers will address the differences according to ordinary ratemaking principles after such time as those differences become known.
- e. Consumers should be allowed to establish an SPE, capitalize and direct the administration of the SPE, and sell to the SPE the securitization property as set forth in this financing order. The SPE will be an assignee as defined below once an interest in securitization property is transferred to the SPE. For purposes of this financing order, the term "assignee" as defined in MCL 460.10h(a) refers only to an individual, corporation or other legally recognized entity to which an interest in securitization property is transferred, other than as security.
- f. Consumers' and the SPE's Initial Other Qualified Costs identified in this financing order, including the SPE's costs of issuance and Consumers' costs of retiring debt and equity securities existing at the time of the issuance of the securitization bonds, along with the Commission's costs of financial and legal services to assist in the issuance of this financing order being included as a cost of issuance, are all qualified costs pursuant to MCL 460.10h(g) and are therefore appropriate to be included as part of the principal balance of the securitization bonds issued pursuant to this financing order.
- g. The holders of the securitization bonds and the trustee will each be a financing party as defined in MCL 460.10h(e).



h. The SPE may issue securitization bonds in accordance with this financing order and may pledge all of its interest in the securitization property, as defined in MCL 460.10j, and related assets, to secure those securitization bonds.

i. The proceeds of the securitization bonds are the amounts realized from the sale of the securitization bonds, after payment of the costs of issuance, and paid to Consumers by the SPE as the purchase price for the securitization property. The securitization transaction approved in this financing order satisfies the requirements of MCL 460.10i(2)(a) because the proceeds to Consumers of the securitization bonds shall be used solely for the purposes of the refinancing or the retirement of debt or equity of Consumers.

j. The securitization transaction approved in this financing order satisfies the requirements of MCL 460.10i(2)(b) because it provides tangible and quantifiable benefits to customers of Consumers.

k. The SPE's issuance of securitization bonds in compliance with this financing order will satisfy the requirements of MCL 460.10i(2)(c) because the expected structuring and pricing of the securitization bonds will result in the lowest securitization charges consistent with market conditions and the terms of this financing order.

l. The amount of qualified costs approved for securitization in this financing order does not exceed the NPV of the revenue requirement over the life of the securitization bonds associated with the qualified costs sought to be securitized, as required by MCL 460.10i(2)(d).

m. The securitization transaction approved in this financing order satisfies the requirements of MCL 460.10i(1) because the NPV of the revenues to be collected under this financing order will be less than the amount that would be recovered over the remaining life of the qualified costs using conventional financing methods.

n. This financing order adequately details the amount of qualified costs, including the Ongoing Other Qualified Costs, to be recovered by Consumers through securitization charges. Consumers' securitization bond issuance shall not exceed \$702.8 million principal amount of such securitization bonds, and the period over which Consumers will be permitted to recover nonbypassable securitization charges does not exceed 15 years, as required by MCL 460.10i(3).

o. As provided in MCL 460.10i(4), this financing order, together with the securitization charges authorized by this financing order, are irrevocable and not subject to reduction, impairment, or adjustment by further action of the Commission, except by use of the true-up procedures approved in this financing order.

p. The Company's proposed methodology to implement the initial securitization charge and to make subsequent adjustments to the securitization charges through the use of an expedited true-up mechanism, as set forth in Exhibit A-14 (HJM-6) and as illustrated in Exhibit A-13 (HJM-5), satisfy the requirements of MCL 460.10k(3) and are approved in this financing order. Partial payments of bills by customers should be allocated ratably among the securitization charges authorized pursuant to the financing order in Case No. U-17473, the securitization charges authorized by this financing order and other billed amounts based on the ratio of each component of the bill to the total bill.

q. Consumers' request to establish securitization property, including a nonbypassable securitization charge, from which the securitization bonds are to be paid, is granted as set forth herein.

r. Consistent with MCL 460.10j(1), the securitization property established hereby includes, without limitation: (1) the right to impose, collect, and receive securitization charges in

an amount necessary to allow for the full recovery of all qualified costs; (2) the right to obtain periodic adjustments of securitization charges as described herein; and (3) all revenue, collections, payments, money, and proceeds arising out of the rights and interests described above.

s. Consistent with MCL 460.10j(2), all securitization property arising as a result of this financing order constitutes a present property right even though the imposition and collection of securitization charges depends on further acts by Consumers or others that have not yet occurred.

t. Consistent with MCL 460.10m(2), any lien and security interest created in the securitization property (through the execution and delivery of a security agreement with a financing party in connection with the issuance of the securitization bonds) will arise and be created only in favor of a financing party and shall attach automatically from the time that value is received for the securitization bonds and, further, shall be a continuously perfected lien and security interest in the securitization property and all proceeds of the property.

u. The priority of any lien and security interest in the securitization property and all proceeds of the property arising from this financing order will not be considered impaired by any later modification of this financing order or by the commingling of the funds arising from securitization charges with any other funds, consistent with MCL 460.10m(4). The securitization property shall constitute an account under the Uniform Commercial Code and shall be in existence whether or not the revenue or proceeds have accrued and whether or not the value of the property right is dependent on the customers of an electric utility receiving service, consistent with MCL 460.10m(6).

v. The structure of the securitization transactions, the expected terms of the securitization bonds, and the use of the securitization bond proceeds, as proposed by Consumers, are reasonable and should be approved.

w. If and when Consumers transfers the securitization property to the SPE, including the right to impose, collect, and receive the securitization charges, the servicer will be authorized to recover the securitization charges only for the benefit of the SPE in accordance with the servicing agreement.

x. If and when Consumers transfers the securitization property to the SPE under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the “true sale” provisions of MCL 460.10l(1), that transfer will constitute a “true sale” and not a secured transaction or other financing arrangement, and title (both legal and equitable) to the securitization property will immediately pass to the SPE. As provided by MCL 460.10l(2), this “true sale” shall apply regardless of whether the purchaser has any recourse against the seller, or any other term of the parties’ agreement, including the seller’s retention of an indirect equity interest in the securitization property by reason of its equity interest in the SPE, the fact that Consumers acts as the collector of securitization charges relating to the securitization property, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.

y. As provided in MCL 460.10m(5), if the servicer defaults on its obligation to remit revenues arising with respect to the securitization property, on application by or on behalf of the financing parties, the Commission or a court of appropriate jurisdiction shall order the sequestration and payment to those parties of revenues arising with respect to the securitization property.

z. Pursuant to MCL 460.10n(2), the State of Michigan pledges, and the Commission reaffirms, for the benefit and protection of all financing parties and Consumers, that the State of Michigan will not take or permit any action that would impair the value of the securitization property, reduce or alter, except by use of the true-up mechanism approved in this financing order and as allowed under MCL 460.10k(3), or impair the securitization charges to be imposed, collected, and remitted to the financing parties, until the principal, interest, and premium, as well as any other charges incurred and contracts to be performed in connection with the securitization bonds have been paid and performed in full. The SPE, when issuing securitization bonds, is authorized, pursuant to MCL 460.10n(2) and this financing order, to include this pledge in any documentation relating to the securitization bonds.

aa. This financing order, as well as Consumers' written acceptance of all conditions and limitations imposed by this financing order, will remain in effect and unabated notwithstanding the bankruptcy or insolvency of Consumers, its successors, or its assignees, as required by MCL 460.10k(1).

bb. Consumers retains sole discretion regarding whether or when to cause the issuance of any securitization bonds authorized by this financing order.

cc. Any securitization bonds issued pursuant to the authority granted in this financing order are not a debt or obligation of the State of Michigan and are not a charge on its full faith and credit or taxing power.

dd. As required by MCL 460.10m(8), any subsequent changes in this financing order or in the customer's securitization charges do not affect the validity, perfection, or priority of the security interest in the securitization property.

ee. As required by MCL 460.10j(2), this financing order shall remain in effect and the securitization property shall continue to exist until the securitization bonds authorized for issuance by this financing order, as well as all expenses related to those securitization bonds, have been paid in full.

ff. The securitization charges authorized in this financing order shall be billed, collected, and delivered to the trustee by Consumers, as the initial servicer, and by any successor servicer pursuant to a servicing agreement. Any payment of the securitization charge by a customer to the SPE, or to the servicer on behalf of the SPE, will discharge the customer's obligations regarding that charge to the extent of that payment, notwithstanding any objection or direction to the contrary by Consumers.

gg. As required by MCL 460.10k(2), the imposition and collection of the securitization charges authorized in this financing order are a nonbypassable charge.

hh. Consumers should file a report, within 30 days following the receipt of any proceeds from the sale of securitization bonds and quarterly thereafter, until all securitization bond proceeds have been disbursed, specifying: (1) the gross amount of proceeds arising from the sale of those securitization bonds; (2) any amounts expended for payment of Initial Other Qualified Costs relating to that sale; (3) the amount of proceeds remaining after payment of those costs, and (4) the precise type and amount of debt or equity that was retired through use of those proceeds.

ii. In the event that a decline in interest rates or other change in market conditions leads Consumers to refinance any of the securitization bonds, Consumers should file, within seven days, a report disclosing the details of that refinancing.

jj. All amortization, accounting, and relevant ratemaking approvals, as well as all other authorizations, provided for in this financing order should be tolled pending Consumers' express written acceptance of all conditions and limitations that this financing order places on Consumers.

kk. This financing order is final and is not subject to rehearing by the Commission, except as provided in MCL 460.10i(7), and is not subject to review or appeal, except as expressly provided in MCL 460.10i(8). This financing order is a financing order within the meaning of MCL 460.10h(d).

THEREFORE, IT IS ORDERED that:

A. The general structure of the securitization transactions, the expected terms of the securitization bonds, and the use of the securitization bonds' proceeds, as proposed by Consumers Energy Company, is approved, and Consumers Energy Company is authorized to proceed, at its sole discretion, with the sale of securitization bonds as set forth in this financing order.

B. Consumers Energy Company is authorized to treat the unrecovered book balance associated with the Karn Units 1 and 2 at the time of issuing the securitization bonds authorized in this financing order, up to the total amount of \$691.2 million, as qualified costs as defined in MCL 460.10h(g).

C. Consumers Energy Company is authorized to proceed with the issuance of securitization bonds for up to \$702.8 million of its qualified costs, as detailed in this financing order.

D. Consumers Energy Company, and any successor to Consumers Energy Company, shall impose and collect from customers, in the manner provided by this financing order,

securitization charges in amounts sufficient to provide for the full and timely recovery of the amount securitized, and the Ongoing Other Qualified Costs of the special purpose entity.

E. Consumers Energy Company shall include, as part of its electric tariffs and before any securitization bonds are issued, new language consistent with proposed Rule C9.2. Consumers Energy Company shall also file, no less than seven days prior to the initial imposition and billing of the securitization charges, revised tariff sheets reflecting all the terms of this financing order.

F. Consumers Energy Company, and any successor to Consumers Energy Company, is authorized to bill to its customers, following the sale of securitization bonds, a securitization charge applying the production capacity allocation currently approved at time of bond issuance. The then currently approved production capacity allocator at the time the securitization bonds are issued shall determine each class' annual responsibility for the total revenue requirement of the securitization. The securitization charge shall be applied as a uniform per kilowatt-hour charge within each class. Full-service customers who transition to retail open access service after the date of this financing order will carry the securitization obligation with them, including applicable true-ups, at the same rate at which they were paying as full service customers. Any current choice customers who transition to full service after the date of this financing order shall thereafter be subject to the securitization charge applied to that customers' class. The initial securitization charge shall be placed on customer bills beginning with the first billing cycle after the issuance of the securitization bonds and shall be subject to subsequent true-ups in the manner directed in this financing order. Partial payments shall be allocated ratably among the components of the bill as provided in this financing order. Such charges shall remain in effect until changed pursuant to the true-up mechanism approved in this financing order. The initial



securitization charge shall be placed on customer bills beginning with the first billing cycle after the issuance of the securitization bonds and shall be subject to subsequent true-ups in the manner directed in this financing order. Partial payments shall be allocated ratably among the components of the bill.

G. The securitization charges related to the securitization bonds shall be billed to each customer for recovery over a period of not greater than 15 years after the beginning of the first complete billing cycle during which the securitization charges were initially placed on any customer's bill. However, Consumers Energy Company may continue to collect any billed but uncollected securitization charges after the close of this 15-year period. Amounts of the securitization charges remaining unpaid after the close of this 15-year period may be recovered through use of collection activities, including the use of the judicial process.

H. True-ups of the securitization charges shall be conducted periodically, in accordance with the schedule and the methodology approved in this financing order. Semi-annual true-up and potential additional interim true-up results may be implemented immediately for any such true-up that is uncontested provided, however that any contest of a semi-annual or interim true-up shall be subject only to confirmation of the mathematical computations contained in the proposed true-up adjustments.

I. Consumers Energy Company is authorized to create a special purpose entity to which it may transfer securitization property. The SPE will be an assignee, as defined below, once an interest in securitization property is transferred to the SPE. In turn, the special purpose entity is authorized to issue securitization bonds in the manner specified in this financing order. All securitization bonds shall be binding in accordance with their terms, regardless of whether this financing order is later vacated, modified, or otherwise held to be invalid, in whole or in

part. The special purpose entity shall be funded with sufficient capital to carry out its intended functions and to obtain the desired ratings for the securitization bonds that it issues. For purposes of this financing order, the term “assignee” as defined in MCL 460.10h(a) refers only to an individual, corporation or other legally recognized entity to which an interest in securitization property is transferred, other than as security.

J. Consumers Energy Company is authorized to initiate and complete the refinancing of the securitization bonds when justified by financial market conditions.

K. All securitization property and other collateral shall be pledged by the special purpose entity to the trustee for the benefit of the holders of the securitization bonds and the other parties specified in the indenture.

L. Consumers Energy Company is authorized to enter into a servicing agreement with the special purpose entity that it creates and to perform the servicing duties contemplated by this financing order in return for an annual servicing fee of 0.05% of the initial principal amount of the securitization bonds. If some other entity is selected to serve in place of Consumers Energy Company, that replacement servicer shall perform the servicing duties in return for an annual fee not to exceed 0.75% of the initial principal amount of the securitization bonds. The servicer shall remit all collections of the securitization charges to the trustee for the special purpose entity’s account, in accordance with the terms of the servicing agreement.

M. Upon the issuance of securitization bonds, the special purpose entity shall pay the proceeds from the sale of the securitization bonds (after payment of the Initial Other Qualified Costs) to Consumers Energy Company as the purchase price of the securitization property. The proceeds from the sale of the securitization property (after payment or reimbursement of all

Initial Other Qualified Costs) shall be applied to retire Consumers Energy Company's debt or equity existing at the time of the issuance of the securitization bonds.

N. Consumers Energy Company has the continuing, irrevocable right to cause the issuance of securitization bonds in one or more series, classes, or tranches in accordance with the terms of this financing order for a period of 4.5 years following the later of the date upon which this financing order becomes final and no longer appealable or, if appealed, is no longer subject to further judicial review.

O. Consumers Energy Company shall provide the Commission with a copy of each registration statement, prospectus, or any other closing documents filed with the Securities and Exchange Commission as part of its securitization transaction immediately following the filing of the original document.

P. This financing order, together with the securitization charges authorized by this financing order, shall be binding upon Consumers Energy Company and any of its successors or affiliates that provide distribution service directly to customers in Consumers Energy Company's service area as of the initial date of issuance of the securitization bonds. This financing order is also binding upon any servicer or other entity responsible for billing and collecting securitization charges on behalf of the owners of securitization property, and upon any successor to the Commission.

Q. Subject to compliance with the requirements of this financing order, Consumers Energy Company and the special purpose entity that it creates shall be afforded flexibility in establishing the terms and conditions of the securitization bonds, including the final structure of the special purpose entity as either a business trust or limited liability company, repayment schedules, term, payment dates, collateral, credit enhancement, required debt service, reserves,

interest rates, other reasonable and necessary financing costs, and the ability of Consumers Energy Company, at its option, to cause the issuance of one or more series, classes or tranches of securitization bonds.

R. All regulatory approvals within the jurisdiction of the Commission that are necessary for the securitization of the qualified costs identified in this financing order, and all related transactions, are granted. Accordingly, following Consumers Energy Company's submission of an unconditional acceptance letter, Consumers Energy Company will be deemed to have satisfied all state-imposed prerequisites to the execution of a security agreement, the Commission will have taken all of its necessary steps with regard to approving Consumers Energy Company's request for securitization, and, pursuant to Act 142, a valid and enforceable lien and security interest in the securitization property will be created (and will be created only in favor of a financing party) following the execution and delivery of the applicable security agreement in connection with the issuance of the securitization bonds.

S. Consumers Energy Company shall file a report, within 30 days following the receipt of all or any portion of the proceeds from the sale of the securitization bonds and quarterly thereafter until all securitization bond proceeds have been disbursed, specifying: (1) the gross amount of proceeds arising from the sale of those securitization bonds, i.e. the principal amount of the securitization bonds; (2) any amounts expended for payment of Initial Other Qualified Costs relating to that sale; (3) the amount of proceeds remaining after payment of those costs; and (4) the precise type and amount of debt or equity, originally held by Consumers Energy Company retired through use of those proceeds. The initial report filed following receipt of securitization bond proceeds shall include a copy of the closing documents (generally referred to as the "closing transcript") arising from the sale of the securitization bonds.

T. In the event that a change in market conditions leads Consumers Energy Company to refinance any of its securitization bonds, Consumers Energy Company shall file, within seven days of the refinancing, a report disclosing the details of that refinancing, in which case, upon Consumers Energy Company's request, as accompanied by demonstration of an ability to refinance under applicable bond covenants and that securitization charges to service new securitization bonds, including transaction costs, would be less than the future securitization charges required to service the securitization bonds being refunded, pursuant to MCL 460.10i(9), this financing order shall constitute a financing order adopted by the Commission in accordance with MCL 460.10i(9).

U. Following Consumers Energy Company's express written acceptance of all conditions and limitations established by this financing order, this financing order – and each of its terms – shall be irrevocable. Consumers Energy Company's acceptance likewise shall be irrevocable and, therefore, shall survive bankruptcy or any other change in Consumers Energy Company's legal or economic structure.

V. This financing order shall, consistent with MCL 460.10i(4), be irrevocable. No adjustment through the true-up adjustment mechanism shall affect the irrevocability of this financing order. Consistent with MCL 460.10n(2), the Commission reaffirms that it shall not reduce, impair, postpone, terminate or otherwise adjust the securitization charges approved in this financing order or impair the securitization property or the collection of securitization charges or the recovery of the qualified costs and Ongoing Other Qualified Costs. Consistent with MCL 460.10k(3), the Commission affirms that it will act pursuant to this financing order to ensure that the expected securitization charges are sufficient to pay on a timely basis scheduled

principal of and interest on the securitization bonds issued pursuant to this financing order and the Ongoing Other Qualified Costs in connection with the securitization bonds.

The Commission reserves jurisdiction and may issue further orders as necessary, to the extent not inconsistent with this financing order and Act 142.

Any party desiring to appeal this financing order must do so in the appropriate court within 30 days after issuance and notice of this financing order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

\_\_\_\_\_  
Chairman

(SEAL)

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Commissioner

By its action of \_\_\_\_\_, 2020.

\_\_\_\_\_  
Its Executive Secretary

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of	)	
<b>CONSUMERS ENERGY COMPANY</b>	)	
for a Financing Order Approving the	)	Case No. U-20889
Securitization of Qualified Costs.	)	
_____	)	

**DIRECT TESTIMONY**  
  
**OF**  
  
**HEIDI J. MYERS**  
  
**ON BEHALF OF**  
  
**CONSUMERS ENERGY COMPANY**

September 2020

HEIDI J. MYERS  
DIRECT TESTIMONY

1 **Q. Please state your name and business address.**

2 A. My name is Heidi J. Myers, and my business address is One Energy Plaza, Jackson,  
3 Michigan 49201.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by Consumers Energy Company (“Consumers Energy” or the “Company”)  
6 as the Executive Director of Revenue Requirements and Regulatory Affairs.

7 **Q. Please describe your educational background.**

8 A. I received a Bachelor of Arts degree in Accounting in 2003 from Michigan State  
9 University. I received a Master of Business Administration degree in 2012 from the  
10 University of Michigan – Flint. I am also a Certified Public Accountant licensed in the  
11 State of Michigan.

12 **Q. Please describe your professional experience.**

13 A. From 2004 to 2008 and from 2012 to 2015, I was employed by the Michigan Public Service  
14 Commission (“MPSC” or the “Commission”) as an auditor and later as the Manager of the  
15 Revenue Requirements Section. From 2008 to 2012 and 2015 to 2017, I was employed by  
16 the Lansing Board of Water and Light (“BWL”). During my tenure at the BWL, I held the  
17 following positions: Senior Rate Analyst, Executive Financial Assistant, Field Services  
18 Supervisor, Manager of Human Resources, and Supervisor of Finance and Planning. I  
19 joined Consumers Energy in January of 2017 as a Principal Rate Analyst, was promoted to  
20 Director of Revenue Requirements and Analysis in March of 2018, and was promoted to  
21 Executive Director of Revenue Requirements and Regulatory Affairs in June of 2020.



HEIDI J. MYERS  
DIRECT TESTIMONY

1 **Q. What are your responsibilities as the Executive Director of Revenue Requirements**  
2 **and Regulatory Affairs at Consumers Energy?**

3 A. As the Executive Director of Revenue Requirements and Regulatory Affairs, I am  
4 responsible for regulatory stakeholder collaboration and project management for the  
5 development of regulatory filings and communications as well as managing and preparing  
6 the following: (i) studies related to the level of the Company's revenue requirements,  
7 including the preparation, and monitoring of gas and electric rate case filings before the  
8 Commission; (ii) studies related to the Company's overall profitability of its business units;  
9 and (iii) other financial analyses related to planning scenarios. In addition, I oversee the  
10 calculation of the Company's Gas Cost Recovery and Power Supply Cost Recovery  
11 ("PSCR") monthly billing factors.

12 **Q. Have you previously filed testimony with the Commission?**

13 A. Yes.

14 **Q. Please state the proceedings you have been involved in.**

15 A. I sponsored testimony in the following cases:

16 Case No. U-14347 – Consumers Energy electric rate case;

17 Case No. U-14547 – Consumers Energy gas rate case;

18 Case No. U-17087 – Consumers Energy electric rate case;

19 Case No. U-17473 – Consumers Energy securitization;

20 Case No. U-18322 – Consumers Energy electric rate case;

21 Case No. U-20102 – Consumers Energy electric credit A;

22 Case No. U-20103 – Consumers Energy gas credit A;

23 Case No. U-20134 – Consumers Energy electric rate case;

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Case No. U-20165 – Consumers Energy integrated resource plan;

Case No. U-20286 – Consumers Energy electric credit B;

Case No. U-20287 – Consumers Energy gas credit B;

Case No. U-20309 – Consumers Energy calculation C; and

Case No. U-20697 – Consumers Energy electric rate case.

**Q. What is the purpose of your direct testimony in this proceeding?**

A. The purpose of my direct testimony is to address the statutory tests set forth in 2000 PA 142 (“Act 142”) §10i(1), §10i(2)(b), and §10i(2)(d) for our proposed 8-year bond issuance. My testimony will also address the Company’s decision to issue the securitization bonds on a gross basis rather than net of tax effects. My testimony addresses several issues related to the initial implementation, customer billing, periodic true-up of the Karn Units 1 and 2 securitization charge, and proposed tariff sheets. My testimony also illustrates the statutory tests related to an illustrative 14-year bond issuance.

**Q. Are you sponsoring any exhibits with your testimony?**

A. Yes. I am sponsoring the following exhibits:

Exhibit A-9 (HJM-1)	Demonstration of Compliance with Act 142 Section 10i(1);
Exhibit A-10 (HJM-2)	Demonstration of Compliance with Act 142 Section 10i(2)(d);
Exhibit A-11 (HJM-3)	Demonstration of Breakeven Securitization Bond Interest Rate;
Exhibit A-12 (HJM-4)	Calculation of Karn Units 1 and 2 Bill Credit;
Exhibit A-13 (HJM-5)	Periodic True-Up Mechanism;
Exhibit A-14 (HJM-6)	Tariff Sheet C-37.10 – Rule 9.2;
Exhibit A-15 (HJM-7)	Karn 1 and 2 Securitization Charge Tariff Sheet, D 7.10;

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Exhibit A-16 (HJM-8)      Structure B – Illustration Only. Demonstration of  
Compliance with Act 142 Section 10i(1); and

Exhibit A-17 (HJM-9)      Structure B – Illustration Only. Demonstration of  
Breakeven Securitization Bond Interest Rate.

**Q. Were these exhibits prepared by you or under your direction or supervision?**

A. Yes.

**AMOUNT SECURITIZED AND OTHER QUALIFIED COSTS**

**Q. What is the amount of the Company's qualified costs?**

A. As described by Company witness Daniel L. Harry, the qualified costs associated with the projected April 30, 2023, unrecovered book balance of the Company's generating units Karn 1 and 2 is \$691.2 million. The actual amount of the unrecovered book balance will be whatever amount remains on the Company's books for these assets at the end of the most recent month before the securitization bonds are issued.

In addition, as described by Company witness Todd A. Wehner, the Company plans to securitize \$11.6 million of costs associated with: a) issuing, supporting, and servicing the securitization bonds; and b) retiring and refunding debt securities existing at the time of issuance of the securitization bonds in connection with the issuance of the securitization bonds ("Initial Other Qualified Costs").

**STATUTORY REQUIREMENTS**

**Q. Please describe the statutory requirements included in Act 142.**

A. There are several statutory requirements in Act 142 that must be satisfied. If these requirements are met, the Commission is directed to issue a financing order for the recovery of qualified costs. These requirements are found in Sections 10i(1) and 10i(2) of Act 142.

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1 **Q. Please describe the statutory requirement set forth in Act 142, §10i(1).**

2 A. Act 142, §10i(1) requires the Commission to ensure that the net present value (“NPV”) of  
3 the revenues to be collected under securitization is less than the NPV of the amount to be  
4 recovered over the remaining life of the qualified costs under conventional financing  
5 methods.

6 **Q. Please describe Exhibit A-9 (HJM-1).**

7 A. Exhibit A-9 (HJM-1) demonstrates compliance with Act 142, §10i(1) of the proposed 8-  
8 year bond issuance. Exhibit A-9 (HJM-1), line 9 compares the NPV of the estimated  
9 annual revenue for the qualified costs to be securitized (line 6) under conventional  
10 financing methods to the NPV of the estimated revenue requirements associated with the  
11 securitized bond payments (line 8) with both revenue requirement streams being  
12 discounted at the Company’s current authorized annual pre-tax cost of capital from Case  
13 No. U-20134 of 7.40%. As shown on this exhibit, the Company satisfies this requirement.  
14 The amount in excess of the satisfaction of the statutory requirement is approximately  
15 \$126.0 million. It should be noted that in prior cases, the Company included the other  
16 qualified costs in arriving at the NPV of conventional financing. However, in the last coal  
17 plant securitization, Case No. U-17473, the Commission agreed with the Staff’s approach  
18 which did not include the initial other qualified costs (see MPSC Case No. U-17473,  
19 December 6, 2013 Order, page 49). This is in contrast to Case No. U-13715 where both  
20 the Company and the Staff included the Initial Other Qualified Costs in the conventional  
21 financing. To be consistent with the more recent Commission’s Order in Case No.  
22 U-17473, I did not include \$11.6 million in other qualified costs in computing the NPV of  
23 the conventional financing test.

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1 **Q. Why are you using the pre-tax rate of return of 7.40% from Case No. U-20134?**

2 A. In its June 2, 2003, Order in Case No. U-13715, the Commission stated that the pre-tax  
3 rate of return should be used as the discount rate for discounting revenue requirements in  
4 these tests. The Commission approved a settlement in the Company's last electric case,  
5 Case No. U-20134, that stated a 10% return on equity. The associated pre-tax rate of return  
6 is 7.40%.

7 **Q. Under the conventional financing portion of your exhibit, why are you calculating the**  
8 **revenue requirement of Karn Units 1 and 2 through 2031?**

9 A. Prior to agreeing to retire Karn Units 1 and 2 in 2023, these units were anticipated to be in  
10 operation until 2031.

11 **Q. Please describe the statutory requirement set forth in Act 142, §10i(2)(a).**

12 A. Act 142, §10i(2)(a) requires that the proceeds of the securitization bonds must be used  
13 solely for the purposes of the refinancing or retirement of debt or equity. Company witness  
14 Wehner demonstrates compliance with this requirement in his testimony.

15 **Q. Please describe the statutory requirement set forth in Act 142, §10i(2)(b).**

16 A. Act 142, §10i(2)(b) requires the Commission to ensure that the securitization provides  
17 tangible and quantifiable benefits to customers of the electric utility. Exhibit A-9 (HJM-1)  
18 demonstrates that customers will receive tangible and quantifiable benefits from  
19 securitization since the NPV of the estimated revenue requirements collected under the  
20 securitization financing order is less than the NPV of the estimated revenue requirements  
21 that would be recovered over the remaining life of the qualified costs using conventional  
22 financing. These benefits from securitization are due to the fact that the estimated weighted

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average interest rate of 1.776% on the securitization bonds is significantly less than the pre-tax cost of capital of 7.40% on conventional financing.

**Q. Please describe the statutory requirement set forth in Act 142, §10i(2)(c).**

A. Act 142, §10i(2)(c) requires that the expected structuring and expected pricing of the securitization bonds result in the lowest securitization charges consistent with market conditions and the terms of the financing order. Company witness Steffen Lunde demonstrates in his testimony the manner in which the Company satisfies this statutory requirement.

**Q. Please describe the statutory requirement set forth in Act 142, §10i(2)(d).**

A. This requirement limits the amount that can be securitized to the NPV of the revenue requirement over the life of the proposed securitization bonds associated with the qualified costs sought to be securitized.

**Q. Please describe Exhibit A-10 (HJM-2).**

A. Exhibit A-10 (HJM-2) addresses compliance with Act 142, §10i(2)(d). This exhibit calculates the NPV of the revenue requirements for the amount securitized discounted at 7.40% over the securitization bond life. Based on this exhibit, the amount securitized cannot exceed \$702.8 million.

**Q. Please describe Exhibit A-11 (HJM-3).**

A. This exhibit is similar to Exhibit A-9 (HJM-1). However, Exhibit A-11 (HJM-3) determines the weighted average interest rate for the securitization bonds at which the NPV of the estimated annual revenue for the qualified costs to be securitized under conventional financing and the NPV of the estimated revenue requirements associated with the securitized bond payments are the same. This weighted average rate, 6.829%, is the

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1 breakeven securitization bond interest rate. Any securitization bond interest rate lower  
2 than 6.829% would result in compliance with Act 142, §10i(1). The Company would not  
3 issue bonds at an interest rate above 6.829%.

4 **RATIONALE FOR GROSS BOND ISSUANCE**

5 **Q. Why is Consumers Energy seeking to issue bonds for the gross amount of securitized**  
6 **assets rather than “net of tax” amounts?**

7 A. The generating plant costs at issue have not yet been recovered from customers. If  
8 recovered under conventional ratemaking, these costs charged to customers would be  
9 partially offset by an income tax benefit for depreciation expense, effectively reducing the  
10 costs recovered from customers to a “net of tax” basis. In order to receive full recovery on  
11 an after-tax basis, this amount would then be “grossed-up” by applying a formula equal to  
12  $1 / (1 - \text{the Company's tax rate } (25.3213\%))$ , which equates to 1.3391. In other words,  
13 under conventional ratemaking, the generating plant costs at issue are ultimately recovered  
14 on a gross basis. It is therefore not appropriate to reduce the qualified costs to be securitized  
15 in this transaction by any federal or state income tax benefits not yet provided to the  
16 customers. In a securitization transaction, lower costs of capital are available to the  
17 Company. Therefore, the recovery of the plant costs on a gross basis rather than net of tax  
18 basis also provides a greater cost saving to customers than if these same costs were instead  
19 recovered through conventional ratemaking.

20 **IMPLEMENTATION AND BILLING**

21 **Q. How will the securitization charges affect retail electric customers?**

22 A. The actual initial Karn Units 1 and 2 securitization charges may differ from the estimated  
23 expected initial Karn Units 1 and 2 securitization charges and will be determined using the

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method described by Mr. Lunde, after the bonds are priced, just prior to their sale. Regardless of the amount of the actual initial Karn Units 1 and 2 securitization charge, the Company proposes to reduce customer rates by providing a bill credit reflecting the costs related to the securitized Karn Units 1 and 2 assets included in retail rates, until such time that retail rates are adjusted in an electric general rate case reflecting the removal of Karn Units 1 and 2. The actual Karn Units 1 and 2 bill credit may differ from that illustrated in this case and should represent the costs related to Karn Units 1 and 2 assets included in rates at the time the securitization bonds are issued. After issuance of the Karn Units 1 and 2 securitization bonds, the Company will submit to the Commission revised tariff sheets reflecting the actual initial Karn Units 1 and 2 securitization charge and actual Karn Units 1 and 2 bill credit. The revised tariff sheets will reflect the Karn Units 1 and 2 securitization charge and, where applicable, a Karn Units 1 and 2 bill credit. Company witness Collins provides an illustration of the estimated Karn Units 1 and 2 securitization rate impact by rate category.

**Q. Please describe Exhibit A-12 (HJM-4).**

A. This exhibit provides the calculation of the value used by Company witness Collins in calculating the Karn Units 1 and 2 bill credit. The value represents amounts included in base rates for Karn Units 1 and 2 that would be replaced by the Karn Units 1 and 2 securitization charge once the bonds are issued. The amounts included on Exhibit A-12 (HJM-4) are taken from the Case No. U-20697.



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1 **Q. Why does the Company propose to reduce kilowatt-hour charges at the time of the**  
2 **initial Karn Units 1 and 2 securitization charge implementation by the amount of**  
3 **Karn Units 1 and 2 costs included in current rates and continue to do so until rates**  
4 **are established in a general electric rate case excluding Karn Units 1 and 2 costs?**

5 A. The implementation of the Karn Units 1 and 2 bill credit at the same time as the  
6 implementation of the initial Karn Units 1 and 2 securitization charge will provide  
7 customers with a timely benefit of the savings related to the refinancing of the Karn Units  
8 1 and 2 assets with securitization bonds versus conventional ratemaking. The timing of  
9 the effective date of the Karn Units 1 and 2 securitization charge and rates established by  
10 a final order in an electric general rate case that exclude the Karn Units 1 and 2 costs may  
11 differ by many months. The implementation of a Karn Units 1 and 2 bill credit coincident  
12 with the implementation of the Karn Units 1 and 2 securitization charge will avoid a delay  
13 in the realization of benefits by customers.

14 **Q. When will the initial Karn Units 1 and 2 securitization charge appear on a customer's**  
15 **bill?**

16 A. The initial Karn Units 1 and 2 securitization charge will be placed on customers' bills  
17 beginning with the first billing cycle after the Karn Units 1 and 2 securitization bonds are  
18 issued and will remain unchanged until a true-up adjustment is implemented.

19 **Q. How will the Karn Units 1 and 2 securitization charge appear on a customer's bill?**

20 A. The Karn Units 1 and 2 securitization charge will be treated in the same manner as the  
21 Company's coal plant securitization approved in Case No. U-17473. Where applicable,  
22 the Karn Units 1 and 2 securitization charge will appear as a separate line item on the bill.

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1 This allows the Company to readily identify and track the revenues related to the Karn  
2 Units 1 and 2 securitization charge that it is required to remit to the bond issuer.

3 **Q. What changes will impact the application of the Karn Units 1 and 2 bill credit after**  
4 **the effective date of new base rates excluding Karn Units 1 and 2 costs established for**  
5 **the Company in a future electric general rate case?**

6 A. The Company will seek approval of the elimination of the bill credit, concurrent with  
7 customer base rates that exclude securitized Karn Units 1 and 2 costs.

8 **Q. If the Karn Units 1 and 2 securitization bonds are issued prior to the retirement of**  
9 **Karn Units 1 and 2, what costs associated with those plants should be reflected in**  
10 **post-securitization customer rates?**

11 A. Following the issuance of the Karn Units 1 and 2 securitization bonds, it is appropriate for  
12 new, incremental, post-securitization investment and ongoing operating costs to be  
13 included in customer rates until the units are retired, assuming Commission approval in  
14 subsequent general rate proceedings. This is consistent with the ratemaking treatment of  
15 post-securitization investments and operating costs at the coal plants following the issuance  
16 of securitization bonds approved in Case No. U-17473.

17 **Q. How should the Karn Units 1 and 2 securitization be reflected in the Company's cost**  
18 **of service in the electric general rate cases following the issuance of the securitization**  
19 **bonds?**

20 A. The Karn Units 1 and 2 securitization revenue, regulatory asset amortization, securitization  
21 bond interest, and other related expenses should be excluded from the base rate cost of  
22 service. The Karn Units 1 and 2 securitization regulatory asset should be excluded from  
23 rate base and the securitization bonds should be excluded from the ratemaking capital

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1 structure. In summary, all of the Karn Units 1 and 2 securitized qualified costs will be  
2 recovered through the Karn Units 1 and 2 securitization charge over the life of the bonds  
3 and not through base rates.

4 **Q. Are there any circumstances under which the Company would begin charging**  
5 **customers the Karn Units 1 and 2 securitization charges incrementally (i.e., without**  
6 **the corresponding Karn Units 1 and 2 bill credit) prior to the establishment of base**  
7 **rates that exclude the Karn Units 1 and 2 costs?**

8 A. No.

9 **Q. Are there savings associated with this Karn Units 1 and 2 securitization?**

10 A. Yes. The savings result from the substitution of low-cost securitization debt for  
11 conventional financing that typically includes a mix of higher cost debt and higher cost  
12 equity with related income taxes. Initially, assuming the expected case for the proposed  
13 8-year bond issuance, the Karn Units 1 and 2 securitization charges will total  
14 approximately \$96 million on an annual basis; while the Karn Units 1 and 2 bill credit  
15 comprised of the Karn Units 1 and 2 costs included in Case No. U-20697 is approximately  
16 \$119 million. The calculation of the \$119 million annual revenue reduction associated  
17 with the bill credit is shown in Exhibit A-12 (HJM -4). In addition, Exhibit A-9 (HJM-1)  
18 identifies customer savings on a net present value basis of approximately \$126.0 million  
19 versus conventional financing.

20 **Q. How will the savings from this securitization be passed on to electric customers?**

21 A. As I stated previously, the savings from the Karn Units 1 and 2 securitization will initially  
22 be provided to customers through a Karn Units 1 and 2 bill credit. In a future electric  
23 general rate proceeding, the Commission will examine the Company's cost of service for

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all rate classes, including those cost savings associated with this securitization. In that case, the removal of the securitized assets from rate base with a return at conventional financing rates will continue to result in savings to electric customers.

**TRUE-UP**

**Q. Please describe the periodic true-up of the Karn Units 1 and 2 securitization charge.**

A. Section 10k(3) of Act 142 requires a periodic true-up:

[A] financing order shall include a mechanism requiring that securitization charges be reviewed and adjusted by the commission at least annually, within 45 days of the anniversary date of the issuance of the securitization bonds, to correct any over collections or under collections of the preceding 12 months and to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the securitization bonds.

**Q. What is the purpose of the periodic true-up?**

A. The purpose of the periodic true-up is to adjust the Karn Units 1 and 2 securitization charge to ensure cash collections are sufficient to meet the obligations of the Karn Units 1 and 2 securitization bond issuer for bond principal and interest, and ongoing expenses. In addition, the true-up is required to maintain the required balances in the various subaccounts, described in the testimony of Mr. Lunde. In order to maintain and honor the state's non-impairment pledge, the Commission's true-up review process must necessarily be an expedited review limited solely to verifying the mathematical accuracy of the Company's proposed adjustment to the securitization charge. This is consistent with how the Case No. U-17473 true-ups have been processed.

**Q. Will the Karn Units 1 and 2 securitization charge change as the result of a true-up?**

A. Yes. As was the case in the Company's prior securitization proceedings, Case Nos. U-12505 and U-17473, the Karn Units 1 and 2 true-up mechanism is designed to

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1 permit ongoing adjustments to the securitization charge. The Karn Units 1 and 2  
2 securitization charge is based on forecasted sales, the most recently approved production  
3 capacity allocation across rates classes, and the estimated Ongoing Other Qualified Costs  
4 of the securitization bond issuer which are unlikely to ever exactly match actual sales and  
5 expenses. The true-up considers actual collections and actual ongoing expenses. The  
6 charges for a particular period must reflect not only the cost attributable to that upcoming  
7 period, but also any over- or under-collections from the previous period. Even absent any  
8 over- or under-collection from the prior period, the next period's charge may be adjusted  
9 for forecasted sales, the most recently approved production capacity cost allocation across  
10 rate classes, expenses, and payment patterns.

11 **Q. Will the allocation among rate classes be fixed for the life of the securitization bonds?**

12 A. The Company proposes that the allocation among rate classes, used in the True-up  
13 Mechanism to calculate true-up adjustments to the securitization charges allow for a  
14 change to the allocation among rate classes to use the Commission-approved production  
15 capacity allocation at the time of each true-up. Commission approval of the production  
16 capacity allocation would happen as part of general electric rate cases. Keeping the  
17 allocation among rate classes consistent with the most recently approved production  
18 capacity allocation, protects customers in a particular rate class from unreasonable burden  
19 if the allocation is held at the values effective at the time of the order in this filing and load  
20 loss for a rate class is experienced in subsequent periods.

21 **Q. When will the periodic true-ups take place?**

22 A. The periodic true-ups will take place at least annually (and semi-annually, if deemed  
23 necessary by the servicer) after the issuance of the Karn Units 1 and 2 securitization bonds,

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except that beginning 12 months prior to the last scheduled final payment date of the Karn Units 1 and 2 securitization bonds, the semi-annual true-ups will be made quarterly (if deemed necessary by the servicer) until all obligations of the securitization bond issuer have been satisfied. As further described in the testimony of Mr. Lunde, the current market standard is for a mandatory semi-annual true-up adjustment if the servicer forecasts a shortfall for the upcoming period (quarterly beginning one year prior to the last scheduled final payment date), as well as a discretionary additional interim true-up adjustment if the servicer determines that a true-up adjustment is necessary to ensure the expected recovery of such amounts on a timely basis. Exhibit A-13 (HJM-5) is an illustration of how the Company would adjust the securitization charge in an annual true-up. An example of an over-recovery appears on Exhibit A-13 (HJM-5), page 1. An example of an under-recovery appears on Exhibit A-13 (HJM-5), page 2. In accordance with Act 142 and the requested financing order, the Company would submit the true-up calculation to the MPSC for its review and approval at least 45 days prior to the implementation of the adjusted charges. As determined in Case No. U-17473, and described by Mr. Lunde, establishing an expedited true-up procedure increases the certainty that the securitization bonds will be paid off in a timely manner and will greatly enhance the likelihood of obtaining the highest possible credit ratings and thus lower interest costs.

**TARIFFS AND RULES**

**Q. How will the requirements of the Commission's financing order be incorporated into the Company's tariffs and rules?**

A. To implement the Commission's financing order, the Company proposes to add Rule C9.2 Karn 1 and 2 Securitization Charges, Initial Implementation and True-up Methodology as

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1 shown in Exhibit A-14 (HJM-6). This rule describes the process the Company will use to  
2 initially implement and periodically adjust the Karn Units 1 and 2 securitization charge  
3 over the life of the Karn Units 1 and 2 securitization bonds. The proposed Rule C9.2 is  
4 separate and apart from the current Rule C9.1 Power Plant Securitization Charges, Initial  
5 Implementation, and True-up Methodology approved in Case No. U-17473, which remains  
6 in place until those bonds are paid.

7 **Q. Please describe Exhibit A-15 (HJM-7).**

8 A. Exhibit A-15 (HJM-7) is a Proposed Securitization Charge Tariff Sheet reflecting the Karn  
9 Units 1 and 2 Securitization Charge and the Karn Units 1 and 2 Bill Credit presented by  
10 Company witness Collins.

11 **ILLUSTRATION OF 14 YEAR BOND ISSUANCE**

12 **Q. Why is the Company providing illustrative exhibits showing the statutory compliance**  
13 **of a 14-year bond issuance?**

14 A. The Company has considered two options for this proposed securitization. The proposed  
15 8-year bond issuance and an illustrative 14-year bond issuance. While the Company is  
16 proposing an 8-year bond issuance, it is illustrating the 14-year bond issuance that was  
17 considered.

18 **Q. Why is the Company proposing an 8-year bond issuance over the 14-year bond**  
19 **issuance that was considered?**

20 A. Prior to the agreement to retire Karn Units 1 and 2 in 2023 as part of the Company's  
21 Integrated Resource Plan, Case No. U-20165, the anticipated retirement date of these units  
22 was 2031. An 8-year bond issuance would allow for the recovery through the securitization  
23 charge over a period ending in 2031 consistent with the Karn Units 1 and 2 retirement date

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1 prior to the agreement to retire the units early. In addition, total interest costs are \$62.2  
2 million lower, and total cash revenue requirements are \$66.7 million lower, for an 8-year  
3 bond issuance.

4 **Q. Please describe Exhibit A-16 (HJM-8).**

5 A. Exhibit A-16 (HJM-8) illustrates that a 14-year bond issuance would also be in compliance  
6 with Act 142, §10i(1). Exhibit A-16 (HJM-8), line 9 compares the NPV of the estimated  
7 annual revenue for the qualified costs to be securitized (line 6) under conventional  
8 financing methods to the NPV of the estimated revenue requirements associated with the  
9 securitized bond payments (line 8) over a similar recovery period with both revenue  
10 requirement streams being discounted at the Company's current authorized annual pre-tax  
11 cost of capital from Case No. U-20134 of 7.40%. As shown on this Exhibit A-16 (HJM-  
12 8), the Company satisfies this requirement. The amount in satisfaction of the statutory  
13 requirement is approximately \$182.5 million.

14 **Q. Please describe Exhibit A-17 (HJM-9).**

15 A. This exhibit is similar to Exhibit A-16 (HJM-8). However, Exhibit A-17 (HJM-9) provides  
16 an illustration of the determination of the weighted average interest rate for the  
17 securitization bonds at which the NPV of the estimated annual revenue for the qualified  
18 costs to be securitized and the NPV of the estimated revenue requirements associated with  
19 the securitized bond payments are the same for a 14-year bond issuance. This weighted  
20 average rate, 6.985%, is the breakeven securitization bond interest rate. Any securitization  
21 bond interest rate lower than 6.985% for a 14-year bond issuance  
22 would result in compliance with Act 142, §10i(1).



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1   **Q.**    **Does this complete your direct testimony?**

2   **A.**    Yes.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the )  
Securitization of Qualified Costs. )  
\_\_\_\_\_ )

Case No. U-20889

**EXHIBITS**

**OF**

**HEIDI J. MYERS**

**ON BEHALF OF**

**CONSUMERS ENERGY COMPANY**

September 2020

**MICHIGAN PUBLIC SERVICE COMMISSION**

Consumers Energy Company

Demonstration of Compliance with Act 142 Section 10(L)

\$ in Millions

Case No: U-20889  
Exhibit No.: A-9 (HJM-1)  
Page: 1 of 1  
Witness: HJMyers  
Date: September 2020

**Conventional Financing**

	2023	2024	2025	2026	2027	2028	2029	2030	2031
1 Balance	691.2	677.9	638.0	598.1	558.3	518.4	478.5	438.6	398.8
2 Pre-tax Rate of Return	7.40%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%
3 Return (Line 1 * Line 2)	8.5	25.1	23.6	22.1	20.7	19.2	17.7	16.2	14.8
4 Depreciation	13.3	39.9	39.9	39.9	39.9	39.9	39.9	39.9	39.9
5 Revenue Requirements (L3 + L4)	21.8	65.0	63.5	62.0	60.5	59.1	57.6	56.1	54.6
6 NPV of Line 5	\$691.2								

**Securitization Financing**

7 Revenue Requirements	2023	2024	2025	2026	2027	2028	2029	2030	2031
	0.0	85.1	49.5	49.1	47.9	47.7	47.9	47.7	48.0
8 NPV of Line 7									
9 Ant in satisfaction of test (L6 - L8)									

Sources:

- Line 1: 4/30/23 Balance from Company Witness Daniel Harry
- Line 2: Pre-tax rate of return authorized in U-20134 was 7.40%.
- Line 4: Depreciated through original retirement date.
- Line 6: NPV = Net Present Value. NPV calculated by discounting revenue requirements semi-annually. Annual discount rate = 7.40%.
- Line 7: Page 1 of Exhibit A-7 (SL-1) Column F (1.776% weighted average coupon) and \$750 thousand on-going expenses per annum

**MICHIGAN PUBLIC SERVICE COMMISSION**

Consumers Energy Company

Demonstration of Compliance with Act 142 Section 10i(2)(d)

\$ in Millions

Case No: U-20889  
Exhibit No.: A-10 (HJM-2)  
Page: 1 of 1  
Witness: HJMymers  
Date: September 2020

**Conventional Financing**

	2023	2024	2025	2026	2027	2028	2029	2030	2031
1 Balance	691.2	638.0	598.1	558.3	518.4	478.5	438.6	398.8	358.9
2 Pre-tax Rate of Return	7.40%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%
3 Return (Line 1 * Line 2)	8.5	23.6	22.1	20.7	19.2	17.7	16.2	14.8	13.3
4 Depreciation	13.3	39.9	39.9	39.9	39.9	39.9	39.9	39.9	39.9
5 Revenue Requirements (L3 + L4)	21.8	63.5	62.0	60.5	59.1	57.6	56.1	54.6	53.2
6 NPV of Line 5	\$691.2								
7 Initial Other Qualified Costs	11.6								
8 Total NPV (L6 + L7)	\$702.8								
9 Maximum securitized amount									

**Sources:**

Lines 1 - 6 from Exhibit A-9 (HJM-1)

Line 7 from witness Wehner

**Conventional Financing**

	2023	2024	2025	2026	2027	2028	2029	2030	2031
1 Balance	691.2	677.9	638.0	598.1	558.3	518.4	478.5	438.6	398.8
2 Pre-tax Rate of Return	1.23%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%
3 Return (Line 1 * Line 2)	8.5	25.1	23.6	22.1	20.7	19.2	17.7	16.2	14.8
4 Depreciation	13.3	39.9	39.9	39.9	39.9	39.9	39.9	39.9	39.9
5 Revenue Requirements (L3 + L4)	21.8	65.0	63.5	62.0	60.5	59.1	57.6	56.1	54.6
6 NPV of Line 5	\$691.2								

**Securitization Financing**

9 Revenue Requirements	2023	2024	2025	2026	2027	2028	2029	2030	2031
	0.0	0.0	104.3	60.6	58.0	60.0	58.6	60.1	58.5
10 NPV of Line 7	\$691.2								
11 Amt in satisfaction of test (L6 - L8)									

Sources:

Lines 1 - 6 from Exhibit A-9 (HJM-1)  
Line 9: Page 2 of Exhibit A-7 (SL-1) Column F (6.829% weighted average coupon) and \$750 thousand on-going expenses per annum

**MICHIGAN PUBLIC SERVICE COMMISSION**

Consumers Energy Company

Calculation of the Karn Units 1 and 2 Bill Credit

Case No: U-20889

Exhibit No.: A-12 (HJM-4)

Page: 1 of 1

Witness: HJMyers

Date: September 2020

Line	Description	(000)
1	<b><u>U-20697 Depreciation</u></b>	
2	Ending Plant Balance 12/31/2018 - per Books	\$ 1,183,122
3	Closed to Plant - 2019	11,303
4	Ending Plant Balance 12/31/2019 - U-20697	\$ 1,194,425
5	2019 Average Depreciable Balance	1,188,774
6	Depreciation Rate - U-20697	4.98%
7	<b>2019 Depreciation Expense</b>	<b>\$ 59,201</b>
8	Ending Plant Balance 12/31/2019 - U-20697	\$ 1,194,425
9	Closed to Plant - 2020	3,881
10	Ending Plant Balance 12/31/2020 - U-20697	\$ 1,198,306
11	2020 Average Depreciable Balance	1,196,366
12	Depreciation Rate - U-20697	4.98%
13	<b>2020 Depreciation Expense</b>	<b>\$ 59,579</b>
14	Ending Plant Balance 12/31/2020 - U-20697	\$ 1,198,306
15	Closed to Plant - 2021	1,919
16	Ending Plant Balance 12/31/2021 - U-20697	\$ 1,200,225
17	2021 Average Depreciable Balance	1,199,266
18	Depreciation Rate - U-20697	4.98%
19	<b>2021 Depreciation Expense</b>	<b>\$ 59,723</b>
20	<b><u>U-20697 Rate Base</u></b>	
21	Ending Plant Balance 12/31/2018 - per Books	\$ 1,183,122
22	Ending Reserve Balance 12/31/2018 - per Books	(276,258)
23	Ending CWIP Balance 12/31/2018 - per Books	8,220
24	Net Rate Base 12/31/2018 - per Books	\$ 915,084
25	2019 Capital Expenditures	6,033
26	2019 Depreciation	(59,201)
27	2019 Year-end Rate Base	\$ 861,916
28	2020 Capital Expenditures	1,822
29	2020 Depreciation	(59,579)
30	2020 Year-end Rate Base	\$ 804,159
31	2021 Capital Expenditures	1,919
32	2021 Depreciation	(59,723)
33	2021 Year-end Rate Base	\$ 746,355
34	<b>Average Test Year 2021 Rate Base</b>	<b>\$ 775,257</b>
35	<b><u>Reduction from U-20322</u></b>	
36	Average Test Year 2021 Rate Base	\$ 775,257
37	Pretax Rate of Return	7.63%
38	Revenue Requirement ROR	\$ 59,152
39	2021 Depreciation Expense	\$ 59,723
40	<b>General Rate Decrease from Securitization</b>	<b>\$ 118,876</b>

Overcollection

Line	Rate Schedule (a)	Period 1 Actual Karn 1 and 2 Securitization Revenues (\$000) (b)	Period 1 Required Karn 1 and 2 Securitization Revenues (\$000) (c)	Period 1 Actual Karn 1 and 2 Securitization Costs (\$000) (d)	Over (Under) Collections (\$000) (e)
1	Residential	\$41,000	\$40,829	\$39,000	(b) - (d) \$2,000
2	Secondary	\$23,000	\$23,003	\$22,000	\$1,000
3	Primary Voltage 1	\$9,000	\$8,549	\$8,500	\$500
4	Primary Voltage 2	\$6,500	\$6,487	\$6,250	\$250
5	Primary Voltage 3	\$17,500	\$17,261	\$16,500	\$1,000
6	Lighting	<u>\$300</u>	<u>\$293</u>	<u>\$225</u>	<u>\$75</u>
7	Total	\$97,300	\$96,422	\$92,475	\$4,825
8	Year 2 Required Revenues (1)			\$97,943	
9	Year 1 Over (Under) Collection (2)			<u>\$4,825</u>	
10	Total Year 2 Required Revenue			\$93,118	

Adjusted Period 2 Karn 1 and 2 Securitization			Forecast Sales in Period 2 (MWh) (4)	Period 2 Karn 1 and 2 Securitization Charge (\$/kWh)
Cost Allocation (3)	Revenues			
11 Residential	0.42344	\$39,430	12,727,597	\$0.003098
12 Secondary	0.23857	\$22,215	6,822,031	\$0.003256
13 Primary Voltage 1	0.08866	\$8,256	3,614,719	\$0.002284
14 Primary Voltage 2	0.06727	\$6,264	2,364,004	\$0.002650
15 Primary Voltage 3	0.17902	\$16,670	6,399,518	\$0.002605
16 Lighting	0.00304	\$283	203,677	\$0.001389
17 Total	1.00000	\$93,118		

(1) Exhibit A-1 (LMC-1), column (b), line 10  
(2) Column (e), line 5  
(3) WP-LMC-1  
(4) Exhibit A-1 (LMC-1)

**MICHIGAN PUBLIC SERVICE COMMISSION**

Consumers Energy Company

Periodic True-Up Mechanism

Case No.: U-20889

Exhibit No.: A-13 (HJM-5)

Page: 2 of 2

Witness: HJM/Myers

Date: September 2020

**Undercollection**

Line	Rate Schedule	Period 1 Actual Karn 1 and 2 Securitization Revenues	Period 1 Required Karn 1 and 2 Securitization Revenues	Period 1 Actual Karn 1 and 2 Securitization Costs	Over (Under) Collections
	(a)	(b)	(c)	(d)	(e)
1	Residential	\$41,000	\$40,829	\$42,000	(b) - (d) (\$1,000)
2	Secondary	\$23,000	\$23,003	\$23,750	(\$750)
3	Primary Voltage 1	\$9,000	\$8,549	\$8,500	\$500
4	Primary Voltage 2	\$6,500	\$6,487	\$6,250	\$250
5	Primary Voltage 3	\$17,500	\$17,261	\$18,000	(\$500)
6	Lighting	\$300	\$293	\$300	\$0
7	Total	\$97,300	\$96,422	\$98,800	(\$1,500)
8	Year 2 Required Revenues (1)			\$97,943	
9	Year 1 Over (Under) Collection (2)			<u>(\$1,500)</u>	
10	Total Year 2 Required Revenue			\$99,443	

	Adjusted Period 2 Karn 1 and 2 Securitization Revenues	Forecast Sales in Period 2 (MWh) (4)	Period 2 Karn 1 and 2 Securitization Charge (\$/kWh)
11	Residential	0.42344	\$42,108
12	Secondary	0.23857	\$23,724
13	Primary Voltage 1	0.08866	\$8,817
14	Primary Voltage 2	0.06727	\$6,690
15	Primary Voltage 3	0.17902	\$17,802
16	Lighting	0.00304	<u>\$302</u>
17	Total	1.00000	\$99,443

(1) Exhibit A-1 (LMC-1), column (b), line 10

(2) Column (e), line 5

(3) WP-LMC-1

(4) Exhibit A-1 (LMC-1)



(Continued From Sheet No. C-37.00)

**C9. SECURITIZATION CHARGES (Contd)**

**C9.2 Karn 1 and 2 Securitization Charges, Initial Implementation and True-Up Methodology**

This rule implements the initial Karn 1 and 2 Securitization Charge authorized by the XXXXXX XX, 20XX Financing Order (the "Order") issued by the Commission in Case No. U-20889 for the first billing cycle after sale of the Karn 1 and 2 securitization bonds. This rule also permits the Company or a successor servicer to implement the periodic adjustments to those charges authorized by the Commission in the Order.

The Karn 1 and 2 Securitization Charge shall apply to all Company customers on all Rate Schedules including customers on Retail Open Access Rate Schedules (customers taking ROA service on XXXXXX XX, 20XX are excluded from the Karn 1 and 2 Securitization Charge). Customers under special contract shall be assessed the non-bypassable Karn 1 and 2 securitization charge in accordance with 2000 PA 141, 2000 PA 142, the Orders and the terms and conditions of their special contract.

True-ups are required annually, as set forth in Act 142, "to correct any overcollections or undercollections of the preceding 12 months and to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the securitization bonds", and also required on a semi-annual basis (quarterly beginning one year prior to the last scheduled final payment) if the servicer determines that a true-up adjustment is necessary to ensure the expected recovery during the succeeding annual period of amounts required for the timely payment of the securitization bond issuer's debt service and operating costs. In addition, true-ups are permitted more frequently at any time the servicer determines that a true-up is needed for this purpose. Adjustments shall be calculated in the manner set forth below in accordance with the terms of the Order:

Next Period's Required Securitization Revenue	minus	[True-Up [Period's [Actual [Securitization [Revenue	minus	True-Up] Period's] Actual] Securitization Costs]	equals	Next Period's Securitization Charge
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Required securitization revenue shall be allocated as follows based on the approved Production Capacity Allocator using rate class determinants approved by the Commission in the Company's electric rate case in effect at such time. The total amount of securitization revenue allocated to each rate class will be divided by each rate class' next period's forecasted sales to determine the securitization charge applicable to each rate class for the collection period.

Each month the Company shall include in its rates a Karn 1 and 2 Securitization Charge as shown on Sheet No. D-7.10.

The Karn 1 and 2 Securitization Charges, as adjusted from time to time by this rule, were developed and approved by the Commission in the Order pursuant to the authority granted to the Commission by 2000 PA 142.

Issued XXXXXX XX, 20XX by  
Patti Poppe,  
President and Chief Executive Officer,  
Jackson, Michigan

Effective for service rendered on  
and after XXXXXX XX, 20XX

Issued under authority of the  
Michigan Public Service Commission  
dated XXXXXX XX, 20XX  
in Case No. U-20889

## KARN 1 AND 2 SECURITIZATION CHARGE

The actual Karn 1 and 2 Securitization Charge is authorized pursuant to Rule C9.2, Karn 1 and 2 Securitization Charges, Initial Implementation and True-up Methodology. The Karn 1 and 2 Securitization Charge is billed to all Full Service customers, shown in the Rate Schedules identified below, based upon usage.<sup>(1)</sup> These charges shall be shown separately on the customer's bill.

The actual Karn 1 and 2 Securitization Charge and Karn 1 and 2 Bill Credit applied to customers' bills are as follows:

Rate Schedule	Karn 1 and 2 Securitization Charge (Case No. U-20889) Effective beginning with the XXXXXX 2023 Billing Month	Karn 1 and 2 Bill Credit <sup>(2)</sup> (Case No. U-20889) Effective beginning with the XXXXXX 2023 Billing Month
Rate RSP	\$0.003216/kWh	\$(0.003965)/kWh
Rate RS	0.003216/kWh	(0.003965)/kWh
Rate RDP	0.003216/kWh	(0.003965)/kWh
Rate RDPR	0.003216/kWh	(0.003965)/kWh
Rate REV-1	0.003216/kWh	(0.003965)/kWh
Rate REV-2	0.003216/kWh	(0.003965)/kWh
Rate RT	0.003216/kWh	(0.003965)/kWh
Rate RSH	0.003216/kWh	(0.003965)/kWh
Rate RPM	0.003216/kWh	(0.003965)/kWh
Rate RSM	0.003216/kWh	(0.003965)/kWh
Rate GS	0.003304/kWh	(0.004073)/kWh
Rate GSTU	0.003304/kWh	(0.004073)/kWh
Rate GSD	0.003304/kWh	(0.004073)/kWh
Rate GP		
CVL 1	0.002344/kWh	(0.002890)/kWh
CVL 2	0.002716/kWh	(0.003348)/kWh
CVL 3	0.002662/kWh	(0.003282)/kWh
Rates GPD, GPTU, EIP and GSG-2		
CVL 1	0.002344/kWh	(0.002890)/kWh
CVL 2	0.002716/kWh	(0.003348)/kWh
CVL 3	0.002662/kWh	(0.003282)/kWh
Rate GML	0.001423/kWh	(0.001755)/kWh
Rate GUL	0.001423/kWh	(0.001755)/kWh
Rate GU-XL	0.001423/kWh	(0.001755)/kWh
Rate GU	0.001423/kWh	(0.001755)/kWh
Rate PA	NA	NA
Rate ROA-R <sup>(1)</sup>	NA	NA
Rate ROA-S <sup>(1)</sup>	NA	NA
Rate ROA-P <sup>(1)</sup>	NA	NA

<sup>(1)</sup> Customers taking ROA service on XXXXXX XX, 20XX are excluded from the Karn 1 and 2 Securitization Charge. This exclusion does not apply to customers first taking ROA service after XXXXXX XX, 20XX or to customers taking ROA service on XXXXXX XX, 20XX who discontinue taking ROA service any time after XXXXXX XX, 20XX. Customers who discontinue taking ROA service any time after XXXXXX XX, 20XX and who return to ROA service will pay the Karn 1 and 2 Securitization Charge applicable to the customer's otherwise applicable Company Full Service Rate Schedule.

<sup>(2)</sup> Karn 1 and 2 Bill Credit is effective beginning with the XXXXXX 2023 Billing Month and will terminate with service rendered on and after the effective date of a future general electric rate case in which retail rates are adjusted to remove Karn 1 and 2 assets.

Issued XXXXXX XX, 20XX by  
Patti Poppe,  
President and Chief Executive Officer,  
Jackson, Michigan

Effective for bills rendered on and after  
the Company's XXXX 2023 Billing Month

Issued under authority of the  
Michigan Public Service Commission  
dated XXXXXX XX, 20XX  
in Case No. U-20889

MICHIGAN PUBLIC SERVICE COMMISSION

Consumers Energy Company

Structure B - Illustration Only

Verification of Compliance with Act 142 Section 10(1)

\$ in Millions

Conventional Financing

	2023	2024	2025	2026	2027	2028	2029	2030	2031	
1 Balance	677.2	638.0	598.1	478.5	398.8	319.0	239.3	159.5	79.8	39.9
2 Pre-tax Rate of Return	1.21%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
3 Return (Line 1 * Line 2)	8.5	22.1	20.7	17.7	14.8	11.8	8.9	7.4	3.0	1.5
4 Depreciation	13.3	39.9	39.9	39.9	39.9	39.9	39.9	39.9	39.9	39.9
5 Revenue Requirements (L3 + L4)	21.8	62.0	60.5	57.6	54.6	51.7	48.7	45.8	42.8	41.4
6 NPV of Line 5	\$491.2									

Securitization Financing

	2023	2024	2025	2026	2027	2028	2029	2030	2031	
7 Revenue Requirements	0.0	52.4	29.3	29.6	29.5	29.4	29.6	28.4	29.6	29.4
8 NPV of Line 7										
9 Amt in satisfaction of test (L6 - L8)	\$508.7									

Sources:

Line 1: 4/30/23 Balance from Company Witness Daniel Harry

Line 2: Pre-tax rate of return authorized in U-20134 was 7.40%.

Line 4: Depreciated through original retirement date.

Line 6: NPV = Net Present Value. NPV calculated by discounting revenue requirements semi-annually. Annual discount rate = 7.40%

Line 7: Page 1 of Exhibit A-7 (SL-1) Column 1 (2.175% weighted average coupon) and \$7.50 thousand on going expenses per annum

**MICHIGAN PUBLIC SERVICE COMMISSION**

Consumers Energy Company

Structure B - Illustration Only

Determination of Breakeven Securitization Bond Interest Rate

\$ in Millions

Case No: U-20889  
Exhibit No.: A-17 (HJM-9)  
Page: HJMyers  
Witness: September 2020  
Date: 1 of 1

**Conventional Financing**

	2023	2024	2025	2026	2027	2028	2029	2030	2031
1 Balance	691.2	677.9	638.0	598.1	558.3	518.4	478.5	438.6	398.8
2 Pre-tax Rate of Return	1.23%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%
3 Return (Line 1 * Line 2)	8.5	25.1	23.6	22.1	20.7	19.2	17.7	16.2	14.8
4 Depreciation	13.3	39.9	39.9	39.9	39.9	39.9	39.9	39.9	39.9
5 Revenue Requirements (L3 + L4)	21.8	65.0	63.5	62.0	60.5	59.1	57.6	56.1	54.6
6 NPV of Line 5	\$691.2								

**Securitization Financing**

	2023	2024	2025	2026	2027	2028	2029	2030	2031
7 Revenue Requirements	0.0	0.0	71.3	41.5	39.8	41.1	40.2	41.2	40.1
8 NPV of Line 7									
9 Amt in satisfaction of test (L6 - L8)	\$691.2								
	\$0.0								

Sources:

Lines 1. - 6 from Exhibit A-9 (HJM-1)

Line 9: Page 2 of Exhibit A-7 (SL-1) Column F (6.985% weighted average coupon) and \$750 thousand on-goin expenses per annum.

2032 41.2 2033 40.1 2034 41.1 2035 40.2 2036 41.2 2037 40.1 0.0

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the )  
Securitization of Qualified Costs. )  
\_\_\_\_\_ )

Case No. U-20889

**DIRECT TESTIMONY**

**OF**

**TODD A. WEHNER**

**ON BEHALF OF**

**CONSUMERS ENERGY COMPANY**

September 2020

TODD A. WEHNER  
DIRECT TESTIMONY

1 **Q. Please state your name and business address.**

2 A. My name is Todd A. Wehner, and my business address is One Energy Plaza, Jackson, MI  
3 49201.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by Consumers Energy Company (“Consumers Energy” or the “Company”)  
6 as Director of Corporate Finance in the Treasury Department.

7 **Q. What are your current responsibilities?**

8 A. I am responsible for planning and raising the financial capital required by the Company  
9 including revolving credit facilities, short-term and long-term debt capital, and equity  
10 capital. As part of my role, I work with my treasury colleagues to manage corporate  
11 liquidity, financing, and treasury operations, and maintain relationships with the banking  
12 community, rating agencies, investors, and research analysts. In order to carry out my  
13 responsibilities, I interact with commercial banks, investment banks, credit rating agencies,  
14 equity and fixed income analysts, and equity and fixed income investors. I also play a key  
15 role in the Company’s strategic planning process and in developing the Company’s  
16 financial plan that fulfills its strategic goals.

17 **Q. Please describe your educational background.**

18 A. I received Bachelor of Science degrees in Electrical Engineering and Mechanical  
19 Engineering from Michigan Technological University in 2002. I received a Master of  
20 Business Administration degree (“MBA”) from the Ross School of Business at the  
21 University of Michigan in 2012, where I focused on finance and strategy. Concurrently, I  
22 completed a Master of Science degree from the School of Natural Resources at the  
23 University of Michigan.

TODD A. WEHNER  
DIRECT TESTIMONY

1 **Q. What positions did you hold prior to your present position?**

2 A. I began my career in 2002 as an Acquisitions and Maintenance Officer in the United States  
3 Air Force where I worked with intelligence units through 2006. I was an Electrical Test  
4 Engineer with Nissan from 2007 to 2009. After completing my MBA in 2012, I joined  
5 Barclays Capital as an associate in the Investment Banking Division focused on the  
6 chemicals sector. In this role, I developed financial models to value both public and private  
7 companies, executed merger and acquisition transactions, and executed financing  
8 transactions for companies across a number of markets including equity, investment grade  
9 debt, and high yield debt. I developed cost of capital analyses, rating agency materials,  
10 and strategic review materials for management and boards. In 2014, I joined Morgan  
11 Stanley and continued work as an associate and later as a vice president within the  
12 Investment Banking Division, focused on the power and utilities sector. In early 2016, I  
13 joined Consumers Energy as Director of Corporate Finance.

14 **Q. Have you previously provided testimony before the Michigan Public Service**  
15 **Commission (“MPSC” or the “Commission”)?**

16 A. Yes. I provided cost of capital testimony in Case No. U-20697, the Company’s current  
17 electric rate case. I also testified in Case No. U-20165, the Company’s Integrated Resource  
18 Plan case, and in Case No. U-18250, the Company’s most recent securitization case before  
19 the Commission. In addition, I have also provided support for both Venkat D. Rao and  
20 Srikanth Maddipati who have served as the Company witnesses covering capital structure  
21 and cost of capital in each of the electric and gas rate cases before the Commission since  
22 2016.

TODD A. WEHNER  
DIRECT TESTIMONY

1 **Q. What is the purpose of your direct testimony in this proceeding?**

2 A. The purpose of my direct testimony is to: (i) establish the Qualified Costs that Consumers  
3 Energy is proposing to securitize; (ii) identify and estimate Initial Other Qualified Costs  
4 (also sometimes called “up front costs”) which will be recovered through securitization;  
5 (iii) identify and estimate Ongoing Other Qualified Costs which will be incurred on an  
6 ongoing basis in connection with the securitization; and (iv) address the statutory test  
7 contained in Section 10i(2)(a) of 2000 PA 142 (“Act 142”);.

8 **Q. Are you sponsoring any exhibits with your testimony?**

9 A. Yes. I am sponsoring the following exhibits which I have prepared:

10 Exhibit A-18 (TAW-1) Use of Proceeds;

11 Exhibit A-19 (TAW-2) Initial Other Qualified Costs; and

12 Exhibit A-20 (TAW-3) Ongoing Other Qualified Costs of the SPE.

13 Exhibit A-18 (TAW-1) sets forth a summary form of the application of funds received from  
14 securitization. Exhibit A-19 (TAW-2) identifies and estimates Initial Other Qualified  
15 Costs associated with the securitization bond issuance and debt retirement. Exhibit A-20  
16 (TAW-3) identifies and estimates Ongoing Other Qualified Costs over the life of the  
17 securitization transaction.

18 **Q. Were these exhibits prepared by you or under your direction or supervision?**

19 A. Yes.

20 **Q. Would you please identify the principal Qualified Costs that Consumers Energy is**  
21 **proposing to securitize?**

22 A. Yes. As described in more detail by Company witnesses Daniel L. Harry and Scott A.  
23 Hugo, the Company is proposing to securitize the unrecovered book balance of the  
24 D.E. Karn (“Karn”) Units 1 and 2.



TODD A. WEHNER  
DIRECT TESTIMONY

1 **Q. Does the unrecovered book balance of Karn Units 1 and 2 meet the Qualified Costs**  
2 **requirements?**

3 A. Yes. Act 142 allows an electric utility to request a financing order from the Commission  
4 to recover its Qualified Costs pursuant to a securitization mechanism. Act 142 defines  
5 Qualified Costs as a utility's regulatory assets, as determined by the Commission, and costs  
6 that the Commission determines an electric utility would be unlikely to collect in a  
7 competitive market. In a competitive market, the capital costs for these units would be  
8 wholly unrecoverable after cessation of operations. As a result, the unrecovered book  
9 balance of the respective units as of the planned retirement date should be considered the  
10 absolute minimum amount of Qualified Costs in this case. It would be appropriate for the  
11 Commission to authorize the securitization of the Company's unrecovered book balances  
12 reflected as of the most recent month end prior to the date of issuance of the securitization  
13 bonds. Classifying the presently unrecovered costs as regulatory assets would be  
14 appropriate in order to allow the significant customer savings described by witnesses in  
15 this case to be realized.

16 **Q. What would be the basis for classifying these costs as regulatory assets?**

17 A. This case presents a quintessential case for classifying the costs related to the units as a  
18 regulatory asset. The Company has reasonably and prudently incurred capital costs for the  
19 units. Under normal circumstances, a regulated utility recovers such costs on a timetable  
20 that aligns cost recovery with the incremental use of the plant during normal operations.  
21 However, in the Company's Integrated Resource Plan ("IRP") Case No. U-20165, the  
22 Commission approved a Settlement Agreement calling for the early retirement of Karn  
23 Units 1 and 2. In approving the Settlement Agreement, the Commission stated that the

TODD A. WEHNER  
DIRECT TESTIMONY

retirement of Karn Units 1 and 2 was in the public interest because it would result in significant savings to ratepayers, reduce pollution, and advance the Company's clean energy goals and the public's interest in clean and reliable energy. Because the early retirement will cut the operation of the units prematurely short, recovery of reasonably and prudently incurred costs must necessarily occur on a timetable that is no longer tied to plant operations. Therefore, it is appropriate and consistent with the Federal Energy Regulatory Commission Uniform System of Accounts, to classify the capital costs associated with the units as regulatory assets.

**Q. Have the capital dollars invested in these units been prudently invested?**

A. Yes. All Company investments in the units were necessary to maintain the safe and reliable operation of the units for the benefit of Consumers Energy's customers. The Company has described and successfully supported recovery of the investment in the units in numerous rate proceedings since the units were initially included in rate base. The Commission has consistently found the Company's investments in the units to be prudent and reasonable since that time and has consistently included those investments in the Company's rate base.

**Q. Has the Commission ruled similar costs to be Qualified Costs and granted status as regulatory assets?**

A. Yes. In Case No. U-17473 the Company made a similar request for seven coal-generating units. The final order noted:

[t]he Commission concludes that the remaining book value associated with the referenced units is properly considered qualified costs as regulatory assets. The Commission has previously found, and the Court of Appeals has affirmed, that the Commission may confer regulatory asset status on generation assets at the same time that the Commission authorizes securitization of those assets... The Commission finds that the unrecovered book value associated with the

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referenced units is a generation-related asset that qualifies for treatment as a regulatory asset as that term is used in Act 142. [MPSC Case No. U-17473, December 6, 2013 Order.]

I believe that it would be appropriate for the Commission to rule in a similar manner in this case.

**Q. Please describe the Initial Other Qualified Costs to be recovered through securitization.**

A. The cost estimates represented for Initial Other Qualified Costs are based on the Company's issuance experience with the securitization bonds issued under the Commission's Order in Case No. U-17473, as well as the Company's issuance experience with the securitization bonds issued under the Commission's October 24, 2000 Order in Case No. U-12505, with some updates for more recent market transactions. The costs are presented by category in Exhibit A-19 (TAW-2) and discussed below. The inclusion of these costs in the amount to be recovered through securitization is in accordance with Section 10h(g) of Act 142. Many items will be known with greater certainty once the securitization bonds are priced and issued. In general, these costs represent the transaction costs necessary to structure the transaction and issue the securitization bonds. They are paid by the Special Purpose Entity ("SPE") and billed to the Company (or are initially paid by the Company for reimbursement from funds received by the Company from the SPE). They include the annual costs of the SPE as it pays debt service, which includes both interest and principal amortization, on the securitization bonds, as well as the SPE's Ongoing Other Qualified Costs and the costs associated with paying down debt or equity of the Company. The aggregate amount of Initial Other Qualified Costs are estimated to total approximately \$11.6 million, as set forth in Exhibit A-19 (TAW-2).

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1 **Q. Please explain Exhibit A-19 (TAW-2), line 1.**

2 A. This line includes the underwriting discount and the financial advisor fee. The  
3 underwriting discount is the fee that the underwriter(s) receive for underwriting and selling  
4 the securitization bonds. This amount will be consistent with those paid under other similar  
5 transactions. The average underwriting discount for the Company is expected to be  
6 approximately 0.4% of the principal amount of the bonds issued.

7 **Q. Please continue your discussion of the other items listed in Exhibit A-19 (TAW-2).**

8 A. Underwriters' reimbursable expenses (line 2) are an estimate of other expenses of the  
9 underwriter(s) including travel and lodging, and out-of-pocket expenses.

10 Securities and Exchange Commission ("SEC") registration fee (line 3), as specified  
11 in federal securities laws, is a standard cost of issuing publicly traded debt, and is calculated  
12 based on the principal amount of securitization bonds issued. Effective October 1, the  
13 applicable rate will be \$109.10 per million dollars of registered bonds.

14 Legal fees (line 4) include expenses for the Company's outside counsel along with  
15 underwriters' counsel for this transaction. Counsel will advise on the securitization bond  
16 transaction structure, including bankruptcy, regulatory and tax matters; issue various  
17 transaction opinions, including bankruptcy opinions; and draft most other documents  
18 related to the financing, including, among other tasks, the SEC registration statement, the  
19 securitization bond purchase agreement, the securitization property sale agreement, the  
20 indenture, the servicing agreement, the SPE organizational documents, and any necessary  
21 inter-creditor agreements. These estimated expenses were based on discussion with the  
22 Company's internal legal counsel, financial advisers, and estimates from external counsel.  
23 Underwriters' counsel also advises on the transaction structure, reviews all securitization

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1 bond transaction documents, and performs a due diligence review of the transaction in  
2 connection with the underwriters' initial purchase of the bonds.

3 Rating agency fees (line 5) are the charges paid to the rating agencies that are  
4 associated with reviewing the transaction and assigning a rating for the securitization  
5 bonds. They may include expenses of outside legal counsel retained by the rating agency.  
6 These fees typically are a fixed percentage of the principal amount of bonds issued, subject  
7 to certain minimums and maximums.

8 Auditor fees (line 6) are for the Company's independent auditor, and include the  
9 costs of accounting, tax, and regulatory advice as it relates to the securitization bonds.  
10 These estimated expenses are based on past experience and discussion with the Company's  
11 independent auditor. Printing expenses (line 7) include the costs of printing the preliminary  
12 and final prospectuses as well as expenses of marketing the securitization bonds, including  
13 investor presentations. These estimated costs were based on recent issuance experience.  
14 Line 8 includes the fees and expenses charged by the indenture trustee along with their  
15 legal counsel. These estimated expenses are based on other recent securitizations, recent  
16 Company debt transactions, and discussion with the existing securitization trustee.

17 Blue Sky fees (line 9) are an estimate to cover the costs of complying with the  
18 securities registration requirements of various states.

19 SPE organizational costs (line 10) include estimates of the Company's costs to  
20 create and organize the SPE. Original Issue Discount (line 11) is the positive difference,  
21 if any, between the principal amount of the securitization bonds and the price at which the  
22 securitization bonds are initially sold to investors. The securitization bonds may be issued

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1 at a small discount consistent with market convention. This estimate is based upon the  
2 Company's previous issuance experience.

3 Costs of the Commission (line 12) are inserted as recognition that the Commission  
4 may incur some advisory fees during this process. Section 10i(10) of Act 142 gives the  
5 Commission the authority to require the payment of those services and states that such  
6 payment shall be included as qualified costs defined in Section 10h(g) of Act 142. The  
7 Commission's actual costs, if higher, will be reimbursed. Miscellaneous costs (line 13) are  
8 any costs that have not been specifically identified at this time. These will only be included  
9 as Initial Other Qualified Costs to the extent they have been identified at the time of pricing.

10 Other (call or tender premiums and associated costs to pay down debt) (line 15) is  
11 inserted in recognition that once the Company has settled on a securities retirement plan,  
12 some costs of tendering and/or premium payment may be incurred to redeem or purchase  
13 and retire certain securities. The amount identified is \$3.0 million. As an example, if the  
14 Company were to call on June 1, 2023, all \$325 million of the Company's 3.375% First  
15 Mortgage Bonds due 2023 and \$21 million of the Company's 3.125% First Mortgage  
16 Bonds due 2024 (currently there are \$250 million of this security outstanding), the current  
17 estimate of the total call premium would be about \$2.6 million.

18 **Q. What happens to any difference between the actual and estimated levels of the Initial**  
19 **Other Qualified Costs?**

20 **A.** To the extent that actual Initial Other Qualified Costs are less than anticipated at the time  
21 the securitization bonds are issued, the difference will be factored into the first adjustment  
22 of the securitization charge pursuant to the true-up mechanism approved in the Financing  
23 Order. To the extent actual Initial Other Qualified Costs exceed the amount anticipated at

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1 the time the securitization bonds are issued, the Company shall request recovery of such  
2 amounts in subsequent general rate case proceedings.

3 **Q. What are the Ongoing Other Qualified Costs?**

4 A. Ongoing Other Qualified Costs of the SPE will be incurred throughout the life of the  
5 securitization bond transaction. These costs support the ongoing operation of the SPE.  
6 They are estimated initially to total approximately \$750,000 annually, assuming the  
7 Company is the servicer of the securitization bonds. These costs are set forth in Exhibit  
8 A-20 (TAW-3). Costs include the servicing fee, auditor expenses relating to the  
9 securitization bonds, trustee fees, independent manager fees, rating agency fees, SEC  
10 reporting expenses, the administrative fee, and, to the extent deemed necessary in the  
11 context of the credit ratings review process, the optimal bond structure, and market  
12 conditions, a letter of credit and/or an overcollateralization subaccount. As noted in  
13 Company witness Steffen Lunde's testimony, the letter of credit and/or  
14 overcollateralization subaccount will only be utilized if needed for credit enhancement to  
15 market the securitization bonds. Current estimates are based on past experiences of the  
16 Company with input from the Company's advisers. These costs are generally similar to  
17 the Ongoing Other Qualified Costs that the Commission approved in Case No. U-17473,  
18 the Company's most recent sale of securitization bonds.

19 **Q. What is the estimated servicing fee and how will it be calculated?**

20 A. In consideration of servicing responsibilities, the servicer, initially the Company, will  
21 receive the periodic servicing fee (Exhibit A-20 (TAW-3), line 1) which will be recovered  
22 through the securitization charges. As discussed in Mr. Lunde's testimony, to support the  
23 bankruptcy analysis necessary to achieve the highest credit rating, the servicing fee must

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1 be at arm's length and at market-based rates. Such servicing responsibilities will include,  
2 without limitation: (i) billing, monitoring, collecting, and remitting securitization charges;  
3 (ii) systems modifications to bill, monitor, collect, and remit securitization charges;  
4 (iii) reporting requirements imposed by the servicing agreement; (iv) implementing the  
5 true-up mechanism; (v) procedures required to coordinate required audits related to the  
6 Company's role as servicer; (vi) legal and accounting functions related to the servicing  
7 obligation; and (vii) communication with rating agencies.

8 The annual servicing fee to be paid to the Company is 0.05% of the original  
9 principal balance of the securitization bonds, payable on each securitization bond payment  
10 date. A higher annual servicing fee of up to 0.75% of such original balance would be  
11 incurred for any replacement servicer that does not currently bill the securitization charges  
12 with other charges for electric service to reflect the additional costs related thereto. The  
13 Company is specifically requesting a servicing fee of 0.05% in this case, and that rate is  
14 reflected in exhibits.

15 **Q. Is the annual servicing fee estimate you have provided reasonable?**

16 A. Yes. The servicing fee represents a reasonable, good faith estimate of an arm's length,  
17 market-based fee for servicing securitization bonds and is consistent with the rates in other  
18 recent securitizations. The requested fee of 0.05% is very reasonable and at the low end of  
19 the market observed range.

20 **Q. Please describe the purpose of the remaining Ongoing Other Qualified Costs that you**  
21 **identified in more detail in Exhibit A-20 (TAW-3).**

22 A. The auditor fees (line 2) will cover activities including providing periodic reports to the  
23 trustee and reviewing/certifying SEC filings. The indenture trustee will be responsible for



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1 and earn a fee (line 3) for, among other things: (i) investing the securitization charge  
2 collections received from the servicer in high quality, short-term debt instruments;  
3 (ii) maintaining a record of investors; (iii) calculating and remitting interest and principal  
4 payments to investors; (iv) otherwise fulfilling trustee obligations under the indenture and  
5 other documents; and (v) reporting as required by the Commission or any other regulatory  
6 body.

7 The SPE will have one or more independent managers to oversee the operation of  
8 the SPE (line 4). The rating agencies will assess ongoing fees associated with monitoring  
9 the credit rating of each securitization bond series (line 5). The SPE will make periodic  
10 filings to the SEC. Those expenses (excluding costs associated with the auditor and legal  
11 fees) are estimated in line 6. The annual administrative fee is set forth on line 7 and covers  
12 expenses associated with administrative functions that the Company will be providing to  
13 the SPE. These functions will include, among others, preparation of financial statements  
14 and required filings with the SEC. Last, the miscellaneous costs (line 8) are any other  
15 qualified costs that have not been specifically identified at this time.

16 **Q. What happens to any difference between the actual and estimated levels of the**  
17 **Ongoing Other Qualified Costs?**

18 A. For Ongoing Other Qualified Costs, the Company will adjust the securitization charges  
19 through the true-up mechanism described in the direct testimony of Company witness  
20 Heidi J. Myers.

21 **Q. How does the Company plan to comply with Section 10i(2)(a) of Act 142?**

22 A. Section 10i(2)(a) of Act 142 states that in a financing order, the Commission shall ensure  
23 “[t]hat the proceeds of the securitization bonds are used solely for purposes of the

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1        refinancing or retirement of debt or equity.” The proceeds of the securitization bonds are  
2        the net amount realized from the issuance of the securitization bonds after the SPE pays  
3        Initial Other Qualified Costs. This net amount is the purchase price the SPE will pay to  
4        the Company for the securitization property. In accordance with Section 10i(2)(a) of  
5        Act 142, the Company will utilize the proceeds of securitization bonds to retire Company  
6        debt and equity.

7        **Q.    What levels of Company debt and equity will the Company refinance or retire?**

8        A.    The Company has not made a final determination of the specific types of debt to be retired  
9        or refinanced. The Company does, however, expect to pay down debt and equity in a  
10       proportion approximately equal to Consumers Energy’s capital structure mix of debt and  
11       equity at the time of the issuance of securitization bonds, taking into consideration any  
12       premiums that may have to be paid with the redemption of certain debt. My exhibits  
13       illustrate a retirement ratio of 50/50 equity and debt.

14       **Q.    What are some considerations when determining the debt retirement?**

15       A.    When determining the debt to be paid down, the Company will need to consider: (i) the  
16       cost of each of Consumers Energy’s debt instruments and securities outstanding at the time  
17       proceeds from the sale of the securitization property to the SPE that issues the securitization  
18       bonds are received; (ii) the mandatory cost of retiring each of the securities existing at the  
19       time of issuance of the securitization bonds; and (iii) market conditions which might impact  
20       tender offer opportunities for securities existing at the time of issuance of the securitization  
21       bonds. Although the Company has not determined the exact debt that it will pay down, for  
22       analytical purposes, the Company is assuming that it will call all of the 3.375% First

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DIRECT TESTIMONY

1 Mortgage Bonds due 2023 and a portion of the 3.125% First Mortgage Bonds due 2024 by  
2 paying the applicable call premiums along with the principal amount of bonds called.

3 **Q. Please discuss how the Company will reduce, retire, or refinance debt.**

4 A. The Company will determine, after it has received the bond sale cash proceeds from the  
5 SPE, whether it is more cost-effective to repurchase Company debt in the open market,  
6 conduct tender offers, exercise call provisions where available, or pay down short-term  
7 bank debt. The Company will use a combination of these approaches to deploy the  
8 proceeds available in an optimal manner and in compliance with the provisions of Act 142.  
9 Exhibit A-18 (TAW-1) provides an example of the use of proceeds.

10 **Q. How will the Company pay down equity?**

11 A. The Company will pay down equity by making a cash distribution to CMS Energy.

12 **Q. What is the schedule for the use of proceeds from the sale of bonds?**

13 A. The Company will begin paying down debt and equity after receipt of proceeds from the  
14 issuance of the securitization bonds and reconciliation of costs associated with the issuance.  
15 The Company intends to substantially complete the recapitalization process within  
16 15 months of the Company's receipt of proceeds, taking into account market conditions  
17 during that period.

18 **Q. How will the Commission know how the proceeds were used?**

19 A. The Company will file reports with the Commission substantially similar to the reporting  
20 requirements imposed by the Commission in Case No. U-17473 related to the Company's  
21 most recent sale of securitization bonds. In my opinion, these reporting requirements  
22 related to the most recent sale of securitization bonds were reasonable. The reports will  
23 specify the principal amount of the securitization bonds, the amounts expended for Initial

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1 Other Qualified Costs, the net amount of proceeds remaining after such expenses, and the  
2 amount of debt and equity retired as of the date of the report. The report will be  
3 substantially in the form of Exhibit A-18 (TAW-1). The Company will file the first report  
4 within 30 days of the bonds' initial issuance (or any portion of their issuance), and file  
5 quarterly from that date until all bond proceeds have been disbursed.

6 **Q. Assuming that securitization bonds are issued as a result of the application in this**  
7 **proceeding, how does the Company propose to handle the potential of future early**  
8 **retirement or refunding of the securitization bonds?**

9 A. Section 10i(9) of Act 142 allows a utility to request that the financing order in this  
10 proceeding authorize the potential early retirement or refunding of these securitization  
11 bonds with new securitization bonds under certain circumstances. The Company requests  
12 that the MPSC grant such ability in the financing order. If economic conditions favorable  
13 to a securitization refinancing prevail, and the securitization indenture provides for such a  
14 refinancing, the Company will notify the Commission prior to initiating a refinancing  
15 transaction. The Company's notification will advise the Commission of the steps the  
16 Company intends to take, considering the favorable conditions, to realize any potential  
17 refinancing savings. The Company then will notify the Commission within seven days of  
18 a completed refinancing. While the Company requests to preserve this option, it is very  
19 unlikely that such a provision will ever be exercised since all recent securitization deals,  
20 including the Company's previous securitization, do not include an early redemption  
21 option, and the market does not currently support such a provision.

22 **Q. Does this complete your direct testimony?**

23 A. Yes.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of )  
**CONSUMERS ENERGY COMPANY** )  
for a Financing Order Approving the )  
Securitization of Qualified Costs. )  
\_\_\_\_\_ )

Case No. U-20889

**EXHIBITS**

**OF**

**TODD A. WEHNER**

**ON BEHALF OF**

**CONSUMERS ENERGY COMPANY**

September 2020

**MICHIGAN PUBLIC SERVICE COMMISSION**  
Consumers Energy Company

Case No.: U-20889  
Exhibit No.: A-18 (TAW-1)  
Page: 1 of 1  
Witness: TAWehner  
Date: September 2020

**Exhibit 1.1**  
**Use of Proceeds**

Line	Description	( '000s)
1	Principal Amount of Bonds	\$ 702,800.0
2	Total Issuance Expenses	8,609.8
3	Other	3,000.0
4	Proceeds	\$ 691,190.2
5	Retire Debt	345,595.1
6	Retire Equity	345,595.1
7	Total Use of Proceeds	\$ 691,190.2

**MICHIGAN PUBLIC SERVICE COMMISSION**  
Consumers Energy Company

Case No.: U-20889  
Exhibit No.: A-19 (TAW-2)  
Page: 1 of 1  
Witness: TAWehner  
Date: September 2020

**Exhibit 2**  
**Initial Other Qualified Costs**

Line	Description	('000s)
	<u><i>Up Front Costs of Issuing Securitization Bonds</i></u>	
1	Underwriting Discount and Fees	\$ 2,811.2
2	Underwriters' Reimbursable Expenses	25.0
3	SEC Registration Fee	77.0
4	Legal Fees	4,100.0
5	Rating Agency Fees	600.0
6	Auditor Fees	250.0
7	Printing Fees	75.0
8	Trustee Fees and Expenses	30.0
9	Blue Sky Fees	20.0
10	SPE Organizational Costs	150.0
11	Original Issue Discount	100.0
12	Costs of the Commission	200.0
13	<u>Miscellaneous</u>	<u>171.6</u>
14	Total Issuance Expenses	\$ 8,609.8
	<u><i>Additional Qualified Costs</i></u>	
15	<u>Other</u>	<u>3,000.0</u>
16	Total Additional Expenses	\$ 3,000.0
17	<u><i>Total Initial Other Qualified Costs</i></u>	<u>\$ 11,609.8</u>

**MICHIGAN PUBLIC SERVICE COMMISSION**  
Consumers Energy Company

Case No.: U-20889  
 Exhibit No.: A-20 (TAW-3)  
 Page: 1 of 1  
 Witness: TAWehner  
 Date: September 2020

**Exhibit 3**  
**Ongoing Other Qualified Costs of the SPE**

Line	Description	( '000s)
1	Servicing Fee*	\$ 351.4
2	Auditor Expenses	100.0
3	Trustee Fees and Expenses	22.0
4	Independent Manager Fees	10.0
5	Rating Agency Fees	50.0
6	SEC Reporting Expenses	50.0
7	Administrative Fee	50.0
8	Miscellaneous	116.6
9	Overcollateralization Subaccount**	-
10	Total Ongoing Other Qualified Costs	\$ 750.0

\* This fee is based upon the original principal amount of securitization bonds outstanding and assumes that the Company or an affiliate is the servicer.

\*\* The Overcollateralization Subaccount is intended to be utilized for credit enhancement purposes and will be used only if required by the credit ratings agencies.



STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of	)	
<b>CONSUMERS ENERGY COMPANY</b>	)	
for a Financing Order Approving the	)	Case No. U-20889
Securitization of Qualified Costs.	)	
_____	)	


**PROOF OF SERVICE**

STATE OF MICHIGAN     )  
  ) SS  
COUNTY OF JACKSON    )

Jennifer Joy Yocum, being first duly sworn, deposes and says that she is employed in the Legal Department of Consumers Energy Company; that on September 18, 2020, she served an electronic copy of the **Application for Financing Order, Proposed Protective Order, and Testimony and Exhibits of Consumers Energy Company** witnesses **Laura M. Collins, Daniel L. Harry, Scott A. Hugo, Steffen Lunde, Heidi J. Myers, and Todd A. Wehner** upon the persons listed in Attachment 1 hereto, at the e-mail addresses listed therein.

  
\_\_\_\_\_  
Jennifer Joy Yocum

Subscribed and sworn to before me this 18<sup>th</sup> day of September, 2020.

  
\_\_\_\_\_  
Melissa K. Harris, Notary Public  
State of Michigan, County of Jackson  
My Commission Expires: 06/11/2027  
Acting in the County of Jackson

**ATTACHMENT 1 TO CASE NO. U-20889**

**(Parties to Case No. U-20165)**

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**ATTACHMENT 1 TO CASE NO. U-20889**

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**ATTACHMENT 1 TO CASE NO. U-20889**  
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