

Enact legislation that requires Michigan electric utilities to utilize securitization bonds to finance the retirement of coal plants

The Problem

The Environmental Protection Agency is requiring a 30 percent decrease in carbon emissions by 2030, which is forcing utilities to shut down coal-fired generating plants.

DTE plans to retire a third of its coal-fired generation by 2025; Consumers Energy plans to close seven plants by 2016. Utilities need cost-effective financing plans to close down and demolish these sites in order to limit the cost impact to customers. Securitization provides a cost-effective financing plan.

Securitization is the process by which a utility replaces relatively high-cost debt and equity, which is charged to electricity customers, with lower-cost debt in the form of securitization bonds. This gives the company a more favorable bond issue and saves ratepayers money.

The utilities have supported securitization bonds and customers have recognized the tremendous savings. Recently, Consumers Energy (CE) securitized \$454 million related to demolition of power plants, replacing a higher-cost debt charge on customers with a new securitization charge. CE noted that securitization will save their full service customers money: "...the proposed securitization of \$425.8 million provides a net present value benefit of approximately \$133.5 million ... Securitization provides a mechanism for recovering the Company's prudently incurred costs at a lower cost to Consumers Energy's customers than would occur through conventional financing methods." (CE Witness D. Kehoe, rate case U-17473, p5)

Customers on Retail Choice already pay their supplier for the cost of environmental compliance and retired coal fired generation and should not pay any of these securitization costs to retire utility generation.

The Solution

Securitization bonds mean substantial savings for utilities and their full service customers. Requiring utilities to use these bonds to finance debt from closing plants will help keep electric rates affordable and make Michigan a more competitive state.